



Office of the Auditor General of Ontario

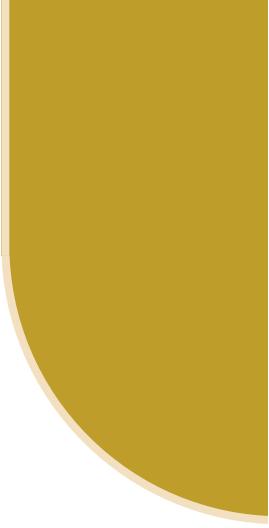
# Office of the Auditor General of Ontario

## Operations Report



*December 2020*





# Office of the Auditor General of Ontario Operations Report

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, government agencies and Crown-controlled corporations 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*. Also, in a year in which 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](http://www.e-laws.gov.on.ca).

On April 1, 2019, the Restoring Trust, Transparency and Accountability Act was proclaimed. This Act transferred many of the responsibilities of the former Office of the Environmental Commissioner of Ontario to the Auditor General's Office. On

July 8, 2019, the Auditor General appointed a Commissioner of the Environment who, as an employee of the Office, works as an Assistant Auditor General, reporting directly to the Auditor General. The Office conducts audits of the environment under the same processes as the Office's value-for-money audits and has additional reporting responsibilities with respect to the operation of the *Environmental Bill of Rights, 1993*. The Office is also able to report on energy conservation, greenhouse gas emissions reductions and any other environmental subjects that the Auditor General considers appropriate to conduct work on and report on to the Legislative Assembly.

## General Overview

### Value-for-Money Audits

About 75% 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 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, plus environmental considerations, 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 impact of the program, activity or organization on the environment;
- 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 as part of the Auditor General's Annual Report. In compliance with 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.

This year, in light of the COVID-19 pandemic, the Office issued one special report with three chapters on the province's decision-making, tracking and tracing, and emergency management relating to COVID-19.

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 Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown may request that the Auditor General undertake a special assignment. However, these special assignments are not to take precedence over the Auditor General's other duties, and the Auditor General can decline such an assignment requested by a minister if he or she believes that it conflicts with other duties.

When we receive a special request under section 16 or 17, our normal practice is 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 October 24, 2018, the Committee passed a motion for our Office to "conduct an audit of the costs associated with illegal border crossers as it relates to all services provided through the government of Ontario and its municipalities for the three years ending July 31, 2018." In August 2018, Ontario's Minister of Children, Community and Social Services announced that \$200 million of costs were being incurred by Ontario ministries and some municipalities due to a significant surge of irregular border crossers into Canada. The time taken to complete our work on a seemingly straightforward

request from the Standing Committee on Public Accounts was complicated by the lack of reliable information supporting the \$200-million estimate. As a result, we had to conduct extensive additional work to assess the reasonableness of this estimate. Our special report on Ontario's Costs for Services Provided to Irregular Border Crossers was tabled in the Legislature on July 08, 2020.

This year, after we had held discussions with the Minister of Government and Consumer Services, the Minister requested us to conduct audits of the Bereavement Authority of Ontario and the Electrical Safety Authority. Without this request, we were unable to audit these delegated authorities. These reports are included in this Annual Report.

## 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).

Our report on the Public Accounts of the Province discussed 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 2019/20 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 2019/20 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.

In December 2018, the *Restoring Trust, Transparency and Accountability Act*, 2018 received royal assent. Schedule 15 of the Act amended the *Environmental Bill of Rights, 1993* and transferred the duties associated with the position of the Environmental Commissioner to either the Environment Minister or the Auditor General. Schedule 15 also stated that the Auditor General shall appoint a Commissioner of the Environment who shall be an employee of the Office of the Auditor General, and shall exercise the powers and perform the duties delegated to him or her by the Auditor General under our Act. Sections 3, 27(1) and 27.1(1) of our Act were amended to include the Commissioner of the Environment as part of the Office of the Auditor General.

Schedule 15 also stated that the Auditor General shall report annually to the Speaker of the Assembly with regard to the operations of the *Environmental Bill of Rights Act, 1993* and the Speaker shall lay the report before the Assembly as soon as reasonably possible. The annual report may include (a) a review of progress on activities to promote energy conservation; (b) a review of progress on activities to reduce greenhouse gas emissions; and (c) any other matter that the Auditor General considers appropriate. The approved report may in the Auditor General's discretion be included in the Auditor General's annual report prepared under section 12 of the *Auditor General Act*.

## **Appointment of the Auditor General**

Under our Act, the Auditor General is appointed as an Officer of the Legislative Assembly by an order of the Legislative Assembly. This means that the appointee must be approved by the Legislative Assembly. The order appointing the Auditor General shall be made only after (a) unless decided otherwise by unanimous consent of the Assembly, the person to be appointed has been selected by unanimous agreement of a panel composed of one member of the Assembly from each recognized party, chaired by the Speaker who is a non-voting member; and (b) the chair of the Standing Committee on Public Accounts of the Assembly has been consulted. The Chair of the Standing Committee on Public Accounts, under the Standing Orders of

the Legislative Assembly, is a member of the official opposition. For more information about the Standing Committee on Public Accounts, see the section of this volume titled **The Work of the Standing Committee on Public Accounts**.

## 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 2019/20 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 section.

