

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, financial, information technology, governance and special audits, reviews and investigations, 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 amended *Government Advertising Act, 2004*, the Auditor General is responsible for reviewing and approving certain types of proposed government advertising for compliance with the amended *Government Advertising Act* (see Chapter 5 for more details on the Office's advertising-review function). Also, in a year that a regularly scheduled election is held, the Auditor General is required under the *Fiscal Transparency and Accountability Act, 2004* 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.

All three Acts can be found at www.e-laws.gov.on.ca.

General Overview

Value-for-Money Audits

More than 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 these three value-for-money criteria 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;
 - effectively check 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 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, 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. 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 significant ministry programs and activities, organizations in the broader public sector, Crown agencies and Crown-controlled corporations. Audits are selected using a risk-based approach. Since our mandate expanded in 2004 to allow us to examine organizations in the broader public sector, 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, resulting 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 significance of the potential issues an audit might identify; and
- whether the benefits of conducting the audit justify its costs.

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 cases where we do not reduce the scope of our audit, we still use and reference 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 to evaluate the design and operating effectiveness of key systems, policies and procedures to address identified risks. Developing criteria involves extensive research on work done by recognized bodies of experts; other organizations or jurisdictions delivering similar programs and services; management's own policies and procedures; applicable criteria used 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 so that we can reach a conclusion regarding our audit objective, and make relevant and meaningful observations and recommendations. Each audit report has a section titled "Audit Objective and Scope," in which the audit objective is stated and the scope of our work is explained. As required under our Act, we also report on circumstances where information was either difficult to obtain or not available for our review.

We plan our work to be able to obtain and provide assurance at an "audit level"—the highest reasonable level of assurance that we can obtain. 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.

Standard audit procedures are designed to provide "a reasonable level of assurance" (rather than an "absolute level") that the audit will identify significant matters and material deviations. Certain factors make it difficult for audit tests to identify all deviations. 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 that 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 fulfill 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.

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 conditional draft report is then prepared and provided to and discussed with the auditee's senior management, who provide 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 Volume 1** of the Auditor General's Annual Report. Effective with the audits conducted during 2016/17, and in compliance with new CPA Canada Standards, letters of representation are signed by senior management confirming that they have provided and disclosed to our Office all relevant information pertaining to the audit.

Special Reports

As required by the Act, the Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, under section 12(1), the Office may make a special report to the Legislature at any time, on any matter that, in the opinion of the Auditor General, should not be deferred until the Annual Report.

Two other 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 Legisla-

tive 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.

On September 27, 2017, the Standing Committee on Public Accounts passed a motion for us to conduct an audit of the proposed Metrolinx GO stations at Kirby and Lawrence East. As well, on October 25, 2017, the Standing Committee on Public Accounts passed a motion for us to conduct an audit of the Niagara Peninsula Conservation Authority. These reports will be tabled in 2018.

This year, under section 12(1) of the Act, the Office issued a special report titled *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money* that was tabled in October 2017.

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). Compliance audit work is also 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 record keeping; 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 unless a significant issue arises and it would be appropriate for all Members of the Legislature to be aware of this issue. 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 auditors' 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 have responded to it in writing, we prepare 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 2016/17 audit year. The Office contracts with public accounting firms to serve as our agents in auditing a number of these agencies. Part 2 of **Exhibit 1** and **Exhibit 2** list the agencies of the Crown and the Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2016/17 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 of the *Audit Statute Law Amendment Act* (Amendment Act) on November 22, 2004. The Amendment Act 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.

In June 2015, the *Building Ontario Up Act (Budget Measures), 2015* received royal assent. Schedule 3 amended section 13(1) of our Act, removing our ability to conduct value-for-money audits of Hydro One Inc. However, as per sections 13(2) and 13(3), Hydro One Inc. must still provide us with the information we need for our audit of the Public Accounts of Ontario. Section 13(4) states that Hydro One Inc. is not required to provide us

with information relating to a period for which Hydro One Inc. has not yet publicly disclosed its financial statements.

