

The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario is committed to promoting accountability, economy, efficiency, and effectiveness in government and broader public-sector operations for the benefit of the citizens of Ontario. The Office provides objective information and advice to the Legislative Assembly of Ontario on the results of our independent value-for-money and financial audits and reviews. In so doing, the Office assists the Assembly in holding the government, its administrators, and grant recipients accountable for the quality of their stewardship of public funds and for the achievement of value for money in the delivery of services to the public.

New Auditor General Act

The legislation governing the work of the Office included in this Annual Report was the *Audit Act*, which was passed in 1977 and came into force on April 1, 1978. The *Audit Act* was amended with the passage on November 22, 2004 of Bill 18, the *Audit Statute Law Amendment Act*. In addition to the most significant amendment—the expansion of the Office’s value-for-money audit mandate to organizations in the broader public sector that receive government grants—the resulting legislation was renamed the *Auditor General Act*, with other cor-

responding name changes (for example, “Provincial Auditor” to “Auditor General” and “Assistant Provincial Auditor” to “Deputy Auditor General”).

Other amendments in Bill 18 included:

- assigning the Auditor General the authority to conduct value-for-money audits of Crown-controlled corporations and their subsidiaries;
- setting the Auditor’s term of appointment to a fixed non-renewable period of 10 years (changing the earlier term of serving up to age 65);
- requiring that the Auditor express his or her opinion on whether the consolidated financial statements of Ontario are presented fairly in accordance with appropriate generally accepted accounting principles;
- providing for the collection and use of personal information by the Auditor General.

The effective date of the expanded value-for-money audit mandate was April 1, 2005. Since this start date fell in the middle of our ongoing audit cycle and was not retroactive to cover grants provided before November 30, 2004, we will not be reporting on value-for-money work related to the expanded mandate until our *2006 Annual Report*.

Appointment of New Auditor General

The Auditor General is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Auditor General on 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 *Auditor General 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 7).

Erik Peters, the former Provincial Auditor, retired in September 2003. Jim McCarter, the Assistant Provincial Auditor at that time, became the Acting Provincial Auditor on Mr. Peters’ retirement. In fall 2004, the Office of the Legislative Assembly conducted a Canada-wide search for qualified candidates, and the candidates on a short list were interviewed by a selection panel. The panel was chaired by the Speaker of the Legislative Assembly and included the Chair of the Standing Committee on Public Accounts, a member from each of the other two political parties, the Director of Human Resources for the Office of the Legislative Assembly, and a retired former managing partner of a major public accounting firm. The recommendation of the selection committee was put forward, and on December 15, 2004, the appointment of Jim McCarter as Auditor General was approved by the Legislative Assembly.

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 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 *Auditor General Act*, the Office’s expenditures relating to the 2004/05 fiscal year have been audited by a firm of chartered accountants, and the audited financial statements of the Office and related discussion of results are submitted to the Board and are subsequently required to be tabled in the Legislative Assembly. The audited statements and related discussion of results are presented at the end of this chapter.

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 value-for-money audits of the administration of government programs. Commencing with our 2005/06 value-for-money audit year, that work will also include broader public-sector activities involving government grants and carried out under government policies and legislation. Our responsibilities are set out in the *Auditor General Act* (reproduced in Exhibit 4).

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 Auditor General should not be deferred until the

Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Office's Annual Report.

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 management. However, the Office does not comment on the merits of government policy, since 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 *Auditor General 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 or decisions that we deem necessary to fulfill our auditing and reporting responsibilities under the *Auditor General Act*.

ONTARIO'S CONSOLIDATED FINANCIAL STATEMENTS AND PROGRAMS/ ACTIVITIES FUNDED BY TAXPAYERS

The Auditor General, under subsection 9(1) of the *Auditor General 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 Auditor General to express an opinion on whether the province's consolidated financial statements are fairly presented. As well, the Office carries out cyclical value-for-money audits of programs and activities funded by taxpayers (see the "Value-for-money Audits"

and "Attest Audits" sections later in this chapter for details on these two types of audits).

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Auditor General, under subsection 9(2) of the *Auditor General Act* (Act), is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 1, Part 1 lists the agencies that were audited during the 2004/05 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 1, Part 2 and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2004/05 audit year. Subsection 9(2) of the Act requires that public accounting firms that are appointed 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. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Auditor General 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 *Auditor General Act* (Act), the Auditor General 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 2004 to September 2005), the Office was involved in the following assignment under section 16: on April 8, 2004, the Standing Committee on Public Accounts directed

the Auditor General 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, and the Committee held a public hearing on the subject on November 18, 2004.

