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. The Public Accounts are typically tabled in the early fall of each year.

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—that is, that they are free of significant errors or omissions. The financial statements, along with my Auditor's Report on them, are included in the province's annual report and provided in a separate volume of the Public Accounts.

In addition to the financial statements, the province's annual report presents summaries and analyses of the province's financial condition and fiscal results. As such, it enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The Public Accounts also 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 of accounting.
- 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 further details of public expenditures as well as the Ontario Public Service senior salary disclosure.

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

Legislative changes to the Act have been made with respect to the Public Accounts reporting process. Effective April 1, 2003, the Public Accounts will be redefined to consist of an Annual Report that combines the existing annual report and the financial statements. This combined report, except in extraordinary circumstances, is to be delivered to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. The Lieutenant Governor in Council must then either lay the Public Accounts before the Assembly, or, if the Assembly is not in session, make the Public Accounts public and lay them before the Assembly on or before the tenth day of the next session.

With regard to the three supplementary volumes, except in extraordinary circumstances, these must be submitted to the Lieutenant Governor in Council before the 240th day after the end of the fiscal year. The Lieutenant Governor in Council must then lay the information before the Assembly, or, if it is not in session, lay it before the Assembly on or before the tenth day of the next session.

THE PROVINCE'S 2001/02 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, 2002 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, 2002 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, 2002 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, after the restatements explained in Note 2 to the financial statements, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

[signed]

Toronto, Ontario	Erik Peters, FCA
September 10, 2002	Provincial Auditor

THE GOVERNMENT REPORTING ENTITY

One of the most critical aspects of reporting on a government's financial affairs is deciding which entities—including agencies, Crown-controlled corporations, boards, commissions, and other organizations receiving transfer payments—should be included in the government's financial statements. Inclusion essentially means that an entity's operating results and its assets and liabilities are consolidated with or otherwise incorporated into the government's financial statements and form part of the government's annual surplus or deficit and its net assets or liabilities.

Currently, the Ontario government prepares its financial statements in accordance with the accounting principles recommended for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. A key objective of PSAB's standards, particularly its reporting entity standard, is to assist governments in preparing financial statements that account for the full nature and extent of the financial affairs and resources for which it is responsible. The current reporting entity standard recommends that entities should be included in the government's financial statements if: (1) they are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature and (2) they are owned or controlled by the government.

In following PSAB's reporting entity standard, Ontario's financial statements specifically include, in addition to all government ministries, the activities of twenty-seven of its most significant organizations, such as Ontario Power Generation Inc., Hydro One Inc., the

Ontario Electricity Financial Corporation, the Ontario Lottery and Gaming Corporation, the Liquor Control Board of Ontario, GO Transit, and the Ontario Housing Corporation. Less significant government organizations are reflected in the financial statements through the accounts of the ministries responsible for them.

PSAB's current reporting entity standard is being differently interpreted and applied throughout Canadian jurisdictions, particularly among provincial governments. Key to these different interpretations is whether the reporting entity standard currently does include, or should be amended to include, a number of significant public-sector or quasi-public-sector institutions, most of which are primarily funded by provincial governments but operate outside of the government ministry and agency structure. Historically, the majority of these institutions have often been collectively referred to as forming the SUCH sector (for school boards, universities, colleges, and hospitals). Another area of debate is special-purpose agencies, such as trusts or foundations that have recently been created in some jurisdictions, typically to act as financial intermediaries. These agencies are often granted considerable sums of money by the government under a mandate to eventually pass on these funds via grants or transfers, often years later, to the actual intended recipients to support specific government programs.

In Ontario, SUCH-sector organizations are not included in the reporting entity because they are not considered to have met PSAB's inclusion criteria of accountability and ownership or control. Ontario also does not include in its reporting entity one major special-purpose agency, the Ontario Innovation Trust (the Trust). The Trust has received and is administering large sums of government money outside of the reporting entity. I have raised accounting and accountability concerns with respect to the Trust in this and in each of my last three reports.

With respect to Ontario's SUCH-sector institutions, many of these organizations are funded primarily, if not entirely, by the Ontario government and are economically dependent on it. Many are also subject to varying degrees of provincial control over their operations. These include many of Ontario's health-care organizations (for instance, hospitals, long-term-care facilities, community health centres, and community care access centres), its school boards, its colleges, and its universities. It should be noted that many of these institutions have considerable assets, liabilities (including long-term debt), revenues, and expenditures. If such agencies were included in the government's financial statements, it would have a significant impact on the province's reported financial position and its operating results.