Appointment of the Auditor General

Under our Act, the Auditor General is appointed as an Officer of the Legislative Assembly by the Lieutenant Governor in Council. This means that 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 in the 2016/17 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* (FIPPA). This means that our draft reports and audit working papers, including all information obtained from an auditee during the course of an audit, are privileged, and cannot be accessed by anyone under FIPPA, thus further ensuring confidentiality.

Code of Professional Conduct

The Office has a Code of Professional Conduct to ensure that staff maintain high professional standards and keep up 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. Our employees have a duty to conduct themselves in a professional manner, and to strive to achieve in their work the highest standards of behaviour, competence and integrity.

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 conflicts of interest. 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 to align with related audit entities and to foster expertise in the various areas of audit activity. The portfolios, somewhat 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. Directors report to Assistant Auditors General, who report to the Auditor General. Reporting to the Directors and rounding out the teams are Audit Managers and various other audit staff, as illustrated in **Figure 1**.

The Auditor General and the Assistant Auditors General make up the Office's Executive Committee. The Auditor General, the Assistant Auditors General, the Audit Directors, the Director of Human Resources and Office Services, and the Manager of Communications and Government Advertising make up the Office's Senior Management Committee.

The Auditor General's Panel of Senior External Advisers

The Auditor General's Panel of Senior External Advisers (Panel) was established in early 2017 to provide strategic advice to the Auditor General on her Office's work. The Panel is governed by Terms of Reference that outline the Panel's mandate, objective, membership, scope of work, and other terms and conditions. The members of the Panel meet at least twice per year and may meet on other occasions when necessary. During 2017, the Panel met four times, reviewing material prior to those meetings.

The Panel comprises a broad cross-section of professionals and experts outside of the Office. Members are selected by the Auditor General based on their capacity to provide the Auditor

General with the highest-quality advice in matters pertaining to the Panel's mandate. Members of the Panel are appointed for a term of three years and are eligible for reappointment at the discretion of the Auditor General. There are currently 10 members on the Panel:

- Tim Beauchamp, Former Director, Public Sector Accounting Board
- Richard Brennan, Former Queen's Park reporter
- Deborah Deller, Former Clerk of the Legislative Assembly of Ontario
- Burkard Eberlein, Associate Professor, Public Policy, York University (Schulich)
- Sheila Fraser, Former Auditor General of Canada
- David Marshall, Former President, Workplace Safety and Insurance Board
- William Robson, President and CEO, C.D. Howe Institute
- Carmen Rossiter, Program Director, Centre for Governance, Risk Management and Control, York University (Schulich)
- Wayne Strelcoff, Former Auditor General of British Columbia and Former Provincial Auditor of Saskatchewan
- Christopher Wirth, Lawyer, Keel Cottrelle LLP

Quality Assurance Review Process

Professional standards require that auditors establish and maintain a system of quality controls to help ensure that professional and legal standards are met and that audit reports are appropriate in the circumstances. Quality assurance reviews form an essential component of this system by providing a basis for determining whether quality control policies are appropriately designed and applied. The Office has implemented a system of internal quality assurance reviews and is also subject to external quality assurance reviews

Figure 1: Office Organization, September 30, 2017

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

both by the Chartered Professional Accountants (CPA) of Ontario and by the Canadian Council of Legislative Auditors.

The internal quality assurance review process consists of reviews of completed audit files on a cyclical basis by individuals within the Office. Individuals chosen for this role are conversant with and have up-to-date knowledge of the application of professional accounting and assurance standards and have no other involvement with the audit. The selection of audit files for quality assurance review is based on criteria designed to provide the Office with reasonable confidence that professional standards and Office policies are being met. The selection criteria include, but are not limited to, the risk associated with the engagement (such as complexity or public sensitivity) and the results of previous quality assurances reviews.

