

# The Office of the Auditor General of Ontario

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

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

## General Overview

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

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

administers a particular program or activity. The auditees that the Office has the authority to conduct value-for-money audits of are:

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

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

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

The Act requires that, if the Auditor General observes instances where the three value-for-money criteria have not been met, he or she report on them. The Act also requires that he or she report on instances where the following was observed:

- Accounts were not properly kept or public money was not fully accounted for.

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

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

Generally, the focus of value-for-money audits is to assess whether the government program or operational area under review is being well run. Where possible, we compare the key processes and procedures to generally accepted best practices used in other jurisdictions for the service being provided to the public.

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

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

## Selecting What to Audit

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

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

- the results of any previous audits and related follow-ups, as well as the length of time since the last audit;
- the impact of the program, activity, or organization on the public;
- the size, complexity, and diversity of the auditee’s operations;
- recent significant changes in the auditee’s operations; and
- the significance of the issues an audit might identify.

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

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

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

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

Conducting tests and procedures to gather information has its limitations. We therefore cannot provide what is called an "absolute level of assurance" that our audit work identifies all significant matters. Other factors also contribute to this. For example, we may conclude that the auditee had a control system in place for a process or procedure that was working effectively to prevent a particular problem from occurring; but auditee management or staff may be able to circumvent such control systems—so we cannot guarantee that the problem will never arise. Also, unlike financial statement audits, much of the evidence available when conducting a value-for-money audit is more persuasive than it is conclusive, and we must rely on professional judgment in much of our work—for example, in interpreting information.

For all these reasons, the assurance that we plan for our work to provide is at an "audit level"—the highest reasonable level of assurance that we can obtain from the audit procedures that we design and evidence that we gather. Specifically, an audit level of assurance is obtained by interviewing management and analyzing the information it provides; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary because we are examining a more technical area, obtaining expert assistance and advice.

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

Infrequently, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information management provides; and only limited examination and testing of systems, procedures, and transactions. We perform reviews when, for example, providing a higher level of assurance has prohibitive costs or is unnecessary, the *Auditor General Act* does not allow for a certain program or activity to be audited, or other factors relating to the nature of the program or activity make a review more appropriate than an audit. For instance, in the 2009 audit year, such a review was conducted of the unfunded liability of the Workplace Safety and Insurance Board.

## Communicating with Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management

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

## SPECIAL REPORTS

As required by the Act, the Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Legislative Assembly at any time, on any matter that, in the opinion of the Auditor General, should not be deferred until the Annual Report.

Two sections of the Act authorize the Auditor General to undertake additional special work. Under section 16, the Standing Committee on Public Accounts may resolve that the Auditor General must examine and report on any matter respecting the Public Accounts. Under section 17, the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown may request that the Auditor General undertake a special assignment. However, these special assignments are not to take precedence over the Auditor General's other duties, and the Auditor General can decline such an assignment requested by a minister if he or she believes this would be the case.

In recent years, we have received a number of special requests under section 17. Our normal practice has been to obtain the requester's agreement

that the special report will be tabled in the Legislature on completion and made public at that time.

On August 31, 2009, the Minister of Energy and Infrastructure requested the Auditor General to examine expenses incurred by employees of the Ontario Lottery and Gaming Corporation. The results of this audit were reported to the Minister and to the Legislature on June 1, 2010.

On October 21, 2009, the Standing Committee on Public Accounts requested that we conduct, at our discretion, spot audits on the use of consultants by the Ministry of Health and Long-Term Care, the 14 Local Health Integration Networks, and Ontario's hospitals. The results of that work were reported in October 2010.

## ATTEST AUDITS

Attest audits are examinations of an auditee's financial statements. In such audits, the auditor expresses an opinion on whether the financial statements present information on the auditee's operations and financial position in a way that is fair and that complies with certain accounting policies (in most cases, with Canadian generally accepted accounting principles).

## The Auditees

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

- the Auditor General audit the accounts and records of the receipt and disbursement of public money forming part of the province's Consolidated Revenue Fund, whether held in trust or otherwise;
- the Auditor General audit the financial statements of those agencies of the Crown that are not audited by another auditor;
- public accounting firms that are appointed auditors of certain agencies of the Crown perform their audits under the direction of the

Auditor General and report their results to the Auditor General; and

- public accounting firms auditing Crown-controlled corporations deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of the accounting firm's report of its findings and recommendations to management (typically contained in a management letter).