## 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 shall not 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

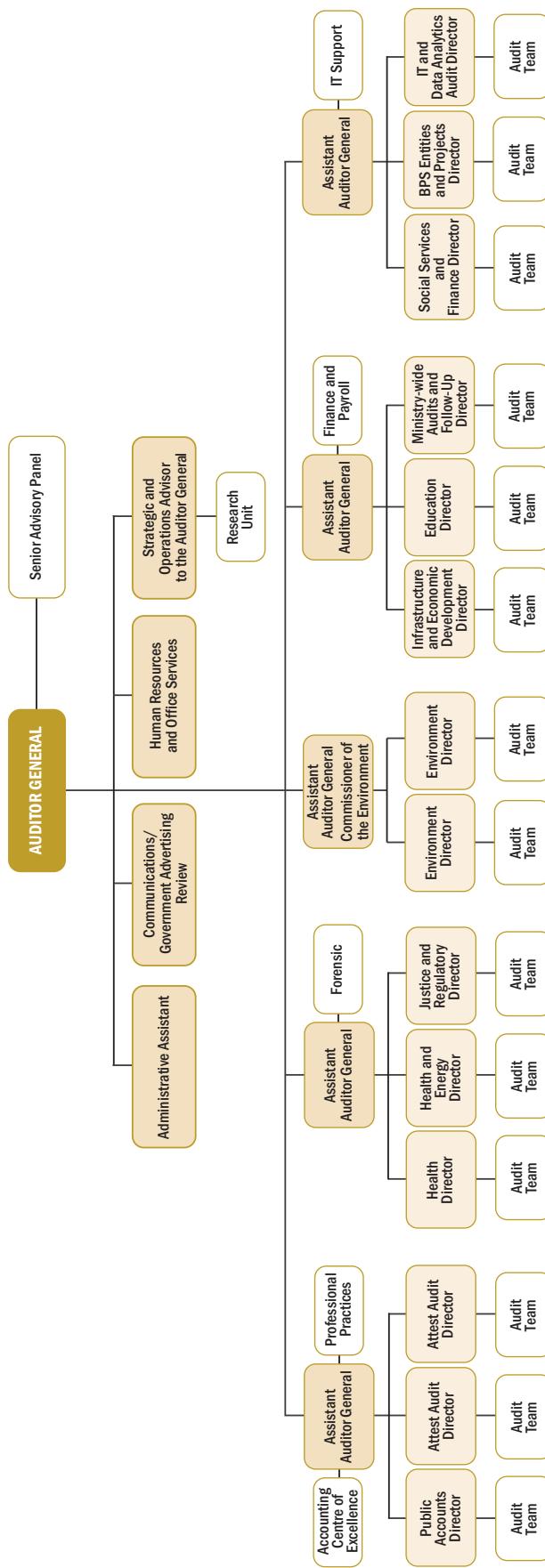
The Office has a Code of Professional Conduct to ensure that staff maintain high professional standards and keep up a professional work environment. The Code is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office. Our employees have a duty 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**.

Figure 1: Office Organization, November 30, 2020



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, the Director of Communications and Government Advertising Review, and the Strategic and Operations Advisor to the Auditor General make up the Office's Senior Management Committee.

## The Auditor General's Panel of Senior External Advisors

The Auditor General's Panel of Senior External Advisors (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 2020, the Panel met two 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 11 members on the Panel:

- Tim Beauchamp, Former Director, Public Sector Accounting Board
- Deborah Deller, Former Clerk of the Legislative Assembly of Ontario
- Burkard Eberlein, Professor, Public Policy, York University (Schulich)
- Sheila Fraser, Former Auditor General of Canada

- Julie Gelfand, Former federal Commissioner of the Environment and Sustainable Development in the Office of the Auditor General of Canada
- Peter Mansbridge, Former Chief Correspondent for CBC News and Anchor of *The National*
- David Marshall, Former President, Workplace Safety and Insurance Board
- William Robson, Chief Executive Officer, 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 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 assurance reviews.

In addition to internal file reviews, audit challenge teams are established for each value-for-money audit conducted and include the Auditor General, all Assistant Auditors General, and a Director and Manager from a separate audit portfolio. 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

The Canadian Council of Legislative Auditors (CCOLA) shares information and supports the continued development of auditing methodology, practices and professional development among

legislative audit offices at the federal and provincial levels. Its membership consists of the federal Auditor General and Auditors General of each of the 10 Canadian provinces. Legislative auditors from outside of Canada can have either "Associate Member" status with full voting rights, or "Observer Member" status, which does not afford voting rights. The CCOLA currently has one associate member—the Auditor General of Bermuda, and one observer member—the Auditor General of the Cayman Islands.

An annual conference is held jointly with the annual meeting of the Canadian Council of Public Accounts Committees (CCPAC). CCPAC consists of delegates from federal, provincial and territorial public accounts committees across Canada. The conference 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. This year, the 41st annual conference was to be hosted in Victoria, British Columbia, from August 16 to 18, 2020. However, in light of the COVID-19 pandemic, the conference was held virtually on September 10, 2020. Next year, the 42nd annual conference is planned to be held in Edmonton, Alberta, from August 14 to 18, 2021.

## 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 2019/20 fiscal year, the Office received over 800 (2018/19—over 1,000) public inquiries.

