CHAPTER FIVE

Public Accounts of the Province

INTRODUCTION

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act.* The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Legislative Assembly not later than the tenth day of the first session held in the following calendar year. This year, the 2000/01 *Public Accounts of Ontario* were tabled on September 24, 2001.

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

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

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

The Province of Ontario also publishes an annual report together with the Public Accounts. The annual report presents summaries and analyses of the province’s financial condition and fiscal results, as well as condensed financial statements of the province. As such, the annual report enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

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

THE PROVINCE'S 2000/01 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the year ended March 31, 2001 is clear of any qualifications or reservations and reads as follows:

To the Legislative Assembly of the Province of Ontario

I have audited the statement of financial position of the Province of Ontario as at March 31, 2001 and the statements of revenue, expenditure and net debt and of cash flows for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. As required by Section 12 of the *Audit Act*, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

[signed]

Toronto, Ontario
July 31, 2001

Erik Peters, FCA
Provincial Auditor

BETTER ACCOUNTING AND ACCOUNTABILITY REQUIRED FOR MULTI-YEAR FUNDING

Accounting for Health-Care Expenditures

BACKGROUND

Health care is of prime concern to all Canadians. Given this, an essential element of government financial reporting is reliable and transparent information on the level of government health-care funding received and expended. Users of government financial statements should be able to rely on such statements to provide this information and to distinguish health-care revenues and expenditures that relate to current periods from those that relate to future periods.

Although health care in Canada is primarily a provincial responsibility, the federal government provides provinces with funding for a portion of their health-care expenditures by way of federal transfers. These transfers are recorded as provincial revenues and then, along with provincially raised funds, are expended by provincial governments on health care. Federal and provincial governments have often differed as to their respective contributions towards fulfilling this important responsibility. Debates over these differences have only increased the need for transparent and reliable financial information.

In my view, government financial reporting on its annual expenditures in the health-care sector is not as reliable and transparent as it could be. Over the last few years, the federal government has introduced a new approach to providing a significant portion of its health-care transfers to provinces. Provincial governments throughout Canada have been accounting for these transfers in significantly different ways, based on what they have agreed to do with the funds provided by the federal government, and none of these ways mirror how such transfers are accounted for by the federal government. The lack of comparability of the financial reporting by the various Canadian governments for annual health-care transfers received and expenditures can lead to public confusion in this regard. In Ontario, this situation is compounded by the fact that the approach taken to account for certain health-care funds received is quite different from that taken to account for multi-year health-care expenditures.

ONTARIO'S ACCOUNTING FOR SUPPLEMENTAL FEDERAL HEALTH-CARE TRANSFERS

The largest transfers from the federal government are the Canada Health and Social Transfer (CHST) payments. The CHST is a block fund that assists provinces in providing health-care, post-secondary education, and other social programs under the *Federal-Provincial Fiscal Arrangements Act*. On March 31, 1999, the federal government created a new Canada Health and Social Transfer (CHST) Supplement Trust For Health Care. Under the trust arrangement, the federal government irrevocably committed to, and later provided to a newly established trust, a $3.5-billion supplement to its existing CHST program. The $3.5 billion was to provide additional provincial and territorial health-care funding for a three-year period commencing in the 1999/2000 fiscal year and ending in the 2001/02 fiscal year.

Although the trust documents contained a schedule indicating amounts allocated to each province for each of these three years, under the terms of the trust provinces could, upon providing 30 days' notice, withdraw their full three-year funding at any time.

One year later, on March 31, 2000, the federal government created a second irrevocable trust, the Canada Health and Social Transfer Supplement Trust. The trust was structured in a similar manner to the first trust, except that it was intended to address post-secondary education as well as health-care needs. A total of $2.5 billion was irrevocably committed and later provided under this trust agreement, to cover a four-year period commencing in the 2000/01 fiscal year and ending in the 2003/04 fiscal year.

