

The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario (Office) 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 Legislative 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* (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 organi-

zations in the broader public sector that receive government grants. This *2008 Annual Report* marks the third 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 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 *Auditor General Act*, the Office's expenditures relating to the 2007/08 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.

Audit Responsibilities

We audit the financial statements of the province and the accounts of many agencies of the Crown. However, about two-thirds 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 Attest Audit and Value-for-money Audit sections later in this chapter for details on these two types of audits).

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. Owing to a motion of the Standing Committee on Public Accounts, which undoubtedly reflects the significant public interest in *C. difficile* and other hospital-acquired infections, the Auditor General transmitted a special report to the Speaker on the Prevention and Control of Hospital-acquired Infections in early fall 2008. The Office also assists and advises the Standing Committee on Public Accounts in its review of the Office's reports. (See Chapter 6 for a discussion of this committee's activities this year.)

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*, 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 2007/08 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 2007/08 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 the accounting firm's report of its findings and recommendations to management (typically contained in a management letter).

ADDITIONAL RESPONSIBILITIES

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

Section 17 of the Act allows the Auditor General to undertake special assignments requested by the Legislative 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 a special 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 2007 to September 2008), the Office was involved in the following assignments under section 17:

- a Special Follow-up Review, requested by the Minister of Children and Youth Services, of the Ministry's Child Welfare Services Program and the four Children's Aid Societies that had been audited in 2006, delivered January 29, 2008; and

- a Special Audit of AgriCorp and its delivery of farm support programs, requested by the Minister of Agriculture, Food and Rural Affairs, delivered July 15, 2008.

Audit Activities

TYPES OF AUDIT WORK

Value-for-money, attest, and compliance audits are the three main types of audit work 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. Starting in the 2005/06 audit year, the mandate has also included value-for-money audits of the activities of organizations receiving government grants such as hospitals, school boards, and numerous other entities in the broader public sector, as well as 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 2007 and September 2008 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 reports 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 Value-for-Money Audits

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 this type of audit each year. These factors include the results of previous audits and related follow-ups; the total revenues or expenditures involved; 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.

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 a ministry's 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.

Over the first three years of operating under our expanded value-for-money mandate, we have conducted value-for-money audits on major grant-recipient sectors such as hospitals, school boards, long-term-care homes, social service agencies, universities, and colleges, as well as at larger Crown-controlled corporations.

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 public-service levels and delivering such services more cost-effectively. Management responses to our recommendations are included in our reports.

The specific objective for each audit or review conducted is clearly stated in the "Audit Objective and Scope" section of each audit report—that is, in each value-for-money audit in 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 management 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 value-for-money audit or review by 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 being applied are discussed with the senior management responsible for the program or activity, at the planning stage of the audit or review.

Communication 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(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 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 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 usually discussed with the agency's audit committee.

Compliance Audits

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

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to 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

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. As discussed previously, the Office issued two special request reports this year.

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 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, the Yukon hosted the 36th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Whitehorse, from September 7 to 9, 2008. 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 Australia, China (two visits), Cuba, Germany, Japan, Russia, Tanzania, and Thailand.

Results Produced by the Office This Year

The 2007/08 fiscal year was very productive for the Office.

We continued to take advantage of our recently expanded value-for-money mandate by performing five audits in the broader public sector, with a distinct focus this year on hospitals, on which we issued three separate reports. One of these, *Prevention and Control of Hospital-acquired Infections*, was issued as a separate report to the Speaker in early fall 2008, primarily because a motion passed by the Standing Committee on Public Accounts requested that we consider issuing this report to the Legislature on completion rather than including it in our Annual Report, as is our normal practice under the *Auditor General Act*. The other two were a review of the Alternative Financing Procurement (P3) Project at the Brampton Civic Hospital, and a comparison of hospital governance in Ontario to best practices. Two other audits of the broader public sector dealt with maintenance of school board facilities and Children's Mental Health agencies.

