

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. In so doing, 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 for the money spent 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.

In a year that a regularly scheduled election is held, the Auditor General is also required to review and deliver an opinion on 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. However, the 41st Ontario general election held on June 12, 2014, was called outside the regular four-year cycle. As a result, the Auditor General did not complete a review because the government had not prepared a pre-election report.

General Overview

Value-for-money Audits in the Annual Report

About two-thirds of the Office’s work relates to value-for-money auditing, which assesses how well a given “auditee” (the entity that we audit) manages and administers its programs or activities. Value-for-money audits delve into the auditee’s underlying operations to assess the level of service being delivered to the public and the relative cost-effectiveness of the service. The Office has the authority to conduct value-for-money audits of the following entities:

- 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 a value-for-money audit:

- 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 the Auditor General report on any instances he or she may have observed where the three value-for-money criteria above have not been met. More specific criteria that relate directly to the operations of the particular ministry, program or organization being audited are also developed for each value-for-money audit.

The Act also requires that the Auditor General 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 for purposes other than the ones for which it was appropriated.

Assessing the extent to which the auditee complies with the requirement to protect against these risks is generally incorporated into both value-for-money audits and “attest” audits (discussed in a later section). Other compliance work that is also typically included in our value-for-money audits includes determining whether the auditee adheres to key provisions in legislation and the authorities that govern the auditee or the auditee’s programs and activities.

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 by continually monitoring and challenging 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 Chartered Professional Accountants of Canada (formerly 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 in the following sections.

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 their activities are numerous and diverse. Since our mandate expanded in 2004 to allow us to examine these auditees, our audits have covered a wide range of topics in sectors such as health (hospitals, long-term-care homes, Community Care Access Centres and mental-health service providers), education (school boards, universities and colleges), and social services (children’s aid societies and social service agencies), as well as several large Crown-controlled corporations.

In selecting what program, activity or organization to audit each year, we consider how great the risk is that an auditee is not meeting the three value-for-money criteria, which results in potential negative consequences for the public it serves. The factors we consider include the following:

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

- recent significant changes in the auditee’s operations;
- the benefits of conducting the audit compared to the costs; and
- the significance of the potential issues an audit might identify.

We also consider work that has been done by the auditee’s internal auditors, and may rely on, or reference, that work in the conduct of our audit. 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 we do 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 the audit is to achieve. We then develop suitable audit criteria that cover the key systems, policies and procedures that should be in place and operating effectively to address identified risks. Developing criteria involves extensive research into sources such as recognized bodies of expertise; other organizations or jurisdictions delivering similar programs and services; management’s own policies and procedures; applicable criteria applied in other audits; and applicable laws, regulations and other authorities.

To further ensure their suitability, the criteria we develop are discussed with the auditee’s senior management at the planning stage of the audit.

The next step is to design and conduct tests and procedures to address our audit objective and criteria, so that we can reach a conclusion regarding our audit objective and make observations and recommendations. Each audit report has a section entitled “Audit Objective and Scope,” in which the audit objective is stated and the scope of our work is explained.

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 information that management 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 independent expert assistance and advice. We also use professional judgment in much of our work.

Conducting tests and procedures to gather information has its limitations, so we cannot provide 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 might be able to circumvent such control systems, so we cannot guarantee that the problem will never arise.

With respect to the information that management provides, under the Act we are entitled to access all relevant information and records necessary to perform our duties.

The Office can access virtually all information contained in Cabinet submissions or decisions that we deem necessary to fulfil our responsibilities under the Act. However, out of respect for the principle of Cabinet privilege, we do not seek access to the deliberations of Cabinet.

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 provided by management; and only limited examination and testing of systems, procedures and transactions. We perform reviews when:

- it would be prohibitively expensive or unnecessary to provide a higher level of assurance; or

- other factors relating to the nature of the program or activity make it more appropriate to conduct a review instead of an audit.

In the 2011 audit year, we conducted such a review of the electricity sector stranded debt, which complemented our related value-for-money audits of renewable energy initiatives and regulatory oversight of the electricity sector. Our 2009 review of the Unfunded Liability of the Workplace Safety and Insurance Board was well received by the Standing Committee on Public Accounts, which has shown an ongoing interest in the actions being taken to reduce that liability. In 2012, we reviewed the process used to review and approve the province's annual expenditure Estimates, and ways to make the process more effective.

