Chapter 7

The Office of the Auditor General of Ontario

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

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

In an election year, the Auditor General is also required to review the reasonableness of the government's pre-election report on its expectations for the financial performance of the province over the next three fiscal years. Because 2011 was an election year, the government issued its pre-election report on April 26, 2011, and the results of our review were released on June 28, 2011.

General Overview

VALUE-FOR-MONEY AUDITS IN THE ANNUAL REPORT

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

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

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

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

We also examine the level of service that is being provided to the public and, where possible, compare it to the best practices of other jurisdictions that deliver similar services.

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). Other compliance work that is typically included in our value-for-money audits is:

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

Government programs and activities are the result of government policy decisions. Thus, we could say that our value-for-money audits focus on how well management is administering and executing government policy decisions. However, although we may provide information on the impacts of government policy, we do not opine 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 below.

Selecting What to Audit

The Office audits major ministry programs and activities at approximately five- to seven-year intervals. We do not audit organizations in the broader public sector and Crown-controlled corporations on the same cycle because there are such a great number of them and their activities are so numerous and diverse. Since our mandate expanded in 2004 to allow us to audit these auditees, our audits have covered a wide range of topics across a broad range 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 several large Crown-controlled corporations.

In selecting what program, activity, or organization to audit each year, we consider how great the risk is that an auditee is not delivering public services in a cost-effective manner. To help us choose higher-risk audits, we consider factors such as:

- the results of previous audits and related follow-ups;
- the total revenues or expenditures involved;
- the impact of the program, activity, or organization on the public;

- the complexity and diversity of the auditee's operations;
- recent significant changes in the auditee's operations; and
- the significance of the issues an audit might identify.

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

Setting Audit Objectives, Audit Criteria, and Assurance Levels

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

The next step is designing and conducting tests and procedures to address our audit objective and criteria, so that we can reach conclusions on them. Each audit report has a section titled "Audit Objective and Scope," in which the audit objective is stated.

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

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

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

Infrequently, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information that 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, or other factors relating to the nature of the program or activity make a review more appropriate than an audit. This year, we conducted a review, contained in Chapter 3 of this report, of the electricity sector's stranded debt. In the 2009 audit year, we conducted a review of the unfunded liability of the Workplace Safety and Insurance Board, which was well received by the Standing Committee on Public Accounts.

Communicating with Management

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

SPECIAL REPORTS

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

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

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

Over the past five years, we have issued eight special reports, as well as two reports reviewing the government's pre-election report on Ontario's finances. No special audits were requested during the 2010/11 audit year.

ATTEST AUDITS

Attest audits are examinations of an auditee's financial statements. In such audits, the auditor expresses his or her opinion on whether the financial statements present information on the auditee's operations and financial position in a way that is fair and that complies with certain accounting policies (in most cases, with Canadian generally accepted accounting principles). As mentioned in the overview of value-for-money audits, compliance audit work is often incorporated into attest audit work. Specifically, we assess the controls for managing risks relating to improperly kept accounts; unaccounted-for public money; lack of recordkeeping; inadequate safeguarding of public property; deficient procedures for assessing, collecting, and properly allocating revenue; unauthorized expenditures; and not spending money on what it is intended for.

The Auditees

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

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

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

We do not generally discuss the results of attest audits of agencies and Crown-controlled corporations in this report. Agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible for the agency. Our Office also provides copies of our independent auditor's reports and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Treasury Board.

Where an agency attest audit notes areas where management must make improvements, the auditor prepares a draft 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 2010/11 audit year. The Office currently contracts with public accounting firms to audit a number of these agencies on the Office's behalf. Exhibit 1, Part 2, and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that public accounting firms audited during the 2010/11 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 *2011 Annual Report* marks the sixth 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). The last two Auditors General were selected through a formal competitive selection process, with members from each political party sitting on the selection committee.