Figure 1: Office Organization, September 30, 2008

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

Audit Portfolios and Staff

Community and Social Services, and Revenue	Crown Agencies	Economic Development, Environment, Natural Resources, and Education & Training
Walter Bordne, Director Wendy Cumbo, Manager Nick Stavropoulos, Manager Vishal Balaria Johan Boer Stephanie Chen Constantino De Sousa Katrina Exaltacion	Inna Guelfand Li-Lian Koh Angela Schieda Aldora Sequeira Maria Zuyev	John McDowell, Director Walter Allan, Manager Tom Chatzidimos Mary Romano Megan Sim
		Gerard Fitzmaurice, Director Vanna Gotsis, Manager Fraser Rogers, Manager Tony Tersigni, Manager Tino Bove Zahra Jaffer Joane Mui Roger Munroe Mark Smith
		Zhenya Stekovic Ellen Tepelenas Dora Ulisse Brian Wanchuk Oksana Wasyluk
Health and Health Promotion	Health and Long-Term Care Providers	Justice and Regulatory
Rudolph Chiu, Director Sandy Chan, Manager Denise Young, Manager Ariane Chan Frederick Chan Anita Cheung Jordan Lazor Oscar Rodriguez	Pasha Sidhu Alla Volodina Celia Yeung Gigi Yip	Vince Mazzone, Director Rick MacNeil, Manager Vivian Sin, Manager Helen Chow Howard Davy Fares Elahi Kandy Fletcher Rashmeet Gill
	Susan Klein, Director Laura Bell, Manager Naomi Herberg, Manager Emanuel Tsikritsis, Manager Kevin Aro Matthew Brikis Sally Chang Jennifer Fung	Mark Hancock Alfred Kiang Cynthia Lau Ruchir Patel Janet Wan
	Veronica Ho Adil Palsetia Linde Qiu Gloria Tsang	
Public Accounts, Finance, and Information Technology	Transportation, Infrastructure, and Municipal Affairs	
Paul Amodeo, Director Rita Mok, Manager Bill Pelow, Manager Suzanna Chan Henry Cheng Tanmay Gupta Shariq Saeed Enoch Wong	Andrew Cheung, Director Teresa Carello, Manager Gus Chagani, Manager Kim Achoy Bartsoz Amerski Izabela Beben Kim Cho	Marcia DeSouza Isabella Ho Gajalini Ramachandran Alexander Truong

In addition, we performed nine value-for-money audits of ministry programs, including four audits where extensive work was also carried out at the local grant recipient level—at mental health and addiction agencies, which are both funded by the Ministry of Health and Long-Term Care, at the local school level as part of our audit of the Ministry of Education’s special education program, and at employment counselling and service provider agencies under the Ministry of Training, Colleges and Universities’ Employment Ontario program. We also performed our first value-for-money audit at the Ontario Clean Water Agency.

As well as the issuance of the hospital-acquired infections audit as a special report under section 12 of the *Auditor General Act*, we completed two special assignments for ministers under section 17 of the Act. The first was a special review for the Minister of Children and Youth Services to follow up on our 2006 audits of the Child Welfare Services Program and four Children’s Aid Societies, which was issued in January 2008. The second, a special audit of AgriCorp Farm Support Programs for the Minister of Agriculture, Food and Rural Affairs, was issued in July 2008.

In total, we completed 17 value-for-money audits and special reports this year, making it one of the most productive value-for-money audit years in the Office’s history.

From a financial statement audit perspective, we are responsible for auditing the Province’s consolidated financial statements (as further discussed in Chapter 2) as well as auditing the financial statements of more than 40 Crown agencies. This year, we again met all of our key financial statement audit deadlines. We also continued to invest in training that helped us to successfully implement ongoing revisions to the assurance standards and methodology we use for conducting our financial statement audits. A peer review indicated that we were meeting the new standards in all significant respects.

We successfully met our review responsibilities under the *Government Advertising Act*, 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 and the assistance of our contract staff and expert advisors.

Financial Accountability

The following discussion and our financial statements outline the Office’s financial results and expenditures for the 2007/08 fiscal year.