Communicating with Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management throughout the value-for-money audit or review. Early in the process, our staff meet with management to discuss the objective, criteria and focus of our work in general terms. During the audit or review, our staff meet with management to update them on our progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on our preliminary results. A draft report is then prepared and discussed with the auditee's senior management, which provides written responses to our recommendations. These are discussed and incorporated into the draft report, which the Auditor General finalizes with the deputy minister or head of the agency, corporation or grant-recipient organization, after which the report is published in Chapter 3 of the Auditor General's 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 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. This year, the following special reports were either requested or tabled under section 17 by the Standing Committee on Public Accounts:

- A review of the Ontario Lottery and Gaming Corporation Modernization Plan Implementation and Cancellation of the Slots at Race Tracks Program (tabled in April 2014)
- An audit of the Education Sector Collective Agreements – September 1, 2012 to August 31, 2014 (tabled in November 2014)
- An audit of private security contracts for the 2015 Pan/Parapan American Games (tabled in November 2014)
- A review of the Ministry of Transportation's winter road maintenance program (to be tabled in 2015); and
- An audit of community care access centres, including examinations of compensation, and the cost effectiveness of care protocols and home visits (to be tabled in 2015).

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 was intended for.

The Auditees

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

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

We identify areas for improvement during the course of an attest audit of an agency and provide our recommendations to agency senior management in a draft report. We then discuss our recommendations with management and revise the report to reflect the results of our discussions. After the draft report is cleared and the agency's senior management has responded to it in writing, the auditor prepares a final report, which is discussed with the agency's audit committee (if one exists). We bring significant matters to the attention of the Legislature by including them in our Annual Report.

Part 1 of Exhibit 1 lists the agencies that were audited during the 2013/14 audit year. The Office contracts with public accounting firms to audit a number of these agencies on the Office's behalf. Part 2 of Exhibit 1 and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that public accounting firms audited during the 2013/14 audit year. Exhibit 3 lists significant organizations in the broader public sector whose accounts are also audited by public accounting firms and included in the province's consolidated financial statements.

Other Stipulations of the Auditor General Act

The *Auditor General Act* came about with the passage on November 22, 2004, of the *Audit Statute Law Amendment Act (Amendment Act)*, which received Royal Assent on November 30, 2004. The purpose of the Amendment Act was to make certain changes to the Audit Act to enhance our ability to serve the Legislative Assembly. The most significant of these changes was the expansion of our Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants.

Appointment of Auditor General

Under the *Auditor General Act (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 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 about the Standing Committee on Public Accounts, 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 2013/14 fiscal year have been audited by a firm of chartered professional accountants, and the audited financial statements of the Office have been 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 an integral part of our audit working papers. Under section 19 of the Act, these working papers do not have to be laid before the Legislative Assembly or any of its committees. As well, our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, which means our draft reports and audit working papers, including all information obtained from an auditee during the course of an audit, 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 and undergo a police security check upon being hired and every five years thereafter.

Office Organization and Personnel

The Office is organized into portfolio teams, intended to align with related audit entities and to foster expertise in the various areas of audit activity. The portfolios, 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, the Chief Operating Officer, and the Managers of Human Resources and of Communications and Government Advertising make up the Office's Senior Management Committee.

During the year, the Office undertook a strategic planning initiative with an outlook for the next five years. The Office's vision, mission and organizational values were refreshed, and a balanced scorecard was developed to define goals, objectives, strategies and initiatives, and to track progress. Effective October 2014, a new organizational structure was put into place for the upcoming audit year.

Canadian Council of Legislative Auditors

This year, Newfoundland and Labrador hosted the 42nd annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in St. John's, from August 10 to 12, 2014. For a number of years, this annual gathering has been held jointly with the annual conference of the Canadian Council of Public Accounts Committees. It brings together legislative auditors and members of the Standing Committees on Public Accounts from the federal government and the provinces and territories, and provides a useful forum for sharing ideas and exchanging information.

International Visitors

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with visitors and delegations from abroad to discuss the roles and responsibilities of the Office and to share our value-for-money and other audit experiences. During the period from October 1, 2013 to September 30, 2014, the Office hosted delegations from Kenya and China, as well as visitors from Argentina, Bangladesh, Cameroon, Ghana and Tanzania.

Results Produced by the Office This Year

This was another successful year for the Office, particularly given the unprecedented amount of additional work requested this year.

