CHAPTER FIVE

Public Accounts of the Province

INTRODUCTION

The Public Accounts for each fiscal year (the fiscal year ends 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, as a result of the election on October 2, 2003, the Public Accounts were not finalized until late in the fall.

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

Our Office audits the financial statements of the province. The objective of this audit is to obtain reasonable assurance that the financial statements are free of material misstatement—that is, that they are free of significant errors or omissions. The financial statements, along with the Auditor's Report on them, are included in the province's annual report and provided in a separate volume of the Public Accounts.

The province's annual report contains, in addition to the financial statements, summaries and analyses of the province's financial condition and fiscal results. Providing such information 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 the significant provincial Crown corporations, boards, and commissions that are part of the government's reporting entity, as well as other miscellaneous financial statements.

- Volume 3 contains further details of public expenditures as well as the Ontario Public Service senior salary disclosure.

Our Office reviews 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 *Ministry of Treasury and Economics Act* have been made with respect to the Public Accounts reporting process. Effective for the fiscal year commencing April 1, 2003, the province's annual 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, once the Assembly resumes sitting, lay them before the Assembly on or before the tenth day of the next session. Normally, the three supplementary volumes 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, make the information public and then, when the Assembly resumes sitting, lay it before the Assembly on or before the tenth day of that session.

THE PROVINCE'S 2002/03 FINANCIAL STATEMENTS

The *Audit Act* requires that the Provincial Auditor report annually on the results of the Auditor's examination of the province's financial statements. This year, as a result of the Provincial Auditor's retirement, it was my responsibility, in my capacity as the Assistant Provincial Auditor, to express an audit opinion on the financial statements. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the year ended March 31, 2003 is clear of any qualifications or reservations and reads as follows:

> To the Legislative Assembly of the Province of Ontario
>
> I have audited the consolidated statement of financial position of the Province of Ontario as at March 31, 2003 and the consolidated statements of operations, change in net debt, and cash flow 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, 2003 and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

[signed]

Toronto, Ontario
September 19, 2003

Jim McCarter, CA
Assistant Provincial Auditor

ACCOUNTING FOR CAPITAL ASSETS

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. In January 2003, PSAB revised a 1997 standard setting out rules for the recognition, measurement, amortization, and presentation of capital assets in a government's financial statements. Until recent years, most governments, including that of Ontario, have charged to operations 100% of the cost of capital assets in the year the capital assets were acquired or constructed. The revised standard recommends that capital assets be recorded as assets in the financial statements at cost and be amortized to expense over their estimated useful lives (this is the basis of accounting for capital assets followed in the private sector). Related revisions recommend that the government report both its net debt and its accumulated deficit (net debt minus non-financial assets) on its statement of financial position and that the accumulated deficit accordingly be reduced by the unamortized value of government capital assets.

In its spring 2001 Budget, the Ontario government announced its intention to adopt the PSAB recommendations relating to tangible capital assets. The government began phasing in this approach for the 2002/03 fiscal year under the direction of the Provincial Controller, concentrating its efforts on capitalizing its land holdings, buildings, and transportation infrastructure. Our Office supports the government's phased-in approach as a reasonable method for implementing PSAB's capital asset standards. The result of the exercise this year has led to the recognition, for the first time in the government's accounts, of net capital investments of over $13 billion. This accounts for an estimated 90% or more of the government's total tangible capital assets.

Ontario's remaining tangible capital assets, such as computer systems, vehicles and equipment, and other smaller-value items, will be identified, valued, and included in the government's financial statements in subsequent years. PSAB has specifically excluded from its current standard the need to address and value such difficult-to-capitalize assets as works of art, historical treasures, natural resources, and Crown lands not acquired via government purchase.

