

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*, which can be found at www.e-laws.gov.on.ca.

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 *2007 Annual Report* marks the second year of our expanded audit mandate.

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 Auditor General is appointed to a 10-year, non-renewable term, and can be dismissed only for cause. 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 fulfil 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 *Auditor General Act*, the Office's expenditures relating to the 2006/07 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 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 organizations that receive government grants, and Crown agencies and Crown-controlled corporations. Our responsibilities are set out in the *Auditor General Act* (see the Value-for-money Audits and Attest Audits sections later in this chapter for details on these two types of audits).

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 *Auditor General 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 *Auditor General Act*.

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Auditor General, under subsection 9(2) of the *Auditor General Act* (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 2006/07 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 2006/07 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 *Auditor General Act* (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 allows the Auditor General to 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 2006 to September 2007), the Office was involved in the following assignments under section 17:

- a Special Review of the Bruce Power Refurbishment Agreement for the Ministry of Energy, delivered April 5, 2007; and
- a Special Review of Year-end Grants Provided by the Ministry of Citizenship and Immigration, requested by the Premier and delivered July 26, 2007.

Under section 13 of the *Fiscal Transparency and Accountability Act, 2004*, the Ministry of Finance must in an election year issue a pre-election

report about Ontario's finances. The Act further requires the Auditor General to review that report. The Office delivered its review of the Ministry of Finance's *2007 Pre-Election Report on Ontario's Finances* on June 18, 2007.

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* 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 the activities of selected grant recipients and Crown-controlled corporations. 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 2006 and September 2007 are reported 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 ministries are audited at approximately five-to-seven-year intervals. Various factors are considered in selecting ministry 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.

With the expansion of our value-for-money mandate to the broader public sector and Crown-controlled corporations, our objective during the first two years of our new mandate has been to conduct value-for-money audits in all major grant-recipient sectors, and particularly the two largest sectors: hospitals and school boards.

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 *Auditor General 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 or 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 *Auditor General 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 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.

The Auditor General, under subsection 9(1) of the *Auditor General 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.

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 *Auditor General Act* also requires that the Auditor General report observe 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 check effectively 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.

We often assess the controls for managing these risks as part of our annual agency attest audits. 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

As discussed previously, under sections 16 and 17 of the *Auditor General 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 *Auditor General Act*, do not have 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, British Columbia hosted the 35th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Victoria, from August 19 to 21, 2007. 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 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 three delegations of legislators and auditors from China and two from South Africa, along with two separate visits from Australian legislators.

Figure 1: Office Organization, September 30, 2007

Auditor General	Human Resources	Operations
Jim McCarter	Annemarie Wiebe, Manager Shayna Whiteford, HR Assistant	John Sciarra, Director
Deputy Auditor General	Professional Practices	Administration
Gary Peall	David Lee, Manager	Shanta Persaud, Financial and Administrative Services Co-ordinator Maureen Bissonnette, Accounts Payable Clerk Elisa Johnston, Receptionist Sohani Myers, Administrative Clerk Christine Wu, Administrative Assistant
	Research	Communications and Government Advertising Review
	John Landerkin, Manager Michael Radford	Christine Pedias (Acting)/Andréa Vanasse, Manager of Corporate Communications and Government Advertising Review Shirley Falkner, Administrative Co-ordinator Mariana Green, Web and Production Officer Tiina Randoja, Editorial and Communications Co-ordinator
		Information Technology
		Peter Lee, Systems Specialist Shams Ali, Systems Officer
Audit Portfolios and Staff		
Health and Health Promotion	Public Accounts, Finance, and Information Technology	Crown Agencies
Rudolph Chiu, Director Sandy Chan, Manager Denise Young, Manager Frederick Chan Anita Cheung Oscar Rodriguez Pasha Sidhu Celia Yeung Gigi Yip	Paul Amodeo, Director Rita Mok, Manager Bill Pelow, Manager Suzanna Chan Henry Cheng Marcia DeSouza Ben Lau	John McDowell, Director Walter Allan, Manager Tom Chatzidimos Jasmine Chen Mary Romano Megan Sim
Transportation, Infrastructure, and Municipal Affairs	Education and Training	Health and Long-Term Care Providers
Andrew Cheung, Director Gus Chagani, Manager Teresa Carello Kim Cho Jindong Fu Isabella Ho Jemima Lao Fiona Mak Myuran Palasandiran Gajalini Ramachandran Alexander Truong	Nick Mishchenko, Director Michael Brennan, Manager Fraser Rogers, Manager Ariane Chan Zahra Jaffer Mythili Kandasamy Emanuel Tsikrakis Dora Ulisse Brian Wanchuk Oksana Wasyluk	Susan Klein, Director Laura Bell, Manager Naomi Herberg, Manager Kevin Aro Matthew Brikis Sally Chang Ted D'Agostino Veronica Ho Gloria Tsang
Justice and Regulatory	Community and Social Services, and Revenue	Economic Development, Environment, and Natural Resources
Vince Mazzone, Director Rick MacNeil, Manager Vishal Baloria Helen Chow Howard Davy Kandy Fletcher Linda Fung Rashmeet Gill Mark Hancock Anat Ishai Alfred Kiang Cynthia Lau	Walter Bordne, Director Wendy Cumbo, Manager Johan Boer Stephanie Chen Constantino De Sousa Katrina Exaltacion Inna Guelfand Li-Lian Koh Angela Schieda Aldora Sequeira Nick Stavropoulos Maria Zuyev	Gerard Fitzmaurice, Director Vanna Gotsis, Manager Tony Tersigni, Manager Izabela Beben Tino Bove Jason Hung Roger Munroe Catherine Porter Mark Smith Zhenya Stekovic Ellen Tepelenas

