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Preface

This *2000 Annual Report*, together with my *Special Report on Accountability and Value for Money* that was tabled November 21, 2000, meet my annual reporting mandate for the year ended March 31, 2000 under Section 12 of the *Audit Act.*

CHAPTER ONE

Public Accounts of the Province

1.00 INTRODUCTION

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly after the fiscal year end is closed and the Public Accounts have been laid before the Assembly. This year, the Ministry of Finance finalized the Public Accounts near the end of October. This late date was due to the complex accounting issues arising from the restructuring of Ontario Hydro.

Nevertheless, a significant portion of our report was already completed and ready for publication; specifically, our value for money audit reports and follow-ups of recommendations made in our *1998 Annual Report*. Not wishing to defer the release of these items until a later date, my Office prepared a *Special Report on Accountability and Value for Money* in order that the Legislature be informed of the results of these audit activities in a timely manner.

I issued this Special Report to the Legislative Assembly on November 21, 2000. Shortly after my Special Report had been sent for printing, the Public Accounts were tabled in the Legislature on November 1, 2000, thereby allowing my Office to finalize this Annual Report.

The *Audit Act* requires that in my Annual Report I comment on the results of my examination of the province's financial statements as reported in the Public Accounts. Accordingly, this chapter presents my Auditor's Report on the province's financial statements and also discusses a number of significant issues that arose during this year's audit of these financial statements. Also, as required by section 12 of the *Audit Act*, I report on Special Warrants and Treasury Board Orders issued during the year.

Chapter Two of this report outlines the activities of my Office, including the externally audited statement of expenditure of my Office for the year ended March 31, 2000. Chapter Three discusses the composition and activities of the Standing Committee on Public Accounts.

BACKGROUND

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Legislative Assembly not later than the tenth day of the first session held in the following calendar year. However, the Public Accounts are normally tabled in the Assembly in the late summer or early autumn after the end of the fiscal year to which they pertain.

The financial statements of the province, which are included in the Public Accounts, are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts based on estimates and judgment. The government is also responsible for ensuring that an established system of control with supporting procedures is in place to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

I audit and express an opinion on the financial statements of the province. The objective of my audit is to determine, with reasonable assurance, whether the financial statements are free of material misstatement. The financial statements, along with my Auditor's Report on them, are provided in a separate volume of the Public Accounts. In addition to the financial statements, the Public Accounts include three supplementary volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. These schedules and statements reflect the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards and commissions that are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

Again this year, the Province of Ontario has published an annual report together with the Public Accounts. This annual report presents a summary and analysis of the financial information contained in the financial statements, as well as condensed financial statements of the province. The annual report serves to enhance the fiscal accountability of the government to both the Legislative Assembly and the public.

I review the information in the annual report and the three supplementary volumes for consistency with the information presented in the financial statements.

THE PROVINCE'S 1999/2000 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the year ended March 31, 2000 is clear of any qualifications or reservations and reads as follows:

To the Legislative Assembly of the Province of Ontario

I have audited the statement of financial position of the Province of Ontario as at March 31, 2000 and the statements of revenue, expenditure and net debt and of cash flows for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

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In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by section 12 of the Audit Act, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

[*signed*]

Toronto, Ontario	Erik Peters, FCA
August 9, 2000	Provincial Auditor

The date of my Auditor's Report indicates the date of substantial completion of my audit. However, due to the complexity of the electricity sector restructuring, as outlined below, discussions with the Ministry of Finance on how to appropriately reflect this restructuring in the province's financial statements continued until late October. Accordingly, the Public Accounts were not tabled in the Legislative Assembly until November 1, 2000.

ELECTRICITY SECTOR RESTRUCTURING

BACKGROUND

Prior to April 1, 1999, Ontario Hydro operated as a monopoly under the authority of the *Power Corporation Act* and had broad powers to generate, supply, deliver and regulate electric power at cost throughout Ontario. Because the ownership of Ontario Hydro was uncertain, and its earnings and net assets were not available for distribution to the province, it was not included in the province's financial statements in previous years.