Section 17 of the Act requires that the Auditor General 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 Auditor General's other duties. The Auditor General can decline an assignment referred by a minister if, in his or her opinion, 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. The following are brief descriptions of each of these audit types.

Value-for-money Audits

Subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the *Auditor General Act* require that the Auditor General 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. In other words, our value-for-money work assesses the administration of programs, activities, and systems by management, including major infor-

mation systems. This value-for-money mandate is exercised through the auditing of various ministry and Crown-agency programs, and starting in the 2005/06 audit year, the mandate will also include value-for-money audits of selected grant recipients' activities. We refer to the government bodies and publicly funded entities that we audit as our auditees. 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 2004 and September 2005 are reflected in Chapter 3.

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 the auditee's management. However, the Office is responsible for reporting instances where it has noted that the auditee has not carried out these functions satisfactorily.

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 adequate processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. 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 programs and activities administered by a ministry, an agency, a corporation, or a grant-recipient organization are audited at approximately five-to-seven-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; recent significant changes in program 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 auditee and its programs and activities.

We also consider the work completed or planned by the auditee's internal auditors. The relevance, timeliness, and breadth of scope of work done by internal audit can have an 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 12(2)(f)(v) of the *Auditor General 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 3.

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 it provides; 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 that 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, management/staff often have some ability to circumvent the controls over a process or procedure); the fact that much of the evidence available for concluding on our objectives is persuasive rather than conclusive in nature; and the need to exercise professional judgment in, for example, interpreting information.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Auditor General 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, obtained primarily through inquiries and discussions with management; analyses of information it provides; 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 are 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 extensively researching 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 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 audit or review. Before beginning the work, our staff meet with management to discuss the objective(s) 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 senior management. Management provides written responses to our recommendations, and these are discussed and incorporated into the final draft report. The Auditor General finalizes the draft report (on which the Chapter 3 section of the Annual Report will be based) with the deputy minister or head of the agency, corporation, or grant-recipient organization responsible, after which the report is published in 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 its 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 Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible. Our Office also provides 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 Treasury Board.

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 *Auditor General Act* also requires that the Auditor General 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, agencies, corporations, or grant-recipient organizations being examined or that the management 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.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Auditor General Act*, the Auditor General 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 Auditor General 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 *Auditor General 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 during the course of an audit from the auditee, cannot be accessed from our Office, thus further ensuring confidentiality.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. The Code is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code 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.

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 audits within the assigned portfolio. Assisting the Directors and rounding out the teams are a number of audit Managers and various other audit staff (see Figure 1).

The Auditor General, the Deputy Auditor General, the portfolio Directors, and the Manager of Human Resources make up the Office's Senior Management Committee.

Canadian Council of Legislative Auditors

This year, Ontario hosted the 33rd annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Niagara-on-the-Lake, Ontario, from August 21 to 23, 2005. This was only the second time that the conference was not held in the capital city of the hosting jurisdiction. This annual gathering has, for a number of years, been jointly held with the annual conference of the Canadian Council of Public Accounts Committees. It brings

