Chapter 5

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* (Act). The Public Accounts comprise the province's annual report, including the province's consolidated financial statements, and three supplementary volumes.

The consolidated financial statements of the province 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 consolidated financial statements of the province. The objective of our audit is to obtain reasonable assurance that the government's financial statements are free of material misstatement—that is, that they are free of significant errors or omissions. The financial statements, along with our Auditor's Report on them, are included in the province's annual report.

The province's annual report contains, in addition to the province's consolidated financial statements, a discussion and analysis section that provides additional information regarding the province's financial condition and its fiscal results. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1, which contains the ministry statements and a number of schedules providing details of the province's revenues and expenses, its debts and other liabilities, its loans and investments, and other financial information.
- Volume 2, which contains the audited financial statements of significant provincial Crown corporations, boards, and commissions whose activities are included in the government's consolidated financial statements, as well as other miscellaneous financial statements.
- Volume 3, which contains detailed schedules of ministry payments to vendors and transfer-payment recipients.

Our Office reviews the information in the annual report and in Volumes 1 and 2 of the Public Accounts for consistency with the information presented in the consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its annual report to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. The three supplementary volumes must be submitted to the Lieutenant Governor in Council before the 240th day after the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them 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 10th day of that session.

In its 2006 Budget, the government announced its intention to improve the timeliness of the province's financial reporting. This included a plan to advance the date of the tabling of the 2005/06 Annual Report and Consolidated Financial Statements.

The government's 2005/06 Annual Report, which includes the Consolidated Financial Statements, was tabled along with the three Public Accounts supplementary volumes on August 24, 2006. This is about a month earlier than in any other year in the last decade, which represents a significant step forward—especially in light of the fact that this was achieved in the same fiscal year that hospitals, school boards, and colleges were included in the province's statements for the first time. However, as discussed later in this chapter, we believe timeliness can be further improved by implementing certain changes in the consolidation process.

The Province's 2005/06 Consolidated Financial Statements

The *Auditor General Act* requires that the Auditor General report annually on the results of the Auditor's examination of the province's consolidated financial statements. I am pleased to report that my Auditor's Report to the Legislative Assembly on the consolidated financial statements for the year ended March 31, 2006, 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, 2006 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 consolidated financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2006, and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.
>
> [signed]
>
> Toronto, Ontario — Jim McCarter, CA
> August 2, 2006 — Auditor General

The Government Reporting Entity

INCLUSION OF HOSPITALS, SCHOOL BOARDS, AND COLLEGES

The province's consolidated financial statements include considerably more than just government ministries. In fact, numerous other Crown agencies, Crown corporations, and other organizations are also included. The "government reporting entity" refers, collectively, to all of these organizations whose activities are included in the government's statements. 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.

The government's consolidated financial statements reflect the accounting standards recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). In August 2003, PSAB revised its standard related to the government reporting entity for fiscal years beginning on or after April 1, 2005. Under the new standard, the decision whether to include an organization in the government reporting entity is based on one overall consideration: the extent of government control over the organization's activities. In essence, if a government controls an organization, the organization should be included as part of the government reporting entity.

As we indicated last year, the government completed an analysis of the impact of this new standard and, in the 2004 Ontario Budget, announced its intention to add the province's 155 hospitals, 105 school boards and school authorities, and 24 colleges—collectively referred to as Broader Public Sector (BPS) organizations—to its reporting entity in the 2005/06 fiscal year.

2005/06 CONSOLIDATION RESULTS

Accordingly, in its 2005/06 consolidated financial statements, the government for the first time consolidated these BPS organizations. This change resulted in an increase in the province's 2005/06 annual surplus of $449 million and, reflecting the inclusion of the net assets of these organizations for the first time, a decrease in the province's accumulated deficit of $16.7 billion. Without the addition of these BPS organizations, the province's reported surplus of $298 million would have been a deficit of $151 million, and its reported accumulated deficit of $109.2 billion would have increased to $125.9 billion, as summarized in Figure 1.

The consolidation of the BPS organizations into the province's 2005/06 consolidated financial statements was a significant achievement given the magnitude of the exercise. Under the direction of the Ministry of Finance, the consolidation of the 284 organizations required the co-operation of finance officials in hospitals, school boards, and colleges, as well as staff in the ministries of Health and Long-Term Care; Education; and Training, Colleges and Universities.