Both of the trusts were actually funded by the federal government subsequent to the fiscal years in which they were established. Once the trusts were funded, provinces began withdrawing their respective allocations. The federal government treated the first $3.5-billion transfer as an expenditure for its fiscal year ended March 31, 1999 and the second $2.5-billion trust as an expenditure for its fiscal year ended March 31, 2000.

Provincial jurisdictions have accounted for their allocations in a variety of ways, none of which have mirrored the federal accounting approach. Some have taken their full allocation for all the years into income as soon as the funds were available to them for withdrawal. Others, like Ontario, have taken the funds into income in a manner consistent with the periods set out in the federal schedules. Yet others have adopted different approaches to recognizing the income from these funds. This diversity of accounting treatment impairs the comparability of publicly provided financial information across Canada.

Although, as indicated above, the Ontario government is recognizing its CHST supplements as income over the suggested federal periods, it has, for cash management purposes, withdrawn all of its allocated funds from the two trust accounts. The currently unrecognized balances of the withdrawn funds are being accounted for as deferred revenues; that is, they have been set up on the province's statement of financial position, to be recognized as revenue in the future years to which they relate.

I support the province's approach to accounting for this CHST funding received. However, given the significance of the amounts involved and the diversity of accounting practices across jurisdictions, I asked the government to provide greater transparency by disclosing the details of this accounting in its notes to this year's financial statements. The government did so this year in Note 7.

NEED FOR GREATER CONSISTENCY AND TRANSPARENCY IN ONTARIO'S ACCOUNTING

While federal CHST multi-year transfers are recognized as health-care revenues across multiple years, I am concerned that the government does not use the same approach to account for provincial health-care expenditures that impact on more than one year. I have two specific concerns:

- As I commented on last year, $1 billion in grant funding was provided in May 2000 to Ontario hospitals to help finance proposed capital construction projects over the subsequent four years. The entire $1 billion was charged to expenditure for the fiscal year ending March 31, 2000.

- This year, an additional $140 million was provided to seven of the hospitals based on revisions to the originally submitted future plans. Again, the entire $140 million was provided subsequent to March 31, 2001 but charged to expenditure for the fiscal year ending March 31, 2001.

Therefore, these grants have not been accounted for in the same manner as the CHST revenues—that is, allocated to each of the accounting periods that the grants are meant to apply to.

As indicated in last year's Annual Report, I believe it is essential for the annual operating statements of governments to properly reflect revenues and expenditures in relation to the fiscal period being measured. When distortions are significant, users of financial statements cannot evaluate a government's fiscal performance for the year vis-à-vis its budget, assess its revenues earned vis-à-vis its expenditures on government programs, or make useful comparisons of such information between past and future periods or between different jurisdictions.

Currently, accounting standards for government financial reporting do not address multi-year funding issues of this nature in an unequivocal manner and allow some latitude. In addition, multi-year expenditures were not significant enough to affect the overall fair presentation of the province's financial statement for the 2000/01 fiscal year. Due to these facts, I have to date not included a reservation in my opinion on the province's financial statements. I am encouraged, as discussed further in the "New PSAB Initiatives" section of this chapter, by the Public Sector Accounting Board (PSAB)'s new project to review the current accounting standards relating to government transfers. As I indicated last year, I firmly believe that the practice of charging multi-year funding to the current year's operations must cease. At year-end, funding that relates to future years should be treated as advances, included on the government's statement of financial position as assets, and drawn down and charged as expenditures in the years in which the activities funded actually occur.