In addition to internal file reviews, the Office designates audit challengers for each value-for-money audit conducted. Challengers are at the Manager and Director levels. They review and question audit teams' audit planning reports and final reports.

The Office is also subject to review by CPA Ontario, which conducts a triennial practice inspection of our Office to assess whether, as practitioners of public accounting, we are adhering to the professional standards set out in the *CPA Canada Handbook* and CPA Ontario's *Member's Handbook*. Practice inspection involves an assessment of the Office's quality controls and a review of a sample of completed audit files selected by CPA Ontario.

As well, through our participation in the Canadian Council of Legislative Auditors, our Office undergoes external quality assurance reviews on a regular basis. These reviews are conducted by experienced professional auditors from other jurisdictions across Canada. In addition to providing assurance that quality control systems are well designed and effective, this process also facilitates the sharing and exchange of information and experience, and encourages and supports continued development of auditing methodology, practices, and professional development.

Canadian Council of Legislative Auditors

This year, New Brunswick hosted the 38th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Fredericton from September 10 to 12, 2017. This annual conference is held jointly with the annual meeting 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, provinces and territories, and provides an excellent opportunity for sharing ideas, exchanging information and learning about best practices for Standing Committees on Public Accounts in Canada.

International Visitors

As an acknowledged leader in value-for-money auditing, the Office frequently receives requests to meet with visitors and delegations from abroad to discuss the roles and responsibilities of our Office, and to share our value-for-money and other audit experiences. During the period from October 1, 2016, to September 30, 2017, our Office hosted delegations from China, France, Mongolia and Nepal. As well, in 2017, our Office participated in a successful six-month staff exchange value-for-money audit with the National Audit Office of the United Kingdom.

Results Produced by the Office This Year

This was another productive year for the Office. In total, while operating within our budget, we completed 14 value-for-money audits, 15 follow-ups on previous value-for-money reports, one follow-up on a previous Special Report, seven follow-ups

on reports issued by the Standing Committee on Public Accounts and one report in the Toward Better Accountability section of our Annual Report on the quality of reporting in the annual reports of provincial agencies and organizations in the broader public sector. We also expanded our tracking of the status of previous recommendations made by following up on the total 622 actions we recommended in our annual reports of 2012, 2013 and 2014.

The Audit Recommendations Follow-Up Team that did this work also put in place a system for ongoing follow-ups on our audit recommendations and those of the Standing Committee on Public Accounts. We also issued one Special Report: *The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value For Money* (tabled in October 2017).

As mentioned in the Attest Audits section earlier, 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 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 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 not have been possible without the hard work and dedication of our staff, as well as that of our agent auditors, contract staff and our Panel of Senior External Advisers.

Public Inquiries

The Office of the Auditor General receives inquiries from the public, Members of Provincial Parliament and the civil service through letter, fax, email and phone. Each inquiry is reviewed on a case-by-case basis and is logged to ensure that the information is

recorded, and that we can track inquiries received and responses provided. The Office has one central intake of public inquiries. The Office conducts an annual overall review of public inquiries to assess actions taken and for consideration as part of the audit selection process. During the fiscal year 2016/17 fiscal year, the Office received over 600 public inquiries.

Financial Accountability

The following discussion and our financial statements present the Office's financial results for the 2016/17 fiscal year. Our financial statements have been prepared in accordance with Canadian 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 66% of our time was used to perform value-for-money and special audits, a stated priority of the Standing Committee on Public Accounts, and 33% to completing the audits of the annual financial statements of the Province and over 40 of its agencies. The remaining time 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 during the 2016/17 fiscal year, and shows that salary and benefit costs for staff accounted for 71% (69% in 2015/16), while professional and other services, along with rent, comprised most of the remainder. These proportions have been relatively stable in recent years. **Figure 4** presents the year-over-year percentage change of actual expenditures. Overall, our expenses increased by 9% in 2016/17 from the previous year.