This issue can perhaps best be presented through an example. In recent years, it has become increasingly clear that the government has significantly increased its control over the delivery of Ontario's elementary- and secondary-school programs. The provincial government, rather than local boards, now sets the local education tax rate. Such education taxes, raised from the local property tax base, are no longer provided directly to the local school boards for use in local schools. Rather, the Ontario government now redistributes such taxes throughout the province on a centrally determined basis. The government has further tightened controls over school-board operations by establishing legislation and policies in such key areas as allowable average class sizes, hours of instruction, province-wide curricula, and student testing. In response to projected illegal operating deficits, the government recently further increased its control by directly taking over three of the province's largest school boards. In effect, the Ministry of Education now centrally manages and controls the most significant aspects of the primary and secondary education system.

Despite these changes, school boards remain outside of the Ontario government's reporting entity. Local education taxes, which are effectively controlled by the Ontario government and amount to about $6 billion annually, are not included in Ontario's reported revenues. The actual education costs incurred by the boards in delivering education programs to Ontarians are also not included in the province's expenditures. Only transfer payments made directly by the province to school boards are reflected. School board capital debts, which are considerable, are not included as part of provincial debt even though the government has made a long-term commitment to fund these debt repayments. In addition, the school boards' capital assets and other assets and liabilities are not included in the province's financial statements.

To date, I have accepted the disclosure of grants to school boards as education expenditure as the fairest presentation in the financial statements of the province because the province has not yet adopted the PSAB accounting standards for recording tangible capital assets. Under current provincial accounting practices, if the financial statements of school boards were included, only the school boards' debt would be shown, not the value of the schools built with that debt. I would not consider that omission to result in a better financial presentation than the March 31, 2002 disclosure of grants to school boards as education expenditure. This situation is expected to change in the current fiscal year.

Effective with the financial statements for the year ending March 31, 2003, the province intends to adopt new PSAB accounting rules for tangible capital assets. One effect of this decision would be the ability to eventually fully consolidate the financial statements of school boards in the financial statements of the province—that is, when school boards' accounting practices for tangible capital assets allow this to be done. I urge that this financial consolidation be considered given the control exercised by the Ministry of Education over school boards. (PSAB's concept of "control" is discussed below.)

Although I have focused my discussion on school boards, similar reporting entity issues exist for other SUCH-sector institutions in the province. As a result of continuing concerns expressed throughout Canada about the existing reporting entity definition and problems with its interpretation and application, PSAB recently released a discussion paper entitled "Government Reporting Entity Discussion Paper". PSAB's current intention is that the principles outlined in this discussion paper will form the basis for a new reporting entity standard, expected in early 2003. The discussion paper focuses exclusively on control as the determining factor for inclusion. The previous accountability and ownership criteria would be subsumed under this control umbrella.

The discussion paper provides a proposed definition of control for governments and outlines indicators of control in considerable detail. It further proposes that the substance of the organization's relationship with the government be the key determinant for inclusion or exclusion from the reporting entity. The paper proposes three elements to the definition of control. First, regardless of whether control is being exercised or not, the power to control is the key to determining whether entities should be included. Second, for control to exist, the government must be able to direct the financial and operating policies of the organization. Third, the government must expect to benefit from the activities of the organization, or be exposed to loss.

I urge the Ontario government to treat the release of PSAB's discussion paper as an opportunity to make improvements in this important financial reporting area. It is particularly germane to re-examine this issue now as Ontario is moving (as discussed later in this chapter) to reflect its tangible capital assets in its financial statements. I recommend that the Ministry of Finance take immediate steps to initiate a review of its existing reporting entity. The review should encompass all the organizations in Ontario that are currently in the reporting entity as well as those currently outside of it. Special emphasis should be placed on assessing the legislative, regulatory, funding, and accountability relationships the government has in place with each SUCH-sector group or other organizations that receive major transfer payments, as well as any special-purpose agencies created by the Ontario government, such as the Ontario Innovation Trust. The results of the review should be updated as necessary to reflect the recommendations in PSAB's final, issued reporting standard.

