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## CHAPTER SIX

# The Office of the Provincial Auditor

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### *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, 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.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit Six in this Report).

The Office thus fulfils its mission by conducting value for money, attest and compliance audits and by presenting this *Annual Report* to the Legislative Assembly. We also assist and advise the Standing Committee on Public Accounts in its review of the *Public Accounts* of the province and the *Annual Report* of the Provincial Auditor.

### *INDEPENDENCE*

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts on the recommendation of the Committee. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 1996/97 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

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## **AUDIT RESPONSIBILITIES**

### **PRIMARY RESPONSIBILITY**

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies.

Our audit responsibilities do not extend to government policy matters. The Office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

### **ACCOUNTS OF THE PROVINCE AND MINISTRIES**

The Provincial Auditor, per 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 summary financial statements and carries out cyclical value for money audits to report thereon in accordance with subsection 12(2) of the *Audit Act*. Exhibit One in this Report lists the value for money audits conducted in 1996/97.

### **AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS**

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, part (i), lists the agencies audited during the 1996/97 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit Two, part (ii), and Exhibit Three list the agencies of the Crown and Crown controlled corporations audited by public accounting firms during the 1996/97 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of agencies of the Crown to perform their audits under the direction of, 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 a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

### **ADDITIONAL AUDIT 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.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, 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

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take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

During the period of audit activity (October 1996 to September 1997) covered by this Report, the Provincial Auditor conducted assignments related to two resolutions of the Standing Committee on Public Accounts. The nature of the two assignments is explained more fully in Chapter Seven of this Report under "Requests for Special Audits."

## *AUDIT ACTIVITIES*

### **TYPES OF AUDITS**

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. 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 categories.

#### *VALUE FOR MONEY*

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy and efficiency, or where appropriate procedures were not taken to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of grant recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure the efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by ministry/agency management.

#### *COMPLIANCE*

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work as a component of our value for money and attest audits.

#### *ATTEST*

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the province and of various Crown agencies on an annual basis.

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## **INSPECTION AUDITS OF GRANT RECIPIENT ORGANIZATIONS**

Grants to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 50% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented, because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. 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, of grant recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Seven in the section entitled “Status of Committee Recommendation Respecting Amendments to the *Audit Act*.”

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Provincial Allowances and Benefits program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor.

## **SCHEDULING OF AUDIT ACTIVITIES**

### **MINISTRY AUDITS**

All major ministry programs are considered for audit over a five-year cycle. These cyclical audits are primarily value for money oriented and include major information systems related to these programs. They deal specifically with the administration of programs and activities by management.

Various factors are considered in rating the priority of an audit. The factors considered include: total expenditures, last time audited and results of previous cyclical audits, and work completed or planned by internal audit. Risk assessments are also carried out to determine whether a program should be audited. In assessing the various risk factors, including the impact of a program on the public, we attempt to determine the possible matters of significance which may result from auditing a program. The following are major factors considered in planning each audit:

- mandate under the *Audit Act*;
- clarity of management’s objectives and goals;
- quality of financial and management information, systems, procedures and controls;
- estimated costs, benefit and duration of an audit; and
- complexity/diversity of operations.

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having

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access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

### **AGENCY AUDITS**

Agencies of the Crown are audited annually (attest audits) as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

### **SPECIAL ASSIGNMENTS**

The Office may undertake special assignments at ministries and their agencies as requested by the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. These audits are scheduled as resources permit.

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## **REPORTING ACTIVITIES**

### **MINISTRY AUDITS**

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit is completed. The preliminary draft report is discussed with senior ministry officials and revised, as necessary, to reflect the results of the discussion. The resulting draft report with the ministry response included is then reviewed with the appropriate deputy minister. Following clearance of the preliminary draft report and the Ministry's response at the deputy minister level, a final draft report is prepared and issued to the deputy minister and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of the Management Board of Cabinet. These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

### **AGENCY AUDITS**

With respect to 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 which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter with management's response included is also reviewed with the agency's chief executive officer. 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 (chair). Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet.

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Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

## **SPECIAL ASSIGNMENTS**

Under sections 16 and 17 of the *Audit Act*, the Office 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 initiating authority of the assignment.