Chapter 2 discusses this year's attest audit of the province's consolidated financial statements. Any matters of significance relating to our attest audits of agencies and Crown-controlled corporations are also discussed in Chapter 2. As well, agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible for the agency. Our Office also provides a copy of the audit opinion relating to the agency's financial statements to the deputy minister of the associated ministry.

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

Exhibit 1, Part 1 lists the agencies that were audited during the 2009/10 audit year. The Office currently contracts with public accounting firms to audit a number of these agencies on the Office's behalf. Exhibit 1, Part 2, and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that public accounting firms were appointed by the entity to audit during the 2009/10 audit year.

## OTHER STIPULATIONS OF THE AUDITOR GENERAL ACT

The *Auditor General Act* came about with the passage, on November 22, 2004, of Bill 18, the *Audit Statute Law Amendment Act*, which received Royal Assent on November 30, 2004. The purpose of Bill 18 was to make certain amendments to the *Audit Act* to enhance the ability of the Office to serve the Legislative Assembly. The most significant amendment contained in Bill 18 was the expansion of the Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants. This *2010 Annual Report* marks the fifth year of our expanded audit mandate.

### Appointment of Auditor General

Under the Act, the Auditor General is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Auditor General on and with the advice of the Executive Council (the Cabinet). The appointment is made “on the address of the Assembly,” meaning that the appointee must be approved by the Legislative Assembly. The Act also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Legislative Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information on the Committee, see Chapter 6).

### Independence

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

The Auditor General is appointed to a 10-year, non-renewable term, and can be dismissed only for cause by the Legislative Assembly. Consequently, the Auditor General maintains an arm's-length

distance from the government and the political parties in the Legislative Assembly and is thus free to fulfill the Office's legislated mandate without political pressure.

The Board of Internal Economy—an all-party legislative committee that is independent of the government's administrative process—reviews and approves the Office's budget, which is subsequently laid before the Legislative Assembly. As required by the Act, the Office's expenditures relating to the 2009/10 fiscal year have been audited by a firm of chartered accountants, and the audited financial statements of the Office are submitted to the Board and subsequently must be tabled in the Legislative Assembly. The audited statements and related discussion of expenditures for the year are presented at the end of this chapter.

### CONFIDENTIALITY OF WORKING PAPERS

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

### CODE OF PROFESSIONAL CONDUCT

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

strive to achieve the highest standards of behaviour, competence, and integrity in their work.

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

## Office Organization and Personnel

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

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

## Canadian Council of Legislative Auditors

This year, Quebec hosted the 38th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Quebec City, from August 29 to 31, 2010. 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

Figure 1: Office Organization, September 30, 2010

<b>Auditor General</b> Jim McCarter	<b>Human Resources</b> Annemarie Wiebe, Manager Shayna Whiteford	<b>Operations</b> <b>Administration</b> Shanta Persaud Maureen Bissonnette Sohani Myers Christine Wu <b>Communications and Government Advertising Review</b> Andréa Vanasse, Manager Mariana Green Shirley McGibbon Tiina Randoja Joël Ruimy Lucy Trew <b>Information Technology</b> Peter Lee Shams Ali
<b>Deputy Auditor General</b> Gary Peall	<b>Professional Practices</b> Paul Amodeo, Director  <b>Audit Software Project</b> Kristin Snowden, Project Lead Shariq Saeed	