MULTI-YEAR FUNDING

In last year's Annual Report, I reported concerns I had regarding the government's accounting and accountability for multi-year funding. I illustrated my concern by detailing a number of problems with the approach taken by the government in accounting for Ontario's health-care expenditures, particularly the practice of charging to one fiscal period transfer payments covering the activities of several years. As I indicated last year, it is essential that the annual operating statements of government properly reflect revenues and expenditures relating to the fiscal period being measured. When this practice is not followed and 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 jurisdictions.

This year I noted no further instances of multi-year funding being inappropriately charged to one fiscal period.

The Canadian Institute of Chartered Accountants has recognized that the current standards for accounting for government transfers allow for considerable latitude and has established a task force to study this issue: the related project is called Government Transfers.

ADOPTING CONSISTENT ACCOUNTING RULES FOR ALL FINANCIAL REPORTS

In my 2001 Annual Report, I stated that the fact that the province's accounting system continued to be maintained and publicly disclosed on two separate bases contributed to the lack of transparency, and I used as an example the inconsistency in Ontario's accounting for health-care expenditures. Specifically, I noted that $1 billion of capital funding for hospitals was reported in the province's financial statements as health-care expenditure for the year ended March 31, 2000, but in Volume 1 of the Public Accounts, the $1 billion was reported as a health-care expenditure for the year ended March 31, 2001. This year I note that corporation tax revenue is shown as $7.5 billion in Volume 1 of the Public Accounts, but it is shown as $6.6 billion in the province's financial statements for the year ended March 31, 2002.

The modified-cash basis of accounting is used for legislative appropriation control and Volume 1, and the modified accrual basis of accounting as prescribed by PSAB is used for purposes of the province's financial statements. I urged the adoption of the accrual accounting approach for all of the government's public financial reports.

This year the government introduced legislation, *Keeping the Promise for Growth and Prosperity Act (2002 Budget), 2002*, to convert Ontario's legislative spending authority and appropriation control to the accrual basis of accounting. Effective April 1, 2003, the government intends to use the accrual basis of accounting in the preparation of all government spending estimates and for the reporting of actual fiscal results against these estimates in Volumes 1 and 3 of the Public Accounts. This step will significantly enhance the public accountability of the government.

FEDERAL TAX ERROR

The Canada Customs and Revenue Agency (CCRA) collects federal and provincial personal income taxes on behalf of all provinces except Quebec. On January 29, 2002, CCRA advised the provinces that it had made an error in processing personal income taxes going back to 1972, which had resulted in significant overpayments to several of the provinces. The error related to capital gains refunds that had been credited by CCRA to mutual fund trusts. A portion of the refunds credited should have been deducted from the personal income tax amounts remitted to certain of the provinces over the years but this was never done.

Although the error had likely been occurring since 1972, supporting data was only available back to 1993. The extent of the federal error relating to the 1993–99 period was estimated to be approximately $3.3 billion, $2.8 billion of which applied to Ontario. In early 2002, CCRA was in the process of finalizing the actual amount of the error and, as part of this work, had asked the Auditor General of Canada to undertake audit procedures to verify the amount of the error once it had been fully determined.

To provide additional assurances to the provinces regarding the work of the federal Auditor General's office, a working group consisting of senior representatives from five provincial legislative audit offices—Ontario, Manitoba, British Columbia, Alberta, and Quebec—was established to review the planned work of the Auditor General, provide input on any issues arising during that work, and assess the impact on the provinces of the work done. My staff liaised with staff in Ontario's Ministry of Finance throughout the course of our work on this issue.

Several meetings between the federal Auditor General's office and representatives from the provincial audit offices were held in March, April, and May 2002. The Auditor General's office was very receptive to suggestions and carried out certain additional audit work at the request of the provinces.

On May 31, 2002, the Auditor General of Canada issued four reports, two of which related to the errors for 1993–99:

- An Auditor's Report wherein the Auditor General concluded that CCRA's Statement of Assessed Mutual Fund Trust Provincial Capital Gains Refunds (the Statement) for the 1997–99 tax years was presented fairly. This Statement showed the amount of the error affecting Ontario for those years as being $2.074 billion.
- An Accountant's Report relating to a similar Statement for the earlier 1993–96 tax years, which showed the amount of the error affecting Ontario for those years as being $738 million.