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 is able to maintain an arm's-length relationship with 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 (Board)—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 2010/11 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 groups together related audit entities and fosters expertise in the various areas of government activity, such as health care, education, social services, and the environment. The portfolios, which are loosely based on the government's organization into ministries, 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 Managers of Human

Figure 1: Office Organization, September 30, 2011

Auditor General

Jim McCarter

Deputy Auditor General

Gary Peall

Human Resources

Annemarie Wiebe, Manager
Shayna Whiteford

Quality Assurance and Special Projects

Paul Amodeo, Manager
Kristin Snowden, Manager
Shariq Saeed

Standards and Research

Rebecca Yosipovich, Manager

Operations

Administration
Shanta Persaud
Maureen Bissonnette
Sohani Myers
Christine Wu

Communications and Government Advertising Review
Christine Pedias, (Acting) Manager
Mariana Green
Shirley McGibbon
Tiina Randoja

Information Technology
Peter Lee
Shams Ali

Audit Porfolios and Staff

Community and Social Services, and Revenue

Walter Bordne, Director
Wendy Cumbo, Manager
Nick Stavropoulos, Manager
Johan Boer
Dimitar Dimitrov
Katrina Exaltacion
Inna Guelfand
Li-Lian Koh
Jenna Lasky
Michael Okulicz
Shreya Shah
Zachary Thomas
Tiffany Yau

Crown Agencies (1), Finance

John McDowell, Director
Walter Allan, Manager
Tom Chatzidimos
Kandy Fletcher
Mary Romano
Megan Sim

Crown Agencies (2)

Laura Bell, Director
Teresa Carello, Manager
Denise Young, Manager
Margaret Chen
Constantino De Sousa
Roger Munroe
Cynthia Tso

Education and Training

Gerard Fitzmaurice, Director
Emanuel Tsikritsis, Manager
Tara Beheshti
Tino Bove
Zahra Jaffer
Rumi Janmohamed
Mythili Kandasamy
Michael Katsevman
Nina Khant
Mark Smith
Ellen Tepelenas
Dora Ulisse

Health and Health Promotion

Rudolph Chiu, Director
Kim Cho, Manager
Gigi Yip, Manager
Bartosz Amerski
Izabela Beben
Ariane Chan
Anita Cheung
Helen Chow
Marcia DeSouza
Lisa Li
Oscar Rodriguez
Pasha Sidhu
Alexander Truong
Alla Volodina

Health and Long-term-care Providers

Susan Klein, Director
Vanna Gotsis, Manager
Naomi Herberg, Manager
Kevin Aro
Sally Chang
Jennifer Fung
Ingrid Goh
Justin Hansis
Veronica Ho
Linde Qiu

Justice and Regulatory

Vince Mazzone, Director
Rick MacNeil, Manager
Fraser Rogers, Manager
Vivian Sin, Manager
Rashmeet Gill
Kiran Grewal
Tanmay Gupta
Thomas Ioannou
Alfred Kiang
Margaret Lam
Alice Nowak
Brian Wanchuk
Celia Yeung

Public Accounts, Environment, and Natural Resources

Gus Chagani, Director
Sandy Chan, Manager
Bill Pelow, Manager
Allen Fung
Mark Hancock
Aldora Harrison
Zhenya Stekovic
Georgegiana Tanudjaja
Janet Wan
Jing Wang

Resources and of Communications and Government Advertising Review make up the Office's Senior Management Committee.

Canadian Council of Legislative Auditors

This year, Nova Scotia hosted the 39th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Halifax, from August 28 to 30, 2011. This annual gathering has, for the last 32 years, been held jointly with the annual conference of the Canadian Council of Public Accounts Committees (CCPAC). 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 often 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 Belize, Benin, Cameroon, China (both national and provincial audit offices), Ghana, Kenya, Pakistan (Punjab province), Saint Lucia, Tanzania, and Vietnam.

Results Produced by the Office This Year

The 2010/11 fiscal year was another successful year for the Office. In total, we completed 13 value-for-money audits and one review, and released a report on our statutory review of the *2011 Pre-Election Report on Ontario's Finances.* This year our value-for-money audits in the broader public sector examined aspects of a number of provincially funded agencies, such as the LCBO, the Ontario Trillium Foundation, Legal Aid Ontario, the Office of the Children's Lawyer, the Ontario Power Authority, the Ontario Energy Board, and the Financial Services Commission of Ontario (auto insurance regulation). Of these, only the LCBO had previously been subject to a value-for-money audit by our Office. In addition, we examined a variety of government activities also of importance to Ontarians, including renewable energy initiatives, student success initiatives (including visits to selected school boards and schools), forest management, alternative funding arrangements for physicians, oversight of private career colleges, and supportive services provided to people with disabilities.