**Audit Portfolios and Staff**

<b>Community and Social Services, and Revenue</b> Walter Bordne, Director Wendy Cumbo, Manager Nick Stavropoulos, Manager Johan Boer Stephanie Chen Constantino De Sousa Katrina Exaltacion Inna Guelfand Li-Lian Koh Michael Okulicz Shreya Shah	<b>Crown Agencies (1)</b> John McDowell, Director Walter Allan, Manager Tom Chatzidimos Kandy Fletcher Mary Romano Megan Sim	<b>Crown Agencies (2)</b> Laura Bell, Director Teresa Carello, Manager Margaret Chen Roger Munroe Priyanka Parekh Cynthia Tso
<b>Education and Training</b> Gerard Fitzmaurice, Director Tony Tersigni, Manager Emanuel Tsikritsis, Manager Tino Bove Maggie Dong Zahra Jaffer Rumi Janmohamed Mythili Kandasamy Joane Mui Mark Smith Ellen Tepelenas Dora Ulisse Joyce Yip	<b>Health and Health Promotion</b> Rudolph Chiu, Director Gigi Yip, Manager Denise Young, Manager Ariane Chan Frederick Chan Anita Cheung Helen Chow Oscar Rodriguez Pasha Sidhu Alla Volodina Lisa Li	<b>Health and Long-term-care Providers</b> Susan Klein, Director Vanna Gotsis, Manager Naomi Herberg, Manager Kevin Aro Matthew Brikis Sally Chang Jennifer Fung Ingrid Goh Justin Hansis Veronica Ho Linde Qiu
<b>Justice and Regulatory</b> Vince Mazzone, Director Rick MacNeil, Manager Fraser Rogers, Manager Vivian Sin, Manager Howard Davy Rashmeet Gill David McIver Alfred Kiang Wendy Ng Alice Nowak Ruchir Patel Gloria Tsang Brian Wanchuk Celia Yeung	<b>Public Accounts, Finance, Environment, and Natural Resources</b> Gus Chagani, Director Sandy Chan, Manager Bill Pelow, Manager Allen Fung Tanmay Gupta Mark Hancock Aldora Harrison Zhenya Stekovic Georgeiana Tanudjaja Janet Wan Jing Wang	<b>Transportation, Infrastructure, and Municipal Affairs</b> Andrew Cheung, Director Kim Cho, Manager Bartosz Amerski Izabela Beben Marcia DeSouza Alexander Truong

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 Barbados, Belize, China (national and provincial), Germany, Ghana, Kenya, Ireland, and Nigeria. We also were privileged to host a senior member of the Auditor General's office from the state of Baden-Württemberg, Germany, for a three-month secondment as part of a leadership training program for that office.

## Results Produced by the Office This Year

The 2009/10 fiscal year was another successful year for the Office.

In total, we conducted 13 value-for-money and special audits this year. These audits examined a wide range of services of importance to Ontarians, with a strong focus (10 audits) on the broader public sector, particularly the health-care sector (five audits). Our broader-public-sector work included three audits involving hospitals: hospital emergency departments, hospital discharge planning, and a special audit that included visits to 16 hospitals regarding their use of consultants. Other health-care-related work involved organ and tissue donation and transplantation, including the Tril-

ium Gift of Life Network, and home-care services arranged by Community Care Access Centres. We also performed two audits in the education sector, including school safety initiatives at selected school boards and the Ministry of Education and college infrastructure asset management at selected colleges and the Ministry of Training, Colleges and Universities.

Three of the value-for-money audits we carried out this year examined programs that have had a significant impact on municipalities. These audits included infrastructure stimulus spending, the management of non-hazardous waste, and our first audit of the Municipal Property Assessment Corporation.

Our other value-for-money audits included a first look at the oversight of casino gaming by the Alcohol and Gaming Commission of Ontario, as well as one that we have reported on more than once in the past: the Family Responsibility Office.

As mentioned in the earlier Special Reports section, we issued two special reports this year: OLG's Employee Expense Practices, issued in June 2010, and Consultant Use in Selected Health Organizations, issued in October 2010. The first was requested by the Minister of Finance and the second by the Standing Committee on Public Accounts.

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

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

The results produced by the Office this year would clearly not have been possible without the hard work and dedication of our staff. As has

been the case in recent years, with a number of senior staff retiring or on leave, contract staff were important to us again this year, and they filled in admirably.

## Financial Accountability

The following discussion and our financial statements outline the Office's financial results for the 2009/10 fiscal year.

Figure 2 provides a comparison of our approved budget and expenditures over the last five years. Figure 3 presents the major components of our spending and shows that 73% (71% in 2008/09) related to salary and benefit costs for our staff, while professional and other services and rent constituted most of the remainder. Although these proportions have been relatively stable in recent years, this year there was a shift from contracted professional services, which declined by 2%, to salaries and benefits. Fewer parental leaves meant less reliance on contract help to manage peak workload periods. Also, one contract position was converted to full-time employment.