  An Accountant's Report does not constitute an audit, and while it outlines the specific procedures performed by the Auditor General, it does not provide the same high level of assurance as that provided in the aforementioned Auditor's Report.

On September 4, 2002, the federal Deputy Prime Minister and Minister of Finance announced that the Government of Canada would recover $1.4 billion of the total amounts overpaid to the provinces for the years 1997–99, of which $1.330 billion related to Ontario. The Minister indicated that the recovery would be restricted to a portion of the total amount attributed to 1997–99, the period for which the Auditor General of Canada provided a high level of assurance. The federal government intends to recover the $1.330 billion over ten years, starting in the 2004/05 fiscal year, with no interest penalties.

Accordingly, the province has made provisional adjustments in its 2001/02 financial statements to reflect the amount the federal government intends to recover for 1997–99. However, it is important to note that Ontario disagrees with the position taken by the Canadian government on its recovery. The province believes that the responsibility for the error lies with the federal government. As indicated in the province's Annual Report, Ontario believes the conservative manner in which they have accounted for this error does not preclude them from in future taking action, including legal action, against the CCRA and/or the Canadian government.

As well, based on prior years' actual federal payments, Ontario's Ministry of Finance developed an estimate of what would be received from the federal government for the 2000 and 2001 tax years relating to trust income tax and recorded the amount relating to the period April 1, 2000 to March 31, 2001 as a receivable and revenue in its 2000/01 financial statements. However, when the federal error relating to mutual fund trusts became known, the Ministry provisionally recognized that $713 million of this receivable would not be collectible and accordingly restated the 2000/01 amounts in its 2001/02 financial statements.

The total impact of the federal tax error was retroactively recorded in the province's 2001/02 financial statements with the 2000/01 balances being restated as outlined in the following table.

Impact of Federal Error on Ontario's 2000/01 Financial Statements

	($ million)
Provisional liabilities increase (for 1997–99)	1,330
Provisional accounts receivable decrease (for 2000–01)	713*
Increase in net debt as at March 31, 2001	2,043

* This resulted in a $713-million reduction in the previously reported 2000/01 surplus.

STRANDED DEBT OF THE ELECTRICITY SECTOR

In my 2000 Annual Report, I addressed concerns relating to the recent restructuring of Ontario's electricity sector, particularly its financial impact on the government of Ontario. The most significant of these impacts was the identification and recognition on April 1, 1999 of $19.4 billion of stranded debt to be recovered from ratepayers. This stranded debt arose because of a revaluation of Ontario Hydro's assets to reflect their value in the new competitive environment. These values were significantly lower than the amounts that had previously been recorded in Ontario Hydro's accounts.

As I indicated in 2000, the government established a long-term plan to retire the stranded debt through dedicated revenue streams derived from the electricity sector. Since this debt is to be recovered from electricity ratepayers rather than taxpayers, it is separated from other government liabilities on the province's statement of financial position, and the net annual results under the recovery plan are disclosed separately from the results of other government operations on the province's statement of revenue, expenditure, and net debt.

There are risks for Ontario's taxpayers under the electricity restructuring arrangements. For instance, the recovery plan for the stranded debt is subject to considerable uncertainty because much of the revenue from which the stranded debt will be defeased is dependent on the future energy sales and profits of Ontario Hydro's successor companies. These sales and profits are difficult to predict because Ontario Hydro's successor entities have just begun operating in a sector that the government opened to competition in May 2002.

In my view, as of March 31, 2002, there is an increasing risk that part or all of the stranded debt will not be recoverable from the ratepayers and will therefore become a liability of the taxpayers. My view is based on the following observations:

- The government's current plan indicates that the stranded debt should be defeased by the year 2012, but the projected defeasance date has been subject to revision. Whereas initially the government indicated that the stranded debt would be defeased as early as 2010, the earliest projected defeasance date has now been delayed by two years.
- The stranded debt has actually risen over the last three years, from $19.4 billion at April 1, 1999 to $20.1 billion at March 31, 2002. A portion of this increase ($226 million) resulted from a change in accounting rules that required a retroactive restatement of Ontario Power Generation Inc.'s results.
- The financial performance of Hydro's successor companies for the fiscal year ended March 31, 2002 was well below expectations. The government expected its two wholly owned Hydro successor companies—Ontario Power Generation Inc. and Hydro One Inc.—to earn $524 million during that fiscal year; instead, the two corporations jointly earned only $179 million, a shortfall of $345 million.
- The $179-million earnings in the 2001/02 fiscal year were insufficient to offset the government's $520-million annual interest charge on debt issued for its $8.9-billion investment in these two companies. It should be noted that, under the recovery plan, only amounts earned by the two successor companies above the $520 million are set aside for stranded debt recovery. Accordingly, none of the $179 million in earnings is available to reduce the stranded debt, and as a result $341 million was absorbed by Ontario's taxpayers.

