
CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs and its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Provincial Auditor on and with the advice of the Executive Council (the Cabinet). The appointment is made “on the address of the Assembly,” meaning that the appointee must be approved by the Legislative Assembly. The *Audit Act* also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information on the Committee, see Chapter Seven).

The Provincial Auditor 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 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 *Audit Act*, the Office's expenditures relating to the 2003/04 fiscal year have been audited by a firm of chartered accountants, and the audited financial statements of the Office are presented at the end of this chapter. The audited statements are submitted annually to the Board and subsequently tabled in the Legislative Assembly.

AUDIT RESPONSIBILITIES

We audit the financial statements of the province and the accounts of many agencies of the Crown. However, most of our work relates to our audits of the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation. Our responsibilities are set out in the *Audit Act* (reproduced in Exhibit Four).

The Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Annual Report of the Provincial Auditor and of the Public Accounts of the province.

It should be noted that our audit activities include examining the actual administration and execution of the government's policy decisions as carried out by ministry or agency management. However, the Office does not comment on the merits of government policy, as the government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies through questions during legislative sessions and through reviews of legislation and expenditure estimates.

We are entitled to have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Out of respect for the principle of Cabinet privilege, the Office does not seek access to the deliberations of Cabinet. However, the Office can access virtually all other information contained in Cabinet submissions that we deem necessary to fulfill our auditing and reporting responsibilities under the *Audit Act*.

FINANCIAL STATEMENTS OF THE PROVINCE AND VALUE FOR MONEY

The Provincial Auditor, under subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's financial statements. As well, the Office carries out cyclical value-for-money audits of government programs and activities (see the "Attest Audits" and "Value-for-money Audits" sections later in this chapter for details on these two types of audits).

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Provincial Auditor, under subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit One, Part (I), lists the agencies that were audited during the 2003/04 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of a number of these agencies on the Office's behalf.

Exhibit One, Part (II) and Exhibit Two list the agencies of the Crown and Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2003/04 audit year. Subsection 9(2) of the *Audit Act* requires that public accounting firms that are appointed auditors of certain agencies of the Crown perform their audits under the direction of the Provincial Auditor and to report to the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Provincial Auditor a copy of the audited financial statements of the corporation and a copy of their report of their findings and recommendations to management (contained in a management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

During the period of audit activity covered by this Annual Report (October 2003 to September 2004), the Office was involved in the following assignment pursuant to section 16: On April 8, 2004, the Standing Committee on Public Accounts directed the Provincial Auditor to examine the government's Intensive Early Intervention Program for Children with Autism, including addressing three specific issues raised in the motion, and to report his findings and recommendations to the Committee.

The report on this work was submitted to the Committee in early November 2004.

Section 17 of the Act requires that the Provincial Auditor undertake special assignments requested by the Assembly, by the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Provincial Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Provincial Auditor, it conflicts with other duties.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value-for-money, attest, and compliance audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. In addition, inspection audits of selected grant-recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit types.

Value-for-money Audits

Subclauses 12(2)(f)(iv) and (v) of the *Audit Act* require that the Provincial Auditor report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value-for-money mandate is exercised through the auditing of various ministry and Crown-agency programs and activities each year. Value-for-money audits constitute about two-thirds of the work of the Office. The results of our value-for-money audits performed between October 2003 and September 2004 are reflected in Chapter Three.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of ministry and/or agency management. The Office is responsible for reporting instances noted where the ministry or agency has not carried out these functions satisfactorily. Our value-for-money work deals with the administration of programs and activities by management, including major information systems.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. They also require that we clearly explain the nature and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT

Major ministry and agency programs and activities are audited at approximately five- to six-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits and related follow-ups; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of

performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program, activity, or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness, and breadth of scope of their work can have a major impact on the timing, frequency, and extent of our audits. By having access to internal audit work plans, working papers, and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

OBJECTIVES AND ASSURANCE LEVELS

The objective of our value-for-money work is to meet the requirements of subclauses 12(2)(f)(iv) and (v) of the *Audit Act* by identifying and reporting significant value-for-money issues. We also include in our reports recommendations for improving controls, obtaining better value for money, and achieving legislated objectives. Management responses to our recommendations are reproduced in our reports.