In total, we conducted 12 value-for-money audits (see Chapter 3), issued three special reports under section 17, and completed the majority of

Figure 1: Office Organization, September 30, 2014



1. Staff below manager level shift between portfolios to address seasonal financial statement audit workload pressures.

2. A member of the portfolio who contributed to this Annual Report but left the Office before September 30, 2014.

work on two other special requests with reports to follow, all while operating within our budget. One planned value-for-money audit, on Civil Courts, has been postponed to allow us to complete the more urgent special work requested.

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 to invest in training to ensure adherence to accounting and assurance standards and methodology for conducting our attest 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 that of our agent auditors, contract staff and expert advisers.

2013/14 fiscal year. Our financial statements have been prepared in accordance with public-sector accounting standards. In accordance with these standards, we have presented a breakdown of our expenses by the main activities our Office is responsible for: value-for-money and special audits, financial-statement audits, and the review of government advertising. This breakdown is provided in Note 9 to the financial statements and indicates that almost two-thirds of our resources were used to perform value-for-money and special audits, a stated priority of the Standing Committee on Public Accounts. About one-third was devoted to completing the audits of the annual financial statements of the province and over 40 of its agencies. The remaining 1% was devoted to our statutory responsibilities under the *Government Advertising Act*.

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 over 73% (74% in 2012/13) related to salary and benefit costs for staff, while professional and other services, and rent, comprised most of the remainder. These proportions have been relatively stable in recent years. Overall, our expenses increased by just 1.6% (0.7% in 2012/13) from the prior year.

Our budget has been frozen for four of the last five years. As a result, we have not been able to fully

Financial Accountability

The following discussion and our financial statements outline the Office's financial results for the

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

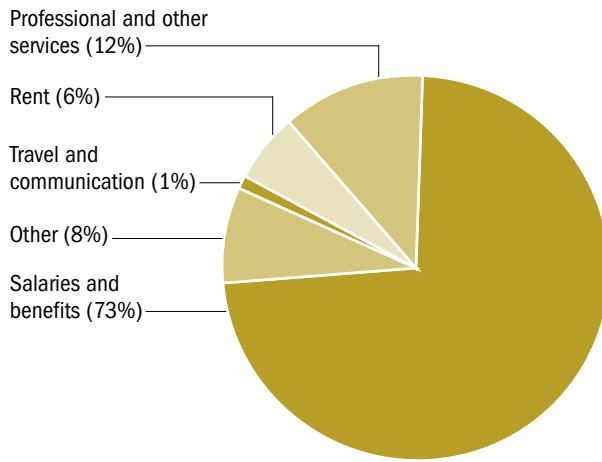
Prepared by the Office of the Auditor General of Ontario

	2009/10	2010/11	2011/12	2012/13	2013/14
Approved budget	16,224	16,224	16,224	16,224	16,427
Actual expenses					
Salaries and benefits	10,862	11,228	11,039	11,390	11,342
Professional and other services	1,489	1,491	1,667	1,643	1,866
Rent	1,069	1,036	1,016	989	1,001
Travel and communications	360	337	303	309	190
Other	1,073	1,071	1,216	1,015	1,192
Total	14,853	15,163	15,241	15,346	15,591
Returned to province*	1,498	1,222	997	1,000	679

* 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, deferred lease inducements and employee future benefit accruals).

Figure 3: Spending by Major Expenditure Category, 2013/14

Prepared by the Office of the Auditor General of Ontario



staff up and have 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 face follows.

Salaries and Benefits

Our salary costs decreased 1.9% after an increase of 3.7% the prior year, while benefit costs rose 6% following a 0.9% increase from the previous year. This increase is mainly due to staff going on parental leave, increases in premium rates, and severances paid.

With the legislated freeze on salary ranges, any salary increases from promotions earned by trainees who obtained their professional accounting designations during the year and by staff who demonstrated the ability to take on additional responsibilities continued to be offset by delaying replacements of retiring and departing staff. Overall, our average staffing level rose by two, to 106 people from 104 in the year before, as shown in Figure 4. Most students who earned their professional accounting designation during the year remained with us. To be