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

Prepared by the Office of the Auditor General of Ontario

	2012/13	2013/14	2014/15	2015/16	2016/17
Approved budget	16,224	16,427	16,520	18,083	18,566
Actual expenses					
Salaries and benefits	11,390	11,342	11,201	11,504	12,830
Professional and other services	1,716	1,827	2,352	2,268	2,538
Rent	989	1,001	1,008	1,059	1,090
Travel and communications	309	276	336	354	312
Training, supplies and equipment	942	1,145	1,305	1,415	1,328
Total	15,346	15,591	16,202	16,600	18,098
Unused appropriations*	1,000	679	160	974	42

* 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).

Our salaries budget was frozen for five years, from 2010/11 to 2014/15. As a result, we were unable to fully staff up to our approved complement, and we faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market—our public-service salary ranges have not kept pace with compensation increases for such professionals in the private sector. In July 2015, the Board of Internal Economy of the Legislature approved our request for salary and benefits funding for the 2015/16 fiscal year to be able to fill our vacant positions and bring our staffing to our Board of Internal Economy-approved complement of 116. We experienced timing challenges in filling these positions in 2016/17. However, as of March 31, 2018, we will be close to our approved staffing complement.

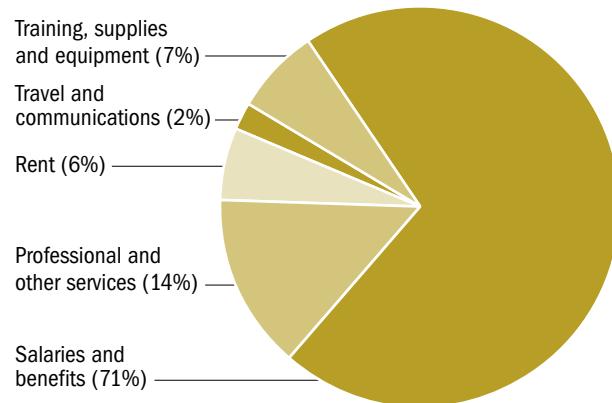
A more detailed discussion of the changes in our expenses and some of the challenges we face follows.

Salaries and Benefits

Our salary and benefit costs were 12% higher than in 2015/16. Salary increases were a result of the annualized cost of 2015/16 hires and implementing changes to staff compensation per a Cabinet Office letter dated December 15, 2015, that provided

Figure 3: Spending by Major Expenditure Category, 2016/17

Prepared by the Office of the Auditor General of Ontario



increases to those working in the Ontario Government. We applied similar increases in our Office. Benefit costs increased due to a combination of the annualized cost of 2015/16 new hires, the salary increases just mentioned and severance payments to retiring or terminated staff.

In 2016/17, our average staffing level increased by nine, to 109 employees from 100 in 2015/16, as shown in **Figure 5**. Most students who earned their professional accounting designation during the year remained with us. Salaries for qualified accountants rise fairly quickly in the private sector in the first five years following qualification,

Figure 4: Actual Expenses for 2016/17 and 2015/16 (\$ 000)

Prepared by the Office of the Auditor General of Ontario

Actual Expenses	2016/17	2015/16	% Change
Salaries and benefits	12,830	11,504	12
Professional and other services	2,538	2,268	12
Rent	1,090	1,059	3
Travel and communications	312	354	(12)
Training, supplies and equipment	1,328	1,415	(6)
Total expenses	18,098	16,600	
Average % change			9

so we also increased our salaries to our newly qualified staff in order to remain competitive. These increases are in line with the public-sector salary ranges.