LAND HOLDINGS AND BUILDINGS

The values for most of the government's land holdings and buildings were arrived at by the Ontario Realty Corporation (ORC)—the government agency responsible for managing the government's real estate assets. ORC determined the values by launching a Book Value Project (BVP) in January 2002. The objective of the BVP was to estimate, using the best evidence available, both the original cost of government land and buildings and the dates of their acquisition (or, where applicable, the start and end dates of their construction). Four primary approaches were used to obtain the estimates of original cost:

- ORC data were compared with the values for land and buildings that the Municipal Property Assessment Corporation provided for municipal taxation purposes.
- ORC historical asset records were examined.
- Cost estimates for buildings were developed internally on the basis of staff knowledge of the buildings and a review and analysis of building characteristics such as size, location, age, and condition.
- Third-party appraisals were used.

Once the original cost of the land and buildings had been estimated, a valuation software program called the Book Value Calculator (BVC)—originally developed by the federal government to provide valuations of federally owned capital assets—was used to estimate current unamortized values for the buildings. The BVC did not need to calculate amortization for land, since land has an unlimited useful life and is therefore not subject to the deterioration or depreciation over time that amortization is intended to capture. For each building, the BVC calculated amortization by combining information on the government's historical rate of reinvestment in its buildings, the building's age, and its estimated useful life. With the BVC, ORC was thus able to arrive at opening book values for Ontario's buildings as at April 1, 2002 on both a gross basis (before accumulated amortization) and a net basis (after accumulated amortization).

TRANSPORTATION INFRASTRUCTURE

In January 2002, the Ministry of Finance (MOF) and the Ministry of Transportation (MTO) contracted with an outside consulting firm to help provide—for the province's highways, other roads, bridges, and associated assets such as road signage and lights—an estimate of the opening book values and amortization expense for the fiscal year ending March 31, 2003. Consistent with the phased-in approach discussed earlier in this section, MTO equipment was specifically excluded from the scope of this exercise. Rather than inventory individual items in the transportation infrastructure, as was done for land and buildings, MTO allocated its capital expenditures over the last 60 years into nine asset categories. Accumulated amortization to date was then estimated for each of these asset categories based on the estimated useful life attributable to that category.

RELIABILITY OF RESULTS

We acknowledge that, whenever estimates are used to determine financial statement amounts, it is possible that different estimation approaches could yield different results. However, our audit work on the estimation and valuation process used by the government and on the calculations of gross and net book values indicated that the values arrived at are reasonable. Over the years the accuracy of the province's capital asset information will steadily improve as all capital assets are recorded, the estimated opening book values are amortized, assets are gradually replaced, and the actual dollars spent on these assets are capitalized.

STRANDED DEBT OF THE ELECTRICITY SECTOR

Since our *1998 Annual Report,* we have raised issues relating to the restructuring of the electricity sector. Of particular concern to us has been the risk to Ontario's taxpayers with respect to the stranded debt of approximately $20 billion that resulted from the restructuring of the sector. This debt arose because, in a new competitive environment, the net asset values in Ontario Hydro's successor companies as at April 1, 1999 were $19.4 billion lower than the net assets previously recorded in Hydro's accounts. An agency of the province—the Ontario Electricity Financial Corporation (OEFC)—is responsible for managing the stranded debt.

Although this stranded debt had been recorded as a liability in the government's financial statements, it was separated from other liabilities on the province's statement of financial position. Similarly, while the electricity sector's net operating results were included in the province's annual surplus or deficit, they were disclosed separately from the results of other government operations on the province's statement of operations. This separation existed because the government plans to recover this debt from *electricity ratepayers* rather than *taxpayers*.

Developments in the current fiscal year indicated that there continued to be an increasing risk that part or all of the stranded debt would not be recovered from the electricity ratepayers and therefore would become a liability of the taxpayers of the province. For example, during the 2002/03 fiscal year, the stranded debt liability increased by another $98 million. In fact, the stranded debt has increased almost every year since April 1, 1999, when the electricity sector was restructured, as reflected in the following table:

Fiscal Year End Date	Stranded Debt ($ billion)
April 1, 1999	19.433
March 31, 2000	20.034
March 31, 2001	20.016
March 31, 2002	20.085
March 31, 2003	20.183