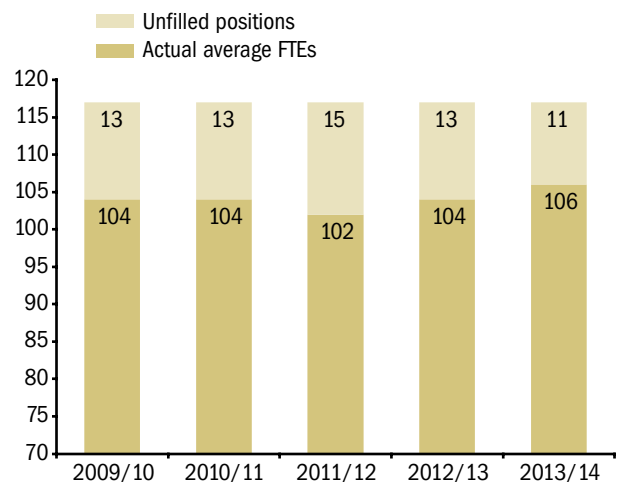
competitive, we must pay our newly qualified staff considerably more than they were paid as trainees, because salaries for qualified accountants rise fairly quickly in the private sector in the first five years following qualification.

With the economic uncertainty and the continuing need for cost containment, we remained cautious by delaying the replacement of retiring senior staff and hiring experienced but more junior staff as opportunities arose. Staff departures continue as the market for professional accountants has remained fairly robust despite economic uncertainties. Our hiring continues to be primarily at more junior levels, where our salaries and benefits are competitive. Our salaries quickly fall behind private- and broader-public-sector salary scales for more experienced professional accountants. This is one reason that, as **Figure 4** shows, we still have a number of unfilled positions. The growing complexity of our audits requires highly qualified, experienced staff as much as possible. The challenge of maintaining and enhancing our capacity to perform these audits will only increase as more of our most experienced staff retire over the next few years.

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

Figure 4: Staffing, 2009/10–2013/14

Prepared by the Office of the Auditor General of Ontario



survey by the Chartered Professional Accounts of Canada (previously the Canadian Institute of Chartered Accountants), published in 2013, average salaries for CPAs in government (\$108,000) were 7% lower than those in the not-for-profit sector (\$118,000) and, most importantly, 14% lower than those at professional service CPA firms (\$134,000), which are our primary competition for professional accountants. The salaries of our highest-paid staff in the 2013 calendar year are disclosed in Note 7 to our financial statements.

Professional and Other Services

These services include both contract professionals and contract CPA firms, and represent our next most significant spending area, at almost 12% of total expenditures. These costs increased by 14% compared to last year, as we continue to use contract staff to cover for parental and unexpected leaves, and to help us manage peak workloads during the summer months. Other costs, relating to legal services, printing and translation costs for reports, and staff membership dues, have increased while being offset by savings from changes in internet and wireless service providers.

We continue to rely on contract professionals to meet our legislated responsibilities given more complex work and tight deadlines for finalizing the financial-statement audits of Crown agencies and the province. 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. Further, after four years of budget freezes with only a slight increase in the prior year's budget relating to benefits, we can no longer afford to move up to our approved complement of 117 staff.

Contract costs for CPA firms we work with remain higher because of the higher salaries they pay their staff and the additional hours required to implement ongoing changes to accounting and assurance standards. We continue to test the market for such services as contracts expire, and we have achieved savings in some cases.

Rent

Our costs for accommodation increased slightly compared to the previous year, owing primarily to an increase in the rental costs per square foot beginning in the fall of 2013. However, our accommodation costs are still less than they were five years ago.

Travel and Communications

Our travel and communications costs decreased by 38%, after an increase of 2% in the previous year. In general, we are incurring significantly more travel costs since the expansion of our mandate to audit broader-public-sector organizations. However, these will vary each year depending on the audits selected. This year, the value-for-money audits we carried out generally required less travel compared to last year.

Other

Other costs include asset amortization, supplies and equipment maintenance, training and statutory expenses. These costs were 17% higher than last year, primarily due to the costs of previously unpaid entitlements earned by the previous Auditor General. In addition, expenses for statutory services have increased significantly because of an increase in the number of audits requiring expert advice and assistance this 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 are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian public sector 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 Professional 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.

Bonnie Lysyk, CPA, CA, LPA
Auditor General
September 26, 2014

Gary R. Peall, CPA, CA, LPA
Deputy Auditor General
September 26, 2014

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INDEPENDENT AUDITOR'S 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, 2014 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 public sector accounting standards, 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.