Understandably, as this was the first time that the BPS was consolidated into the province's consolidated financial statements, the process was not without its challenges. During our audit, we identified several consolidation issues that will need to be addressed in future years to enable the government to continue to make progress on its stated goal of improving the timeliness of the province's financial reporting.

Figure 1: Impact of BPS Consolidation on Annual and Accumulated Deficits
Prepared by the Office of the Auditor General of Ontario

2005/06 Annual Deficit Impact	($ million)	2005/06 Accumulated Deficit Impact	($ million)
Province's Annual Deficit	298	Province's Accumulated Deficit	(109,155)
Impact of BPS Consolidation:		Impact of BPS Consolidation:	
School Boards and School Authorities	88	School Boards and School Authorities	(7,340)
Colleges	(78)	Colleges	(1,647)
Hospitals	(459)	Hospitals	(7,752)
Total	**(449)**	**Total**	**(16,739)**
Province's Annual Surplus excluding impact of BPS consolidation	(151)	Province's Accumulated Deficit excluding impact of BPS consolidation	(125,894)

CONSOLIDATION INFORMATION REQUIREMENTS

Much of the consolidation work is carried out by the ministries responsible for the new sectors being consolidated—that is, the ministries of Health and Long-term Care; Education; and Training, Colleges and Universities—under the direction of the Ministry of Finance, which has overall responsibility for the production of the consolidated financial statements.

We noted a number of instances in which the Ministry of Finance's consolidation instructions were not fully understood or fully executed by the sector ministries, leading to incomplete consolidation information initially being obtained. This made it necessary for sector ministries to request additional financial information from the organizations being consolidated, resulting in delays.

The Ministry of Finance will need to continue to work with the sector ministries over the next year to ensure that they fully understand the consolidation process, clarify the information they need to gather from the consolidated entities, and improve account reconciliation and data analysis. Equally importantly, the sector ministries will need to continue to work with the various BPS organizations to ensure that the information each organization submits is accurate, complete, and consistent with the organization's own audited financial statements.

CONSOLIDATION TIMELINE

We believe that, if the tabling date of the Public Accounts is to be moved up in future years, the government must reconsider the existing timelines for submission of the BPS consolidation information. Specifically:

- Sector ministries require adequate time to conduct a thorough review of the submitted consolidation information. We noted that, in some cases, they were unable to perform this review adequately within the time frames allocated.
- In some cases, sector ministries were unable to provide information in a timely manner on issues or questions we raised because many of these issues required time to follow up with the ministries' BPS organizations.

USE OF SPECIFIC REVIEW PROCEDURES

The school boards' August 31 year-end does not coincide with the province's March 31 fiscal year-end. As well, under their present accounting practices, school boards do not record capital assets in their financial statements. Nevertheless, school boards were required to submit financial information for the same fiscal period as the province and to provide information on their capital expenditures. The auditors of each school board performed specific review procedures on this additional information, and we relied upon these procedures in conducting our consolidation work. We encourage the continued use of these additional review procedures, at least until school boards include their own capital assets in their audited financial statements.

LOOKING AHEAD

Under the new reporting entity standard, PSAB permits governments to consolidate the BPS on a modified equity basis of accounting until the 2008/09 fiscal year. Under this treatment, the BPS organizations' net assets are included as a single line—"net assets of Broader Public Sector Organizations"—on the province's Consolidated Statement of Financial Position, and their annual surplus or deficit is included on a sector basis under the expenses category of the province's Consolidated Statement of Operations.

For all fiscal years that commence on or after April 1, 2008, PSAB will require BPS organizations to be fully consolidated. Under full consolidation, the government will have to ensure, for consolidation purposes, that the financial statements of BPS organizations are prepared using the same accounting policies as the province and that each revenue and expense item, as well as each of an organization's assets and liabilities, are combined with the corresponding item in the province's consolidated financial statements. One key consequence of this line-by-line approach will be that the $27.5 billion in BPS tangible capital assets and the $11.8 billion of net debt will then be included and reported as being part of the province's capital assets and net debt respectively.