## **ANNUAL REPORT**

In each *Annual Report*, we identify areas where improvements can be made to the economy, efficiency and effectiveness of government operations. Our audit observations are accompanied by recommendations for improvement and, wherever possible, we attempt to provide quantitative indicators of the significance of the observations.

To ensure that our recommendations receive timely attention, we follow up on the progress of action taken by the ministry/agency to address our audit observations and recommendations and report on their status two years after the audit is reported. A detailed account of the current status of recommendations made in the *1995 Annual Report* is provided in Chapter Four of this Report.

## **OFFICE ORGANIZATION AND PERSONNEL**

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The portfolio directors, the Assistant Provincial Auditor and the Provincial Auditor make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1997 consisted of:

Erik Peters, FCA	-	Provincial Auditor
Ken Leishman, CA	-	Assistant Provincial Auditor
Jim McCarter, CA	-	Executive Director, Finance, Public Accounts, Management Board Secretariat and Professional Practices Portfolio
Walter Bordne, CA	-	Director, Community and Social Services and Revenue Portfolio
Andrew Cheung, CA	-	Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA	-	Director, Economic Development and Transportation Portfolio
John McDowell, CA	-	Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	-	Director, Health Portfolio
Gary Peall, CA	-	Director, Education and Training, and Municipal Affairs and Housing Portfolio

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Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

## **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. It 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.

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## **CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS**

The 25th annual meeting of the Conference of Legislative Auditors was held in Edmonton, Alberta from September 14 to 16, 1997. 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 Provincial Auditor and the Assistant Provincial Auditor attended this year's conference, which covered such topics as:

- strategic planning for audit offices;
- audit evidence for performance auditing;
- activities of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants;
- public sector accountability guiding principles; and
- a joint session with the Canadian Council of Public Accounts Committees on the subject of *Improving the Management and Control of Public Resources*.

## **ACKNOWLEDGMENTS**

### **EXTERNAL ADVISORY COMMITTEE**

The external Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile and provides advice relating to sensitive audit issues. The Committee meets at the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

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## AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies and other entities for their cooperation in providing his staff with all the information and explanations required during the performance of the Office's audit work.

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

## OFFICE EXPENDITURE

The following is the 1997 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor  
Statement of Expenditure  
For the Year Ended March 31, 1997**

	1997		1996	
	<u>Actual</u> (\$000s)	<u>Estimates</u> (\$000s)	<u>Actual</u> (\$000s)	<u>Estimates</u> (\$000s)
Salaries and wages	4,500	4,581	4,652	5,120
Employee benefits (note 2)	680	678	830	724
Transportation and communication	126	179	149	195
Services	1,375	1,381	1,318	1,407
Supplies and equipment	153	59	75	81
Transfer payment - CCAF – FCVI Inc.				
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
	6,884	6,928	7,074	7,577
The Audit Act	<u>138</u>	<u>138</u>	<u>137</u>	<u>188</u>
	<u>7,022</u>	<u>7,066</u>	<u>7,211</u>	<u>7,765</u>

*Notes:*

1. *Accounting Policy*

*The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.*

2. *Pension Plan*

*The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.*

The Ontario Public Service Employees' Union Pension Act, 1994 provides for a reduction of the employer's contributions to the PSPF for each of the three fiscal years ending 1995-97. For the current fiscal year, the impact of these reductions on the Office's pension expense was a reduction of \$402,400 (1996 - \$402,400).

The Office's contribution related to the PSPF for the year was \$162,892 (1996 - \$253,759) and is included in Employee benefits.

3. Public Sector Salary Disclosure Act, 1996  
In accordance with the requirements of subsection 3(5) of the Public Sector Salary Disclosure Act, 1996, the following individual was paid an annual salary in excess of \$100,000 in the 1996 calendar year.

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		<i>Salary Paid \$</i>	<i>Taxable Benefits \$</i>
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	<i>137,579</i>	<i>4,883</i>

### Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1997. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

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

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1997 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario  
July 2, 1997

ALLEN & MILES  
CHARTERED ACCOUNTANTS