## Activities and Results Produced by the Office This Year

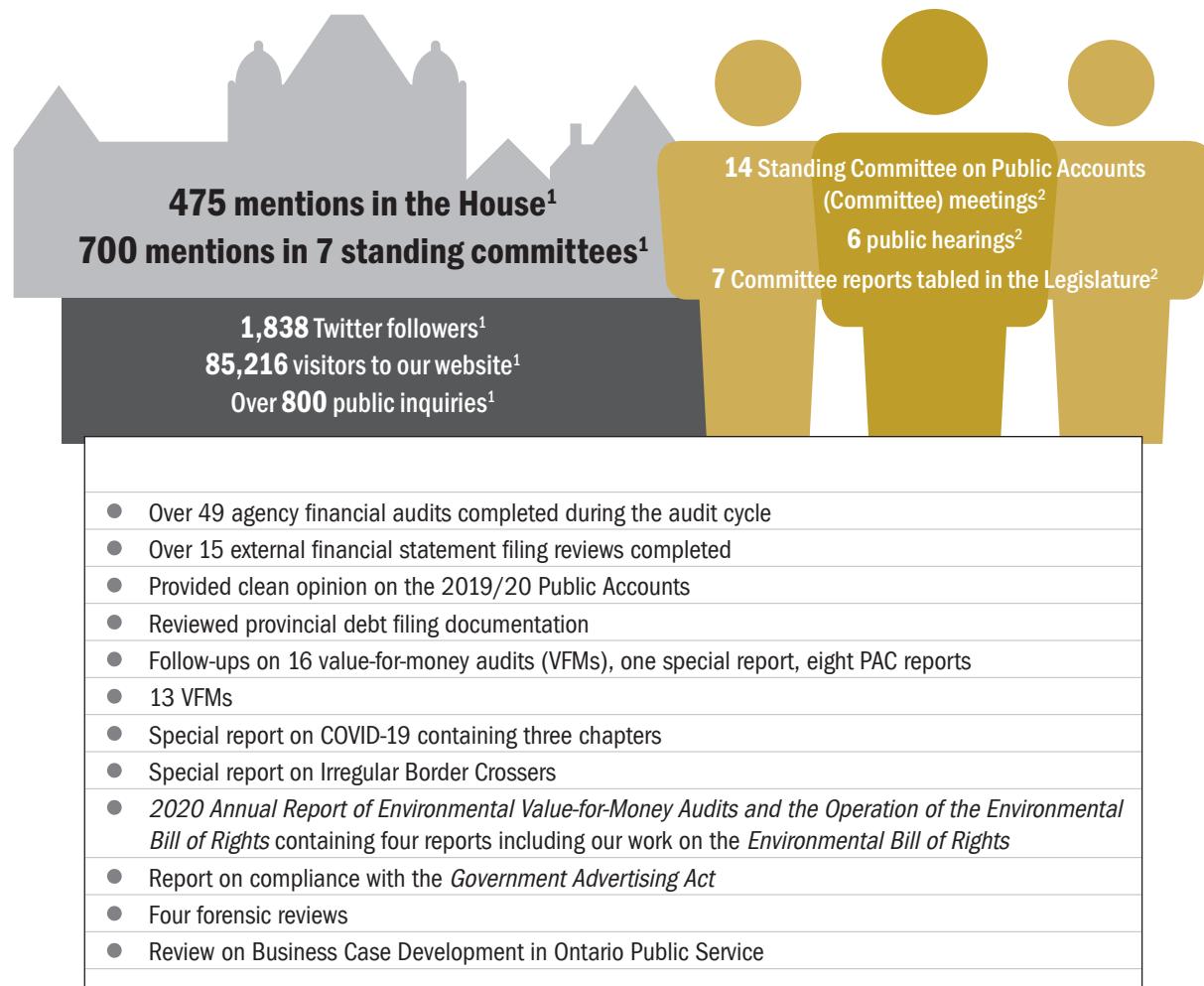
Despite the unprecedented COVID-19 pandemic, our Office had another productive year, effectively utilizing technology and project management, and benefiting from great teamwork. Refer to **Figure 2**

for an at-a-glance view of our Office's activities this year and the results that were produced.

While operating within our budget, we completed 16 value-for-money audits, a review of Business Case Development in the Ontario Public Service, special reports on irregular border crossers and the province's response to COVID-19, 16 follow-ups on previous value-for-money audit reports, one follow-up on a previous special report, and eight follow-ups on reports issued by the Standing Committee on Public Accounts. We also expanded our tracking of the status of previous recommendations made by following up on the 1,496 actions we recommended in our Annual Reports of 2013, 2014, 2015, 2016 and 2017.

**Figure 2: Office of the Auditor General of Ontario, Activities and Results—At a Glance**

Prepared by the Office of the Auditor General of Ontario



Notes:

1. Figures reported for fiscal 2019/20.

2. Figures reported on activities since our last *Annual Report* (Nov 1, 2019–Oct 31, 2020).

As mentioned earlier in the Attest Audits section, we are responsible for auditing the province's consolidated financial statements, 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 provided a clean audit opinion on the 2019/20 Public Accounts released September 23, 2020. Our report on the Public Accounts of the Province includes a discussion of accounting issues identified during that audit.

We also met our review responsibilities under the *Government Advertising Act, 2004*, and met our responsibility under the *Environmental Bill of Rights* (EBR) through the issuance of our *2020 Annual Report of Environmental Value-for-Money Audits and the Operation of the Environmental Bill of Rights* on November 18, 2020, which contained four reports including prescribed ministries' compliance with the EBR.

According to Hansard, the official transcript of House and committee proceedings, there were 475 mentions of the Auditor General in the House and 700 mentions in seven standing committees in 2019/20. Further details on our activities with the Standing Committee on Public Accounts are outlined in the section of this volume titled **The Work of the Standing Committee on Public Accounts**.

We connected with members of the public through our website, Twitter, phone, email and letters. In 2019/20 we had over 85,000 visitors to our websites and close to 2,000 Twitter followers. As mentioned earlier in this section, we received over 800 (2018/19—over 1,000) public inquiries through email, phone, letters and fax.

Our activities and results produced by the Office this year would not have been possible without the hard work and dedication of our staff, as well as of our agent auditors, contract staff and our Panel of Senior Advisors.

## Strategic Plan 2020–2024

This year our Office developed a new Strategic Plan for the five-year period 2020–24. During the period of our last Strategic Plan (2014–19), the Office has taken on an expanded mandate, and incorporated teams with specialized skill sets. Specifically, as noted earlier, many of the responsibilities of the former Office of the Environmental Commissioner of Ontario were transferred to the Auditor General's Office on April 1, 2019. The Office conducts audits of the environment under the same processes as the Office's value-for-money audits and has additional reporting responsibilities with respect to compliance with the *Environmental Bill of Rights, 1993*. We also have established new IT and Forensic Audit teams, a dedicated research function and a Centre for Accounting Excellence, which provide additional technical expertise and depth in conducting our audit work. As well, we dedicated a team to follow up on our past audits to assess the progress made on our recommended actions, with an emphasis on having them fully implemented. This team also follows up on recommendations in reports issued by the Standing Committee on Public Accounts.