Figure 2 provides a comparison of our approved budget and actual expenditures in the five years between 2003/04 and 2007/08. Figure 3 presents

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

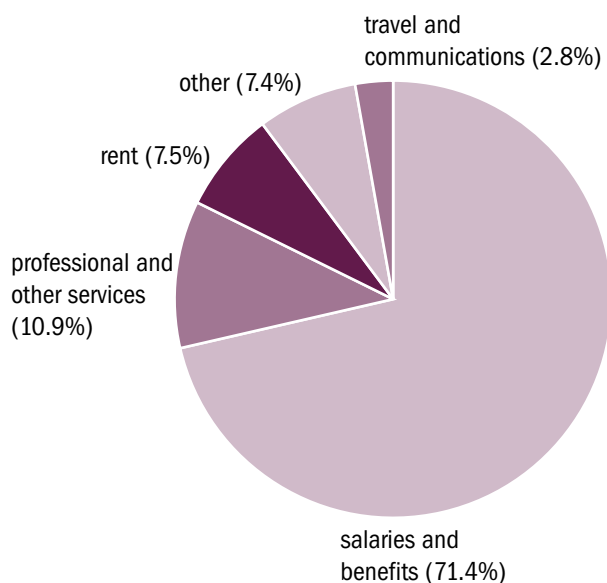
Prepared by the Office of the Auditor General of Ontario

	2003/04	2004/05	2005/06	2006/07	2007/08
Approved budget	9,870	10,914	12,552	13,992	15,308
Actual expenses					
salaries and benefits	6,943	7,261	8,047	8,760	9,999
professional and other services	794	877	951	1,264	1,525
rent	914	891	962	985	1,048
travel and communications	205	290	324	363	397
other	679	533	756	930	1,033
Total	9,535	9,852	11,040	12,302	14,002
Returned to province*	406	1,201	1,609	1,730	1,608

* 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 major components of our spending and shows that 71% 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, which increased significantly again this year to enable us to manage the volume, timing, and complexity of our work.

Overall, while our expenses increased 13.8% (11.4% in 2006/07) they were again significantly under budget. Over the five-year period presented in Figure 2, we have returned unspent appropriations totalling almost \$6.6 million. This is principally because the Office has historically faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market, because public-service salary ranges have 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

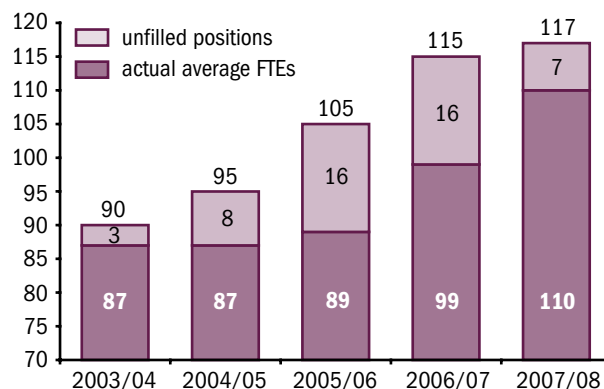
Our salary and benefit costs rose 14% this year, due primarily to an 11% increase in the number of staff employed over the prior year, performance pay increases in line with those approved for Ontario public servants, and higher benefit costs from an increase in future benefit obligations.

A gradual increase in our approved complement—from 90 in 2003/04 to 117 in 2007/08 (see Figure 4) has allowed us to gradually increase the average number of staff we employ to 110, an increase of 11% from 2006/07 and 26% since 2003/04. However, this growth continues to be primarily at more junior levels because our salaries and benefits are more competitive at these levels. We quickly fall behind private- and broader-public-sector salary scales for more experienced professional accountants. This is the main reason that, as Figure 4 shows, we still have a number of unfilled positions. The growing complexity of the work we perform, especially that related to our value-for-money audits, demands that we use highly qualified, experienced staff as much as possible. We anticipate that maintaining and enhancing our capacity to perform these audits will be an ongoing and increasing challenge, as a number of our more experienced staff will be eligible to retire over the next five years.

According to results of a national survey carried out for the Canadian Institute of Chartered

Figure 4: Staffing, 2003/04–2007/08

Prepared by the Office of the Auditor General of Ontario



Accountants reported in August 2007, the average compensation for all Chartered Accountants (CAs) was up 14% since 2005 to \$186,500 (\$193,700 in Ontario). The average salary for a new CA was \$68,300, which is roughly comparable to our salary range for new CAs. However, the average salary for a CA with five years of post qualifying experience rose to \$117,700—significantly higher than the salaries of our audit manager positions, every one of whom has more than five years of post qualifying experience, and many of whom have substantially more experience. The salaries of our highest paid staff in the 2007 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 both the broader-public-sector and private-sector salaries. According to the 2007 survey, average salaries for CAs in government (\$108,700) were 16% lower than those in the not-for-profit sector (\$130,000) and, most importantly, 32% lower than salaries of those working for professional service CA firms (\$159,400)—our primary competitors for professional accountants.