The specific objective(s) for each audit or review conducted are clearly stated in the “Audit Objective(s) and Scope” section of each audit report—that is, each value-for-money section of Chapter Three.

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance is the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the limitations of testing as a means of gathering information from which to draw conclusions; the inherent limitations of control systems (for example, the possibility of management/staff circumventing the controls over a process or procedure); the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgment.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Audit Act*, or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, consisting primarily of: inquiries and discussions with management; analyses of information they provide; and only limited examination and testing of systems, procedures, and transactions.

CRITERIA

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A

conclusion is reached and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources, such as: recognized bodies of experts; applicable laws, regulations, and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed with the senior management responsible for the program or activity at the planning stage of the audit or review.

COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with senior management throughout the audit or review. Before beginning the work, our staff meet with management to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations, and these are discussed and incorporated into the final draft report. The Provincial Auditor finalizes the draft report, on which the Chapter Three section of the Annual Report will be based, with the deputy minister or agency head responsible in advance of the publication of the Annual Report.

Attest Audits

Attest (financial statement) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity as reflected in their financial statements have been fairly presented in compliance with appropriate accounting policies, which in most cases are Canadian generally accepted accounting principles. The Office conducts attest audits of the financial statements of the province and of numerous Crown agencies on an annual basis.

With respect to reporting on attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is

prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head.

Compliance Audits

Subsection 12(2) of the *Audit Act* also requires that the Provincial Auditor report observed instances where:

- 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 or to effectively check the assessment, collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs, activities or agencies being examined or that the management of those programs, activities, or agencies is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Inspection Audits of Grant-recipient Organizations

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. Inspection audits are defined in the *Audit Act* as an examination of accounting records. Although value-for-money observations may arise as a by-product of inspection audits, these audits are not value-for-money oriented because only accounting records can be examined in conducting the audit.

In the past, the Office has carried out inspection audits of major recipients of grants—specifically, community colleges, universities, hospitals, and school boards. However, in recent years, the Office has deferred major inspection-audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full-scope audits, including value-for-money audits, of grant-recipient organizations. This proposal is driven by the fact that grants to organizations such as hospitals, universities, community colleges, school boards, and thousands of smaller organizations amount to approximately 50% of total government expenditures. The main reason for pursuing amendments to the *Audit Act*

is that we believe we can more effectively serve the Legislature if we have the mandate to conduct value-for-money audits of organizations receiving government grants.

Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two, in the section entitled “Proposed Amendments to the *Audit Act*.”

As well as organizations, individuals may receive payments of government funds. Such payments are made under a variety of programs, such as the Ontario Health Insurance Plan and the Ontario Disability Support program. However, such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor. When auditing programs that provide payments to individuals, we focus on the relevant ministry’s procedures to ensure that only eligible recipients are paid the correct amount.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Provincial Auditor has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the authority that initiated the assignment.

CONFIDENTIALITY OF WORKING PAPERS

In the course of our reporting activities, we prepare draft audit reports and management letters that are considered to be an integral part of our audit working papers. It should be noted that these working papers, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees. As well, because our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, our reports and audit working papers, which include all information obtained from ministries and agencies during the course of an audit, may not be accessed from our Office, thus further ensuring confidentiality.

OFFICE ORGANIZATION AND PERSONNEL

The Office is organized into portfolio teams—a framework that attempts to align related audit entities and to foster expertise in the various areas of audit activity. The portfolios, which are loosely based on the government’s own ministry organization, are each headed by a Director who oversees and is responsible for the ministry and agency audits within the assigned portfolio. Assisting the Directors and rounding out the teams are a number of audit Managers and various other audit staff (see facing chart).