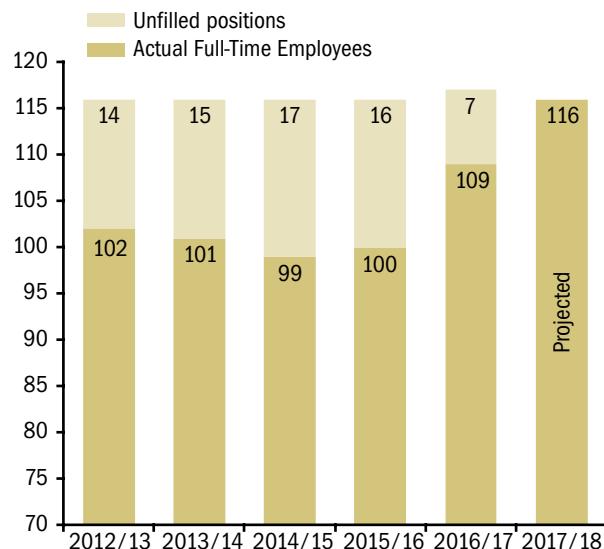
Staff departures were experienced due both to the market for professional accountants remaining fairly robust and to the retirement of a number of long-term staff. Our hiring continues to be primarily at levels where our salaries and benefits are competitive. The growing complexity of our audits requires highly qualified, experienced staff.

Professional and Other Services

These services include both contracted CPA firms and contract specialists assisting in our value-for-money audits and one-time projects. These services account for about 14% of total expenses and increased by 12% compared with the previous year to accommodate additional work requirements during peak work periods. As well, supplemental internal staff time was spent on the Special Report we tabled in October 2017. Given the more complex work and peak period deadlines for finalizing the financial statement audits of Crown agencies and the Province, we continue to rely on contract professionals to assist us in meeting our legislated responsibilities. As such, we prudently engage contract staff when necessary to cover for

Figure 5: Staffing, 2012/13–2017/18

Prepared by the Office of the Auditor General of Ontario



Note: As of October 1, 2017, all complement positions were filled.

special assignments and parental or unexpected leaves, as well as to help us manage peak workloads during the late spring and summer months.

Contract costs for the CPA firms with which we work remain high because of the higher salaries they pay their staff. We continue to competitively test the market for such services as contracts expire.

Rent

Our costs for accommodation increased by 3% compared with last year, due to an increase in utility costs billed under our 10-year lease.

Travel and Communications

Our travel and communications costs decreased by 12% as the audits selected required less travel compared with last year.

Training, Supplies and Equipment

This category includes asset amortization, supplies and equipment maintenance, training and statutory expenses. These expenses were 6% lower than last year, as more training was able to be provided to staff at a lower cost.

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General of Ontario 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
October 31, 2017



Nick Stavropoulos, CPA, CA
Assistant Auditor General
October 31, 2017



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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, 2017 and the statements of operations and accumulated deficit, changes in net financial debt 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 Office of the Auditor General of Ontario's 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, 2017 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 31, 2017

www.adamsmiles.com

An independent firm associated
with AGN International Ltd.

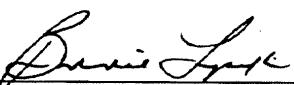
Office of the Auditor General of Ontario
Statement of Financial Position
As at March 31, 2017

	2017 \$	2016 \$
Financial assets		
Cash	1,249,274	620,623
Harmonized sales taxes recoverable	174,681	178,876
Due from Consolidated Revenue Fund	-	289,597
	<hr/>	<hr/>
	1,423,955	1,089,096
Financial liabilities		
Accounts payable and accrued liabilities (Note 4)	2,023,392	1,862,900
Accrued employee benefits obligation [Note 5(B)]	1,837,000	2,107,000
Due to Consolidated Revenue Fund	177,591	-
Deferred lease inducement (Note 10)	147,686	179,909
	<hr/>	<hr/>
	4,185,669	4,149,809
Net financial debt	<hr/>	<hr/>
	(2,761,714)	(3,060,713)
Non-financial assets		
Tangible capital assets (Note 3)	<hr/>	<hr/>
	1,328,779	1,202,221
Accumulated deficit	<hr/>	<hr/>
	(1,432,935)	(1,858,492)