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 significant 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 well as the assistance of our contract staff and expert advisers.

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 2010/11 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 more than 74% (73% in 2009/10) related to salary and benefit costs for our staff, while professional and other services and rent constituted most of the remainder. These proportions have been relatively stable in recent years.

Overall, our expenses increased 2.1% (2.2% in 2009/10) and were again significantly under budget. Over the five-year period presented in Figure 2, we have returned unspent appropriations totalling $7.6 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 costs rose 4.2% this year, while benefit costs were largely unchanged from the previous year.

Given the legislated freeze on salary ranges, this increase related largely to promotional increases earned by trainees who obtained their professional accounting designations during the year and by those staff who demonstrated the ability to take on additional responsibilities. 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, and salaries for qualified accountants rise fairly quickly in the first five years following qualification.

With the economic uncertainty and the continuing need for cost containment, we remained cautious about staffing up when staff departed, delaying the replacement of retiring senior staff and hiring experienced but more junior staff as opportunities arose. As a result, our average staffing over the course of this year was about the same

Figure 2: Five-year Comparison of Spending (Accrual Basis) ($ 000)
Prepared by the Office of the Auditor General of Ontario

	2006/07	2007/08	2008/09	2009/10	2010/11
Approved budget	**13,992**	**15,308**	**16,245**	**16,224**	**16,224**
Actual expenses					
salaries and benefits	8,760	9,999	10,279	10,862	11,233
professional and other services	1,264	1,525	1,776	1,489	1,491
rent	985	1,048	1,051	1,069	1,036
travel and communications	363	397	332	360	337
other	930	1,033	1,096	1,073	1,071
Total	**12,302**	**14,002**	**14,534**	**14,853**	**15,168**
Returned to province*	**1,730**	**1,608**	**1,561**	**1,498**	**1,223**

* 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, 2010/11

Prepared by the Office of the Auditor General of Ontario

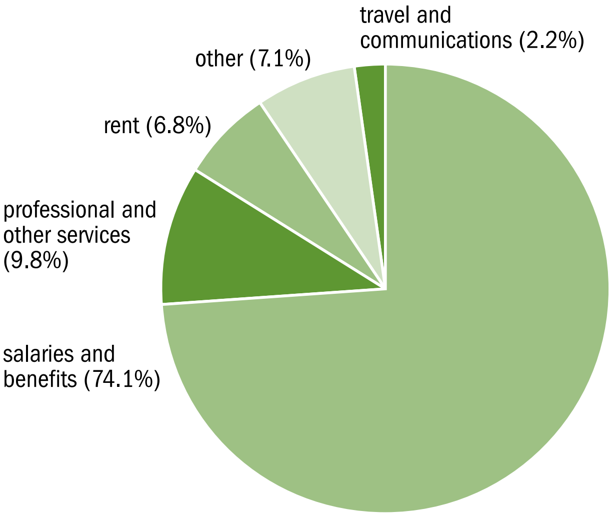
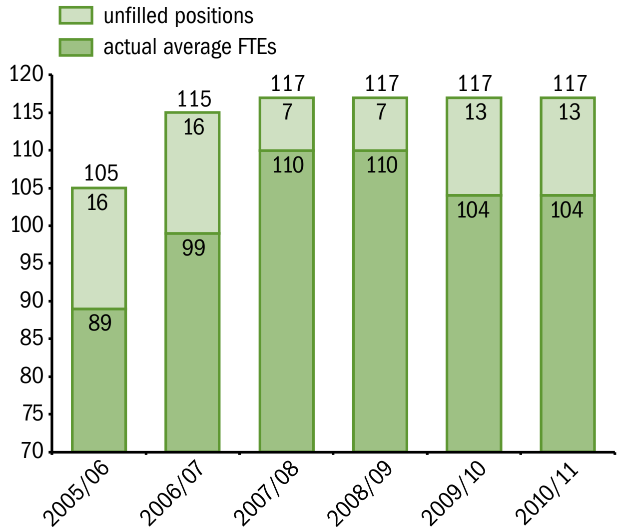