The Ministry of Finance has indicated that it is not convinced that line-by-line consolidation of the BPS provides better transparency and accountability. We understand that the Ministry believes that the current one-line consolidation approach meets the province's need to reflect both the overall financial impact of the BPS on the province's financial statements and the greater autonomy that these BPS organizations have compared to the organizations the province currently fully consolidates. The Ministry has indicated its intention to pursue this matter with both PSAB and our Office.

Nevertheless, we believe it would be prudent for the Ministry to begin reviewing what additional information would be required to make line-by-line consolidation possible, ensure conformity with the province's accounting policies, and deal with a number of presentation and disclosure issues.

In addition, we recommend that the government reassess whether there have been any changes in circumstances indicating that other entities within the broader public sector might now meet the control criteria for inclusion in the province's financial statements.

Stranded Debt of the Electricity Sector

In previous Annual Reports, we have discussed the electricity sector and the government's efforts to retire its stranded debt. The stranded debt was a result of a restructuring of the electricity sector effective April 1, 1999, when Ontario Hydro was split into several companies, all of which are fully owned subsidiaries of the province. They include the Ontario Electricity Financial Corporation (OEFC), which is responsible for managing and paying down the debt and certain other liabilities of the former Ontario Hydro. The portion of this debt and other liabilities that was in excess of the market value of OEFC's assets was called the "stranded debt." In essence, the term "stranded debt" refers to the amount of debt and other liabilities of Ontario Hydro that could not be serviced in a competitive environment.

The government has developed a long-term plan to retire the stranded debt solely from dedicated revenue streams from the electricity sector, including Ontario Power Generation and Hydro One. The plan is updated annually, based on current information and assumptions. The government estimates that the OEFC's obligations will likely be retired in the years ranging from 2012–2020. During the 2005/06 fiscal year, there was a significant reduction in the amount of stranded debt for the first time since the inception of the OEFC, as shown in Figure 2.

There were several underlying reasons for this reduction. First, a higher market price of electricity contributed to higher revenues from the electricity sector. The average wholesale market price of electricity increased from 5.17 cents/kwh in 2004/05 to 7.06 cents/kwh in 2005/06. This contributed to Ontario Power Generation earning higher profits during 2005/06, which, through payments in lieu of taxes (PILs), were flowed to the OEFC to service the stranded debt. The OEFC's 2006 PIL revenues of $949 million were $438 million higher than those of the previous year.

Secondly, effective January 1, 2005, the OEFC started to receive actual contract prices for power sold under long-term power-purchase contracts entered into by the old Ontario Hydro. Originally, a $4 billion liability had been recorded to reflect the OEFC's commitment under these contracts to purchase power at prices expected to exceed market prices. The government determined that the most cautious and prudent accounting decision was to eliminate this liability over time. For the 2005/06 fiscal year, the combination of the amortization of this liability and the selling of the power at contract cost resulted in revenue increases of almost $366 million over the previous year.

For comparative purposes, it should also be noted that, effective January 1, 2005, responsibility for managing the province's program to provide electricity to designated low-volume consumers at fixed prices was transferred from the OEFC to a newly created agency, the Ontario Power Authority (OPA). In carrying out this responsibility, the OPA incurred costs of $377 million, owing to the market price of electricity being higher than the fixed price.

Figure 2: Electricity Sector Stranded Debt, 1999–2005/06

Source of data: Ontario Electricity Financial Corporation

Fiscal Year End	($ billion)
at April 1, 1999	19.4
1999/2000	20.0
2000/01	20.0
2001/02	20.1
2002/03	20.2
2003/04	20.6
2004/05	20.4
2005/06	19.3

Multi-year Funding

In prior years' Annual Reports, we have stated our concerns regarding the government's accounting and accountability for multi-year funding. Our position on this issue is that the annual operating statements of government should reflect the revenues and expenditures related to the fiscal period being measured. When this practice is not followed, distortions can be significant and users of financial statements may not be able to properly 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 jurisdictions or between past and future periods.