Contributing to the inconsistency and lack of transparency in Ontario's health-care accounting is the fact that the province's accounting records for all government expenditures continue to be maintained and publicly disclosed on two separate bases: the modified cash basis for legislative appropriation control and the modified accrual basis as prescribed by PSAB standards. As a prime example of the effect this has on Ontario's public financial records, the $1 billion in capital funding referred to above was treated differently in the province's financial statements than it was in the Expenditure Estimates and in Volume 1 of the Public Accounts, even though the financial statements and Volume 1 of the Public Accounts are tabled in the Legislature at the same time. In the financial statements, which are prepared on the modified accrual basis, the funding was treated as an expenditure for the 1999/2000 fiscal year. In the Expenditure Estimates and in Volume 1 of the Public Accounts, which are prepared on the modified cash basis, the funding was treated as an expenditure for the 2000/01 fiscal year.

Given what is occurring, as illustrated above, I am also concerned that public reporting on two different bases can only contribute to public confusion with respect to annual expenditures and financial results. I urge the adoption of the accrual accounting approach for all public financial reports of the government. This reporting should be in accordance with PSAB accounting standards.

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS

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

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

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

The Commission issued its report this year. With respect to tangible capital assets, the Commission concluded that providing more information about the government's inventory of assets owned, the condition of those assets, and its plans for capital renewal, replacement, and disposal is essential. It noted that better reporting would give the public and government a better picture of the resources used to provide public services and should help managers within government make better decisions about how to invest in and maintain tangible capital assets. Its recommendations included the development of the information needed to show the cost and depreciation of existing tangible capital assets and the adoption of the existing PSAB standards for reporting tangible capital assets as soon as possible.

There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. However, I support both PSAB's recommendations and those of the Commission, as I believe that summary financial statements reflecting the recommended enhanced financial information would be valuable for both government decision-makers and stakeholders. My Office continues to look forward to consultation on this matter, to the extent possible while safeguarding our independence, in order that we may help ensure that existence, ownership, auditability, and valuation issues regarding capital assets are resolved.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. While none of these matters affects the fairness of the financial statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

NEW PSAB INITIATIVES

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

- Currently, a PSAB project on accounting for employee future benefits is nearing completion. A revised PSA Handbook standard on retirement benefits has been issued that extends the standards on pensions to include post-employment health, dental, and life insurance benefits. The project also addresses issues related to past-service pension costs and joint defined benefit plans. The Board also approved a public Exposure Draft on the remaining employee future benefits: other post-employment benefits, compensated absences, and termination benefits. The province has adopted these recommendations in the preparation of the *Ontario Budget 2001* and plans to prepare the 2001/02 financial statements on the same basis.
- PSAB recently approved a Statement of Principles for Foreign Currency Translation. This statement proposes that the current practice of deferral and amortization of exchange gains and losses relating to foreign-currency denominated monetary items be retained to recognize and measure the effects of foreign-exchange rate changes. This practice is currently already followed by the province.
- PSAB recently approved a new project to develop amendments to its standards on government transfers to address application and interpretation issues raised by the government community. Issues related to multi-year funding arrangements, eligibility criteria, transaction authorization, and grants versus loans, as well as the distinction between commitments and obligations, will be examined.

OTHER MATTERS

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

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the

Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act*, which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 2000* pertaining to the fiscal year ended March 31, 2001, received Royal Assent on December 21, 2000.

Typically, prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 2000/01 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 1999 to April 30, 2000—passed October 25, 1999.
- May 1, 2000 to October 31, 2000—passed April 5, 2000.
- November 1, 2000 to April 30, 2001—passed September 27, 2000.