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



 Nick Stavropoulos, CPA, CA
 Assistant Auditor General

Office of the Auditor General of Ontario
Statement of Operations and Accumulated Deficit
For the Year Ended March 31, 2017

	2017 Budget (Note 12)	2017 Actual	2016 Actual
	\$	\$	\$
Expenses			
Salaries and wages	10,706,300	10,155,568	9,574,443
Employee benefits (Note 5)	3,178,100	2,674,172	1,929,601
Professional and other services	2,067,300	2,537,487	2,267,886
Office rent	1,091,000	1,090,269	1,058,562
Amortization of capital assets	—	440,938	381,490
Travel and communication	409,100	312,168	354,235
Training and development	139,000	145,634	202,986
Supplies and equipment	514,800	269,509	381,474
Statutory expenses: <i>Auditor General Act</i>	278,300	311,220	280,137
<i>Government Advertising Act</i>	10,000	325	8,150
<i>Statutory services</i>	171,700	160,276	160,586
Total expenses (Notes 8 and 9)	<hr/> 18,565,600	<hr/> 18,097,566	<hr/> 16,599,550
Revenue			
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	18,565,600	18,565,600	18,082,600
Excess of revenue over expenses	<hr/> 468,034	<hr/> 1,483,050	
Less: returned to the Province [Note 2(B)]	42,477	973,532	<hr/>
Net operations surplus	<hr/> 425,557	<hr/> 509,518	
Accumulated deficit, beginning of year	(1,858,492)	(2,368,010)	<hr/>
Accumulated deficit, end of year	<hr/> (1,432,935)	<hr/> (1,858,492)	

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Changes in Net Financial Debt

For the Year Ended March 31, 2017

	2017 \$	2016 \$
Net operations surplus	425,557	509,518
Purchase of tangible capital assets	(567,496)	(326,117)
Amortization of tangible capital assets	<u>440,938</u>	<u>381,490</u>
Decrease in net financial debt	298,999	564,891
Net financial debt, beginning of year	(3,060,713)	(3,625,604)
Net financial debt, end of year	<u>(2,761,714)</u>	<u>(3,060,713)</u>

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows

For the Year Ended March 31, 2017

	2017	2016
	\$	\$
Operating transactions		
Net operations surplus	425,557	509,518
Amortization of tangible capital assets	440,938	381,490
Amortization of deferred lease inducement	(32,223)	(32,222)
Accrued employee benefits expense	<u>(299,000)</u>	<u>(569,000)</u>
	535,272	289,786
Changes in non-cash working capital		
Decrease (increase) in harmonized sales taxes recoverable	4,195	(38,065)
Decrease in due from Consolidated Revenue Fund	467,188	81,161
Increase in accounts payable and accrued salaries and benefits (Note 4)	<u>189,492</u>	<u>269,631</u>
	660,875	312,727
Cash provided by operating transactions	1,196,147	602,513
Capital transactions		
Purchase of tangible capital assets	(567,496)	(326,117)
Increase in cash	628,651	276,396
Cash, beginning of year	620,623	344,227
Cash, end of year	1,249,274	620,623

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

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, 2017

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, 2017. 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 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. These estimates and assumptions are reviewed periodically, and adjustments are reported in the Statement of Operations and Accumulated Deficit in the year in which they become known.