<p>Provincial Auditor</p>	<p>Administration</p>	<p>Communications</p>	<p>Human Resources</p>
<p>Jim McCarter (Acting)</p>	<p>John Sciarra, Executive Assistant Christine Wu, Administrative Assistant Nicole Dirickx, Bilingual Receptionist Sohani Hossain, Administrative Clerk</p>	<p>Andréa Vanasse, Communications Co-ordinator Tiina Randoja, Communications Officer Mariana Green, Desktop Publisher/ Internet Communications Assistant</p>	<p>Annemarie Wiebe, Manager Shanta Persaud, Financial Officer/ Payroll and Employee Benefits Elizabeth Derco, Accounts Payable/ Accounting Officer</p>
<p>Assistant Provincial Auditor</p>	<p>Information Technology</p>		
<p>Gary Peall (Acting)</p>	<p>Shams Ali, Systems Officer Peter Lee, Systems Officer</p>		
<p>Audit Portfolios and Staff</p>			
<p>Community and Social Services and Revenue</p>	<p>Crown Agencies and Transportation</p>	<p>Economic Development</p>	<p>Education, Culture, and Municipal Affairs</p>
<p>Walter Bordne, Director Laura Bell, Manager Denise Young, Manager</p>	<p>John McDowell, Director David Lee, Manager</p>	<p>Gerard Fitzmaurice, Director Vanna Gotsis, Manager Tony Tersigni, Manager</p>	<p>Nick Mishchenko, Director Michael Brennan, Manager Fraser Rogers, Manager</p>
<p>Paula Carvalho Mark Hancock Isabella Ho</p>	<p>Walter Allan Jasmine Chen Orianna Rago</p>	<p>Danail Danailov Maggie Dong Narasha Dossa Kandy Liang</p>	<p>Jason Colbert Wendy Cumbo John Tang Emanuel Tsikritsis</p>
<p>Health and Management Board Secretariat</p>	<p>Justice and Regulatory</p>	<p>Public Accounts, Finance, and Information Technology</p>	
<p>Susan Klein, Director (Acting) John Landerkin, Manager</p>	<p>Andrew Cheung, Director Rudolph Chiu, Manager Vince Mazzone, Manager</p>	<p>Paul Amodeo, Director Gus Chagani, Manager Rita Mok, Manager</p>	
<p>Tom Chatzidimos Naomi Herberg Lukasz Markowski Sheila Mistry</p>	<p>Izabela Beben Teresa Carello Sally Chang Kim Cho Howard Davy</p>	<p>Sandy Chan Suzanna Chan Marcia DeSouza Mark Smith Jane Li</p>	

As of September 30, 2004

The Provincial Auditor, the Assistant Provincial Auditor, the portfolio Directors, and the Manager of Human Resources make up the Office's Senior Management Committee (SMC).

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. The Code is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations. All employees are required to complete an annual conflict-of-interest declaration.

ACKNOWLEDGMENTS

The Office expresses its sincere appreciation to the staff at ministries, agencies, and other entities for their co-operation in providing Office staff with the information and explanations required during the performance of the Office's audit work.

The Acting Provincial Auditor and the Acting Assistant Provincial Auditor extend their sincere appreciation to the staff of the Office for their dedication and professionalism and for a job well done.

CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 32nd annual meeting of the Canadian Council of Legislative Auditors (CCOLA) was held in Fredericton, New Brunswick, from August 29 to 31, 2004. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Acting Provincial Auditor and the Acting Assistant Provincial Auditor attended this year's meeting.

INTERNATIONAL VISITORS

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with delegations from abroad to discuss the roles and responsibilities of the Office and to share our value-for-money and other audit experiences with them. During the audit year covered by this report, the Office received delegations of legislators/parliamentarians and auditors from China, Ethiopia, Japan, Kenya, and Vietnam.

FINANCIAL ACCOUNTABILITY

The following highlights and financial statements outline the Office's financial results for the 2003/04 fiscal year.

FINANCIAL HIGHLIGHTS

This year the Office, along with the offices of several other Officers of the Legislative Assembly, presented its financial results using the accrual basis of accounting in accordance with Canadian generally accepted accounting principles. The Office has also applied the accrual basis of accounting retroactively to enhance comparability of year-over-year results. It should be noted that our annual estimates were previously prepared and approved on a modified cash basis. On that basis, capital assets were expensed. With the adoption of accrual accounting, capital assets are, instead, recorded as assets and amortized over their estimated useful lives. The impact of this change is more fully described in note 3 to the audited financial statements, which appear at the end of this chapter.

