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## CHAPTER TWO

# 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.

### *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. 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 that 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 1999/2000 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.

### *AUDIT RESPONSIBILITIES*

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, and we audit 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* (Exhibit Five in this Report).

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

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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.

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, 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 summary financial statements and carries out cyclical value for money audits in accordance with subsection 12(2) of the *Audit Act*. Exhibit One in this Report lists the value for money audits that were conducted in 1999/2000 and reported on in this year's *Special Report on Accountability and Value for Money*.

## **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 Two, part (i), lists the agencies audited during the 1999/2000 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 1999/2000 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain 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 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 (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.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by 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 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.

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During the period of audit activity covered by this Annual Report and our *Special Report on Accountability and Value for Money* (October 1999 to September 2000), the Provincial Auditor was involved in the following special assignment:

- On December 17, 1998, the Standing Committee on Public Accounts requested that the Provincial Auditor report to the Committee by mid-June on the corrective action taken by the Ministry of Community and Social Services on the administration of the Andersen Agreement.

Due to the dissolution of the third session of the Thirty-sixth Parliament, there was no Public Accounts Committee in mid-June 1999; consequently, no report was made at that time. In addition, the necessary decision to extend the Andersen Agreement, originally due to be made by January 27, 1999, had not been made. However, as a result of a new motion carried by the current Standing Committee on Public Accounts at its meeting on November 18, 1999, an interim report was prepared and submitted to the Committee on December 3, 1999.

## AUDIT ACTIVITIES

### TYPES OF AUDITS

Value for money, compliance and attest 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 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 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 with respect to various ministry and Crown agency programs and activities each year. We summarized in Chapter Three of our *Special Report on Accountability and Value for Money* the conclusions, observations and recommendations arising from the value for money work we performed between October 1999 and September 2000.

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 ministry or agency management. The Office is responsible for reporting on whether or not ministry or agency management has carried out these functions satisfactorily. Our value for money work deals with the administration of programs by management, including major information systems.

We plan, perform and report 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 of Ontario. They also require that we clearly explain the nature

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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-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; 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 or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness and breadth of scope of the work done by internal auditors 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 subsection 12(2) of the *Audit Act* to identify and report significant value for money issues. We also include in our value for money reports recommendations for improving controls, obtaining better value for money and achieving legislated objectives. Management responses to each of these recommendations were reproduced this year in our *Special Report on Accountability and Value for Money*.

The specific objectives for the work are clearly stated in the Objective and Scope section of each report. Our work is designed to allow us to conclude on our stated objectives.

In almost all cases, our work is planned and performed to provide an audit level of assurance. Audit level 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 refers to 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 use of testing; the inherent limitations of control; 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 because it consists primarily of inquiries and discussions with management; analyses of information they provide; and only limited examination and testing of systems, procedures and transactions.

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## **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 and agreed to with 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 maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, our staff meet with them 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 and senior office staff meet with the deputy minister or agency head to discuss the final draft report and give them an opportunity to finalize the responses. As mentioned above, these responses are provided with the value for money reports.

## ***COMPLIANCE WITH LEGISLATION AND RELATED AUTHORITIES***

Subsection 12(2) of the *Audit Act* also requires the Office to 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 or agencies being examined or that the management of those programs 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.

Where the responsibility for monitoring for compliance with certain legislation has been assigned to an independent person or office, such as the Environmental Commissioner in the

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case of the Environmental Bill of Rights or the Human Rights Commission in the case of the Human Rights Code, we would assess the procedures and actions taken by them only when performing value for money work in the respective organization.

## **ATTEST**

Attest (financial) audits are designed to permit the expression of a professional 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 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, community colleges, school boards 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.

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Ontario Disability Support program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor. For these kinds of programs, our audits focus on the ministries' procedures to ensure that only eligible recipients are being paid the correct amount.

## **REPORTING ACTIVITIES**

### **VALUE FOR MONEY 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 or review is completed. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The resulting draft report with the ministry or agency response included is then reviewed with the appropriate deputy minister or agency head (chair). Following clearance of the preliminary draft report and

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the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head and, where deemed necessary, to the minister. These final draft audit reports form the basis of our reports to the Legislative Assembly.

## **AGENCY ATTEST 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 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. 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. 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. Matters of significance contained in the management letter may also be included in the Provincial Auditor's reports 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.

## **REPORTING**

Subsection 12(2) of the *Audit Act* specifies the reporting requirements for the Annual Report. This year, the Provincial Auditor issued two reports: the *Special Report on Accountability and Value for Money* and this *2000 Annual Report*.