In light of this, we revisited the Strategic Plan that we developed in 2014 to take these major changes into account in laying out a new road map for our Office. After internal consultation and reflection, with input from our Panel of Senior Advisors, we finalized this new plan in the spring of 2020.

**Figure 3** includes the key goals and objectives in our 2020–24 Strategic Plan.

## Financial Accountability

The following discussion and our financial statements present the Office's financial results for the 2019/20 fiscal year. Our financial statements have been prepared in accordance with Canadian Public-Sector Accounting Standards. In accordance with

**Figure 3: 2020–2024 Strategic Plan at a Glance**

<b>Goal</b>	<b>Reporting</b> <b>Provide accurate and objective information through timely and relevant reports (including recommendations) and audit opinions.</b>
<b>Objectives</b>	
<ol style="list-style-type: none"> <li>1. Ensure our stakeholders continue to value our assurance and advice on the reliability of financial statements.</li> <li>2. Our value-for-money (VFM) audits, including environmental VFM audits, are accurate and objective and are valued by our stakeholders.</li> <li>3. Stakeholders continue to refer to our work and request our services.</li> <li>4. Provide appropriate information to assist the Standing Committee on Public Accounts (PAC) in performing its mandate.</li> <li>5. The government implements changes that address the issues raised in our reports.</li> <li>6. Comment on legislation that impacts our mandate.</li> <li>7. Effectively fulfill our limited responsibilities under the <i>Government Advertising Act, 2004</i> (GAA).</li> <li>8. Effectively fulfill our responsibilities under the <i>Environmental Bill of Rights, 1993</i> (EBR).</li> <li>9. Effectively fulfill our mandate to review and comment on the <i>Pre-Election Report on Ontario's Finances</i> when it is issued.</li> <li>10. Respond to public inquiries in a timely manner and continue to be accessible to the public.</li> <li>11. Expand the Office's role in assessing public-sector governance and promote best practices.</li> </ol>	
<b>Goal</b>	<b>People, Learning and Development</b> <b>Provide a high-performing, diverse and inclusive team environment with ongoing professional training and development.</b>
<b>Objectives</b>	
<ol style="list-style-type: none"> <li>1. Conduct strategic human-resources (HR) planning that is dynamic and reflects both the current and future needs of the Office.</li> <li>2. Human-resources (HR) policies are aligned with the Office's values and are clearly and consistently communicated and applied.</li> <li>3. Attract and recruit diverse, highly skilled and motivated professionals.</li> <li>4. Train and retain a diverse, highly skilled and motivated team of professionals.</li> <li>5. Promote career development and proactively manage succession in a way that provides opportunities for staff across the organization.</li> <li>6. Promote a sense of community within the Office through strong professional relationships.</li> <li>7. Attract and engage credible contractors, agent auditors and subject-matter expert advisors to provide specialized expertise and support our work.</li> </ol>	
<b>Goal</b>	<b>Operations</b> <b>Allocate resources efficiently and effectively and measure results.</b>
<b>Objectives</b>	
<ol style="list-style-type: none"> <li>1. Optimize resources to ensure the capacity of the Office to respond to the requirements of our stakeholders.</li> <li>2. Continuously improve the efficiency of the Office through the effective and consistent use of technology.</li> <li>3. Reduce the environmental footprint of the Office to demonstrate leadership in environmental sustainability.</li> <li>4. Continuously improve the effectiveness of Communications practices.</li> <li>5. Ensure that Office accommodations and equipment are properly managed and maintained.</li> </ol>	
<b>Goal</b>	<b>Engagement</b> <b>Engage Members of Provincial Parliament and the public in our work. Establish and maintain relationships with professional organizations, private-sector accounting firms, academic institutions and other independent Officers of the Legislature.</b>
<b>Objectives</b>	
<ol style="list-style-type: none"> <li>1. Engage with citizens to raise awareness of the Office's mandate and reports.</li> <li>2. Our reports are available, accessible and engaging for stakeholders.</li> <li>3. Develop a social media plan for the Office that expands our communication capabilities, while effectively managing the image of the Office.</li> <li>4. Advance our professional relationships with public-sector organizations, academic institutions, private-sector accounting firms, professional organizations and relevant stakeholders.</li> </ol>	

#### Figure 4: Five-Year Comparison of Spending (Accrual Basis) (\$ 000)

Prepared by the Office of the Auditor General of Ontario

Category	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Approved budget</b>	<b>18,083</b>	<b>18,566</b>	<b>19,547</b>	<b>20,613</b>	<b>26,318</b>
<b>Actual expenses</b>					
Salaries and benefits	11,504	12,830	13,568	14,269	18,329
Professional and other services	2,268	2,538	2,683	2,510	2,812
Rent	1,059	1,090	1,097	1,080	1,444 <sup>1</sup>
Training, supplies, equipment and other <sup>2</sup>	966	856	875	945	1,115
Travel and communications	354	312	374	337	549
Statutory expenses	449	472	661	630	509
<b>Total</b>	<b>16,600</b>	<b>18,098</b>	<b>19,258</b>	<b>19,771</b>	<b>24,758</b>
<b>Unused appropriations<sup>3</sup></b>	<b>974</b>	<b>42</b>	<b>32</b>	<b>612</b>	<b>217</b>

1. Includes rent for former Environmental Commission of Ontario space that was sublet effective April 1, 2020.

2. "Other" includes amortization of capital assets.

3. 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).