In the 2003/04 fiscal year, we continued the historical trend of under-spending our approved budget—this year by over \$400,000. Over the last 10 years, the Office has returned approximately \$5.2 million in unspent appropriations, principally because the Office has faced continual challenges in hiring and retaining a sufficient pool of qualified staff in the competitive Toronto job market. This year, we were able to maintain our staffing levels closer to our 2004 approved complement of 90 staff. As a result, although our salary and wages expenses were under budget, we did spend about 8% more on salaries and wages this year than in the 2002/03 fiscal year. However, the proportion of staff this year with the desired level of qualifications and experience remained less than optimal.

Over the past year, the market value of qualified, experienced accountants and auditors has increased, partly because several high-profile corporate failures in recent years resulted in new accounting, auditing, and quality control standards. However, under the *Audit Act*, our salary levels must be comparable to the salary ranges of similar positions in the government, and these ranges are often uncompetitive with the salaries

that the private sector and the broader public sector can offer for professional accountants. Therefore, we expect that our staffing challenges will only intensify.

Overall, our expenses increased by about 10% over the 2002/03. In addition to the increase in salaries and wages over last year, we faced significant increases in benefit costs and expenses relating to statutory requirements, professional services, and travel and communications, as follows:

- Benefit costs increased 29% over the 2002/03 fiscal year due to: a full-year resumption of employer pension contributions in the 2003/04 fiscal year; the severance costs incurred on the retirement of former Provincial Auditor Erik Peters; and higher costs incurred for parental leaves.
- Mr. Peters' retirement also resulted in increased statutory expenses arising from the payout of accumulated unused vacation entitlements.
- Professional-service expenses increased 21% because an increased demand for experienced auditors and specialists in the marketplace led to greater-than-anticipated costs for acquiring contracted audit services.
- Travel and communication costs rose 21% primarily because the travel requirements of our value-for-money audits in the 2004 audit year were more extensive than those undertaken in 2003.

FINANCIAL STATEMENTS

Office of the
Provincial Auditor
of Ontario



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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Provincial Auditor for the year ended March 31, 2004 are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Audit Act* and with Canadian generally accepted accounting principles.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including an appropriate code of conduct and an organizational structure that effectively segregates duties. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded and financial information is reliable and accurate.

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

Handwritten signature of Jim McCarter in black ink.

Jim McCarter, CA
Acting Provincial Auditor
August 10, 2004

Handwritten signature of Gary R. Peall in black ink.

Gary R. Peall, CA
Acting Assistant Provincial Auditor
August 10, 2004



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AUDITORS' REPORT TO THE BOARD OF INTERNAL ECONOMY OF THE LEGISLATIVE ASSEMBLY OF ONTARIO

We have audited the statement of financial position of the Office of the Provincial Auditor as at March 31, 2004 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Office of the Provincial Auditor. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Provincial Auditor as at March 31, 2004 and the results of its operations and the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information is unaudited and not considered as part of the financial statements on which we have expressed our opinion.

Allen & Miles LLP

Chartered Accountants

Toronto, Canada
 August 9, 2004



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OFFICE OF THE PROVINCIAL AUDITOR

**Statement of Financial Position
As at March 31, 2004**

	2004 \$	2003 \$ Restated (Note 3)
Assets		
Current		
Cash	22,621	13,769
Due from Consolidated Revenue Fund	<u>500,126</u>	<u>275,996</u>
	522,747	289,765
Capital Assets (Note 4)	<u>288,700</u>	<u>362,035</u>
Total assets	<u><u>811,447</u></u>	<u><u>651,800</u></u>
Liabilities		
Accounts payables and accrued liabilities	522,747	289,765
Net assets		
Investment in capital assets	<u>288,700</u>	<u>362,035</u>
Total liabilities and net assets	<u><u>811,447</u></u>	<u><u>651,800</u></u>

Commitment (Note 6)

See accompanying notes to financial statements.