Figure 1: Office Organization, September 30, 2005

Auditor General			
Jim McCarter			
Deputy Auditor General			
Gary Peall			
Administration			
John Sciarra, Executive Assistant	John Sciarra, Executive Assistant		
Christine Wu, Administrative Assistant	Christine Wu, Administrative Assistant		
Nicole Dirckx, Bilingual Receptionist	Nicole Dirckx, Bilingual Receptionist		
Sohani Myers, Administrative Clerk	Sohani Myers, Administrative Clerk		
Information Technology			
Peter Lee, Systems Specialist	Peter Lee, Systems Specialist		
Shams Ali, Systems Officer	Shams Ali, Systems Officer		
Communications			
Andréa Vanasse, Communications Co-ordinator	Andréa Vanasse, Communications Co-ordinator		
Tiina Randoja, Communications Officer	Tiina Randoja, Communications Officer		
Mariana Green, Desktop Publisher/Internet Communications Assistant	Mariana Green, Desktop Publisher/Internet Communications Assistant		
Professional Practices			
David Lee, Manager	David Lee, Manager		
Human Resources and Accounting			
Annemarie Wiebe, Manager	Annemarie Wiebe, Manager		
Shanta Persaud, Financial Officer/ Payroll and Employee Benefits	Shanta Persaud, Financial Officer/ Payroll and Employee Benefits		
Elizabeth Derco, Accounts Payable/ Accounting Officer	Elizabeth Derco, Accounts Payable/ Accounting Officer		
Economic Development and Government Services			
Gerard Fitzmaurice, Director	Gerard Fitzmaurice, Director		
Vanna Gotsis, Manager	Vanna Gotsis, Manager		
Rick MacNeil, Manager	Rick MacNeil, Manager		
Tony Tersigni, Manager	Tony Tersigni, Manager		
Mark Burnes	Myuran Palasandiran		
Maggie Dong	Catherine Porter		
Natasha Dossa	Mark Smith		
Kandy Fletcher	Ellen Tepelenas		
Roger Munroe			
Education, Culture, and Municipal Affairs			
Nick Mishchenko, Director	Nick Mishchenko, Director		
Michael Brennan, Manager	Michael Brennan, Manager		
Fraser Rogers, Manager	Fraser Rogers, Manager		
Ariane Chan	Ariane Chan		
Zahra Jaffer	Zahra Jaffer		
Emanuel Tsikritsis	Emanuel Tsikritsis		
Public Accounts, Finance, and Information Technology			
Paul Amodeo, Director	Paul Amodeo, Director		
Gus Chagani, Manager	Gus Chagani, Manager		
Rita Mok, Manager	Rita Mok, Manager		
Sandy Chan	Ashutosh Dutta		
Suzanna Chan	Gawah Mark		
Cherry Chau	Gigi Yip		
Marcia DeSouza			
Justice and Regulatory			
Andrew Cheung, Director	Andrew Cheung, Director		
Rudolph Chiu, Manager	Rudolph Chiu, Manager		
Vince Mazzone, Manager	Vince Mazzone, Manager		
Izabela Beben	Rachel Ho		
Teresa Carello	Malgorzata Luc		
Kim Cho	Pasha Sidhu		
Howard Davy	Vivian Sin		
Linda Fung	Celia Yeung		
Health			
Susan Klein, Director	Susan Klein, Director		
Laura Bell, Manager	Laura Bell, Manager		
Naomi Herberg, Manager	Naomi Herberg, Manager		
John Landerkin, Manager	John Landerkin, Manager		
Corinne Berinsein	Michael Radford		
Sally Chang	Ellen Schraa		
Tom Chatzidimos	Petronela Voinicu		
Lukasz Markowski	Oksana Wasyluk		
Sheila Mistry			
Community and Social Services and Revenue			
Walter Bordne, Director	Walter Bordne, Director		
Wendy Cumbo, Manager	Wendy Cumbo, Manager		
Denise Young, Manager	Denise Young, Manager		
Constantino De Sousa	Angela Schieda		
Mark Hancock	Aldora Sequeira		
Isabella Ho	Nick Stavropoulos		
Maria Molotkova	Dominic Wun		
Crown Agencies and Transportation			
John McDowell, Director	John McDowell, Director		
Walter Allan	Orianna Rago		
Christina Arnold	Mary Romano		
Jasmine Chen			
Grown Agencies and Transportation			

together legislative auditors and members of the Standing Committees on Public Accounts from the federal government and the provinces/territories and provides a useful forum for sharing ideas and exchanging information. This year's conference was an overwhelming success, with a record number of attendees from across Canada.

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 the Russian Federation and the Republic of Korea (commonly known as South Korea).

Financial Accountability

The following highlights and financial statements outline the Office's financial results for the 2004/05 fiscal year.

FINANCIAL HIGHLIGHTS

In the face of increased market demand and compensation for professional auditors in the private and broader public sectors, it was a challenge to maintain our value-for-money output and the quality of our work. Nevertheless, the hard work and dedication of our staff resulted in 14 value-for-money sections in this year's report—the same number as in last year's—as well as successful performance of attest audit responsibilities that, given

the adoption of accrual accounting for the first time by many government agencies and offices, required substantially more audit time.

Our overall expenses increased by less than 2% over last year and were almost 11% under budget. The combination of difficulties retaining and replacing experienced staff and the later-than-anticipated passage of the *Government Advertising Act, 2004* and the *Audit Statute Law Amendment Act, 2004* contributed to our spending about \$1.2 million less than planned. This continued the historical trend of under-spending our approved budget. Over the past 10 years, the Office has returned over \$5.4 million in unspent appropriations due almost entirely to challenges in hiring and retaining a sufficient pool of qualified professional staff in the extremely competitive Toronto job market. Even though our approved staff complement was increased to 95 from 90 for the 2004/05 fiscal year, we were unable to fill all positions or to begin to increase our staff numbers to meet our expanded value-for-money audit mandate. In fact, this year's average number of staff (87) remained about the same as in 2004. Consequently, our salary and benefit expenses were almost 14% under budget.