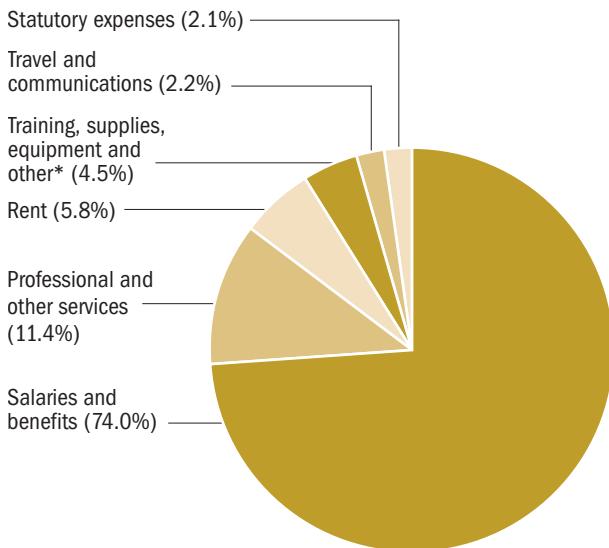
these standards, we have presented a breakdown of our expenses by the main activities our Office is responsible for: value-for-money and special audits, financial-statement audits, pre-election report and the review of government advertising. This breakdown is provided in **Note 8** to the financial statements and indicates that nearly 76% of our time was used to perform value-for-money and special audits, a stated priority of the Standing Committee on Public Accounts, and 23% to complete the audits of the annual financial statements of the province and over 40 of its agencies. The remaining time was devoted to the pre-election report and our statutory responsibilities under the *Government Advertising Act* and the *Fiscal Transparency and Accountability Act*.

**Figure 4** provides a comparison of our approved budget and expenditures over the last five years.

**Figure 5** presents the major components of our spending during the 2019/20 fiscal year, and shows that salary and benefit costs for staff accounted for 74% (72% in 2018/19), while professional and other services, along with rent, comprised most of the remainder. These proportions have been relatively stable in recent years. **Figure 6** presents the year-over-year percentage change of actual expenditures. Overall, our expenses increased by 25% in 2019/20 from the previous year to meet

#### Figure 5: Spending by Major Expenditure Category, 2019/20

Prepared by the Office of the Auditor General of Ontario



\* "Other" includes amortization and statutory expenses.

the expanded responsibilities transferred from the former Office of the Environmental Commissioner of Ontario.

In November 2018, the Board of Internal Economy of the Legislature approved our request to increase our staffing complement from 116 to 129.

**Figure 6: Actual Expenses for 2019/20 and 2018/19 (\$ 000)**

Prepared by the Office of the Auditor General of Ontario

Actual Expenses	2019/20	2018/19	% Change
Salaries and benefits	18,329	14,269	28
Professional and other services	2,812	2,510	12
Rent	1,444	1,080	34
Training, supplies, equipment and amortization	1,115	945	18
Travel and communications	549	337	63
Statutory expenses	509	630	(19)
<b>Total</b>	<b>24,758</b>	<b>19,771</b>	<b>25</b>

In April 2019, the Board also approved an increase in our staffing complement by 16 to enable us to hire staff from the former Office of the Environmental Commissioner and a new Assistant Auditor General and Commissioner of the Environment, which brought our approved complement to 145. During the 2019/20 fiscal year, we have staffed to full complement.

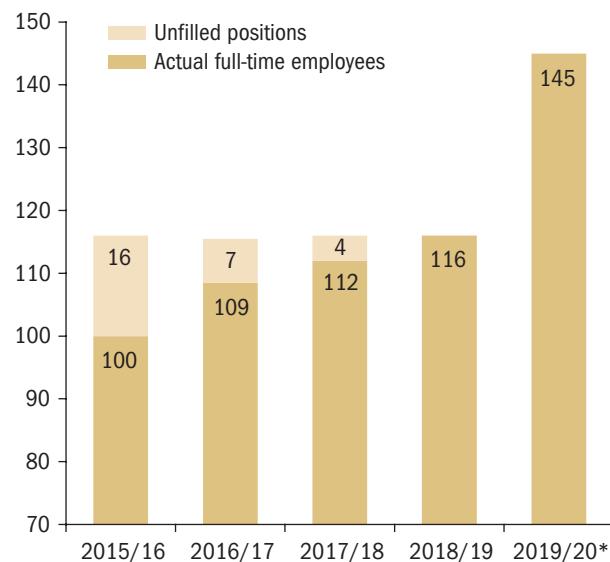
A more detailed discussion of the changes in our expenses and some of the challenges we face follows.

## Salaries and Benefits

Our salary and benefit costs were 28% higher than in 2018/19. The increase was a result of the increase in our staffing complement from 116 to 129 approved by the Board of Internal Economy; the cost of the new Commissioner of the Environment and the addition of staff from the former Office of the Environmental Commissioner to meet the expanded responsibilities transferred from the former Office of the Environmental Commissioner of Ontario; the annualized cost of 2018/19 hires and promotions; and changes to staff compensation to align with increases to those working in the Ontario government. Benefit costs increased accordingly.

**Figure 7: Staffing, 2015/16–2019/20**

Prepared by the Office of the Auditor General of Ontario



\* Includes staff from the transfer of responsibilities of the former Office of the Environmental Commissioner of Ontario.

In 2019/20, our Office averaged 145 full-time equivalents (FTEs) (116 in 2018/19), as shown in **Figure 7**. Most students who earned their professional accounting designation during the year remained with the Office and were promoted to Senior Auditor positions.

Staff turnover was low and, where experienced, was due mainly to the market for professional accountants remaining fairly robust. 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 that assisted in our value-for-money audits, pre-election report and various assignments. These services account for about 11% of total expenses and increased by 12% compared to the previous year.