In its November 1997 White Paper entitled *Direction for Change—Charting a Course for Competitive Electricity and Jobs in Ontario,* the government announced that it planned to restructure Ontario's electricity sector to encourage competition. The planned restructuring represented a major change in the accountability relationship and governance structure between the province and the electricity sector as illustrated by the following statement in the White Paper:

> *New governance structures would be created. The Government would exercise control through its role as owner and shareholder...*

In November 1998, the *Energy Competition Act* was enacted to provide legislative authority for the planned restructuring, and, on April 1, 1999, Ontario Hydro assets and liabilities were transferred to five successor entities:

- The Ontario Power Generation Inc. (OPG), which holds and operates all electricity generation assets.
- Hydro One Inc. (Hydro One, formerly the Ontario Hydro Services Company), which holds and operates all transmission assets and distribution and energy services businesses.
- The Ontario Electricity Financial Corporation (OEFC), which is responsible for holding and retiring debts of the former Ontario Hydro, including its "stranded debt." Stranded debt is conceptually defined as the amount of debt and other liabilities of OEFC that cannot reasonably be serviced and retired in a competitive electricity marketplace. OEFC also administers those Ontario Hydro assets, liabilities, rights and obligations not transferred to any other successor company.
- The Independent Electricity Market Operator (IMO), which is responsible for directing system operations and operating the electricity market.
- The Electrical Safety Authority, which performs a regulatory function related to electrical inspections.

From an ownership perspective, the effect of the restructuring is that, with the exception of the Electrical Safety Authority, the province now directly owns each of these new entities. Each is accountable to the government through the Minister of Energy, Science and Technology for its operations. Therefore, in accordance with accounting principles for governments as recommended by the Canadian Institute of Chartered Accountants, the net assets/liabilities and the annual operating results of these four entities have now been included in the province's financial statements as either government organizations (OEFC and IMO) or government business enterprises (OPG and Hydro One).

EFFECT OF INCLUSION IN PROVINCE'S FINANCIAL STATEMENTS

One of the most critical steps in the restructuring process was to determine the fair market value of Ontario Hydro's assets to be transferred to the new entities. Both Ontario Hydro and the government, assisted by private sector investment firms and other experts, recognized that the market value of these assets in a competitive environment would be significantly less than the book amounts that were recorded in the accounts of Ontario Hydro. The shortfall between the value of these assets and the value of Ontario Hydro's total debt and other liabilities being transferred to the new entities constituted stranded debt.

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To ensure that the new operating companies, OPG and Hydro One, would succeed in the new competitive marketplace, the government redistributed Ontario Hydro's assets and liabilities such that all of the stranded debt became the responsibility of OEFC. The Ministry of Finance determined that Ontario Hydro's total debt and other liabilities assumed by OEFC amounted to $38.1 billion, which greatly exceeded the final market value of the assets received by OEFC of $18.7 billion. This shortfall created stranded debt of approximately $19.4 billion, which represented the amount of debt and other liabilities of OEFC that could not be serviced in a competitive environment.

Consequently, when OEFC commenced operations on April 1, 1999, it had a net unfunded liability (stranded debt) of $19.4 billion that the province, through OEFC, became directly responsible for retiring. This stranded debt included the responsibility for probable losses of $4.2 billion related to power purchase contracts with non-utility generators and $2.4 billion in nuclear decommissioning liabilities. The most significant impact of the restructuring in the province's statement of financial position is the inclusion of the stranded debt.

For the fiscal year ended March 31, 2000, OEFC's expenses exceeded its revenues by a further $554 million, thereby increasing its unfunded liability to $20 billion. Offsetting OEFC's $554 million loss was $200 million in OPG and Hydro One deferred taxes that have been earmarked for eventual defeasance of the stranded debt. Accordingly, the net impact of electricity restructuring for the year is a loss to the government of $354 million, and an increase of $19.4 billion and $19.8 billion in its opening and closing net debt, respectively.

The government has established a long-term plan to retire all of OEFC's obligations, including the $19.8 billion stranded debt, from dedicated revenue streams derived from the electricity sector. The main source of these revenues will be:

- interest from OEFC's existing notes receivable;
- payments by electricity sector entities in lieu of property, corporate income and capital taxes;
- government profits from ownership of OPG and Hydro One in excess of the debt costs related to this investment; and
- a debt retirement charge to be levied on ratepayers based on future electricity consumption.

The government believes that since the retirement of OEFC's obligations is to be wholly accomplished through the electricity ratepayer rather than the taxpayer base, the financial statements should distinguish the ongoing impact of the recovery plan from other government activities. Accordingly, this year's financial statements provide a separate disclosure of the $354 million loss and the opening and closing balances of stranded debt.