Prepared by Office of the Provincial Auditor

When the stranded debt was assumed by OEFC, the government established a long-term plan to retire the debt solely from dedicated revenue streams derived from the electricity sector. The government's long-term plan is updated annually to reflect current information and assumptions. As with any long-term plan, there is a high degree of uncertainty as to whether forecasted results will be achieved. The following examples illustrate the uncertainties inherent in electricity sector forecasting:

- The actual pre-tax profits of Ontario Power Generation (OPG) and Hydro One, which go towards reducing the stranded debt, were $870 million lower in the four fiscal years from 1999/2000 to 2002/03 than the amount forecasted in the initial government long-term plan. This decrease was primarily due to lower-than-expected OPG profits resulting from cost overruns from ongoing repairs on the Pickering nuclear facility. The Pickering cost overruns have also contributed to OPG having to defer, for another two years, principal payments due to OEFC amounting to $700 million.
- Effective May 1, 2002, the government fixed the electricity price paid by low-volume and designated consumers at 4.3 cents per kilowatt hour until at least 2006. For the 2002/03 fiscal year, this resulted in $665 million in additional costs. A price cap of this nature was not envisioned in the initial long-term plan.

This year, in part because of the increased concerns that the taxpayers of the province rather than electricity ratepayers will ultimately be responsible for repaying the stranded debt, the government has changed its treatment of the electricity sector for financial statement purposes. While the government still intends for the stranded debt to be recovered from electricity ratepayers, the financial statements for the 2002/03 fiscal year provide better disclosure of the activities of the government, in accordance with PSAB recommendations, by combining the electricity sector liabilities, including the stranded debt, with other government liabilities. We support this change.

CANADA HEALTH AND SOCIAL TRANSFER SUPPLEMENT

In its 2003 Budget, the federal government announced a $2.5 billion supplement to the Canada Health and Social Transfer (CHST) to assist provinces and territories in addressing health care needs. Ontario's share of this supplement was $967 million. The transfer was intended to provide funding over the three-year period from the 2003/04 fiscal year through the 2005/06 fiscal year. As with previous supplements, these federal funds were deposited into a trust account after the March 31, 2003 federal fiscal year end. As part of the trust agreement, a schedule was provided to provinces suggesting how the funds should be drawn down over the three-year period covered by the transfer. However, as occurred with past supplements, provinces and territories were free to draw down their portion of the $2.5 billion as they saw fit to meet their specific needs. The federal funds were deposited into the trust in June of 2003, and the Ontario government, as it had done with past supplements, withdrew its $967-million allocation in full shortly thereafter.

Historically, the Ontario government has recognized CHST transfers as provincial revenue over the periods identified in the federal government's drawdown schedule. This accounting policy is outlined in the notes to the government's financial statements and has been accepted by our Office. Although the government's 2003 Budget reflected the entire amount of the $967 million transfer as revenue in the 2002/03 fiscal year, the audited financial statements for 2002/03 appropriately recognized no revenue relating to this CHST transfer, since the federal government's schedule did not identify the 2002/03 period for drawdown. Based on the government's stated accounting policy, we anticipate the government will recognize $386 million of the total $967 million transfer as revenue in the 2003/04 fiscal year and the remaining $581 million as revenue over the following two fiscal years.

THE GOVERNMENT REPORTING ENTITY

The "government reporting entity" refers to, collectively, all of the organizations whose activities are included in the government's financial statements. One of the most critical aspects of reporting on a government's financial affairs is deciding which organizations—from among, for example, ministries, agencies, Crown-controlled corporations, boards, commissions, and organizations receiving transfer payments—should be included in the reporting entity. Inclusion in the reporting entity essentially means that an organization's operating results and its assets and liabilities are consolidated with or otherwise incorporated into the government's financial statements so that they form part of both the government's *annual* deficit or surplus and its *accumulated* deficit or surplus.