Again this fiscal year, we continue to have concerns, specifically regarding the relaxing of normal controls—shortly before the fiscal year-end—for unplanned transfers that the government makes to its service-delivery partners. We note, however, that this issue has no impact on our audit opinion on the government's financial statements, since the year-end transfers in question and the consolidated financial statements comply with generally accepted accounting principles. Specifically, under the CICA's current accounting standards, unconditional government transfers, even if they provide funding to be used to deliver services to the public in future periods, can be recorded as a current-year expense by the government providing the transfer.

By way of background, the government normally provides transfers to its service-delivery partners on an as-needed basis rather than in advance of their expenditure needs. For instance, operating transfers are generally provided over the course of the year as such funds are required to finance operations, and capital funds are normally provided on a cost-recovery basis as the transfer-payment recipient completes specific stages of a pre-approved capital project. However, just prior to or on March 31, 2006, the government entered into a number of transfer-payment arrangements and expensed the amounts involved, thereby reducing the surplus for the year by almost $1.6 billion more than otherwise would have been the case. None of these transfers were originally planned for; that is, none had been included in the government's Budget for the 2005/06 fiscal year, and in many cases, normal accountability and control provisions were reduced or eliminated to ensure the transfers would qualify for immediate expensing prior to the March 31, 2006, fiscal year-end.

The following provides details of the most significant of these multi-year funding transactions, all of which were recorded as expenditures in the 2005/06 fiscal year:

- The amount of $670 million was advanced to the Move Ontario Trust on March 27, 2006. These funds were eventually to be paid to the City of Toronto and York Region for new subway construction. However, at the completion of our audit in August 2006, the funding still remained in the trust, and none of these multi-year construction projects was under way.
- The amount of $400 million was paid just prior to the fiscal year-end to municipalities outside the Greater Toronto Area for future investments in municipal roads and bridges.
- The amount of $200 million was paid just prior to year-end to the City of Toronto to support subway operations, and $168 million in total was also provided to Brampton, Mississauga, York Region, and Scarborough for future improvements to their transit systems.
- The amount of $114 million was paid prior to the year-end to 48 municipalities for new buses and bus refurbishments, pending the development of a new municipal bus-replacement program.
- Less significant year-end transfers without specific terms and conditions were also provided to certain agencies whose accounts and, therefore, operating results were also not consolidated into the government's financial statements. For example, on or near March 31, the Ontario Media Development Corporation received $20 million, almost three times its historic annual funding, which its board decided to allocate to strategic priorities over the next three years.

For all of the above transfers, the transfer agreements did not set out specific conditions for the use of the funds. None of the transfers resulted in any investments in capital assets or infrastructure or in delivery of services to the public during the 2005/06 fiscal year; rather, the funds will be spent in future years. However, the financial statements of the province reported these multi-year advances as expenditures in the 2005/06 fiscal year. Accordingly, readers of the statements could well assume that the government spent $1.6 billion during the year to provide the public with services when none of this money was in fact spent. As well, and as noted previously, the normal accountability controls were relaxed to ensure that these end-of-year transfers qualified as expenditures under CICA accounting standards.

The CICA has recognized that its current transfer accounting standard requires review and has created a task force to study the issue. The task force has heard the concerns we have expressed, and its work is nearing completion. We are hopeful that, once approved by the CICA's Public Sector Accounting Board, the revised standard will provide valuable guidance to both financial-statement preparers and auditors in accounting for future government transfers of this nature (we discuss this issue further below, in the section Government Transfers).

Accounting for Capital Assets

GOVERNMENT CAPITAL ASSETS

In January 2003, the CICA's Public Sector Accounting Board (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, had charged 100% of the cost of capital assets as an expense in the year such assets were acquired or constructed. The revised standard recommends that, in a manner similar to the approach taken in the private sector, the cost of capital assets be recorded as assets in government financial statements and be amortized to expense over their estimated useful lives.

The government phased in its adoption of these PSAB recommendations beginning in the 2002/03 fiscal year by valuing and capitalizing the province's land holdings, buildings, and transportation infrastructure. As a result, in 2003 the government recognized for the first time over $13 billion of net capital investments. These account for an estimated 90% or more of the government's total tangible capital assets.

Although no specific timetable has been set, the government has indicated that, over the next several years, it intends to adopt this PSAB standard for Ontario's remaining tangible capital assets, such as its computer systems, vehicles and equipment, and other smaller-value capital items. We encourage the government to complete its capitalization project as soon as possible and to include these assets and related amortization in its financial statements.