In last year's Annual Report, I indicated that the government intended to offset Ontario Hydro's stranded debt with a deferred charge on OEFC's statement of financial position in accordance with accounting standards for rate-regulated utilities. I further indicated at that time that the details of this accounting had not been finalized. In this year's audit, we found that the Ministry of Finance had not adequately supported recognition of the deferred charge as an asset. Accordingly, we found it necessary to conduct extensive accounting research. Based on a full assessment of the proposed accounting, an exhaustive review of Canadian and U.S. accounting standards, discussions with ministry staff and external advice, we concluded that the deferred charge could not be recorded as an asset.

The deferred charge approach would have excluded the stranded debt entirely from the measure of the government's net debt. It would have also excluded the electricity sector's annual operating income or loss from the measure of the government's annual surplus or deficit. Failing to recognize an existing liability, particularly one of the magnitude of OEFC's stranded debt, as well as the ongoing income or loss from a significant government sector because of the expectation that this debt would eventually be discharged by means of future dedicated revenue streams would have set an unacceptable precedent for government accounting. It would also have represented a departure from one of the central tenets of generally accepted accounting principles—that revenue not be recognized until it is earned.

Our research also indicated that certain provisions for loss deferral allowed only for rate-regulated utilities were not applicable to Ontario's situation. Work on resolving this complex issue was not finalized until late October. The final financial statements included the net assets/ liabilities and operating results of the four electricity entities owned by the province, and we concluded that this accounting resulted in a fair presentation of the province's financial position and operating results.

RISK TO ONTARIO TAXPAYERS

Another reason we believe it is important for the province's statement of financial position to reflect the stranded debt is to provide information about the risks to Ontario taxpayers under the electricity restructuring arrangements. For example, in the last year, the government advanced $5.4 billion to OEFC to enable it to refinance maturing debt from the former Ontario Hydro and to cover operating cash shortfalls. Total advances to OEFC, amounting to $9.6 billion as at March 31, 2000, illustrate OEFC's economic dependence on the province. OEFC's continued existence is also dependent on the success of the long-term plan to defease the stranded debt. We requested that the Ministry of Finance, in consultation with us, arrange for an independent review to be conducted of the assumptions underlying the long-term plan to defease the stranded debt of OEFC. The result of that review and the cash provided by the government to OEFC allowed us to conclude that OEFC was a "going concern" as at March 31, 2000. The plan's long-term cash flow projections indicate defeasance of the stranded debt by 2017 from dedicated revenues from the electricity sector.

The government is also party to several indemnity arrangements with respect to the restructuring. For example, the province continues to guarantee the legacy debt of Ontario Hydro. These guarantees totalled $21.7 billion as at March 31, 2000. The government has also guaranteed OEFC's indemnification of OPG and Hydro One in respect of any adverse claim to title of any asset, right or thing transferred to them. OEFC has also agreed to provide certain levels of working capital and total assets to OPG and Hydro One, respectively, and is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers. The government is currently negotiating a nuclear risk-sharing agreement with the OPG that could expose the province to financial liability if estimated costs for the disposal of used fuel increase beyond certain thresholds.

The long-term plan to defease the stranded debt is subject to uncertainties. Given these uncertainties, the debt guarantees and the indemnities, we believe there is a risk that the taxpayers may ultimately have to bear some of the financial responsibility for the outstanding debt.

NEW ACCOUNTING APPROACH REQUIRED FOR MULTI-YEAR FUNDING

Over the last few years, there has been a trend in Ontario to approve and treat as a current year's expenditure grants and other transfers that are provided to fund the activities of future periods. These types of transactions are particularly attractive to governments in years when revenues exceed expenditures and the amount of the surplus is greater than that expected and budgeted. By recording the expenditures of anticipated future-year activities in advance, a government increases the likelihood that it can meet fiscal targets for future years. Accordingly, we are concerned that such transfers can distort annual operating results for both current and future years.

1.00 Our view is that this practice distorts government financial reporting. It is essential that the annual operating statements of governments properly reflect the revenues and expenditures that relate to the fiscal period being measured. Otherwise, users of financial statements will not be able to objectively assess a government's fiscal performance for the year, its revenues earned vis-à-vis its expenditures on government programs or make useful comparisons of such information between past and future periods or between different jurisdictions.