In recent years, the market value of qualified, experienced accountants and auditors has increased, partly because several high-profile corporate failures resulted in new accounting, auditing, and quality-control standards, which in turn created a greater demand for professional accountants and auditors. Our ability to successfully recruit staff in such a market is severely hampered by the requirement of the *Auditor General Act* that the salary ranges we can offer must be comparable to the salary ranges of similar positions in the government. They therefore remain uncompetitive with the salaries that the private sector and the broader public sector can offer for professional accountants. Having the flexibility to offer salaries that are competitive relative to those offered in the marketplace will be even more critical

if we are to successfully achieve the goals and expectations resulting from our newly expanded mandate.

Overall, our non-payroll expenses were essentially unchanged from the 2003/04 fiscal year, as increases in the costs of professional services, travel and communications, and supplies and equipment were largely offset by reductions in expenses relating to statutory requirements. Specifically:

- Professional services expenses increased over 10% because the costs of acquiring contracted audit services rose due to the increased demand and compensation for experienced auditors in the marketplace.
- Travel and communication costs rose 40%, primarily due to the more extensive travel requirements of our value-for-money audits in the 2005 audit year relative to those undertaken in 2004, as well as to the increased cost for enhancing secure remote access to our network for our staff.
- Statutory expenses were significantly lower because:
 - they did not include post-employment benefits paid to retiring Provincial Auditor Erik Peters; and
 - the Auditor General's salary became a statutory expense only upon the official appointment of the Auditor General on December 15, 2004.

Therefore, statutory expenses in 2005 include only three and a half months of the Auditor General's salary, together with some expert assistance costs associated with implementing our responsibilities under the new *Government Advertising Act, 2004*.

FINANCIAL STATEMENTS

Office of the
Auditor General
of Ontario



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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General of Ontario for the year ended March 31, 2005 are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian generally accepted accounting principles.

Management has maintained a system of internal controls including an organizational structure that effectively segregates duties and provides for appropriate delegation of authority. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded and financial information is reliable and available on a timely basis.

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.

Jim McCarter, CA
Auditor General

Gary R. Peall, CA
Deputy Auditor General

July 22, 2005



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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 Auditor General of Ontario as at March 31, 2005 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 Auditor General of Ontario. 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 Auditor General of Ontario as at March 31, 2005 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
July 22, 2005



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OFFICE OF THE AUDITOR GENERAL OF ONTARIO
**Statement of Financial Position
As at March 31, 2005**

	2005 \$	2004 \$
Assets		
Current		
Cash	225,864	22,621
Due from Consolidated Revenue Fund	<u>340,368</u>	<u>500,126</u>
	566,232	522,747
Capital Assets (Note 3)	<u>278,435</u>	<u>288,700</u>
Total assets	<u><u>844,667</u></u>	<u><u>811,447</u></u>
Liabilities		
Accounts payables and accrued liabilities	566,232	522,747
Net assets		
Investment in capital assets	<u>278,435</u>	<u>288,700</u>
Total liabilities and net assets	<u><u>844,667</u></u>	<u><u>811,447</u></u>

Commitment (Note 5)

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:



Jim McCarter
Auditor General



Gary Peall
Deputy Auditor General

OFFICE OF THE AUDITOR GENERAL OF ONTARIO

Statement of Operations and Changes in Net Assets
For the Year Ended March 31, 2005

	2005 Budget \$	2005 Actual \$	2004 Actual \$
Revenue			
Consolidated Revenue Fund			
Voted appropriation (Note 7)	10,916,800	10,914,000	9,867,800
Less: returned to the Province	—	(1,200,536)	(406,492)
Net revenue	<u>10,916,800</u>	<u>9,713,464</u>	<u>9,461,308</u>
Expenses			
Salaries and wages	6,723,800	5,986,968	5,804,543
Employee benefits (Note 4)	1,552,400	1,146,166	1,138,786
Office rent	1,020,000	891,105	914,006
Professional and other services	873,900	877,415	793,965
Amortization of capital assets	187,800	207,234	221,236
Travel and communication	188,400	289,964	204,900
Training and development	155,500	117,509	116,262
Supplies and equipment	48,000	100,016	57,394
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: <i>The Auditor General Act</i>	117,000	57,352	233,551
Total expenses	<u>10,916,800</u>	<u>9,723,729</u>	<u>9,534,643</u>
Deficiency of revenue over expenses	<u>—</u>	(10,265)	(73,335)
Net assets, beginning of year		<u>288,700</u>	<u>362,035</u>
Net assets, end of year		<u>278,435</u>	<u>288,700</u>

See accompanying notes to financial statements.