Auditor's 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Adams & Miles LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 17, 2014

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, 2014

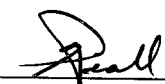
	2014 \$	2013 \$
Financial assets		
Cash	416,337	411,965
Harmonized sales taxes recoverable	146,609	111,688
Due from Consolidated Revenue Fund	479,826	178,145
Lease inducement receivable (Note 10)	322,225	322,225
	<u>1,364,997</u>	<u>1,024,023</u>
Financial Liabilities		
Accounts payable and accrued liabilities (Note 4)	2,257,023	1,622,827
Accrued employee benefits obligation [Note 5(B)]	2,228,000	2,404,000
Deferred lease inducement (Note 10)	244,354	276,576
	<u>4,729,377</u>	<u>4,303,403</u>
Net financial debt	(3,364,380)	(3,279,380)
Non-financial assets		
Tangible capital assets (Note 3)	837,790	596,115
Accumulated deficit	<u>(2,526,590)</u>	<u>(2,683,265)</u>
Commitments (Note 6)		
Measurement uncertainty [Note 2(F)]		

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:



 Bonnie Lysyk, CPA, CA, LPA
 Auditor General



 Gary R. Peall, CPA, CA, LPA
 Deputy Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit For the Year Ended March 31, 2014

	2014 Budget (Note 11) \$	2014 Actual \$	2013 Actual \$
Expenses			
Salaries and wages	9,755,400	9,110,028	9,286,283
Employee benefits (Note 5)	2,243,800	2,231,620	2,103,948
Professional and other services	1,714,500	1,866,050	1,642,632
Office rent	1,062,400	1,001,326	989,446
Amortization of capital assets	—	331,506	316,462
Travel and communication	418,800	190,306	308,567
Training and development	378,600	135,301	150,417
Supplies and equipment	377,500	204,337	196,550
Transfer payment: CCAF-FCVI Inc.	73,000	68,480	72,989
Statutory expenses: <i>Auditor General Act</i>	242,700	387,582	245,732
<i>Government Advertising Act</i>	30,000	14,475	8,625
<i>Statutory services</i>	130,000	50,034	24,578
Total expenses (Notes 8 and 9)	16,426,700	15,591,045	15,346,229
Revenue			
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	16,426,700	16,426,700	16,224,100
Excess of revenue over expenses		835,655	877,871
Less: returned to the Province [Note 2(B)]		678,980	1,000,115
Net operations surplus (deficiency)		156,675	(122,244)
Accumulated deficit, beginning of year		(2,683,265)	(2,561,021)
Accumulated deficit, end of year		(2,526,590)	(2,683,265)

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows

For the Year Ended March 31, 2014

	2014	2013
	\$	\$
Operating transactions		
Net operations surplus (deficiency)	156,675	(122,244)
Amortization of capital assets	331,506	316,462
Accrued employee benefits expense	85,000	181,000
	<u>573,181</u>	<u>375,218</u>
Changes in non-cash working capital		
Decrease (increase) in harmonized sales taxes recoverable	(34,921)	10,916
Decrease (increase) in due from Consolidated Revenue Fund	(301,681)	59,171
Increase in accounts payable and accrued liabilities	373,196	26,786
Decrease in deferred lease inducement	(32,222)	(32,223)
	<u>4,372</u>	<u>64,650</u>
Cash provided by operating transactions	<u>577,553</u>	<u>439,868</u>
Capital transactions		
Purchase of tangible capital assets	(573,181)	(318,598)
Increase in cash	4,372	121,270
Cash, beginning of year	<u>411,965</u>	<u>290,695</u>
Cash, end of year	<u>416,337</u>	<u>411,965</u>

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements

For the Year Ended March 31, 2014

1. Nature of Operations

In accordance with the provisions of the *Auditor General Act* and various other statutes and authorities, the Auditor General, through the Office of the Auditor General of Ontario (the Office), 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 promotes accountability and value-for-money in government operations and in broader public sector organizations.

Additionally, under the *Government Advertising Act, 2004*, the Office 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*, in an election year the Office is also required to report on the reasonableness of a Pre-Election Report prepared by the Ministry of Finance.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian public sector accounting standards. 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 tangible capital assets, the deferral and amortization of the lease inducement and the recognition of employee benefits expenses earned to date but that will be funded from future appropriations.