In this fiscal year, this practice manifested itself in significant "unbudgeted" expenditures that were first announced publicly in the May 2000 Budget but applied to the fiscal period ending March 31, 2000. Expenditures of this nature make it difficult for users of the financial statements to assess the extent to which the government is achieving its budget targets. Ontario's new balanced budget legislation further emphasizes the importance and need to fairly measure and report annual financial results.

As one example of this type of transaction, the government announced in its May 2000 Budget that $1 billion in capital grant funding would be provided to accelerate capital projects recommended by the Health Services Restructuring Commission. The determination of the $1 billion in grants was based on plans submitted by each hospital prior to March 31, 2000 outlining their proposed major capital projects over the next four years. The government signed agreements with each hospital to fund 70% of the costs of planned capital projects. Because both the signed agreements and Cabinet approval for the transfer were in place prior to March 31, 2000, the government recorded the entire $1 billion as a liability and expenditure for the 1999/2000 fiscal year. The actual funds were advanced to the hospitals shortly after the Budget announcement in May 2000.

We noted that the Ontario Hospital Association stated that with the $1 billion in grants the government addressed a key concern of hospitals regarding the need to accelerate the cash flow of capital funding. However, the Ontario Hospital Association also expressed concerns that hospitals had to raise 30% of the cost of these capital projects and that this requirement could jeopardize their success.

Currently, professional standards for government financial accounting do not address multi-year funding issues of this nature in an unequivocal manner. For example, it is often difficult to distinguish between commitments related to future years that should only be disclosed in the notes to the financial statements and liabilities that should be recognized as expenditures and reflected as a charge to operations. It should also be noted that Public Sector Accounting Board (PSAB) standards have been developed over the past two decades, when government deficits rather than surpluses were the norm. Governments in deficit positions are rarely interested in accelerating the recognition of expenditures.

Accordingly, we sought external legal advice as to whether a legally binding, contractual liability existed as at March 31, 2000, based on the specific terms of the agreement and the circumstances surrounding the awarding of these hospital grants. Based on the advice we received, we concluded that it was probable that a legal liability did exist as at March 31, 2000. Given this, we reluctantly accepted the proposed accounting treatment for the $1 billion in hospital grants. Notwithstanding, we formally raised with the Ministry of Finance the form-over-substance issue of recording grants related to future year activities as in-year expenditures.

The preceding hospital grant situation is not an isolated instance of multi-year funding, as the following examples illustrate:

- In its May *2000 Ontario Budget*, the government publicly announced, and subsequently provided, $500 million to the Ontario Innovation Trust. This entire amount was recorded as an expenditure for the 1999/2000 fiscal year. The Trust was created by the government in 1998/99 as a vehicle for increasing the capability of Ontario universities, colleges, hospitals and other non-profit organizations to carry out scientific research and technology development. As discussed in greater detail in Chapter Two of my *Special Report on Accountability and Value for Money*, the government also provided and charged as an expenditure $250 million to the Trust in the year ended March 31, 1999. We consider all $750 million of this funding to be multi-year in nature, since according to the Trust's financial statements, as at March 31, 2000, only some $2.5 million in Trust funds had actually been disbursed to support research activities, and another $158 million had been earmarked for that purpose. As a result, the financial statements give the impression that the government spent $750 million on innovation expenditures by March 31, 2000, when actual disbursements and commitments amounted to only $160 million.
- Also in its May *2000 Ontario Budget*, the government announced and subsequently provided $286 million in multi-year capital support for post-secondary education expansion and renovation projects. Agreements were in place prior to March 31, 2000, and, as was the case with the hospitals, Cabinet authorization had been obtained by March 31 to support the upcoming transfer. Accordingly, the entire amount was recorded as an expenditure for the 1999/2000 fiscal year. The result of these transactions is that, rather than being spread over a period of years, multi-year funding is being charged as an expenditure in one fiscal period.
- The May *2000 Ontario Budget* also announced support of $268 million to four district school boards to release the province from further obligations under phase-in funding for the student-focused funding model. The amount covered commitments up to and including the 2002/03 fiscal period but was nevertheless recorded as an expenditure for the year ended March 31, 2000. Although the funds in this case were provided prior to year-end, this is a further example of multi-year funding being charged as an expenditure in one fiscal period.
- During the 1999/2000 fiscal year, the government provided $660 million in multi-year capital support for other post-secondary education expansion projects. This initiative had been announced in the government's May *1999 Ontario Budget*, and the funds were flowed to

the institutions and charged as expenditures during the 1999/2000 fiscal year. However, only a portion of these funds, if any, had been used by the education institutions by the end of the year. The remaining funds are to be used to finance capital projects in future periods.