Financial Accountability

The following highlights and audited financial statements outline the Office's financial results for the 2006/07 fiscal year.

FINANCIAL HIGHLIGHTS

The 2006/07 fiscal year was among the most challenging and productive in the Office's history for several reasons:

- We continued to exercise our expanded value-for-money mandate by conducting four more audits in the broader public sector. These included our first value-for-money audits of GO Transit, universities, and long-term-care facilities and our second series of audits at hospitals.
- We completed two special assignments: a special review for the Minister of Energy of the Bruce Power Refurbishment Agreement, which was issued in April 2007, and a special review for the Premier of Ontario of Year-end Grants Provided by the Ministry of Citizenship and Immigration, which was requested in May 2007 and delivered two months later.

- We performed the first-ever review of the *2007 Pre-Election Report on Ontario's Finances*, as required by the *Fiscal Transparency and Accountability Act, 2004*, and released a report in June 2007.
- We invested significant effort to successfully implement new assurance standards and methodology for conducting our financial statement audits.
- We successfully met our review responsibilities under the *Government Advertising Act*.

These challenges could not have been met without the hard work and dedication of our staff and input from our expert advisors.

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 71% (73% in 2005/06) related to salary and benefit costs for our staff while professional and other services, and rent, accounted for most of the remainder. The proportions in Figure 3 have remained relatively constant in recent years, with the exception of contracted professional services. These increased significantly this year to help us manage the volume and complexity of our work.

Overall, our expenses increased by 11.4% (12.1% in 2005/06) but were again significantly

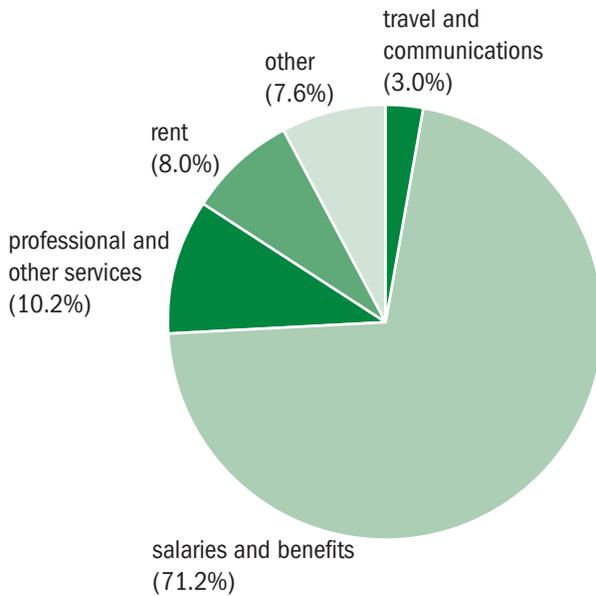
Figure 2: Five-year Comparison of Spending (Accrual Basis) (\$ 000)