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 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 34% compared to last year. The increase was due to the Office inheriting the office lease of the previous Environmental Commissioner, which has since been sublet from March 2020 to the end of the lease, February 2023.

## Travel and Communications

Our travel and communications costs increased by 63%, as the audits selected required more travel during 2019/20 compared with the prior year.

## Training, Supplies and Equipment (Including Amortization)

Our training, supplies and equipment costs increased by 18% compared with the prior year due mainly to higher amortization expense as a result of past information technology expenditures and additional training provided to staff from the former Office of the Environmental Commissioner.

The Office's training program enables staff to progress and meet their professional obligations to maintain and enhance their competencies. The program consists of a combination of in-house and external courses.

## Statutory Expenses

These expenses include the Auditor General's salary and fees for contracted experts. Statutory expenses were 19% lower this year, as a lesser amount of specialized advisory services for special reports was required in 2019/20.

## 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, MBA, FCPA, FCA, LPA  
Auditor General  
September 25, 2020



Gus Chagani, CPA, CA  
Assistant Auditor General  
September 25, 2020



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Internal Economy of  
Legislative Assembly of Ontario

### *Opinion*

We have audited the accompanying financial statements of The Office of the Auditor General of Ontario (the Office), which comprise the statement of financial position as at March 31, 2020, and the statement 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.

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, 2020, and the results of its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Office in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***  
Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Auditor General Act is repealed, the government intends to cease operations, or the government has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Office's financial reporting process.

**INDEPENDENT AUDITOR'S REPORT – cont'd***Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Adams & Miles LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
September 25, 2020

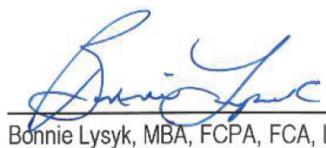
Adams & Miles LLP  
Chartered Professional Accountants

**Office of the Auditor General of Ontario**  
**Statement of Financial Position**  
**As at March 31, 2020**

	2020 \$	2019 \$
<b>Financial assets</b>		
Cash	2,434,359	1,947,157
Harmonized sales taxes recoverable	306,376	194,295
Lease inducement receivable (Note 9)	686,525	-
	<u>3,427,260</u>	<u>2,141,452</u>
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities [Notes 4 and 5(B)]	3,300,395	1,982,161
Accrued employee benefits obligation [Note 5(B)]	1,568,000	1,806,000
Due to Consolidated Revenue Fund (Note 10)	217,009	820,960
Deferred lease inducement (Note 9)	737,544	83,241
	<u>5,822,948</u>	<u>4,692,362</u>
<b>Net financial debt</b>	 (2,395,688)	 (2,550,910)
<b>Non-financial assets</b>		
Tangible capital assets (Notes 3 and 12)	<u>2,850,321</u>	<u>1,605,897</u>
<b>Accumulated surplus (deficit)</b>	 <u>454,633</u>	 <u>(945,013)</u>
<b>Commitments (Notes 6 and 12)</b>		
<b>Measurement uncertainty [Note 2(F)]</b>		

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:



\_\_\_\_\_  
 Bonnie Lysyk, MBA, FCPA, FCA, LPA  
 Auditor General



\_\_\_\_\_  
 Gus Chagani, CPA, CA  
 Assistant Auditor General

**Office of the Auditor General of Ontario**  
**Statement of Operations and Accumulated Surplus (Deficit)**  
**For the Year Ended March 31, 2020**

	2020 Budget (Note 11) \$	2020 Actual \$	2019 Actual \$
<b>Expenses</b>			
Salaries and wages	15,830,300	14,849,914	11,781,407
Employee benefits (Note 5)	3,975,000	3,478,813	2,487,975
Professional and other services	3,851,300	2,812,350	2,510,123
Office rent (Note 12)	1,140,000	1,444,034	1,079,405
Amortization of tangible capital assets	-	664,513	636,037
Travel and communication	471,600	548,747	337,409
Training and development	143,000	211,439	139,300
Supplies and equipment	384,800	239,081	169,921
Statutory	522,100	509,071	629,316
Total expenses (Notes 7 and 8)	<u>26,318,100</u>	<u>24,757,962</u>	<u>19,770,893</u>
<b>Revenue</b>			
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	26,318,100	26,318,100	20,613,200
Net assets transferred to the Office (Note 12)	-	56,517	-
	<u>26,318,100</u>	<u>26,374,617</u>	<u>20,613,200</u>
<b>Excess of revenue over expenses</b>			
Less: returned to the Province [Notes 2(B) and 10]	1,616,655	842,307	
	<u>217,009</u>	<u>611,842</u>	
<b>Net operations surplus</b>	1,399,646	230,465	
<b>Accumulated deficit, beginning of year</b>	(945,013)	(1,175,478)	
<b>Accumulated surplus (deficit), end of year</b>	<u>454,633</u>	<u>(945,013)</u>	

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, 2020

	2020 Budget (Note 11) \$	2020 Actual \$	2019 Actual \$
Net operations surplus	-	1,399,646	230,465
Purchase of tangible capital assets	-	(1,852,420)	(858,280)
Tangible capital assets transferred to the Office (Note 12)	-	(56,517)	-
Amortization of tangible capital assets	-	664,513	<u>636,037</u>
<b>Decrease in net financial debt</b>	-	155,222	8,222
<b>Net financial debt, beginning of year</b>	<u>(2,550,910)</u>	<u>(2,550,910)</u>	<u>(2,559,132)</u>
<b>Net financial debt, end of year</b>	<u>(2,550,910)</u>	<u>(2,395,688)</u>	<u>(2,550,910)</u>

See accompanying notes to financial statements.