Frequent and thorough reviews of the stranded debt recovery plan are required to ensure its continued viability. Since the government is responsible for the stranded debt, if its plan to recover the stranded debt through ratepayers fails, the taxpayer will ultimately be responsible for that debt. If the plan can no longer be supported, the government should recognize this debt on its financial statements as recoverable from the taxpayers.

I also urge the government to include in all considerations of privatizations in the electricity sector a careful evaluation of the impacts of each privatization on the ratepayers' ability to defease the stranded debt. For example, any net proceeds from privatization need to be assessed against the estimated future cash flow that will no longer be available to pay off the stranded debt.

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS

Currently, Ontario ministries and government service organizations charge the full cost of capital assets to expenditures 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 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.

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, and in conformity with Section 17 of the *Audit Act*, I served as special advisor to the Commission.

The Commission issued its report last 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.

In May 2002, PSAB issued an exposure draft entitled "Reporting Model—Senior Governments", which proposed changes to the June 1997 standards on tangible capital assets. Among other things, the proposed model would require governments, in their statements of financial position, to report on both net debt and the accumulated surplus or deficit based on an expense basis of accounting. Under the expense basis of accounting, the statement of operations would include an annual charge amortizing the cost of tangible capital assets over their useful lives to arrive at a government's reported surplus or deficit for the year rather than recording the full cost of assets acquired during the year as an expenditure.

The government announced in its *2002 Budget* its intention to adopt PSAB's proposed recommendations relating to tangible capital assets beginning in fiscal 2002/03. Under a phased-in approach, the government will first value and record its investments in land, buildings, and the transportation infrastructure; and the remaining tangible capital assets owned by the province will be identified, valued, and incorporated into the statements in subsequent years. I concur with this phased-in approach, given that land, buildings, and the transportation infrastructure are estimated by the government to account for over 90% of its tangible capital assets.

There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. I support both PSAB's recommendations and those of the Commission: since 1994, I have stated my belief that summary financial statements reflecting the recommended enhanced financial information will be valuable for both government decision-makers and stakeholders. I am pleased with the steps being taken this year by the government in this area, and look forward to further consultations, to the extent possible while safeguarding my independence, in order that we may help ensure that existence, ownership, auditability, and valuation issues regarding capital assets are appropriately 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 are covered, along with accompanying recommendations for improvement, in an annual 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. The "Government Reporting Entity Discussion Paper", the exposure draft entitled "Reporting Model—Senior Governments", and the activities of the task force for the Government Transfers project have already been discussed in preceding sections of this chapter. In addition to these, some of the most significant issues PSAB is dealing with at the present time, from Ontario's perspective, are the following:

- PSAB recently approved a Statement of Principles for "Foreign Currency Translation". This statement proposes that the current practice of deferral and amortization of gains and losses relating to foreign currency and assets and liabilities held in foreign currency be retained to recognize and measure the effects of changes in foreign exchange rates. This practice is currently already followed by the province.
- PSAB recently approved a Statement of Principles for "Financial Statement Discussion and Analysis (FSD&A)". The statement proposes principles and guidance for the presentation of FSD&A as required supplementary information in a government's financial report. This supplementary information would include narrative explanations

and graphical illustrations of key events during the reporting period and explanations and illustrations of variances and trends.

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, 2001* pertaining to the fiscal year ended March 31, 2002, received Royal Assent on December 12, 2001.

Typically, prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 2001/02 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, 2000 to April 30, 2001—passed September 27, 2000.
- May 1, 2001 to October 31, 2001—passed April 23, 2001.
- November 1, 2001 to April 30, 2002—passed October 22, 2001.