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

3. Tangible Capital Assets

	Computer hardware	Computer software	Furniture and fixtures	Leasehold improvements	2017 Total
	\$	\$	\$	\$	\$
Cost					
Balance, beginning of year	721,668	147,022	278,986	986,863	2,134,539
Additions	301,488	222,740	43,268	-	567,496
Write-off of fully amortized assets	(165,519)	(98,564)	(13,825)	-	(277,908)
Balance, end of year	857,637	271,198	308,429	986,863	2,424,127
Accumulated amortization					
Balance, beginning of year	431,259	125,623	101,571	273,865	932,318
Amortization	203,053	51,860	56,390	129,635	440,938
Write-off of fully amortized assets	(165,519)	(98,564)	(13,825)	-	(277,908)
Balance, end of year	468,793	78,919	144,136	403,500	1,095,348
Net Book Value, March 31, 2017	388,844	192,279	164,293	583,363	1,328,779

	Computer hardware	Computer software	Furniture and fixtures	Leasehold improvements	2016 Total
	\$	\$	\$	\$	\$
Cost					
Balance, beginning of year	733,039	196,094	237,143	986,863	2,153,139
Additions	232,454	-	93,663	-	326,117
Write-off of fully amortized assets	(243,825)	(49,072)	(51,820)	-	(344,717)
Balance, end of year	721,668	147,022	278,986	986,863	2,134,539
Accumulated amortization					
Balance, beginning of year	500,860	142,112	108,343	144,230	895,545
Amortization	174,224	32,583	45,048	129,635	381,490
Write-off of fully amortized assets	(243,825)	(49,072)	(51,820)	-	(344,717)
Balance, end of year	431,259	125,623	101,571	273,865	932,318
Net Book Value, March 31, 2016	290,409	21,399	177,415	712,998	1,202,221

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

4. Accounts Payable and Accrued Liabilities

	2017 \$	2016 \$
Accounts payable	540,538	528,364
Accrued salaries and benefits	827,854	650,536
Accrued severance, vacation and other credits	655,000	684,000
	<hr/> 2,023,392	<hr/> 1,862,900

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 \$839,029 (2016 - \$745,623), 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 \$564,000 (2016 - (\$50,000)) 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, 2017

5. Obligation for Future Employee Benefits (Continued)

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

	2017 \$	2016 \$
Total liability for severance and vacation credits	2,492,000	2,791,000
Less: Due within one year and included in accounts payable and accrued liabilities	655,000	684,000
Accrued employee benefits obligation	<u>1,837,000</u>	<u>2,107,000</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:

	\$
2017–18	514,200
2018–19	521,700
2019–20	527,100
2020–21	534,600
2021–22	314,400

The Office is also committed to pay its proportionate share of realty taxes and operating expenses for the premises amounting to approximately \$628,000 during 2017 (2016 - \$565,000).

Subsequent to March 31, 2017, the Office entered into negotiation with its landlord to potentially relocate in order to accommodate the landlord's building expansion project, which is scheduled to commence in fiscal 2018. Should the relocation materialize for an extended period, the rental commitment stated above may vary and the net book value of the leasehold improvements may need to be written off.

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

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 2016 calendar year is as follows:

Name	Position	Salary \$	Taxable Benefits \$
Lysyk, Bonnie	Auditor General	310,174	4,031
Chagani, Gus	Assistant Auditor General	172,930	246
Chiu, Rudolph	Assistant Auditor General	175,887	250
Klein, Susan	Assistant Auditor General	172,930	246
Stavropoulos, Nick	Assistant Auditor General	144,313	215
Amerski, Bartosz	Director	110,927	160
Bell, Laura	Director	145,505	211
Carello, Teresa	Director	129,985	188
Chan, Sandy	Director	138,765	196
Cho, Kim	Director	134,447	193
Cumbo, Wendy	Director	128,084	193
Gotsis, Vanna	Director	145,268	210
Herberg, Naomi	Director	125,997	193
Mazzone, Vince	Director	158,948	213
McDowell, John	Director	112,155	166
Pelow, William	Director	147,204	211
Qazi, Osman	Director	110,424	178
Sin, Vivian	Director	127,307	188
MacDonald, Cindy	Director, Human Resources	119,368	181
Allan, Walter	Audit Manager	116,868	172
Bove, Tino	Audit Manager	114,032	172
Budihardjo, Audelyn	Audit Manager	105,536	164
DeSousa, Constantino	Audit Manager	100,065	154
Muhammad, Shariq	Audit Manager	108,246	167
Rogers, Fraser	Audit Manager	121,258	172
Tsikritis, Emanuel	Audit Manager	121,258	172
Young, Denise	Audit Manager	123,385	185
Krishnamurphy, Varkala	Manager, Financial Accounting and Reporting	101,173	-
Pedias, Christine	Manager, Corporate Communications and Government Advertising Review	115,026	171
Persaud, Janackdai	Financial and Administrative Coordinator	110,828	156
Randoja, Tiina	Editorial and Communications Coordinator	103,466	161
Wilson, Robyn	Audit Researcher and Legal Advisor	106,141	153
Yosipovich, Rebecca	Standards and Research Manager	115,008	171
Beben, Izabela	Audit Supervisor	102,214	162
Chan, Ariane	Audit Supervisor	106,557	159
Chang, Sally	Audit Supervisor	102,036	162
Chatzidimos, Tom	Audit Supervisor	102,679	162
DeSouza, Marcia	Audit Supervisor	103,079	158