SCHOOL BOARD CAPITAL ASSETS

The Ontario government has included the financial results of school boards, colleges, and hospitals for the first time in its 2005/06 consolidated financial statements. The province capitalizes its investments in land, buildings, and public infrastructure, as indicated above, but Ontario's school boards and school authorities do not. Rather, they expense capital expenditures immediately on their Consolidated Statement of Financial Activities. Accordingly, to ensure that accounting policies upon consolidation continued to conform to those of the province, this year the government completed a project to establish historical cost values for tangible capital assets owned by school boards and school authorities in Ontario. The purpose of this project was to establish historical costs and opening net book values for school and administration buildings and sites owned by the various school boards and school authorities within the province. The remaining tangible capital assets of the boards and authorities were to be included in later years.

Three primary methods were used to establish the values for the buildings and sites owned by the school boards and authorities:

- actual historical cost provided by school boards and authorities;

- estimated historical cost using 1997 benchmark data (these data had been previously used by the Ministry of Education for a number of years as the basis for school board funding of their new school construction projects); and
- historical cost estimated by accredited appraisers contracted by the Ontario Realty Corporation.

The Ministry of Education identified over 10,500 buildings and sites to be valued by one of the above methods. Once values were established, they were entered into the Book Value Calculator (BVC), a software program developed by the federal government and used by the province in its initial capita-lization exercise in 2003. The BVC in turn estimated the amortization, betterments, and net book values for each asset as at April 1, 2005.

We reviewed the Ministry's Capital Asset Project (CAP) as it evolved, suggested improvements in the process, held discussions with Ontario Realty Corporation (ORC) staff and appraisers on the CAP team, and performed work on a sample of buildings and sites to ensure that the values arrived at were reasonable. In addition, for a sample of buildings and sites, we obtained documentation from the school boards supporting historical cost values.

Whenever estimates are used to determine financial statement amounts, it is possible that different estimation approaches could yield different results. However, based on our audit work on the valuation process used by the government, we concluded that the values arrived at are reasonable. In future years the accuracy of the school board capital-asset information will steadily improve as all capital assets are recorded, the opening book values are amortized, and assets are gradually replaced.

New and Proposed Accounting Standards

Accounting standards specify how transactions and other events are recognized, measured, presented, and disclosed in government financial statements. The objective of such standards is to meet the needs of users of financial statements by providing, in a consistent manner, the information needed for accountability and decision-making.

The CICA's Public Sector Accounting Board (PSAB) is an independent body with the authority to set accounting standards for the public sector in Canada. It also works to serve the public interest by providing guidance for financial and other performance information reported by the public sector. The government of Ontario prepares its consolidated financial statements in accordance with PSAB standards.

The more significant issues PSAB has been dealing with over the last year that will or may affect the province's financial statements and reporting practices in future years are briefly outlined below.

FINANCIAL INSTRUMENTS

Financial instruments or derivatives, such as foreign-exchange forward contracts, swaps, futures, options, and other instruments, are typically used to manage financial risks. Currently, PSAB guidance on accounting for derivative financial instruments is limited to their application in hedging foreign currency items, such as a debt payable in a foreign currency. However, derivative financial instruments are increasingly being used by governments, including the Ontario government, to manage other financial exposures, such as interest-rate risk. For instance, the province may get the best terms on the issuance of debt by agreeing to pay interest at a variable rate. Through the use of financial instruments, the variable rate debt can be converted to fixed-interest-rate debt to limit the province's exposure to future interest-rate fluctuations.

In January 2005 the CICA's Accounting Standards Board approved three new Handbook sections relating to this area: Financial Instruments, Comprehensive Income, and Hedges. While these are private-sector standards—and governments are not required to apply the recognition and measurement provisions set out in them—these developments have underscored the need to address these issues from a public-sector perspective. Accordingly, PSAB recently created a task force to consider government accounting for financial instruments and the applicability of hedge accounting to governments. PSAB expects to approve a Statement of Principles on Financial Instruments later this year, followed by an Exposure Draft in 2007. It hopes to have a new PSA Handbook section on financial instruments ready for release in 2008.