SPECIAL WARRANTS

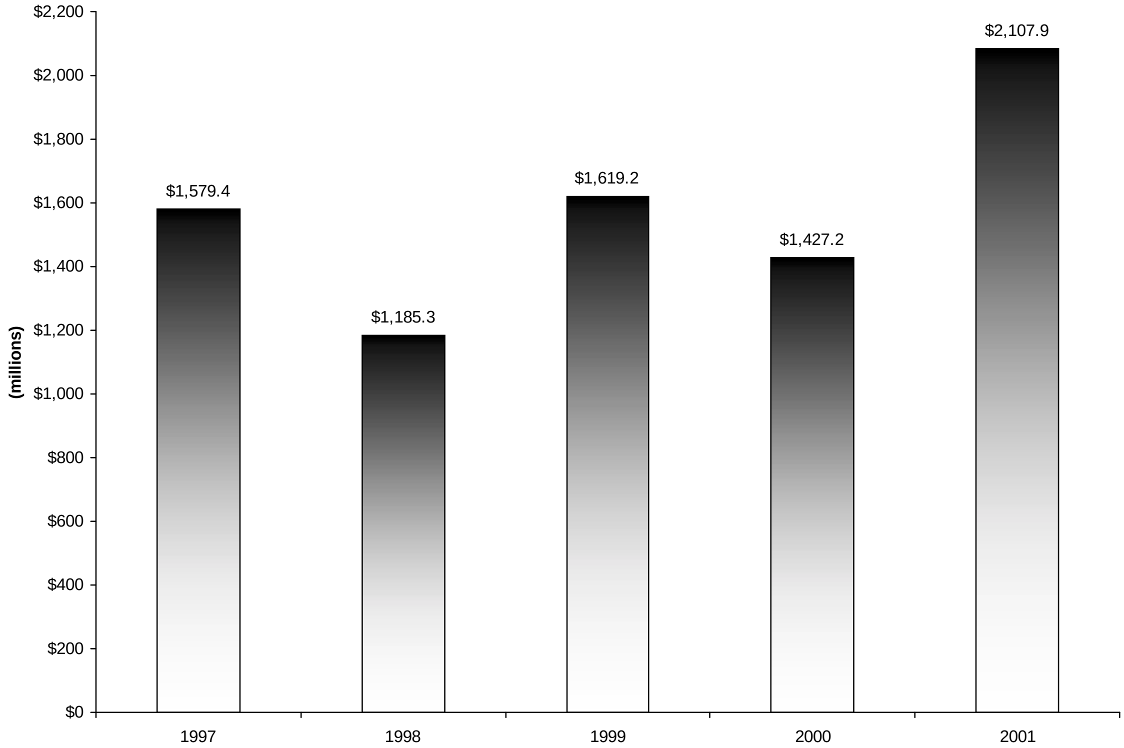
If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by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

As the three motions of interim supply covered the period from April 1, 2000 to March 31, 2001, no Special Warrants were required during the 2000/01 fiscal year.

TREASURY BOARD ORDERS

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

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



Treasury Board Orders for the 2000/01 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2000–February 2001	15	377,256,600
March 2001	12	784,267,900
April 2001	26	946,389,100
Total	**53**	**2,107,913,600**

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are to be printed in *The Ontario Gazette* in the fall of 2001, together with explanatory information. A detailed listing of 2000/01 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Three of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

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

In respect of the 2000/01 Estimates, the following transfers were made within Vote 201:

From:	Item 3	Legislative Services	$	556,100
	Item 6	Sergeant at Arms and Building Management		694,100
	Item 9	Members' Office Support Services		138,900
To:	Item 2	Office of the Clerk		95,000
	Item 5	Administrative Services		1,144,100
	Item 11	Restructuring Costs		150,000

Chapter Five

UNCOLLECTABLE ACCOUNTS

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

In the 2000/01 fiscal year, receivables of $152.9 million due to the Crown from individuals and non-government organizations were written off (in 1999/2000 the comparable amount was $173.9 million). Volume 2 of the *2000/01 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts-receivable balances. Accordingly, most of the $152.9 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order in Council approval.

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

- $40.4 million for uncollectable taxes relating to corporation tax receivables;
- $25.3 million for uncollectable taxes relating to retail sales tax receivables;
- $22.5 million for uncollectable assessments under the Family Benefits/Ontario Disability Support Program;
- $11.9 million for an uncollectable mortgage related to the sale of a property; and
- $11.8 million for uncollectable accounts receivable relating to billings charged to individuals who resided in community and social services facilities.