To date, the government has used a longstanding PSAB standard in assessing which organizations to include in its reporting entity. This standard recommends that an organization be included in the government's financial statements if: (1) it is accountable for the administration of its financial affairs and resources either to a minister of the government or directly to the Legislature and (2) it is owned or controlled by the government. In accordance with that standard, Ontario's financial statements for the fiscal year ended March 31, 2003 include, in addition to the activities of all government ministries, those of 27 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. The activities of less significant government organizations are accounted for through the accounts of the ministries responsible for them.

It is important to note that, under the current standard, the reporting entity does not include the activities of a number of significant public-sector or quasi-public-sector institutions that operate outside of the government ministry and agency structure. Most of these institutions, however, are primarily funded by the government and have considerable assets, liabilities (including long-term debt), revenues, and expenditures. Historically, the majority of these institutions form what has been called the "SUCH" sector, where SUCH stands for school boards, universities, colleges, and hospitals (including long-term-care facilities). Including such agencies in the government's financial statements would have a significant impact on the province's reported financial position and its annual operating results.

Ontario also does not include in its reporting entity a major special-purpose agency—the Ontario Innovation Trust (Trust). The Trust has received large sums of money from 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. Although technically the Trust does not meet the current PSAB standard for inclusion in the reporting entity, our Office has raised accountability concerns with respect to the trust in each of the last four annual reports of the Provincial Auditor, including section 3.07 of Chapter Three of this year's report.

In August 2003, PSAB revised its reporting-entity standard. The new standard recommends that government financial statements include the activities of all organizations that are controlled by the government. The standard offers extensive guidance in assessing, using "control indicators," the degree to which control exists in any particular situation. The recommended implementation date for the standard is April 1, 2005.

Since raising reporting-entity concerns in last year's Annual Report, the staff at our Office have examined various sources of evidence—such as legislation, regulations, reporting arrangements, and ministry accountability documents pertaining to SUCH-sector entities—to assess whether the government will need to consider expanding its reporting entity under the new standard. It should be pointed out that applying PSAB's indicators of control is not an exact science and requires the exercise of professional judgment in determining the applicability of the control indicators. It has also often been necessary to assess the substance of the relationship between government and the organization in addition to its legal form. The following chart summarizes our assessment.

Status of SUCH-sector Organizations
With Respect to PSAB Control Indicators

PSAB Control Indicator	Status of SUCH-sector Organization				
	School Boards	Universities	Colleges	Hospitals	Long-Term Care Facilities
Primary (i.e., More Persuasive) Indicators					
Govt. can unilaterally appoint/remove majority of members of the organization’s governing body.			✓		
Govt. has ongoing access to the organization’s assets, ability to direct ongoing use of assets, or has ongoing responsibility for losses.			✓		
Govt. holds majority of voting shares or “golden shares” giving power to govern organization’s financial and operating policies.					
Govt. has unilateral power to dissolve the organization and thereby access its assets and become responsible for organization’s obligations.	✓		✓	✓	
Other Indicators					
Govt. has power to provide significant input into appointment of members to the organization’s governing body.			✓		
Govt. has power to appoint/remove CEO or other key personnel.	✓			✓	
Govt. can establish/amend the organization’s mission/mandate.	✓		✓	✓	
Govt. has power to approve the organization’s business plans or budgets and call for amendments.			✓	✓	✓
Govt. has power to establish borrowing/investment limits or restrict the organization’s investments.	✓				✓
Govt. can restrict the revenue-generating capacity of the organization including its sources of revenue.	✓	✓	✓	✓	✓
Govt. can establish/amend the organization’s managing policies including those relating to accounting, personnel, compensation, collective bargaining, and deployment of resources.	✓		✓	✓	✓

✓= control indicator met

Prepared by the Office of the Provincial Auditor

Based on our assessment, the two strongest candidates for future consolidation into the government reporting entity are Ontario's colleges and school boards. Colleges in particular likely warrant inclusion, insofar as they meet the most control indicators, both primary and other. Although school boards meet only one of the primary indicators, they meet most of the other indicators, and the government has significantly increased its control over the delivery of Ontario's elementary and secondary school programs in recent years. For example, the provincial government, rather than local boards, now sets the local education tax rate. Moreover, 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 control 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. The government demonstrated its control over the boards last year by directly taking over three of the province's largest boards. In addition, now that the province has adopted new PSAB accounting rules for tangible capital assets (see the previous section on "Accounting for Capital Assets"), including the financial statements of school boards in the financial statements of the province would allow the boards' tangible capital assets to be included as well as their net debt, which was incurred to construct these capital assets.