Approved by the Office of the Provincial Auditor:



Jim McCarter
Acting Provincial Auditor



Gary Peall
Acting Assistant Provincial Auditor

OFFICE OF THE PROVINCIAL AUDITOR

Statement of Operations and Changes in Net Assets
For the Year Ended March 31, 2004

	2004 Budget \$ (Note 8)	2004 Actual \$	2003 Actual \$ Restated (Note 3)
Revenue			
Consolidated Revenue Fund			
Voted appropriation	9,969,100	9,867,800	9,362,800
Less: returned to the Province	—	(406,492)	(684,372)
Net revenue	<u>9,969,100</u>	<u>9,461,308</u>	<u>8,678,428</u>
Expenses			
Salaries and wages	5,967,900	5,804,543	5,363,970
Employee benefits (Note 5)	1,494,300	1,138,786	880,179
Office rent	962,300	914,006	917,717
Professional and other services	711,500	793,965	653,921
Amortization of capital assets	207,300	221,236	214,250
Travel and communication	170,400	204,900	169,797
Training and development	154,000	116,262	135,289
Supplies and equipment	42,000	57,394	56,004
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: The <i>Audit Act</i>	209,400	233,551	209,490
Total expenses	<u>9,969,100</u>	<u>9,534,643</u>	<u>8,650,617</u>
Excess (deficiency) of revenue over expenses	<u>—</u>	(73,335)	27,811
Net assets, beginning of year		<u>362,035</u>	<u>334,224</u>
Net assets, end of year		<u>288,700</u>	<u>362,035</u>

See accompanying notes to financial statements.

OFFICE OF THE PROVINCIAL AUDITOR

Statement of Cash Flows
For the Year Ended March 31, 2004

	2004 \$	2003 \$ Restated (Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	(73,335)	27,811
Amortization of capital assets	<u>221,236</u>	<u>214,250</u>
	<u>147,901</u>	<u>242,061</u>
Changes in non-cash working capital		
Due from Consolidated Revenue Fund	(224,130)	(25,624)
Accounts payable and accrued liabilities	<u>232,982</u>	<u>51,855</u>
	<u>8,852</u>	<u>26,231</u>
Investing activities		
Purchase of capital assets	<u>(147,901)</u>	<u>(242,061)</u>
Net increase (decrease) in cash position	8,852	(26,231)
Cash position, beginning of year	<u>13,769</u>	<u>40,000</u>
Cash position, end of year	<u><u>22,621</u></u>	<u><u>13,769</u></u>

See accompanying notes to financial statements.

OFFICE OF THE PROVINCIAL AUDITOR
Notes to Financial Statements
March 31, 2004

1. NATURE OF OPERATIONS

The role and responsibilities of the Provincial Auditor, who is an Officer of the Assembly, are set out in the *Audit Act*. In accordance with the provisions of the *Audit Act* and various other statutes and authorities, the Provincial Auditor conducts independent audits of government programs and of the fairness of the financial statements of the Province and numerous agencies of the Crown.

The Provincial Auditor reports annually to the Legislature on significant matters arising from this audit activity as well as on specific items required by the *Audit Act*. In addition, the Provincial Auditor reports on special assignments as may be required by the Legislature, the Standing Committee on Public Accounts, or by a Minister of the Crown. In doing so, the Provincial Auditor assists the Legislature in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value-for-money in government operations.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Accrual Basis

These financial statements are accounted for on an accrual basis whereby expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

(b) Voted Appropriations

The Office is funded through annual voted appropriations from the Province of Ontario. Unspent appropriations are returned to the Province's Consolidated Revenue Fund each year. As the approved appropriation was prepared on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting due to the capitalization and amortization of capital assets.

(c) Capital Assets

Capital assets are recorded at historical cost less accumulated amortization. Amortization of capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years

The cost and accumulated amortization of fully amortized assets is removed from the accounts in the year after the asset has been fully amortized.

(d) Pension Expense

Pension costs included in these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

OFFICE OF THE PROVINCIAL AUDITOR

Notes to Financial Statements
March 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Net Assets

Net assets represent the accumulated cost of capital assets less accumulated amortization and disposals. They represent the value of assets that will be used to provide services in future years.

(f) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. CHANGE IN BASIS OF ACCOUNTING

Effective April 1, 2003, the Office adopted Canadian generally accepted accounting principles to prepare its financial statements. This requires accounting for revenues and expenses on the accrual basis and the capitalization of assets when acquired and the amortization of the assets to income over their estimated useful lives. Previously, the modified cash basis was used, whereby revenues and expenditures were accounted for on the cash basis which was modified to allow for an additional 30 days to pay for goods and services pertaining to the fiscal year just ended, and capital assets were expensed in the year of acquisition. This change in the basis of accounting has been adopted on a retroactive basis resulting in the following changes to the March 31, 2003 financial statements.