Prepared by the Office of the Auditor General of Ontario

	2002/03	2003/04	2004/05	2005/06	2006/07
Approved budget	9,363	9,870	10,914	12,552	13,992
Actual spending					
salaries and benefits	6,244	6,943	7,261	8,047	8,760
rent	918	914	891	962	985
professional and other services	654	794	877	951	1,264
travel and communications	170	205	290	324	363
other	665	679	533	756	930
Total	8,651	9,535	9,852	11,040	12,302
Returned to province (based on expenses reported in the Public Accounts—see Note 7 to financial statements)	684	406	1,201	1,609	1,730

Figure 3: Spending by Major Expenditure Category, 2006/07

Prepared by the Office of the Auditor General of Ontario



under budget. Over the five-year period presented in Figure 2, we have returned unspent appropriations totalling more than \$5.6 million, principally because the Office has historically faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market, where private-sector salary ranges have outpaced their public-service equivalents. A more detailed discussion of the changes in our expenses and related challenges follows.

Salaries and Benefits

Our salary and benefit costs rose 8.9% this year, less than the overall increase in our expenses and primarily because of a staff increase and performance pay raises in line with those approved for Ontario public servants. Following a gradual increase in approved complement over the last three years, from 90 to 115 (see Figure 4), we have been able to increase gradually the average number of staff we employ to 99. That represents an increase of 11% from 2005/06 and 21% since 2002/03. However,

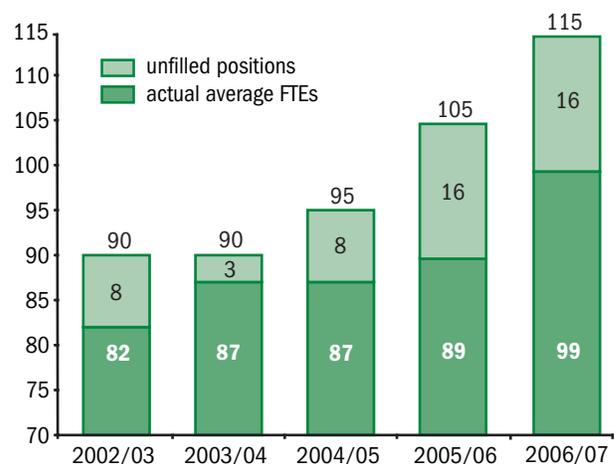
our growth this year has been primarily at the more junior levels, where our salaries and benefits are more competitive. With regard to more experienced professional accountants, we are unable to offer them salaries and benefits comparable to those in the private and broader public sectors. This is the main reason why, as Figure 4 shows, we have a significant number of unfilled positions.

For example, according to results of a national survey conducted for the Canadian Institute of Chartered Accountants (CICA) and reported in August 2007, the average compensation for CAs is up 14% since 2005 to \$186,500 (\$193,700 in Ontario). While the average salary for a new CA was \$68,300, which is roughly comparable to our salary range for new CAs, the average salary for a CA with five years of post-qualifying experience rose to \$117,700, which is higher than the salary of our audit-manager positions, even though all our managers have more than five years of post-qualifying experience and many have substantially more. The salaries of our highest-paid staff in the 2006 calendar year are disclosed in Note 6 to our financial statements.

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 those offered by both

Figure 4: Staffing, 2002/03-2006/07

Prepared by the Office of the Auditor General of Ontario



the not-for-profit and the private sectors. According to the recent CICA survey, average salaries for CAs in government (\$108,700) are 16% lower than those in the not-for-profit sector (\$130,000) and 32% lower than those in professional service firms (\$159,400), our primary competitors for professional accountants. CAs in industry are, on average, paid even more.

Rent

Our costs for accommodation increased a modest 2.4% because this was the first full year of rental costs for the remaining 10% of office space on our floor that we acquired in the previous fiscal year to accommodate the increase in staff. Accommodation costs continue to decline as a percentage of total spending.