OFFICE OF THE AUDITOR GENERAL OF ONTARIO
**Statement of Cash Flows
For the Year Ended March 31, 2005**

	2005 \$	2004 \$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Deficiency of revenue over expenses	(10,265)	(73,335)
Amortization of capital assets	207,234	221,236
	<u>196,969</u>	<u>147,901</u>
Changes in non-cash working capital		
Due from Consolidated Revenue Fund	159,758	(224,130)
Accounts payable and accrued liabilities	43,485	232,982
	<u>203,243</u>	<u>8,852</u>
Investing activities		
Purchase of capital assets	(196,969)	(147,901)
Net increase in cash position	203,243	8,852
Cash position, beginning of year	<u>22,621</u>	<u>13,769</u>
Cash position, end of year	<u><u>225,864</u></u>	<u><u>22,621</u></u>

See accompanying notes to financial statements.

OFFICE OF THE AUDITOR GENERAL OF ONTARIO
Notes to Financial Statements
March 31, 2005

1. NATURE OF OPERATIONS

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

Additionally, under the *Government Advertising Act, 2004*, the Auditor General 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.

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 consist of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

OFFICE OF THE AUDITOR GENERAL OF ONTARIO
Notes to Financial Statements
March 31, 2005

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 carrying value of capital 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. CAPITAL ASSETS

	2005			2004
	Cost (\$)	Accumulated Amortization (\$)	Net Book Value (\$)	Net Book Value (\$)
Computer hardware	629,630	422,451	207,179	201,596
Computer software	223,812	152,556	71,256	87,104
	853,442	575,007	278,435	288,700

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 in prior years.

4. 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. The Office's participation in 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 \$472,729 (2004 - \$493,169) and are included in employee benefits in the Statement of Operations and Changes in Net Assets.

OFFICE OF THE AUDITOR GENERAL OF ONTARIO
Notes to Financial Statements
March 31, 2005

4. OBLIGATION FOR EMPLOYEE FUTURE BENEFITS (CONTINUED)
(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 \$22,147 (2004 – \$76,857) 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 was funded by the Ontario Management Board Secretariat and accordingly is not included in these financial statements.

5. 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:

	\$
2005-06	493,100
2006-07	517,300
2007-08	527,600
2008-09	527,600
2009-10	527,600

6. 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 2004.

Name	Position	Salary (\$)	Taxable Benefits (\$)
McCarter, Jim	Auditor General	172,424	293
Peall, Gary	Deputy Auditor General (Acting)	128,674	221
Amodeo, Paul	Director	113,221	195
Bordne, Walter	Director	112,838	195
Cheung, Andrew	Director	113,432	195
Fitzmaurice, Gerard	Director	112,838	195
McDowell, John	Director	112,717	195
Mishchenko, Nicholas	Director	112,432	195
Klein, Susan	Director (Acting)	101,523	173

OFFICE OF THE AUDITOR GENERAL OF ONTARIO
Notes to Financial Statements
March 31, 2005

7. RECONCILIATION TO PUBLIC ACCOUNTS VOLUME 1 BASIS OF PRESENTATION

The Office's Statement of Expenses and Assets by Program 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 computer hardware 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:

	2005 Budget*	2005 Actual	2004 Actual
	(\$)	(\$)	(\$)
Total expenses per Public Accounts Volume 1	10,914,000	9,713,464	9,461,308
Less: purchase of capital assets	(185,000)	(196,969)	(147,901)
Add: amortization of capital assets	187,800	207,234	221,236
Total expenses per audited financial statements	<u>10,916,800</u>	<u>9,723,729</u>	<u>9,534,643</u>

*The Office's budget was originally submitted and approved at \$11,101,800 (\$10,729,000 for operating expenses, and \$372,800 for capital expenses) which included an amount for amortization of capital assets of \$187,800. Actual expenditures are presented on the modified cash basis in Volume 1.