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

7. Public Sector Salary Disclosure Act, 1996 (Continued)

Name	Position	Salary \$	Taxable Benefits \$
Martino, Mary	Audit Supervisor	102,336	162
Sidhu, Pasha	Audit Supervisor	101,961	161
Tepelenas, Ellen	Audit Supervisor	106,663	162
Ulisse, Dora	Audit Supervisor	100,890	162
Wanchuk, Brian	Audit Supervisor	106,663	162

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:

	2017 \$	2016 \$
Total expenses per Public Accounts Volume 1	<u>18,555,347</u>	<u>17,145,399</u>
purchase of tangible capital assets	(567,496)	(326,117)
amortization of tangible capital assets	440,938	381,490
change in accrued future employee benefit costs	(299,000)	(569,000)
amortization of deferred lease inducement	(32,223)	(32,222)
	<u>(457,781)</u>	<u>(545,849)</u>
Total expenses per the Statement of Operations and Accumulated Deficit	<u>18,097,566</u>	<u>16,599,550</u>

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

9. Expenses by Activity

	2017				
	Salaries and Benefits	Other Operating Expenses	Statutory Expenses	Total	%
Value for money and special audits	8,711,393	2,872,057	358,105	11,941,555	66.0
Financial statement audits	4,041,368	1,899,290	97,831	6,038,489	33.4
Government advertising	76,979	24,658	15,885	117,522	0.6
	12,829,740	4,796,005	472,821	18,097,566	100.0
%	70.9	26.5	2.6	100.0	

	2016				
	Salaries and Benefits	Other Operating Expenses	Statutory Expenses	Total	%
Value for money and special audits	8,052,831	2,684,447	393,100	11,130,378	67.1
Financial statement audits	3,359,181	1,922,123	33,616	5,314,920	32.0
Government advertising	92,032	40,063	22,157	154,252	0.9
	11,504,044	4,646,633	448,873	16,599,550	100.0
%	69.3	28.0	2.7	100.0	

Expenses have been allocated to the Office's 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.

10. Deferred Lease Inducement

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. The Office received payment for the lease inducement in 2015.

Office of the Auditor General of Ontario

Notes to Financial Statements For the Year Ended March 31, 2017

11. Unused Appropriations

	2017	2016
	\$	\$
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	18,565,600	18,082,600
Less: Appropriations received from the Province	<u>18,523,123</u>	<u>17,109,068</u>
Unused Appropriations	<u>42,477</u>	<u>973,532</u>
Funding not requested	7,022	733,377
Cash returned to the Province	3,232	207,933
Adjustment for amortization of deferred lease inducement	<u>32,223</u>	<u>32,222</u>
	<u>42,477</u>	<u>973,532</u>

12. 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.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current basis of the financial statement presentation.