**Office of the Auditor General of Ontario**  
**Statement of Cash Flows**  
**For the Year Ended March 31, 2020**

	2020 \$	2019 \$
<b>Operating transactions</b>		
Net operations surplus	1,399,646	230,465
Amortization of tangible capital assets	664,513	636,037
Tangible capital assets transferred to the Office (Note 12)	(56,517)	-
Amortization of deferred lease inducement	(32,222)	(32,222)
Accrued employee benefits obligation [Note 5(B)]	<u>(123,000)</u>	<u>24,000</u>
	1,852,420	858,280
<b>Changes in working capital</b>		
Increase in harmonized sales taxes recoverable	(112,081)	(18,128)
Increase in lease inducement receivable	(686,525)	-
Increase (decrease) in due to Consolidated Revenue Fund	(603,951)	611,842
Increase (decrease) in accounts payable and accrued salaries (Note 4)	1,203,234	(746,860)
Increase in deferred lease inducement	<u>686,525</u>	<u>-</u>
	487,202	(153,146)
<b>Cash provided by operating transactions</b>	<b>2,339,622</b>	<b>705,134</b>
<b>Capital transactions</b>		
Purchase of tangible capital assets	<u>(1,852,420)</u>	<u>(858,280)</u>
<b>Increase (decrease) in cash</b>	<b>487,202</b>	<b>(153,146)</b>
<b>Cash, beginning of year</b>	<b>1,947,157</b>	<b>2,100,303</b>
<b>Cash, end of year</b>	<b>2,434,359</b>	<b>1,947,157</b>

See accompanying notes to financial statements.

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# Office of the Auditor General of Ontario

## Notes to Financial Statements For the Year Ended March 31, 2020

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### 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.

Under 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.

On April 1, 2019, the *Restoring Trust, Transparency and Accountability Act* transferred many of the responsibilities of the former Office of the Environmental Commissioner of Ontario to the Office. The Office will conduct audits of the environment under the same processes as the Office's value-for money audits and now has additional reporting responsibilities with respect to compliance with the *Environmental Bill of Rights, 1993* (Note 12).

### 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 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*.

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## Office of the Auditor General of Ontario

### Notes to Financial Statements For the Year Ended March 31, 2020

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#### 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 to 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, 2020. 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 amortized as a reduction of rent expense on a straight-line basis over the terms of the respective leases.

##### (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 Surplus (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, 2020

#### 3. Tangible Capital Assets

	Computer hardware \$	Computer software \$	Furniture and fixtures \$	Leasehold improvements \$	2020 Total \$
<b>Cost</b>					
Balance, beginning of year	1,584,338	475,717	506,536	1,076,863	3,643,454
Additions	171,350	71,437	582,533	1,027,100	1,852,420
Transfer to the Office (Note 12)	8,196	-	48,321	-	56,517
Disposals	(56,818)	-	(33,425)	(66,326)	(156,569)
Balance, end of year	1,707,066	547,154	1,103,965	2,037,637	5,395,822
<b>Accumulated amortization</b>					
Balance, beginning of year	848,427	260,650	265,710	662,770	2,037,557
Amortization	312,925	132,228	77,289	142,071	664,513
Disposals	(56,818)	-	(33,425)	(66,326)	(156,569)
Balance, end of year	1,104,534	392,878	309,574	738,515	2,545,501
<b>Net Book Value, March 31, 2020</b>	<b>602,532</b>	<b>154,276</b>	<b>794,391</b>	<b>1,299,122</b>	<b>2,850,321</b>

	Computer hardware \$	Computer software \$	Furniture and fixtures \$	Leasehold improvements \$	2019 Total \$
<b>Cost</b>					
Balance, beginning of year	1,088,225	364,712	392,030	986,863	2,831,830
Additions	497,664	150,982	119,634	90,000	858,280
Disposals	(1,551)	(39,977)	(5,128)	-	(46,656)
Balance, end of year	1,584,338	475,717	506,536	1,076,863	3,643,454
<b>Accumulated amortization</b>					
Balance, beginning of year	543,709	168,346	202,986	533,135	1,448,176
Amortization	306,269	132,281	67,852	129,635	636,037
Disposals	(1,551)	(39,977)	(5,128)	-	(46,656)
Balance, end of year	848,427	260,650	265,710	662,770	2,037,557
<b>Net Book Value, March 31, 2019</b>	<b>735,911</b>	<b>215,067</b>	<b>240,826</b>	<b>414,093</b>	<b>1,605,897</b>

Assets under construction or not yet in service are not amortized and have been included within the various asset categories presented above. The total value of these assets as at March 31, 2020 is \$1,805,435 (2019 - \$563,951).

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# Office of the Auditor General of Ontario

## Notes to Financial Statements

### For the Year Ended March 31, 2020

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#### 4. Accounts Payable and Accrued Liabilities

	2020 \$	2019 \$
Accounts payable	760,090	459,012
Accrued salaries and benefits	1,711,305	809,149
Accrued employee benefits obligation	829,000	714,000
	<hr/> 3,300,395	<hr/> 1,982,161

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 employee benefits obligation 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 \$1,355,494 (2019 - \$1,008,433), 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 \$391,000 (2019 -\$70,000) 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, 2020

#### 5. Obligation for Future Employee Benefits (Continued)

##### (B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

	2020 \$	2019 \$
Total liability for severance and vacation credits	2,397,000	2,520,000
Less: Due within one year and included in accounts payable and accrued liabilities	829,000	714,000
Accrued employee benefits obligation	<u>1,568,000</u>	<u>1,806,000</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 and Consumer Services and accordingly is not included in these financial statements.

#### 6. Commitments

The Office has operating leases to rent premises which expire on February 28, 2023 and October 31, 2031. The minimum rental commitment is as follows:

	\$
2020/21	692,800
2021/22	771,800
2022/23	882,200
2023/24	724,200
2024/25	724,200
2025/26 and beyond	4,969,000

The Office is also committed to pay its proportionate share of realty taxes and operating expenses for the premises amounting to approximately \$795,000 during 2020 (2019 - \$602,000).