Overall, our expenses increased 2.2% (3.8% in 2008/09) and were again significantly under

budget. Over the five-year period presented in Figure 2, we have returned unspent appropriations totalling \$8 million. The main reason for this is that we have historically faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market—our public-service salary ranges have simply not kept pace with compensation increases for such professionals in the private sector. A more detailed discussion of the changes in our expenses and some of the challenges we are facing follows.

### SALARIES AND BENEFITS

Our salary and benefit costs rose 5.7% this year. As noted above, fewer parental leaves and conversion of a contract position to full-time staff shifted some contracted professional expenditures to salaries and benefits. As well, we employed fewer student trainees this year than the previous year, because many of our trainees earned their professional accounting designation during the year and remained with us. To be competitive, we must pay our newly qualified staff considerably more than they were paid as trainees. Salary and performance pay increases (in line with those approved for Ontario public servants), together with benefit cost increases (such as higher pension and health

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

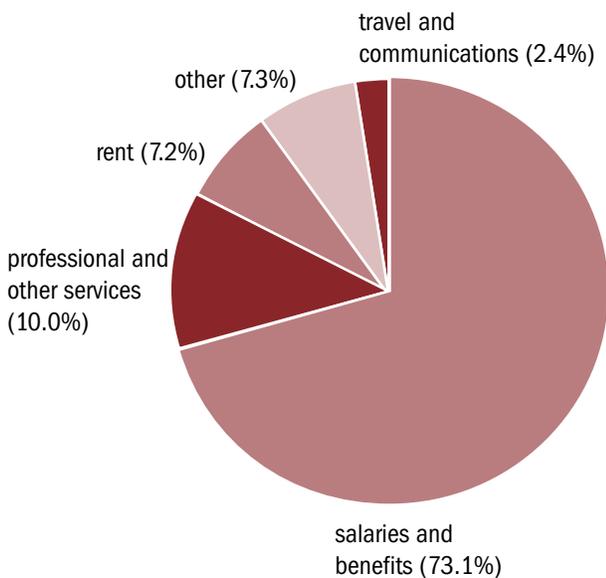
Prepared by the Office of the Auditor General of Ontario

	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Approved budget</b>	<b>12,552</b>	<b>13,992</b>	<b>15,308</b>	<b>16,245</b>	<b>16,224</b>
<b>Actual expenses</b>					
salaries and benefits	8,047	8,760	9,999	10,279	10,862
professional and other services	951	1,264	1,525	1,776	1,489
rent	962	985	1,048	1,051	1,069
travel and communications	324	363	397	332	360
other	756	930	1,033	1,096	1,073
<b>Total</b>	<b>11,040</b>	<b>12,302</b>	<b>14,002</b>	<b>14,534</b>	<b>14,853</b>
<b>Returned to province*</b>	<b>1,609</b>	<b>1,730</b>	<b>1,608</b>	<b>1,561</b>	<b>1,498</b>

\* These amounts are typically slightly different than the excess of appropriation over expenses as a result of non-cash expenses (such as amortization of capital assets and employee future benefit accruals).

**Figure 3: Spending by Major Expenditure Category, 2009/10**

Prepared by the Office of the Auditor General of Ontario



benefit contribution rates, as well as an increase in the liability for employee future benefits), account for the remaining increase in salaries and benefits over the previous year.

Following a gradual increase in approved complement from 95 in 2004/05 to 117 now (see Figure 4), we were able to gradually increase the average number of staff we employ to about 110 over the last three years. Although competing with the higher salaries for professional accountants offered by the private sector affects our hiring, we were also cognizant of the current economic environment and remained somewhat cautious about staffing up when staff departed, delaying the replacement of retiring senior staff and hiring experienced but more junior staff as opportunities arose. On the other hand, we do recognize that the growing complexity of our value-for-money audits, especially in the broader public sector, demands that we use highly qualified, experienced staff as much as possible.

Under the Act, our salary levels must be comparable to the salary ranges of similar positions in the government. These ranges remain uncompetitive with the salaries that both the not-for-profit and the

private sectors offer. According to the most recent survey by the Canadian Institute of Chartered Accountants published in 2009, average salaries for CAs in government (\$117,700) were 15% lower than those in the not-for-profit sector (\$138,400) and, most importantly, 27% lower than those working for professional service CA firms (\$160,600), which are our primary competitors for professional accountants. This gap had narrowed only slightly since the previous survey in 2007.