SPECIAL WARRANTS

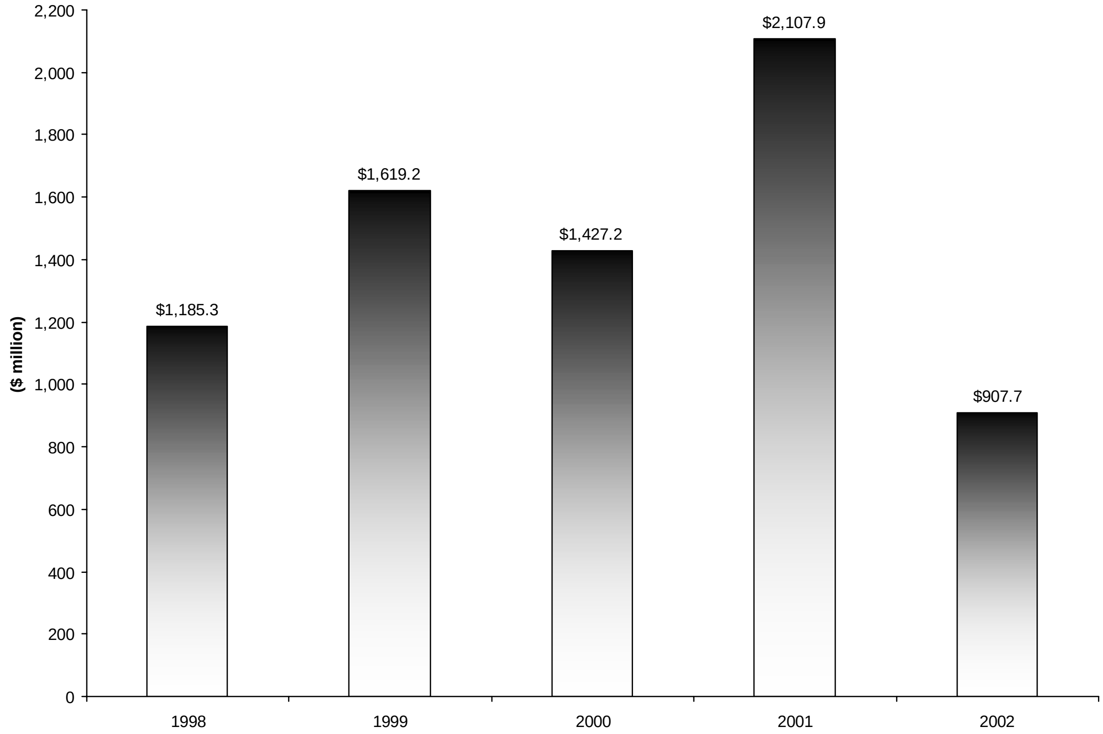
If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by 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, 2001 to March 31, 2002, no Special Warrants were required during the 2001/02 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:



Chapter Five

Treasury Board Orders for the 2001/02 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2001–February 2002	24	231,023,300
March 2002	22	675,194,600
April 2002	1	1,450,000
Total	**47**	**907,667,900**

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 2002, together with explanatory information. A detailed listing of 2001/02 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.

With respect to the 2001/02 Estimates, the following transfers were made within Vote 201:

From:	Item 5	Administrative Services	$ 178,200
	Item 6	Sergeant at Arms and Precinct Properties	34,500
	Item 8	Caucus Support Services	1,700
To:	Item 1	Office of the Speaker	700
	Item 2	Office of the Clerk	174,100
	Item 3	Legislative Services	28,400
	Item 4	Legislative Library	5,900
	Item 7	Legislative Information Systems	3,600
	Item 13	Restructuring Costs	1,700

In addition, within Vote 202, $60,700 was transferred from Item 2 (Office of the Information and Privacy Commissioner) to Item 1 (Environmental Commissioner).

UNCOLLECTIBLE 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 uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2001/02 fiscal year, receivables of $126.5 million due to the Crown from individuals and non-government organizations were written off (in 2000/01 the comparable amount was $152.9 million). Volume 2 of the *2001/02 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 $126.5 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:

- $47.1 million for uncollectible taxes relating to retail sales tax receivables;
- $37.7 million for uncollectible taxes relating to corporation tax receivables;
- $8.9 million for uncollectible taxes relating to employer health tax receivables; and
- $6 million for uncollectible assessments under the Ontario Disability Support Program.