In conclusion, we recommend that the government complete its own assessment of colleges and school boards as soon as possible to determine if colleges and school boards should be consolidated into Ontario's financial statements in time for the April 1, 2005 PSAB-standard implementation date. We would also encourage the government to complete an assessment of Ontario's hospital sector and its long-term-care facilities to determine whether these organizations are sufficiently controlled by the government to warrant inclusion. Lastly, although we continue to have accountability concerns regarding the operations of the Ontario Innovation Trust, we continue to support the exclusion of both the Trust and Ontario's universities from the government's reporting entity, since these organizations do not, in our opinion, meet PSAB's control criteria.

INTEGRATED FINANCIAL INFORMATION SYSTEM

In the summer of 1995, the Minister of Finance established the Ontario Financial Review Commission (Commission) to review the government's financial practices. In its report issued November 1995, the Commission made 55 recommendations covering three main areas: planning, financial reporting, and Crown agencies. Among other things, the Commission noted that government ministries were using a number of different accounting and financial management systems, leading to financial information that was often inconsistent, delayed, or unnecessarily duplicated. It recommended that the government adopt one financial management and reporting system to replace the different, largely incompatible systems that were being used throughout the government. This concept of an enterprise-wide financial system was also critical to the implementation of other recommendations made by the Commission relating to the government's budget, its quarterly financial statements, and the future adoption of PSAB's standards on capital assets. Addressing these areas required information that could not readily be produced by the government's existing financial systems.

In late 1998, the Management Board of Cabinet approved the Ministry of Finance's business case for an integrated financial system, and gave approval to the Ministry to procure the hardware, software, and expert services necessary to develop and implement the system. The resulting system, known as the Integrated Financial Information System (IFIS), is currently being implemented in phases, or releases, throughout the Ontario public service. IFIS was first released to two pilot ministries in November 2002. Since then, the government has released IFIS in waves, or at specified intervals, to several other ministries. Wave 1 and 2 implementations occurred during the winter and spring of 2003, respectively, resulting in seven additional ministries adopting the IFIS system. Future plans call for IFIS to be implemented in approximately 70% of Ontario's ministries—responsible for just under one-half of the government's total expenditures—by March 31, 2004. The plan is for IFIS to be fully implemented across all Ontario ministries by the fall of 2004.

NEW PSAB INITIATIVES

PSAB serves the interests of the public and of the accounting profession by developing and promulgating standards designed to improve the financial and performance information reported by governments and other public sector entities. Improved information benefits decision-makers and other users.

From Ontario's perspective, some of the most significant issues PSAB is dealing with at the present time are the following:

- In October 2002, PSAB approved a Statement of Principles that proposed revisions to the existing standard on how government transfers of funds to other organizations or levels of government should be accounted for. One of the more difficult issues to be resolved deals with multi-year funding—that is, funding that is provided to organizations or other levels of government in advance of the years the funds will be spent to provide services to the public. The accounting issue relates to whether 100% of the funds transferred should be recognized as expenses in the year of the transfer or be recognized as expenses when the services are actually provided to the public. Fundamental to this debate is whether financial statements should have an "asset-and-liability" focus or a "revenue-and-expense" focus:
    - Proponents of the asset-and-liability focus believe that transfers covering multiple periods should be charged to operations in one period—the period in which the transfer is authorized, eligibility criteria have been met, and the amount is estimable.

Full recognition of the transfer is seen as appropriate because multi-year funding does not meet the definition of an asset, and recording a portion of it as such would distort a government's statement of financial position.