Our benefit costs also increased this year, with the increase of \$335,000 (13%) in our accrued benefit liability. This increase resulted from increases in accumulated unused vacation and severance entitlements as well as a 6% increase in the salary levels for senior staff, which the calculation of this liability is based on. Salary levels are determined by the government, and there had been no increase in these salary levels the previous year.

RENT

Our costs for accommodation increased 6.4%, primarily due to rising building operating costs, particularly taxes and utilities. Accommodation costs, however, continue to decline as a percentage of total spending.

PROFESSIONAL AND OTHER SERVICES

These services represent our most significant cost pressure. They increased by \$261,000, or more than 20% over the previous year, and have almost doubled since 2003/04. The largest component of the increase, costs for contract professionals and firms, has risen for a number of reasons. We continue to rely more on contract professionals to meet our legislated responsibilities because of the difficulties discussed earlier in reaching our full complement. Also, the deadlines for finalizing the financial statement audits of Crown agencies and the province have become tighter. Meeting the deadlines requires contracting some of this work out, not only because of the amount of work needed to be done in a shorter time frame, but also because we must commit sufficient numbers of our own staff to completing our value-for-money work at the same time. For these reasons, this year we contracted out the financial statement audits of two more agencies than we did last year. With the exception of out-of-town audits, where we incur travel costs, contracted-out audits to CA firms are more costly because the CA firms' hourly billing rates are usually significantly higher than our staff salary levels.

Our increased volume of work also increased the amount of contract editorial assistance we required this year.

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. More than half our value-for-money audits this year involved visits to service providers in the broader public sector across the province. As well, our Special Audit of AgriCorp for the Minister of Agriculture, Food and Rural Affairs required extended travel to Guelph. As a result of this as well as the need to maintain secure and convenient electronic communication with our increasing number of staff in the field, these costs rose 9% over last year and have almost doubled since 2003/04.

OTHER

Other costs, which include asset amortization, training costs, and statutory expenses, have increased \$103,000 or 11% over last year. Most of this increase (\$69,000) relates to staff training. We have invested over 50% more in training due to the increase in staff and the need to prepare them for the significant and ongoing changes to accounting and assurance standards. We also devoted additional resources to upgrading and providing our value-for-money audit training in collaboration with other Canadian legislative audit offices so that offices could more effectively share experiences

and best practices. Amortization costs increased \$26,000, due to previous investments in leasehold improvements, computer equipment, and software upgrades.

Statutory expenses actually declined this year, because increases in specialist assistance costs associated with our statutory responsibility to report on the *2007 Pre-Election Report* last June were offset by reduced need for expert assistance to administer the *Government Advertising Act*. Also, statutory expenses were higher last year because of a one-time payout of unused vacation credits to the Auditor General, which formed part of his salary for that year.

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, 2008 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, CA
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, 2008 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, 2008 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
August 8, 2008

Office of the Auditor General of Ontario

Statement of Financial Position

As at March 31, 2008

	2008 \$	2007 \$
Assets		
Current		
Cash	521,868	337,829
Due from Consolidated Revenue Fund	374,144	365,969
	<u>896,012</u>	<u>703,798</u>
Capital Assets (Note 3)	598,271	564,876
Total assets	<u>1,494,283</u>	<u>1,268,674</u>
Liabilities		
Accounts payables and accrued liabilities	1,680,012	1,171,798
Accrued employee benefits obligation [Note 4(B)]	2,014,000	1,995,000
Net assets (Accumulated deficit)		
Investment in capital assets (Note 3)	598,271	564,876
Accumulated deficit [Note 2(B)]	<u>(2,798,000)</u>	<u>(2,463,000)</u>
	<u>(2,199,729)</u>	<u>(1,898,124)</u>
Total liabilities and accumulated deficit	<u>1,494,283</u>	<u>1,268,674</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, 2008