### ***SPECIAL REPORT ON ACCOUNTABILITY AND VALUE FOR MONEY***

Chapter One provides an overview of the Provincial Auditor's findings for this year's value for money audit activities as well as summaries of the value for money audits and reviews that were conducted.

Chapter Two of the Special Report contains observations on the subject of improving public sector accountability.

Chapter Three contains the reports resulting from our value for money audits of ministries and agencies conducted during the year.

To ensure that our recommendations receive timely attention, we follow up on the progress of action taken by the ministry or agency to address our audit observations and recommendations

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and report on their status two years after they were reported. A detailed account of the current status of recommendations made in the *1998 Annual Report* is provided in Chapter Four.

## **ANNUAL REPORT**

Chapter One is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the Province. The reporting requirements under subsections 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Two, we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited financial statement for the year ended March 31, 2000.

Chapter Three provides information on the composition and activities of the Standing Committee on Public Accounts.

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## **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 Provincial Auditor, the Assistant Provincial Auditor and the portfolio directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 2000 consisted of:

Erik Peters, FCA	-	Provincial Auditor
Jim McCarter, CA	-	Assistant Provincial Auditor
Paul Amodeo, CA	-	Director, Public Accounts, Information Technology and Research 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 and Long-Term Care, and Municipal Affairs and Housing Portfolio
Gary Peall, CA	-	Director, Education, Training, Colleges and Universities, and Professional Practices Portfolio

Annemarie Wiebe, CHRP, 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.



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## **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.

## ***CANADIAN COUNCIL OF LEGISLATIVE AUDITORS***

The 28th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) was held in Halifax, Nova Scotia from September 17 to 19, 2000. 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 meeting, which covered such topics as:

- Accountabilities of Legislative Auditors
- The PSAB Reporting Model
- Activities of the CCAF-FCVI Inc.

The meeting also included a joint session with the Canadian Council of Public Accounts Committees on the subject of *Ethics in Government*.

## ***ACKNOWLEDGMENT***

### **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.

The Office wishes to express its appreciation to Mr. Ken Leishman, CA, Assistant Provincial Auditor, on his retirement from the Office on June 30, 2000. Mr. Leishman was employed with the Office for almost 30 years and served the last five years as Assistant Provincial Auditor. The contributions he made to the success of the Office and its programs of service to the Legislative Assembly and the public were substantial. Staff who had the privilege of working with him will miss his thoughtful and valuable advice.

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## OFFICE EXPENDITURE

The following is the 2000 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor  
Statement of Expenditure  
For the Year Ended March 31, 2000**

	2000		1999	
	Actual (\$000s)	Estimates (\$000s)	Actual (\$000s)	Estimates (\$000s)
Salaries and wages	4,364	4,983	4,361	4,838
Employee benefits (note 2)	880	976	876	947
Transportation and communication	183	168	149	148
Services	1,503	1,476	1,677	1,508
Supplies and equipment	222	80	133	67
Transfer payment - CCAF – FCVI Inc.	50	50	50	50
	7,202	7,733	7,246	7,558
The Audit Act (statutory)	155	155	154	155
	7,357	7,888	7,400	7,713

*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 Office's contribution related to the PSPF for the year was \$353,862 (1999 - \$361,401).*

**3. 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 1999. For the Office, this disclosure is as follows:*

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		<i>Salary Paid \$</i>	<i>Taxable Benefits \$</i>
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	<i>153,881</i>	<i>3,043</i>
<i>Leishman, Kenneth</i>	<i>Assistant Provincial Auditor</i>	<i>141,328</i>	<i>351</i>
<i>Bordne, Walter</i>	<i>Director</i>	<i>108,185</i>	<i>281</i>
<i>Cheung, Andrew</i>	<i>Director</i>	<i>105,719</i>	<i>281</i>
<i>Fitzmaurice, Gerard</i>	<i>Director</i>	<i>105,719</i>	<i>281</i>
<i>McDowell, John</i>	<i>Director</i>	<i>105,719</i>	<i>281</i>
<i>Mishchenko, Nicholas</i>	<i>Director</i>	<i>105,719</i>	<i>281</i>
<i>Peall, Gary</i>	<i>Director</i>	<i>105,719</i>	<i>281</i>

#### 4. Estimates

*The “Estimates” shown on the statement of expenditure have been taken from the approved expenditure estimates for the respective years.*

### **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, 2000. This statement is the responsibility of the management of the Office of the Provincial Auditor. 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 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, 2000 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario  
July 18, 2000

ALLEN & MILES  
CHARTERED ACCOUNTANTS