Figure 4: Staffing, 2005/06–2010/11

Prepared by the Office of the Auditor General of Ontario



as last year, at 104. After reaching as high as 110 late last year and the early part of this year, staff departures have resumed as the market for professional accountants has remained robust despite economic uncertainties. The growing complexity of our audits demands that we use highly qualified, experienced staff as much as possible. However, our hiring continues to be primarily at more junior levels, given that our salaries and benefits are competitive at these levels. We quickly fall behind private- and broader-public-sector salary scales for more experienced professional accountants. This is one reason that, as Figure 4 shows, we still have a number of unfilled positions. The challenge of maintaining and enhancing our capacity to perform these audits will only increase as more of our most experienced staff retire over the next few years.

Under the Act, our salary levels must be comparable to the salary ranges of similar positions in the government. These ranges remain uncompetitive with the salaries that both the not-for-profit and the private sectors offer. According to the most recent survey by the Canadian Institute of Chartered Accountants published in 2011, average salaries for CAs in government ($120,600) were 13% lower than those in the not-for-profit sector ($136,400) and, most importantly, 24% lower than those working for professional service CA firms in Ontario ($150,000), which are our primary competitors for professional accountants. The salaries of our highest-paid staff in the 2010 calendar year are disclosed in Note 7 to our financial statements.

PROFESSIONAL AND OTHER SERVICES

These services represent our next most significant area of expenditure, at close to 10% of total expenditures. Such costs were virtually the same as 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 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 a prudent approach to staffing, particularly during uncertain economic times, in that it provides more flexibility and less disruption if significant in-year cuts to our budget are requested. 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. Furthermore, after two years of budget freezes we can no longer afford to staff up to our approved complement of 117 staff (even if we could attract them at the salaries we are able to offer), and employing contract staff has proven a cost-effective way of helping to address this.

We continue to incur higher contract costs for the 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 cost increases were partly offset this year by savings in provincial sales taxes with the introduction of the refundable harmonized sales tax effective July 1, 2010.

RENT

Our costs for accommodation were slightly lower than last year, owing primarily to a decline in building operating costs, particularly utilities. Accommodation costs declined as a percentage of total spending and are expected to decline slightly in the future as the result of the Office's successful negotiation of a rent reduction as part of the lease renewal terms commencing in fall 2011.

TRAVEL AND COMMUNICATIONS

Our travel and communications costs declined more than 6% from last year. This year the value-for-money audits we selected generally required less travel relative to the extensive broader-public-sector work completed last year, particularly in hospitals. This year only three of the audits required extensive travel: Forest Management Program, Supportive Services for People with Disabilities, and Student Success Initiatives. The introduction of the refundable harmonized sales tax also contributed to the decline. In general, though, since the expansion of our value-for-money-audit mandate to the broader public sector, we have been incurring significantly more travel costs.

OTHER

Other costs include asset amortization, supplies and equipment maintenance, training, and statutory expenses. Such costs were virtually the same as last year, although the individual components fluctuated. Increases included $38,000 associated with additional expert advisory services required to administer the *Government Advertising Act, 2004,* $16,000 relating to higher equipment amortization owing to prior investments in computer and leasehold improvements, and $12,000 for the transfer payment to help cover additional training costs being shared by all Canadian legislative audit offices on a collaborative basis. These increases were more than offset by reductions in expenditures on training ($24,000), owing mostly to the timing of course offerings relative to last year; statutory services ($22,000), owing to less special-audit activity; the Auditor General's salary ($15,000), owing to salary restraint legislation; and supplies and equipment ($8,000). Again, the introduction of the refundable harmonized sales tax also contributed to the slight overall decline in other costs.

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, 2011 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.

Management maintains a system of internal controls that provides reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded, and the financial information contained in these financial statements is reliable and accurate.