The voted appropriation for statutory expenses is intended to cover the salary of the Auditor General as well as the costs of any expert advice or assistance required to help the Office meet its responsibilities under the *Government Advertising Act* and the *Fiscal Transparency and Accountability Act*, or to conduct special assignments under Section 17 of the *Auditor General Act*.

Office of the Auditor General of Ontario

Notes to Financial Statements

For the Year Ended March 31, 2014

2. Summary of Significant Accounting Policies (Continued)

(C) TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at historical cost less accumulated amortization. Amortization of tangible 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

(D) FINANCIAL INSTRUMENTS

The Office's financial assets and financial liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value.
- Due from Consolidated Revenue Fund is recorded at cost.
- Accounts payable and accrued liabilities are recorded at cost.
- Accrued employee benefits obligation is recorded at cost based on the entitlements earned by employees up to March 31, 2014. 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) DEFERRED LEASE INDUCEMENT

The deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced November 1, 2011.

(F) MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian public sector accounting standards 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. Items requiring the use of significant estimates include: useful life of tangible capital assets and accrued employee benefits obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2014

3. Tangible Capital Assets

	Computer hardware \$	Computer software \$	Furniture and fixtures \$	Leasehold improvements \$	2014 Total \$
Cost					
Balance, beginning of year	678,777	396,107	146,025	163,341	1,384,250
Additions	195,446	8,481	95,257	273,997	573,181
Write-off of fully amortized assets	(163,137)	(67,912)	(21,400)	—	(252,449)
Balance, end of year	711,086	336,676	219,882	437,338	1,704,982
Accumulated amortization					
Balance, beginning of year	401,217	259,341	107,739	19,838	788,135
Amortization	186,740	80,720	30,038	34,008	331,506
Write-off of fully amortized assets	(163,137)	(67,912)	(21,400)	—	(252,449)
Balance, end of year	424,820	272,149	116,377	53,846	867,192
Net Book Value, March 31, 2014	286,266	64,527	103,505	383,492	837,790
2013					
	Computer hardware \$	Computer software \$	Furniture and fixtures \$	Leasehold improvements \$	2013 Total \$
Cost					
Balance, beginning of year	687,370	352,985	211,914	349,823	1,602,092
Additions	165,520	98,564	5,128	49,386	318,598
Write-off of fully amortized assets	(174,113)	(55,442)	(71,017)	(235,868)	(536,440)
Balance, end of year	678,777	396,107	146,025	163,341	1,384,250
Accumulated amortization					
Balance, beginning of year	403,848	210,495	152,204	241,566	1,008,113
Amortization	171,482	104,288	26,552	14,140	316,462
Write-off of fully amortized assets	(174,113)	(55,442)	(71,017)	(235,868)	(536,440)
Balance, end of year	401,217	259,341	107,739	19,838	788,135
Net Book Value, March 31, 2013	277,560	136,766	38,286	143,503	596,115

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2014

4. Accounts Payable and Accrued Liabilities

	2014 \$	2013 \$
Accounts payable	525,600	270,967
Accrued salaries and benefits	538,423	419,860
Accrued severance, vacation and other credits	1,193,000	932,000
	<u>2,257,023</u>	<u>1,622,827</u>

Accounts payable relates largely to normal business transactions with third-party vendors and is subject to standard commercial terms. Accruals for salaries and benefits and severance, vacation and other credits are recorded based on employment arrangements and legislated entitlements.

5. Obligation for Employee Future 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. In the Office's 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 payment of \$742,024 (2013 - \$754,442), is included in employee benefits expense in the Statement of Operations and Accumulated Deficit.

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

The costs of legislated severance, compensated absences and unused vacation entitlements earned by employees during the year amounted to \$291,000 (2013 - \$261,000) 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:

Office of the Auditor General of Ontario

Notes to Financial Statements

For the Year Ended March 31, 2014

5. Obligation for Future Employee Benefits (Continued)

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

	2014 \$	2013 \$
Total liability for severance, vacation and MCO credits	3,421,000	3,336,000
Less: Due within one year and included in accounts payable and accrued liabilities	1,193,000	932,000
Accrued employee benefits obligation	<u>2,228,000</u>	<u>2,404,000</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.

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:

	\$
2014–15	495,900
2015–16	501,300
2016–17	508,800
2017–18	514,200
2018-19	521,700
2019–20 and beyond	1,376,100

The Office is also committed to pay its proportionate share of realty taxes and operating expenses for the premises amounting to approximately \$546,000 during 2014 (2013 – \$506,000).