The salaries of our highest-paid staff in the 2009 calendar year are disclosed in Note 6 to our financial statements.

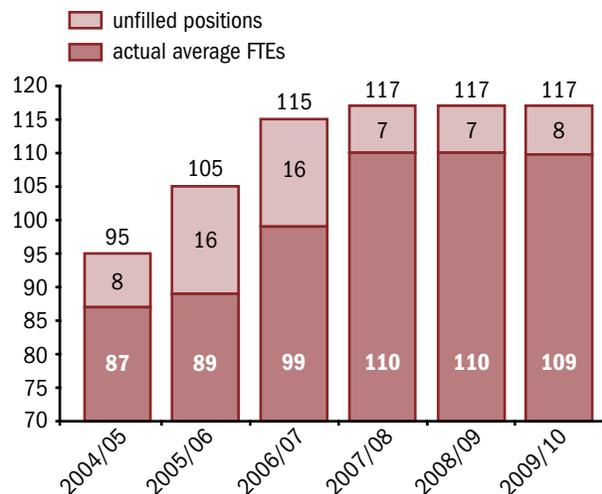
## PROFESSIONAL AND OTHER SERVICES

These services represent our next most significant area of expenditure, at about 10% of total expenditures. As mentioned above, these expenditures declined 2% from the previous year after several years of significant increases. These services include both contract professionals and contract CA firms.

We continue to have to rely heavily on contract professionals to meet our legislated responsibilities given more complex work and tighter deadlines for finalizing the financial-statement audits of Crown agencies and the province. We also believe that using more contract staff to fill temporary needs is

**Figure 4: Staffing, 2004/05–2009/10**

Prepared by the Office of the Auditor General of Ontario



a cost-effective approach to staffing, particularly during uncertain economic times, in that it provides more flexibility and less disruption if significant in-year cuts to our budget are requested. Also, even during the economic downturn, it has remained difficult for us to reach our approved full complement given our uncompetitive salary levels, particularly for professionals with several years of post qualifying experience.

We continue to incur higher contract costs for CA firms we work with because of the higher salaries they pay their staff and the additional hours required to implement ongoing changes to accounting and assurance standards. However, these costs have stabilized somewhat with the economic downturn after several years of increases.

## RENT

Our costs for accommodation were slightly higher than last year, increasing 1.7% (owing primarily to rising building operating costs, particularly utilities). Accommodation costs remain about the same percentage of total spending.

## TRAVEL AND COMMUNICATIONS

With considerably more value-for-money audit work in broader-public-sector organizations, particularly hospitals, than last year, our travel costs jumped by over 8% this year. In fact, the majority of our value-for-money and special audits this year were in the broader public sector and involved visits to 24 hospitals, Community Care Access Centres, school boards, schools, colleges, and municipalities, as well as OLG's head office in Sault Ste. Marie. In general, we are incurring significantly more travel costs than in the past because of the expansion of our mandate to audit broader-public-sector

organizations. Last year, our audits focused more on ministry oversight of service providers and less on the providers themselves. As a result, our teams made shorter visits to community service providers that year.

## OTHER

Other costs include asset amortization, supplies, equipment maintenance, training, and statutory expenses. Such costs declined by \$23,000, or by 2%, over last year. An increase of \$42,000 that was associated with the additional contract services required to conduct the special audit on the use of consultants in the health sector, given its large scope, and an increase of \$24,000 that was related to higher equipment amortization owing to prior investments in computer and leasehold improvements were more than offset by reductions in expenditures on training (\$50,000), on supplies and equipment (\$30,000), and on expert advisory services needed to meet our responsibilities under the *Government Advertising Act, 2004* (\$8,000).

Our major investments over the previous two years in training staff to implement new standards did not have to be repeated this year, although some additional costs will be incurred again next year to implement the new Canadian Auditing Standards that become effective in December 2010. These expenditures on training are needed to ensure that our staff are able to adhere to the many recent changes in standards and to increase their level of subject expertise to handle complex value-for-money audits.