I firmly believe the practice of charging multi-year funding to current year's operations must cease. At year-end, funding that relates to future years should be treated as advances, included on the government's statement of financial position as assets, and drawn down and charged as expenditures in the years in which the activities funded actually occur.

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Because accounting standards in this area are open to interpretation, I have to date accepted these types of expenditures. However, my Office has advised the government that significant items related to future years' operations—whether it be by way of transfers to trusts funded by the government, "unconditional" grants or certain "restructuring" charges—should in future be charged in the appropriate year. If such multi-year items are in future recorded as expenditures in one year, on a substance-over-form basis, I will have to reassess whether to then include a reservation in my Auditor's Report on the province's financial statements.

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS

Currently, Ontario ministries and government service organizations charge the full cost of capital assets to expenditures in the year of acquisition or construction. This differs from the practice followed in the private sector where capital assets are recorded on the statement of financial position as assets and amortized to operations over their estimated useful lives. In June 1997, PSAB approved a new set of recommendations setting out rules for the recognition, measurement, amortization and presentation of government capital assets. Among other things, the standard calls for a new statement of tangible capital assets to be included as part of the financial statements.

The Ministry of Finance has not as yet adopted the recommendations contained in this standard. It is actively considering the future implementation of these recommendations once a new government-wide financial information system (IFIS) is fully implemented. IFIS is a major information technology project presently under development to replace the government's current accounting system. The new system is expected to be implemented over the next couple of years.

In December 1999, the government re-established the Ontario Financial Review Commission (Commission) to review the financial management practices of the government and its major transfer partners. Among the items the Commission is examining are capital funding, capital financing and options for reporting the government's investment in tangible capital assets. At the request of the Minister of Finance under section 17 of the *Audit Act*, I am serving as special advisor to the Commission.

There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. However, we support PSAB's recommendations, as we believe that the resulting enhanced financial information would be valuable for both decision-makers and stakeholders. We continue to look forward to consultation on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that value for money is obtained, and that cost-effective business practices, systems and procedures are in place to manage, control and account for these assets.

NEW PSAB INITIATIVES

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants attempts to foster improved financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. Three of the most significant are the following:

- Currently, a PSAB project is underway which will result in a revision to PSAB pension accounting recommendations. In addition to addressing accounting for past service pension costs and jointly sponsored plans, this project will also deal with liabilities for retirement benefits other than pensions, such as medical, dental and life insurance benefits. As such, a new *PSA Handbook* section addressing all retirement benefits is anticipated. PSAB also proposes in this project that the effect of past service costs of pension plan amendments can be reduced by offsetting these against available unamortized realized gains of the pension plan.
- PSAB is currently examining the federal and provincial government reporting model, and is considering revising the current net debt model to better incorporate information on the full cost of providing government services. For example, the preliminary proposed model would change the method of arriving at the government's annual deficit or surplus by including the amortization of tangible capital assets over their useful lives rather than the immediate recognition of capital acquisitions as government expenditures.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. These areas include the need for an enhanced accounting research capability by the Ministry of Finance and more timely consultation by the Ministry with our Office on potentially contentious issues. While none of these matters affects the fairness of the financial statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. Additionally, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the Estimates of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

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Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act*, which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act*, *1999* pertaining to the fiscal year ended March 31, 2000, received Royal Assent on December 23, 1999.

Typically, prior to the passage of the Supply Act, the Legislature authorizes payments by means of motions for interim supply. For the 1999/2000 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 1998 to April 30, 1999—passed October 13, 1998
- November 1, 1999 to April 30, 2000—passed October 25, 1999.

Payments for the period April 1, 1999 to October 31, 1999 were authorized by Special Warrants. The nature of this authority is more fully explained below.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant Governor on the recommendation of the government.

Four Special Warrants were issued for the fiscal year ended March 31, 2000. The Special Warrants were approved by two Orders in Council, dated March 24, 1999 and June 16, 1999, totalling $15,458,091,400 and $19,011,511,600, respectively. Payments for both the general and necessary expenditures of the government, and for the general and necessary expenditures of the Offices of the Chief Election Officer, the Provincial Auditor, the Legislative Assembly and Ombudsman Ontario were authorized by these Special Warrants.