- Proponents of the revenue-and-expense focus believe that expensing multi-year funding in one year results in a distortion of the operating statement and therefore of the reported deficit or surplus of the transferring government over the periods funded. Their view is that multi-year funding should be charged to operations only when the funds are actually spent to provide services to the public, with the funds provided in advance of current-year needs being treated as prepaid assets.

- In 2002, PSAB also approved a Statement of Principles related to three financial-statement components: liabilities, contingent liabilities, and commitments. The Statement proposed changes to the definitions of each of these components. For example, the liability definition was broadened to include obligations that result from transactions and events beyond those related to agreements, contracts, and existing legislation. Issues addressed in the Statement included: whether legislation had to be in force prior to the accounting date before a liability could be recognized; the accrual of a contingent liability when the future confirming event is likely to happen; and limiting the disclosure of commitments to a government's contractual obligations.
- In July 2003, PSAB issued a draft guideline on funds and reserves that provides guidance on presenting information related to stabilization funds and financial reserves in government financial statements.
- In July 2003, PSAB issued a public exposure draft for a proposed Statement of Recommended Practices on Financial Statement Discussion and Analysis (FSD&A). The draft provides a general framework for the development of FSD&A information and provides guidance on the nature and extent of supplementary information that should be provided to financial statement users. This supplementary information would include narrative explanations and graphic illustrations of key events during the reporting period, along with explanations and illustrations of variances and trends.
- In August 2003, PSAB issued a Statement of Principles for its Generally Accepted Accounting Principles (GAAP). This Statement is the first step in the development of a proposed new GAAP section in the Public Sector Accounting Handbook (Handbook). The section would revise existing material in the Handbook relating to what other accounting guidance could be used when a particular accounting issue is not addressed within the Handbook itself.
- In April 2003, based primarily on input from the government community, PSAB approved four new projects, the following three of which have possible implications for Ontario's financial reporting:
  - *Financial Instruments*—This project was begun to deal with the growth in the availability and use by governments of sophisticated financial instruments such as foreign currency and interest rate swap and option contracts.

- *Performance Reporting*—This project is designed to develop a set of overarching principles that will guide the future development of performance reporting, including a framework for identifying specific performance indicators.
- *Revenues*—This project will define government revenue, consider the appropriateness for governments of the general principle of revenue recognition embodied in existing standards, and develop specific recognition criteria for government exchange and non-exchange transactions.

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 on them to the Legislature. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and are 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 three hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving a 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 to be Voted Appropriations. The *Supply Act*, *2002* pertaining to the fiscal year ended March 31, 2003, received Royal Assent on December 13, 2002.

Typically, prior to the passage of the Supply Act, the Legislature authorizes payments by means of motions for interim supply. For the 2002/03 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, 2001 to April 30, 2002—passed October 22, 2001;
- May 1, 2002 to October 31, 2002—passed June 26, 2002 (see "Special Warrants"); and
- November 1, 2002 to April 30, 2003—passed October 22, 2002.

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.