Because the salaries of the most senior managers in government were frozen during the current year, the statutory salary for the Auditor General was about the same as the previous 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, 2010 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.

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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, 2010 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

*Adams & Miles LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
July 16, 2010

[www.adamsmiles.com](http://www.adamsmiles.com)

An independent firm associated  
with AGN International Ltd.

## Office of the Auditor General of Ontario

### Statement of Financial Position

As at March 31, 2010

	2010 \$	2009 \$
<b>Assets</b>		
Current		
Cash	370,802	293,306
Due from Consolidated Revenue Fund	754,098	663,149
	<u>1,124,900</u>	<u>956,455</u>
Capital Assets (Note 3)	540,543	581,060
<b>Total assets</b>	<u>1,665,443</u>	<u>1,537,515</u>
<b>Liabilities</b>		
Accounts payables and accrued liabilities	1,920,900	1,590,455
Accrued employee benefits obligation [Note 4(B)]	1,922,000	1,997,000
	<u>3,842,900</u>	<u>3,587,455</u>
<b>Net accumulated deficit</b>		
Investment in capital assets (Note 3)	540,543	581,060
Accumulated deficit related to employee future benefits [Note 2(B)]	(2,718,000)	(2,631,000)
	<u>(2,177,457)</u>	<u>(2,049,940)</u>
<b>Total liabilities and net accumulated deficit</b>	<u>1,665,443</u>	<u>1,537,515</u>

#### Commitments (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, 2010

	<b>2010</b>	<b>2010</b>	<b>2009</b>
	<b>Budget</b>	<b>Actual</b>	<b>Actual</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Expenses</b>			
Salaries and wages	9,755,400	8,870,759	8,434,594
Employee benefits (Note 4)	2,041,200	1,990,880	1,844,038
Office rent	1,062,400	1,068,789	1,051,024
Professional and other services	1,729,500	1,489,375	1,775,885
Amortization of capital assets	—	323,386	298,550
Travel and communication	418,800	359,934	332,043
Training and development	386,600	154,525	205,077
Supplies and equipment	377,500	143,734	173,326
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>Auditor General Act</i>	222,700	243,831	245,438
<i>Government Advertising Act</i>	30,000	27,224	35,209
<i>Statutory services</i>	150,000	130,754	88,850
	<hr/>	<hr/>	<hr/>
Total expenses (Note 7)	16,224,100	14,853,191	14,534,034
<b>Revenue</b>			
Consolidated Revenue Fund – Voted appropriation (Note 2B)	16,224,100	16,224,100	16,244,700
	<hr/>	<hr/>	<hr/>
<b>Excess of appropriation over expenses</b>		1,370,909	1,710,666
<b>Less: returned to the Province</b> (Note 2B)		(1,498,426)	(1,560,877)
<b>Net operations deficiency (excess)</b>		<hr/>	<hr/>
		127,517	(149,789)
<b>Accumulated deficit, beginning of year</b>		2,049,940	2,199,729
<b>Accumulated deficit, end of year</b>		<hr/>	<hr/>
		2,177,457	2,049,940

See accompanying notes to financial statements.

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**Office of the Auditor General of Ontario**  
**Statement of Cash Flows**  
**For the Year Ended March 31, 2010**

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	<b>2010</b>	<b>2009</b>
	\$	\$
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>Cash flows from operating activities</b>		
Net operations (deficiency) excess	(127,517)	149,789
Amortization of capital assets	323,386	298,550
Accrued employee benefits obligation	(75,000)	(17,000)
	<u>120,869</u>	<u>431,339</u>
<b>Changes in non-cash working capital</b>		
Increase in due from Consolidated Revenue Fund	(90,949)	(289,005)
Increase (decrease) in accounts payable and accrued liabilities	330,445	(89,557)
	<u>239,496</u>	<u>(378,562)</u>
<b>Investing activities</b>		
Purchase of capital assets	<u>(282,869)</u>	<u>(281,339)</u>
<b>Net increase (decrease) in cash position</b>	77,496	(228,562)
<b>Cash position, beginning of year</b>	<u>293,306</u>	<u>521,868</u>
<b>Cash position, end of year</b>	<u><u>370,802</u></u>	<u><u>293,306</u></u>

See accompanying notes to financial statements.