Professional and Other Services

These services represent our most significant cost pressure, having increased \$313,000, or almost 33%, over the previous year. The largest component of the increase, costs for contract professionals, has risen for two reasons:

- We were forced to rely more on contract professionals because of difficulties in reaching our approved full complement given the uncompetitive salary levels, more complex work, and tighter deadlines for finalizing financial statement audits of Crown agencies and the province. Our requirement for contract professionals also grew because of the increasing need to allocate our own staff to our expanded value-for-money mandate.
- We incurred higher contract costs for the CA firms that we engaged because of the higher salaries they pay their staff and the additional hours required to implement new assurance

standards. Our higher production volume this year also increased our requirement for contract editorial assistance.

Travel and Communications

With the expansion of our mandate to audit broader-public-sector organizations, we are incurring significantly more travel costs than in the past. This, along with the need to maintain secure and convenient electronic communications with our increasing number of staff in the field, has led to a 12% rise in costs over last year, and more than a doubling since 2002/03.

Other

Other costs include asset amortization, training, and statutory expenses. These have increased by \$174,000, or 23%, over last year. Statutory expenses increased more than 50%, owing mainly to the need to hire specialist expertise to assist us with our examination of the Bruce Power Refurbishment Agreement and to the required payout of unused vacation credits to the Auditor General. These costs have been included in employee benefits each year, but in the case of the Auditor General, the actual payment of unused vacation credits is considered a statutory expenditure.

We have also invested 17% more in training because of the increase in staff and the need to prepare them for the new assurance standards and financial statement audit methodology we have adopted.

These increases were moderated somewhat by reduced costs associated with our administration of the *Government Advertising Act* since most of the initial implementation costs were incurred last year and, accordingly, there was less need for expert assistance in this regard.

FINANCIAL HIGHLIGHTS



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, 2007 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

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2G2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2G2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca



ALLEN & MILES LLP, Chartered Accountants
 220 Bay Street, 9th Floor, Toronto, Canada M5J 2W4
 Tel: (416) 862-8801 • Fax: (416) 862-2136
 Email: toronto@allenmiles.ca • Website: www.allenmiles.ca

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, 2007 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, 2007 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.

Allen & Miles LLP

Licensed Public Accountants

Toronto, Canada
 August 14, 2007



BRAMPTON OFFICE
 Suite 200, 195 County Court Boulevard
 Brampton, Ontario L6W 4P7
 Tel: (905) 459-5605 • Fax: (905) 459-2893

Office of the Auditor General of Ontario
Statement of Financial Position
As at March 31, 2007

	2007	2006
	\$	\$
Assets		
Current		
Cash	337,829	175,192
Due from Consolidated Revenue Fund	365,969	526,452
	<u>703,798</u>	<u>701,644</u>
Capital Assets (Note 3)	564,876	555,748
	<u>564,876</u>	<u>555,748</u>
Total assets	<u>1,268,674</u>	<u>1,257,392</u>
Liabilities		
Accounts payables and accrued liabilities	1,171,798	1,305,644
Accrued employee benefits obligation [Note 4(B)]	1,995,000	1,810,000
Net assets (Accumulated deficit)		
Investment in capital assets (Note 3)	564,876	555,748
Accumulated deficit [Note 2(B)]	(2,463,000)	(2,414,000)
	<u>(1,898,124)</u>	<u>(1,858,252)</u>
Total liabilities and accumulated deficit	<u>1,268,674</u>	<u>1,257,392</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, 2007

	2007 Budget \$	2007 Actual \$	2006 Actual \$
Revenue			
Consolidated Revenue Fund – Voted appropriation	13,992,200	13,992,200	12,552,200
Expenses			
Salaries and wages	8,503,200	7,205,845	6,426,221
Employee benefits (Note 4)	1,911,300	1,554,185	1,620,989
Office rent	1,000,000	984,551	961,877
Professional and other services	1,369,500	1,263,785	951,197
Amortization of capital assets	–	250,829	217,047
Travel and communication	281,800	363,367	323,719
Training and development	172,900	132,385	113,555
Supplies and equipment	373,500	97,171	75,621
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>Auditor General Act</i>	248,000	362,564	233,337
<i>Government Advertising Act</i>	82,000	37,456	66,410
Total expenses (Note 7)	13,992,200	12,302,138	11,039,973
Excess of revenue over expenses	–	1,690,062	1,512,227
Less: returned to the Province	–	(1,729,934)	(1,608,914)
Net deficiency of revenue over expenses (Note 2B)		39,872	96,687
Accumulated deficit, beginning of year		1,858,252	1,761,565
Accumulated deficit, end of year		1,898,124	1,858,252