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## Office of the Auditor General of Ontario

### Notes to Financial Statements For the Year Ended March 31, 2020

#### 7. Reconciliation to Public Accounts Volume 1 Basis of Presentation

The Office's Statement of Expenses presented in Volume 1 of the Public Accounts of Ontario was prepared on a basis consistent with the accounting policies followed for the preparation of the Estimates submitted for approval to the Board of Internal Economy, under which purchases of tangible capital assets 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:

	2020	2019
	\$	\$
Total expenses per Public Accounts Volume 1	<u>26,101,091</u>	<u>20,001,358</u>
Purchase of tangible capital assets	(1,852,420)	(858,280)
Amortization of tangible capital assets	664,513	636,037
Change in accrued employee benefits obligation	(123,000)	24,000
Amortization of deferred lease inducement	(32,222)	(32,222)
	<u>(1,343,129)</u>	<u>(230,465)</u>
Total expenses per the Statement of Operations and Accumulated Surplus (Deficit)	<u>24,757,962</u>	<u>19,770,893</u>

## Office of the Auditor General of Ontario

### Notes to Financial Statements For the Year Ended March 31, 2020

#### 8. Expenses by Activity

	2020				
	Salaries and benefits	Other operating expenses	Statutory expenses	Total	%
Value for money, environmental and special audits (Note 12)	14,516,352	3,812,274	436,828	18,765,454	75.8
Financial statement audits	3,684,074	2,085,570	50,995	5,820,639	23.5
Government advertising	128,301	22,320	21,248	171,869	0.7
	<b>18,328,727</b>	<b>5,920,164</b>	<b>509,071</b>	<b>24,757,962</b>	<b>100.0</b>
%	74.0	23.9	2.1	100.0	
	2019				
	Salaries and benefits	Other operating Expenses	Statutory expenses	Total	%
Value for money and special audits	10,487,996	2,778,813	465,464	13,732,273	69.4
Financial statement audits	3,467,460	2,029,035	52,644	5,549,139	28.1
Pre-Election Report	185,502	36,199	95,256	316,957	1.6
Government advertising	128,424	28,148	15,952	172,524	0.9
	<b>14,269,382</b>	<b>4,872,195</b>	<b>629,316</b>	<b>19,770,893</b>	<b>100.0</b>
%	72.2	24.6	3.2	100.0	

Expenses have been allocated to the Office's three (2019 – four) 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.

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## Office of the Auditor General of Ontario

### Notes to Financial Statements For the Year Ended March 31, 2020

#### 9. Deferred Lease Inducement

The deferred lease inducement is composed of the following:

Lease term	Deferred lease inducement - gross \$	Accumulated amortization \$	Balance – end of year \$
November 1, 2011 to October 31, 2021	322,225	271,206	51,019
November 1, 2021 to October 31, 2031	686,525	-	686,525
	<b>1,008,750</b>	<b>271,206</b>	<b>737,544</b>

#### 10. Unused Appropriations

	2020 \$	2019 \$
Consolidated Revenue Fund – Voted appropriations [Note 2(B)]	26,318,100	20,613,200
Less: Appropriations used (Note 7)	26,101,091	20,001,358
Cash returned to the Province	<b>217,009</b>	<b>611,842</b>

#### 11. Budgeted Figures

The budget as presented in the financial statements was prepared on the Public Accounts Volume 1 basis of accounting as described in Note 7. Following are the adjustments required to restate the budget using Canadian public sector accounting standards:

	2020 \$	2019 \$
Total budgeted expenses per the budget approved by the Board of Internal Economy	26,318,100	20,613,200
Purchase of tangible capital assets	(1,319,050)	(205,000)
Amortization of tangible capital assets	712,612	621,149
Amortization of deferred lease inducement	(32,222)	(32,222)
	<b>(638,660)</b>	<b>383,927</b>
Total budgeted expenses restated using Canadian public sector accounting standards	<b>25,679,440</b>	<b>20,997,127</b>

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## Office of the Auditor General of Ontario

### Notes to Financial Statements For the Year Ended March 31, 2020

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#### 12. Expanded Responsibilities

On April 1, 2019, Schedule 15 of the *Restoring Trust, Transparency and Accountability Act* (the “Act”) was proclaimed. The Act amends the *Environmental Bill of Rights, 1993* to transfer some of the responsibilities of the former Office of the Environmental Commissioner of Ontario (ECO) to the Office. The Office’s expanded responsibilities include reporting annually on the government’s compliance with the *Environmental Bill of Rights, 1993*.

The Act also transfers the rights, obligations, assets and liabilities of the ECO, as they existed immediately before April 1, 2019 to the Office, except for any rights, obligations, assets or liabilities relating to former ECO employees for service immediately before April 1, 2019.

The transfer took place on April 1, 2019 for no compensation. The Office recorded tangible capital assets it received in the transfer from ECO at carrying value adjusted for the Office’s accounting policies, methods and assumptions. No other assets or liabilities were received in the transfer. The net effect of this restructuring transaction on the Office was to increase tangible capital assets on the Statement of Financial Position and increase revenue on the Statement of Operations and Accumulated Surplus (Deficit) by \$56,517.

Restructuring-related costs mainly consist of additional rent expense for ECO’s original premises in the amount of \$315,119, which is included in office rent expenses in the Statement of Operations and Accumulated Surplus. The lease for the premises expires on February 28, 2023. Effective April 1, 2020, the Office has subleased the ECO premises on approximately the same terms and conditions as the head lease.

The 2019-20 normal operating expenses related to the transferred responsibilities, amounting to approximately \$1,899,000, are included in the value for money, environmental and special audits activity in Note 8.

#### 13. Comparative Figures

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



## Office of the Auditor General of Ontario

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