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

Jim McCarter, FCA
Auditor General

Gary R. Peall, CA
Deputy Auditor General

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INDEPENDENT AUDITORS' REPORT

To the Board of Internal Economy of
Legislative Assembly of Ontario

We have audited the accompanying financial statements of the Office of the Auditor General of Ontario, which comprise the statement of financial position as at March 31, 2011 and the statements of operations and accumulated deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of the Auditor General of Ontario's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Ontario as at March 31, 2011, and the results of its operations and its cash flows for the year then ended.

Adams & Miles LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
August 23, 2011

Office of the Auditor General of Ontario

Statement of Financial Position
As at March 31, 2011

	2011 $	2010 $
Assets		
Current		
Cash	500,170	370,802
Harmonized sales taxes recoverable	128,927	—
Due from Consolidated Revenue Fund	49,194	754,098
	678,291	1,124,900
Capital assets (Note 4)	501,904	540,543
Total assets	1,180,195	1,665,443
Liabilities		
Accounts payable and accrued liabilities	1,535,291	1,920,900
Accrued employee benefits obligation [Note 5(B)]	1,988,000	1,922,000
	3,523,291	3,842,900
Net accumulated deficit		
Investment in capital assets (Note 4)	501,904	540,543
Accumulated deficit related to employee future benefits [Note 2(B)]	(2,845,000)	(2,718,000)
	(2,343,096)	(2,177,457)
Total liabilities and net accumulated deficit	1,180,195	1,665,443

Commitments (Note 6)

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:

Jim McCarter, FCA
Auditor General

Gary Peall, CA
Deputy Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit
For the Year Ended March 31, 2011

	2011 Budget (Unaudited) $	2011 Actual $	2010 Actual $
Expenses			
Salaries and wages	9,755,400	9,245,160	8,870,759
Employee benefits (Note 5)	2,041,200	1,987,895	1,990,880
Office rent	1,062,400	1,035,522	1,068,789
Professional and other services	1,729,500	1,490,944	1,489,375
Amortization of capital assets	—	339,316	323,386
Travel and communication	418,800	337,301	359,934
Training and development	386,600	130,700	154,525
Supplies and equipment	377,500	136,574	143,734
Transfer payment: CCAF-FCVI Inc.	50,000	61,775	50,000
Statutory expenses: *Auditor General Act*	222,700	229,147	243,831
Government Advertising Act	30,000	65,060	27,224
Statutory services	150,000	108,434	130,754
Total expenses (Note 8)	16,224,100	15,167,828	14,853,191
Revenue			
Consolidated Revenue Fund – Voted appropriation [Note 2(B)]	16,224,100	16,224,100	16,224,100
Excess of appropriation over expenses		1,056,272	1,370,909
Less: returned to the Province [Note 2(B)]		1,221,911	1,498,426
Net operations deficiency		(165,639)	(127,517)
Accumulated deficit, beginning of year		(2,177,457)	(2,049,940)
Accumulated deficit, end of year		(2,343,096)	(2,177,457)

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows
For the Year Ended March 31, 2011

	2011 $	2010 $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Net operations deficiency	(165,639)	(127,517)
Amortization of capital assets	339,316	323,386
Accrued employee benefits obligation	66,000	(75,000)
	239,677	120,869
Changes in non-cash working capital		
Decrease (increase) in due from Consolidated Revenue Fund	704,904	(90,949)
Increase in Harmonized sales taxes recoverable	(128,927)	—
Increase (decrease) in accounts payable and accrued liabilities	(385,609)	330,445
	190,368	239,496
Investing activities		
Purchase of capital assets	(300,677)	(282,869)
Net increase in cash position	129,368	77,496
Cash position, beginning of year	370,802	293,306
Cash position, end of year	500,170	370,802

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2011

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 has recently reviewed and reported on 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 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
For the Year Ended March 31, 2011

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, 2011. 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.

3. Accounting Policy Transition

In 2009, the Public Sector Accounting Board approved an amendment to "Introduction to Public Sector Accounting Standards". The amendment allowed organizations classified as an Other Government Organization to adopt either the Public Sector Accounting Handbook or International Financial Reporting Standards ("IFRS") for publicly accountable entities as the primary source of Canadian generally accepted accounting principles beginning on or after January 1, 2011. Taking into consideration the nature of the Office and its users,

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2011

3. Accounting Policy Transition (Continued)

management has determined that Public Sector Accounting Standards are a more suitable accounting standard to follow. The Office is planning to adopt Public Sector Accounting Standards for fiscal year 2011/12. The impact on the financial statements is not expected to be significant.