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows

For the Year Ended March 31, 2007

	2007 \$	2006 \$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Net deficiency of revenue over expenses	(39,872)	(96,687)
Amortization of capital assets	250,829	217,047
Accrued employee benefits obligation	185,000	120,000
	<u>395,957</u>	<u>240,360</u>
Changes in non-cash working capital		
Decrease (increase) in due from Consolidated Revenue Fund	160,483	(186,084)
Increase (decrease) in accounts payable and accrued liabilities	(133,846)	389,412
	<u>26,637</u>	<u>203,328</u>
Investing activities		
Purchase of capital assets	<u>(259,957)</u>	<u>(494,360)</u>
Net increase (decrease) in cash position	162,637	(50,672)
Cash position, beginning of year	<u>175,192</u>	<u>225,864</u>
Cash position, end of year	<u><u>337,829</u></u>	<u><u>175,192</u></u>

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2007

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, 2007

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. Capital Assets

	2007			2006
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Net Book Value \$
Computer hardware	509,045	321,768	187,277	230,423
Computer software	212,611	123,523	89,088	68,838
Furniture and fixtures	247,305	59,989	187,316	158,659
Leasehold improvements	130,226	29,031	101,195	97,828
	<u>1,099,187</u>	<u>534,311</u>	<u>564,876</u>	<u>555,748</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 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. 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 \$536,635 (2006 – \$497,853) and are included in employee benefits in the Statement of Operations and Accumulated Deficit.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2007

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 \$290,000 (2006 – \$374,000) and are included in employee benefits and statutory expenses 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:

	2007	2006
	\$	\$
Total liability for severance and vacation	2,463,000	2,414,000
Less: Due within one year and included in accounts payable and accrued liabilities	(468,000)	(604,000)
Accrued employee benefits obligation	<u>1,995,000</u>	<u>1,810,000</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:

	\$
2007-08	525,369
2008-09	525,369
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, 2007

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 2006.

Name	Position	Salary \$	Taxable Benefits \$
McCarter, Jim	Auditor General	224,206.46	317.45
Peall, Gary	Deputy Auditor General	156,831.00	261.77
Amodeo, Paul	Director	127,726.58	210.63
Bordne, Walter	Director	117,220.90	211.68
Cheung, Andrew	Director	127,739.66	211.68
Chiu, Rudolph	Director	108,472.87	180.02
Fitzmaurice, Gerard	Director	125,813.11	210.63
Klein, Susan	Director	117,055.87	200.67
Mazzone, Vince	Director	109,399.27	183.79
McDowell, John	Director	125,813.11	210.63
Mishchenko, Nicholas	Director	125,813.11	210.63
Sciarra, John	Director of Operations	108,472.87	180.02
Bell, Laura	Audit Manager	102,098.20	168.33
Brennan, Michael	Audit Manager	103,633.87	169.14
Chagani, Gus	Audit Manager	102,098.20	168.33
Gotsis, Vanna	Audit Manager	102,090.93	169.14
Landerkin, John	Audit Manager	100,568.72	168.33
Lee, David	Audit Manager	102,090.93	169.14
Mok, Rita	Audit Manager	102,090.93	169.14
Rogers, Fraser	Audit Manager	100,568.72	168.33
Tersigni, Anthony	Audit Manager	100,568.72	168.33
Wiebe, Annemarie	Manager, Human Resources	100,568.72	168.33

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2007

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 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:

	2007	2006
	Actual	Actual
	\$	\$
Total expenses per Public Accounts Volume 1	12,262,266	10,943,286
Less: purchase of capital assets	(259,957)	(494,360)
Add: amortization of capital assets	250,829	217,047
change in accrued future employee benefit costs	49,000	374,000
Total expenses per audited financial statements	<u>12,302,138</u>	<u>11,039,973</u>

8. 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 4.