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# Office of the Auditor General of Ontario

## Notes to Financial Statements

March 31, 2010

### 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 will also be required to review and report on the reasonableness of the 2011 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 voted appropriation is on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting, including the capitalization and amortization of capital assets and the recognition of employee benefit costs earned to date 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

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## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2010

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## 2. Significant Accounting Policies (Continued)

### (D) FINANCIAL INSTRUMENTS

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

- Cash is classified as held for trading and is recorded at fair value.
- Due from Consolidated Revenue Fund is classified as loans and receivables and is valued at cost which approximates fair value given its short term nature.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at cost which approximate fair value given their short term maturities.
- The accrued employee benefits obligation is classified as another financial liability and is recorded at cost based on the entitlements earned by employees up to March 31, 2010. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made as it is not expected that there would be a significant difference from the recorded amount.

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

### (E) USE OF ESTIMATES

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

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## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2010

### 3. Capital Assets

	2010			2009
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Net Book Value \$
Computer hardware	585,915	337,310	248,605	237,736
Computer software	230,634	140,165	90,469	76,388
Furniture and fixtures	364,666	237,499	127,167	143,099
Leasehold improvements	235,868	161,566	74,302	123,837
	<u>1,417,083</u>	<u>876,540</u>	<u>540,543</u>	<u>581,060</u>

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

### 4. Obligation for Future Employee Benefits

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

#### (A) PENSION BENEFITS

The Office's employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Office's annual payments to the fund. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Office. The Office's required annual payments of \$711,251 (2009 – \$609,166), are included in employee benefits expense in the Statement of Operations and Accumulated Deficit.

## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2010

#### 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 \$229,000 (2009 – \$108,000) and are included in employee benefits in the Statement of Operations and Accumulated Deficit. The total liability for these costs is reflected in the accrued employee benefits obligation, less any amounts payable within one year, which are included in accounts payable and accrued liabilities, as follows:

	2010 \$	2009 \$
Total liability for severance and vacation	2,718,000	2,631,000
Less: Due within one year and included in accounts payable and accrued liabilities	(796,000)	(634,000)
Accrued employee benefits obligation	<u>1,922,000</u>	<u>1,997,000</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. Commitments

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:

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

The Office also has less significant lease commitments related to office equipment.

## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2010

#### 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 2009.

Name	Position	Salary	Taxable
		\$	Benefits \$
McCarter, Jim	Auditor General	216,158	19,397
Peall, Gary	Deputy Auditor General	181,643	285
Amodeo, Paul	Director	140,615	223
Chagani, Gus	Director	115,764	183
Cheung, Andrew	Director	140,615	223
Chiu, Rudolph	Director	133,110	215
Fitzmaurice, Gerard	Director	140,615	223
Klein, Susan	Director	140,615	223
Mazzone, Vince	Director	136,223	218
McDowell, John	Director	140,615	223
Sciarra, John	Director of Operations	132,337	215
Allan, Walter	Audit Manager	110,463	178
Brennan, Michael	Audit Manager	113,386	180
Cumbo, Wendy	Audit Manager	113,386	180
Gotsis, Vanna	Audit Manager	113,386	180
MacNeil, Richard	Audit Manager	113,386	180
Pelow, William	Audit Manager	113,386	180
Rogers, Fraser	Audit Manager	105,440	180
Tersigni, Anthony	Audit Manager	113,386	180
Young, Denise	Audit Manager	113,386	180
Boer, Johannes	Audit Supervisor	103,201	170
Davy, Howard	Audit Supervisor	103,201	170
Wiebe, Annemarie	Manager, Human Resources	113,386	180

## Office of the Auditor General of Ontario

### Notes to Financial Statements

March 31, 2010

#### 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:

	2010	2009
	\$	\$
Total expenses per Public Accounts Volume 1	14,725,674	14,683,823
purchase of capital assets	(282,869)	(281,339)
amortization of capital assets	323,386	298,550
change in accrued future employee benefit costs	87,000	(167,000)
	<u>127,517</u>	<u>(149,789)</u>
Total expenses per audited financial statements	<u>14,853,191</u>	<u>14,534,034</u>

#### 8. Management of Capital

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