	2003	
	As Previously Stated (\$)	As Restated (\$)
Current assets	—	289,765
Capital assets	—	362,035
Current liabilities	—	289,765
Net assets	—	362,035
Net revenue	—	8,678,428
Expenses	8,678,428	8,650,617
Excess (deficiency) of revenue over expenses	(8,678,428)	27,811

OFFICE OF THE PROVINCIAL AUDITOR

Notes to Financial Statements
March 31, 2004

4. CAPITAL ASSETS

	2004			2003
	Cost (\$)	Accumulated Amortization (\$)	Net Book Value (\$)	Net Book Value Restated Note 3 (\$)
Computer hardware	592,107	390,511	201,596	269,857
Computer software	226,738	139,634	87,104	92,178
	<u>818,845</u>	<u>530,145</u>	<u>288,700</u>	<u>362,035</u>

The Office's other major capital assets, including furniture and fixtures and leasehold improvements, were acquired many years ago and consequently were fully amortized and written off prior to the 2002/03 fiscal year.

5. OBLIGATION FOR EMPLOYEE FUTURE BENEFITS

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

(a) **Pension Benefits**

The Office provides pension benefits for its full-time employees through participation in the Public Service Pension Fund (PSPF), which is a multi-employer defined benefit plan established by the Province of Ontario. This plan is accounted for as a defined contribution plan as the Office has insufficient information to apply defined benefit plan accounting. The pension expense represents the Office's contributions to the plan during the fiscal year. The Office's contributions related to the pension plan for the year were \$493,169 (2003 – \$376,676) and are included in employee benefits in the Statement of Operations and Changes in Net Assets.

(b) **Non-Pension Post-Employment Benefits**

The costs of any severance and unused vacation entitlements earned by employees are recognized when payments are required for eligible employees upon termination of their employment. These costs for the year amounted to \$76,857 (2003 – \$257) and are included in employee benefits in the Statement of Operations and Changes in Net Assets. The cost of other non-pension post-retirement benefits is funded by the Ontario Management Board Secretariat and accordingly is not included in these financial statements.

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**Notes to Financial Statements
March 31, 2004**

6. COMMITMENT

The Office has an operating lease to rent premises for an 11-year period, which commenced November 1, 2000. The minimum rental commitment for the next five years is as follows:

	\$
2004-05	477,000
2005-06	484,400
2006-07	494,700
2007-08	494,700
2008-09	494,700

7. PUBLIC SECTOR SALARY DISCLOSURE ACT, 1996

Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of \$100,000 in calendar year 2003.

Name	Position	Salary (\$)	Taxable Benefits (\$)
Peters, Erik	Provincial Auditor	290,087*	6,662
McCarter, Jim	Assistant Provincial Auditor	157,067	268
Amodeo, Paul	Director	112,542	206
Bordne, Walter	Director	112,784	207
Cheung, Andrew	Director	115,246	207
Fitzmaurice, Gerard	Director	112,784	207
McDowell, John	Director	111,923	207
Mishchenko, Nicholas	Director	115,246	207
Peall, Gary	Director	115,246	207

* Retired September 30, 2003 and includes certain retirement entitlements paid during the 2003 calendar year.

8. RECONCILIATION TO PUBLIC ACCOUNTS VOLUME 1 BASIS OF PRESENTATION

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

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Notes to Financial Statements
March 31, 2004

8. RECONCILIATION TO PUBLIC ACCOUNTS VOLUME 1 BASIS OF PRESENTATION (CONTINUED)

	2004 Budget* (\$)	2004 Actual (\$)	2003 Actual (\$)
Total expenses per Public Accounts Volume 1	9,867,800	9,461,308	8,678,428
Less: purchase of capital assets	(106,000)	(147,901)	(242,061)
Add: amortization of capital assets	207,300	221,236	214,250
Total expenses per audited financial statements	<u>9,969,100</u>	<u>9,534,643</u>	<u>8,650,617</u>

*The Office's budget was originally submitted and approved on the modified cash basis in the amount presented in Public Accounts Volume 1.