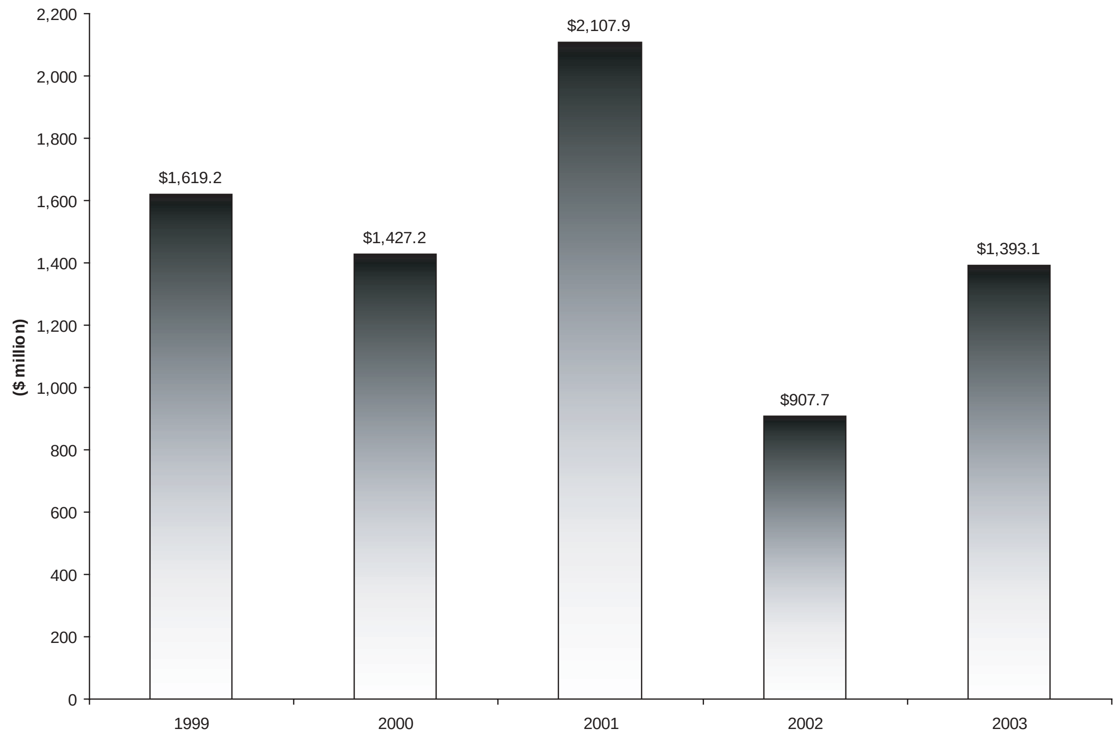
One Special Warrant was issued for the fiscal year ended March 31, 2003. The Special Warrant was approved by an Order-in-Council, dated April 24, 2002, totaling $19,630,031,900. The Special Warrant was required because the October 22, 2001 motion for interim supply covered the period to April 30, 2002 only. Therefore, a Special Warrant was needed to authorize expenditures after that date until a new motion of interim supply could be passed (the new motion was passed on June 26, 2002). This Special Warrant authorized payments for both the general and necessary expenditures of the government and the general and necessary expenditures of the Office of the Chief Election Officer, the Provincial Auditor, the Legislative Assembly, and Ombudsman Ontario for a period of three consecutive months, commencing on May 1, 2002.

The total expenditures approved by the *Supply Act, 2002* excluded the amounts authorized by the Special Warrant.

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 2002/03 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2002–February 2003	30	640,808,400
March 2003	17	695,002,300
April 2003	12	57,308,300
Total	**59**	**1,393,119,000**

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 2003, together with explanatory information. A detailed listing of 2002/03 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 2002/03 Estimates, the following transfers were made:

- within Vote 201:

From:	Item 6	Sergeant at Arms and Precinct Properties	$	461,300
To:	Item 2	Office of the Clerk		330,800
	Item 7	Legislative Information Systems		126,400
	Item 12	Lieutenant Governor's Suite		4,100

- within Vote 202:

From:	Item 3	Office of the Integrity Commissioner	$	63,400
To:	Item 1	Environmental Commissioner		9,100
	Item 2	Office of the Information and Privacy Commissioner		54,300

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

In the 2002/03 fiscal year, receivables of $84.8 million due to the Crown from individuals and non-government organizations were written off (in 2001/02 the comparable amount was $126.5 million). Volume 2 of the *2002/03 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 $84.8 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:

- $35.9 million for uncollectible taxes relating to retail sales tax receivables;
- $21.5 million for uncollectible taxes relating to corporation tax receivables;
- $7.8 million for uncollectible assessments under the Ontario Disability Support Program;
- $4.9 million for uncollectible assessments under the student support programs; and
- $3.5 million for uncollectable taxes relating to employer health tax receivables.