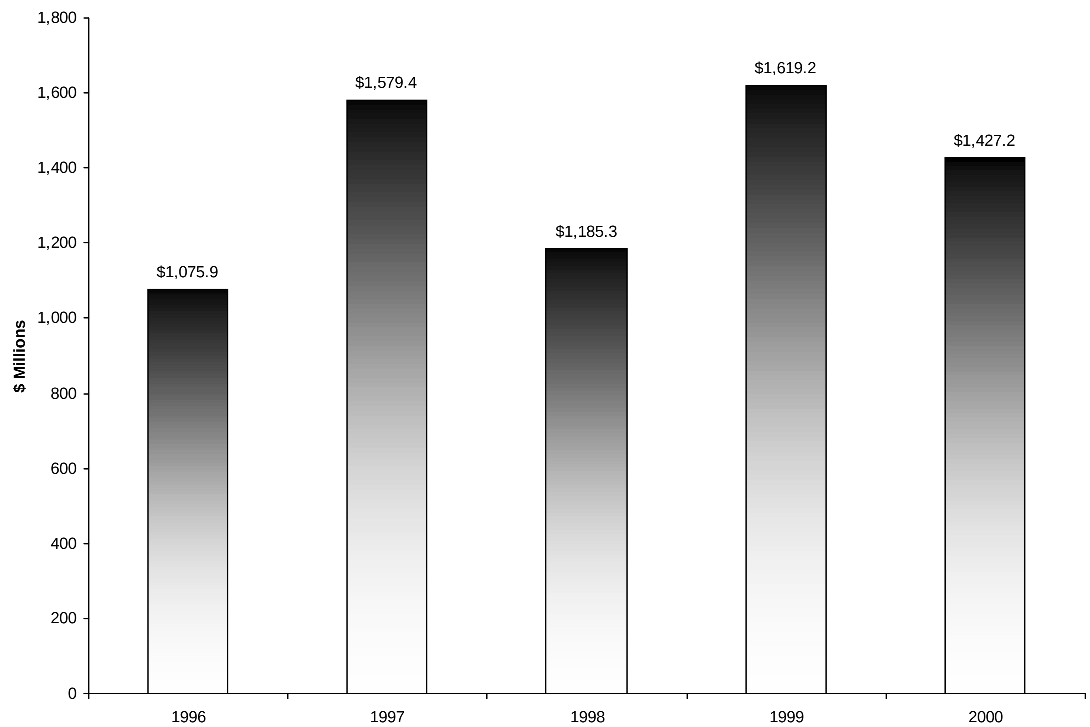
The amounts of the Special Warrants were based on anticipated cash requirements, on the premise that expenditures would continue up to the authorized limit, and then under authority of motions of interim supply. In accordance with a Standing Order of the Legislature, summaries of the Special Warrants were tabled on the first Sessional day following the issue of the Warrants.

The total expenditures approved by the *Supply Act, 1999* excluded the amounts authorized by the four Special Warrants.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 1999/2000 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 1999-February 2000	27	435,946,700
March 2000	21	565,951,000
April 2000	9	425,296,300
	57	1,427,194,000

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders have been printed in *The Ontario Gazette*, together with explanatory information. Also printed were Treasury Board Orders for the past two fiscal years, 1997/98 and 1998/99. A detailed listing of 1999/2000 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

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When the Board of Internal Economy authorizes the transfer of money from one Item of the Estimates of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

In respect of the 1999/2000 Estimates, the following transfers were made within Vote 201:

From:	Item 3	Legislative Services	$ 520,700
	Item 5	Administrative Services	285,700
To:	Item 4	Legislative Library and Information Systems	450,900
	Item 7	Caucus Support Services	37,800
	Item 11	Restructuring Costs	317,700

UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 1999/2000 fiscal year, receivables of $173.9 million due to the Crown from individuals and non-government organizations were written off (in 1998/99 the comparable amount was $193.7 million). Volume 2 of the *1999/2000 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accordingly, most of the $173.9 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order in Council approval.

The major portion of the write-offs related to the following:

- $58.4 million for uncollectable taxes relating to corporation tax receivables;
- $34.2 million for uncollectable taxes relating to retail sales tax receivables;
- $37 million for uncollectable loans made under the Student Support Programs; and
- $14.6 million for uncollectable accounts receivable relating to billings charged to individuals who resided in community and social services facilities.