Office of the Auditor General of Ontario

Notes to Financial Statements

For the Year Ended March 31, 2014

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 2013 calendar year is as follows:

Name	Position	Salary \$	Taxable benefits \$
McCarter, Jim	Auditor General	245,732	10,365
Peall, Gary	Deputy Auditor General	193,094	254
Bell, Laura	Director	125,179	194
Chagani, Gus	Director	125,179	194
Chiu, Rudolph	Director	139,934	207
Fitzmaurice, Gerard	Director	139,934	207
Gotsis, Vanna	Director	124,245	181
Klein, Susan	Director	145,137	216
Mazzone, Vince	Director	142,913	207
McDowell, John	Director	139,934	207
Pelow, William	Director	124,245	181
Allan, Walter	Audit Manager	115,624	168
Carello, Teresa	Audit Manager	115,624	168
Chan, Sandy	Audit Manager	113,214	168
Cho, Kim	Audit Manager	104,657	166
Cumbo, Wendy	Audit Manager	105,986	168
Herberg, Naomi	Audit Manager	113,112	168
MacNeil, Richard	Audit Manager	113,214	168
Rogers, Fraser	Audit Manager	113,214	168
Stavropoulos, Nick	Audit Manager	113,214	168
Tsikritsis, Emanuel	Audit Manager	113,214	168
Yip, Gigi	Audit Manager	107,922	168
Young, Denise	Audit Manager	113,214	168
Pedias, Christine	Manager, Corporate Communications and Government Advertising Review	100,856	160
Boer, Johannes	Audit Supervisor	103,632	158
Bove, Tino	Audit Supervisor	103,656	158
Chatzidimos, Tom	Audit Supervisor	100,256	156
Tepelenas, Ellen	Audit Supervisor	103,656	158
Wanchuk, Brian	Audit Supervisor	103,656	158

Office of the Auditor General of Ontario

Notes to Financial Statements

For the Year Ended March 31, 2014

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 preparation of the Estimates submitted for approval to the Board of Internal Economy, 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 obligation for employee future benefits and deferred lease inducement recognized in these financial statements. A reconciliation of total expenses reported in Volume 1 to the total expenses reported in these financial statements is as follows:

	2014 \$	2013 \$
Total expenses per Public Accounts Volume 1	15,779,943	15,199,588
purchase of capital assets	(573,181)	(318,598)
amortization of capital assets	331,506	316,462
change in accrued future employee benefit costs	85,000	181,000
amortization of deferred lease inducement	(32,223)	(32,223)
	(188,898)	146,641
Total expenses per the Statement of Operations and Accumulated Deficit	15,591,045	15,346,229

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2014

9. Expenses by Activity

	2014				%
	Salaries and benefits	Other operating expenses	Statutory expenses	Total	
Value for money and special audits	7,916,470	2,079,530	363,027	10,359,027	66.4
Financial statement audits	3,334,444	1,697,030	55,210	5,086,684	32.6
Government advertising	90,734	20,746	33,854	145,334	1.0
	11,341,648	3,797,306	452,091	15,591,045	100.0
%	72.7	24.4	2.9	100.0	

	2013				%
	Salaries and benefits	Other operating expenses	Statutory expenses	Total	
Value for money and special audits	7,699,796	2,044,794	227,785	9,972,375	65.0
Financial statement audits	3,565,142	1,604,031	30,238	5,199,411	33.9
Government advertising	125,293	28,238	20,912	174,443	1.1
	11,390,231	3,677,063	278,935	15,346,229	100.0
%	74.2	24.0	1.8	100.0	

Expenses have been allocated to the Office's three (2013 – three) main activities based primarily on the hours charged to each activity as recorded by staff in the Office's time accounting system, including administrative time and overhead costs that could not otherwise be identified with a specific activity. Expenses incurred for only one activity, such as most travel costs and professional services, are allocated to that activity based on actual billings.

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2014

10. Deferred Lease Inducement and Receivable

As part of the lease arrangements for its office premises, the Office negotiated a lease inducement of \$322,225 to be applied to future accommodation costs. This deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced November 1, 2011.

11. Budgeted Figures

Budgeted figures were approved by the Board of Internal Economy and were prepared on a modified cash basis of accounting for presentation in Volume 1 of the Public Accounts of Ontario. This differs from Public Sector Accounting Standards, as discussed in Note 8.