4. Capital Assets

	2011			2010
	Cost $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Computer hardware	597,133	397,966	199,167	248,605
Computer software	340,833	147,169	193,664	90,469
Furniture and fixtures	378,491	294,185	84,306	127,167
Leasehold improvements	235,868	211,101	24,767	74,302
	1,552,325	1,050,421	501,904	540,543

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

5. Obligation for Future Employee Benefits

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

(A) PENSION BENEFITS

The Office'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 $732,873 (2010 - $711,251), 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
For the Year Ended March 31, 2011

5. 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 $231,000 (2010 – $229,000) 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:

	2011 $	2010 $
Total liability for severance and vacation	2,845,000	2,718,000
Less: Due within one year and included in accounts payable and accrued liabilities	857,000	796,000
Accrued employee benefits obligation	1,988,000	1,922,000

(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.

6. Commitments

The Office has an operating lease to rent premises which expires on October 31, 2021. The minimum rental commitment for the remaining term of the lease is as follows:

	$
2011–12	507,800
2012–13	483,000
2013–14	488,400
2014–15	495,900
2015–16	501,300
2016–17 and beyond	2,920,800

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2011

7. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of the salary and benefits paid to all Ontario public-sector employees earning an annual salary in excess of $100,000. This disclosure for the 2010 calendar year is as follows:

Name	Position	Salary and Benefits Paid $	Taxable Benefits $
McCarter, Jim	Auditor General	254,174	4,306
Peall, Gary	Deputy Auditor General	172,985	282
Amodeo, Paul	Director	140,858	222
Bell, Laura	Director	122,582	194
Bordne, Walter	Director	131,000	222
Chagani, Gus	Director	122,582	194
Cheung, Andrew	Director	140,858	222
Chiu, Rudolph	Director	140,858	222
Fitzmaurice, Gerard	Director	144,145	222
Klein, Susan	Director	140,858	222
Mazzone, Vince	Director	140,858	222
McDowell, John	Director	144,145	222
Allan, Walter	Audit Manager	113,962	179
Brennan, Michael	Audit Manager	101,733	149
Carello, Teresa	Audit Manager	107,673	173
Chan, Sandy	Audit Manager	113,962	179
Cumbo, Wendy	Audit Manager	116,621	179
Gotsis, Vanna	Audit Manager	113,962	179
Herberg, Naomi	Audit Manager	113,962	179
MacNeil, Richard	Audit Manager	113,962	179
Pelow, William	Audit Manager	116,621	179
Rogers, Fraser	Audit Manager	105,986	179
Sin, Vivian	Audit Manager	108,473	174
Stavropoulos, Nick	Audit Manager	110,218	203
Tersigni, Anthony	Audit Manager	113,962	179
Tsikritsis, Emanuel	Audit Manager	104,618	173
Young, Denise	Audit Manager	116,621	179
Boer, Johannes	Audit Supervisor	104,157	169
Bove, Tino	Audit Supervisor	100,187	166
Davy, Howard	Audit Supervisor	104,157	169
Hancock, Mark	Audit Supervisor	104,157	169
Tepelenas, Ellen	Audit Supervisor	104,017	167
Wanchuk, Brian	Audit Supervisor	100,651	169
Yeung, Celia	Audit Supervisor	106,778	169
Wiebe, Annemarie	Manager, Human Resources	113,962	179

Office of the Auditor General of Ontario

Notes to Financial Statements
For the Year Ended March 31, 2011

8. Reconciliation to Public Accounts Volume 1 Basis of Presentation

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

	2011 $	2010 $
Total expenses per Public Accounts Volume 1	15,002,189	14,725,674
purchase of capital assets	(300,677)	(282,869)
amortization of capital assets	339,316	323,386
change in accrued future employee benefit costs	127,000	87,000
	165,639	127,517
Total expenses per audited financial statements	15,167,828	14,853,191

9. 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.