	2008 Budget \$	2008 Actual \$	2007 Actual \$
Revenue			
Consolidated Revenue Fund – Voted appropriation	15,307,600	15,307,600	13,992,200
Expenses			
Salaries and wages	9,264,300	8,088,057	7,205,845
Employee benefits (Note 4)	2,097,900	1,910,786	1,554,185
Office rent	1,024,000	1,047,624	984,551
Professional and other services	1,497,400	1,525,747	1,263,785
Amortization of capital assets	–	276,514	250,829
Travel and communication	389,400	397,196	363,367
Training and development	253,000	201,882	132,385
Supplies and equipment	344,600	159,485	97,171
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>Auditor General Act</i>	297,000	322,449	362,564
<i>Government Advertising Act</i>	90,000	21,770	37,456
Total expenses (Note 7)	15,307,600	14,001,510	12,302,138
Excess of revenue over expenses		1,306,090	1,690,062
Less: returned to the Province		(1,607,695)	(1,729,934)
Net deficiency of revenue over expenses (Note 2B)		301,605	39,872
Accumulated deficit, beginning of year		1,898,124	1,858,252
Accumulated deficit, end of year		2,199,729	1,898,124

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows

For the Year Ended March 31, 2008

	2008	2007
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Net deficiency of revenue over expenses	(301,605)	(39,872)
Amortization of capital assets	276,514	250,829
Accrued employee benefits obligation	19,000	185,000
	<u>(6,091)</u>	<u>395,957</u>
Changes in non-cash working capital		
Decrease (increase) in due from Consolidated Revenue Fund	(8,175)	160,483
Increase (decrease) in accounts payable and accrued liabilities	508,314	(133,846)
	<u>500,039</u>	<u>26,637</u>
Investing activities		
Purchase of capital assets	<u>(309,909)</u>	<u>(259,957)</u>
Net increase (decrease) in cash position	184,039	162,637
Cash position, beginning of year	<u>337,829</u>	<u>175,192</u>
Cash position, end of year	<u><u>521,868</u></u>	<u><u>337,829</u></u>

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2008

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.

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 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, 2008

2. Significant Accounting Policies (Continued)

(D) FINANCIAL INSTRUMENTS

The Office adopted the Canadian Institute of Chartered Accountants (CICA) new accounting standards pertaining to financial instruments which establish guidance for the recognition and measurement of financial assets and liabilities and how financial instrument gains and losses should be accounted for. Under these new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities.

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held to maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost.

Due to the nature of the Office's financial assets and liabilities, these new standards did not have an impact on their carrying values. Accordingly,

- 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, 2008. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made.

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.

Office of the Auditor General of Ontario

Notes to Financial Statements

March 31, 2008

3. Capital Assets

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Computer hardware	568,933	366,070	202,863	187,277
Computer software	195,331	121,494	73,837	89,088
Furniture and fixtures	268,705	111,591	157,114	187,316
Leasehold improvements	228,226	63,769	164,457	101,195
	1,261,195	662,924	598,271	564,876

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 \$599,451 (2007 – \$536,635) 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, 2008

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 \$346,000 (2007 – \$290,000) and are included in employee benefits (and statutory expenses in 2007) 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:

	2008	2007
	\$	\$
Total liability for severance and vacation	2,798,000	2,463,000
Less: Due within one year and included in accounts payable and accrued liabilities	(784,000)	(468,000)
Accrued employee benefits obligation	2,014,000	1,995,000

(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:

	\$
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, 2008

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 2007.

Name	Position	Salary \$	Taxable Benefits \$
McCarter, Jim	Auditor General	224,794.44	3,928.00
Peall, Gary	Deputy Auditor General	171,132.05	280.28
Amodeo, Paul	Director	125,281.74	219.76
Cheung, Andrew	Director	125,281.74	219.76
Chiu, Rudolph	Director	114,369.40	194.72
Fitzmaurice, Gerard	Director	128,251.74	219.76
Klein, Susan	Director	122,490.01	217.04
Mazzone, Vince	Director	114,051.64	195.96
McDowell, John	Director	125,281.74	219.76
Mishchenko, Nicholas	Director	125,281.74	219.76
Sciarra, John	Director of Operations	115,556.40	194.72
Bell, Laura	Audit Manager	102,229.27	176.16
Mok, Rita	Audit Manager	102,229.27	176.16
Wiebe, Annemarie	Manager, Human Resources	102,229.27	176.16

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:

	2008 Actual \$	2007 Actual \$
Total expenses per Public Accounts Volume 1	13,699,905	12,262,266
Less: purchase of capital assets	(309,909)	(259,957)
Add: amortization of capital assets	276,514	250,829
change in accrued future employee benefit costs	335,000	49,000
Total expenses per audited financial statements	14,001,510	12,302,138