In March 2006, PSAB issued a related statement of principles on the recognition and measurement of derivatives that would establish key definitions and principles in the area of hedge accounting. A key issue PSAB is addressing is the need for any new hedging standard not only to be consistent with PSAB's conceptual framework, which sets out overall definitions for assets and liabilities, but also to recognize and make allowance for the unique characteristics of governments. Some jurisdictions—such as the United States—that have developed accounting standards in this area based on the conceptual framework require that derivatives be revalued annually at year-end fair value. This annual revaluation significantly increases the potential for volatility in reported annual results for governments, like that of Ontario, with significant derivative holdings. However, given that governments generally enter into derivatives to actually mitigate risks, hedge- accounting standards recognize management's efforts to limit volatility through specific hedging transactions and effective qualifying relationships with financial counterparties.

As part of the financial instrument project, PSAB staff are currently asking governments for input on any use of financial instruments for hedging purposes that can be attributed to the unique characteristics of governments, and, flowing from that, whether there are specific reasons that the eventual hedge-accounting standard for government should vary from the standard applicable to the private sector.

DISCLOSURE OF INFORMATION ON BUSINESS SEGMENTS

In January 2006, PSAB approved a new standard on segment disclosures requiring governments to define the business segments they are in and to provide a number of supplementary financial disclosures along these segment lines. These disclosures include the government revenues and expenses attributable to each segment. This project arose because of concerns about the level of aggregation in government summary financial statements, particularly with the recent expansions in the reporting-entity in many jurisdictions under the new reporting entity standard, and the reduced level of detail that may be provided when these statements are presented on a fully consolidated basis.

GOVERNMENT TRANSFERS

As discussed previously in this chapter, PSAB is working on amendments related to government transfers to address a number of application and interpretation issues raised by the government community. These issues include the following: the need to resolve an ongoing debate over the appropriate accounting for multi-year funding provided by governments; clarifying the nature and extent of the authorization needed for a transfer to be recognized; clarifying the degree to which stipulations imposed by a transferring government should impact the timing of recognition of a transfer by both the transferor and the recipient governments; and addressing the appropriate accounting for capital transfers received when a recipient uses expense-based accounting.

Given that billions of dollars are involved in such government transfers, these amendments have the potential to significantly impact the reporting of government financial results.

A variety of views have been expressed on these issues. It has been difficult to build a consensus for revisions that adhere to PSAB's underlying accounting conceptual framework while addressing the view that some transfers give rise to governmental assets and liabilities. PSAB issued an Exposure Draft for comment in June 2006 that called for the immediate recognition as an expense (for the transferor) and revenue (for the recipient) of all transfers, provided the transfer has been authorized and any eligibility criteria have been met. PSAB is in the process of reviewing responses to the Exposure Draft and expects to approve a final PSB handbook release in late 2006.

PERFORMANCE REPORTING

Given the complexities of governments and the importance of providing information to citizens about what they plan to do and have achieved with the resources entrusted to them, performance reporting can help improve a government's performance by serving as a means of monitoring results against expectations and making it possible to adjust and revise activities to accomplish its goals.

In June 2006, PSAB approved a final Statement of Recommended Practice SORP-2, Public Performance Reporting, to promote consistency and comparability in reporting outside of a government's financial statements. This statement complements SORP-1 on Financial Discussion and Analysis, approved in June 2004, in recognizing that a government's financial statements alone cannot be expected to fulfill all the needs of government information users. It sets out recommended practices for reporting performance information in a public-performance report, addresses such a report's non-financial performance information and the linkage of financial and non-financial performance information, and encourages governments to provide information about governance practices in order to give a comprehensive, balanced, and clear picture of a government's performance.

ENVIRONMENTAL LIABILITIES

Currently, Canadian accounting standards do not specifically address environmental liabilities. In recognition of the need to do so, PSAB in its June 2006 meeting approved a project proposal on environmental liabilities.

Although, in the current absence of an accounting standard, the governments of Ontario and most other Canadian jurisdictions have not developed accounting policies on environmental liabilities, the Ontario government does record environmental liabilities as it does any other liabilities. That is, it records them when the government has little or no discretion to avoid future costs or payments resulting from past transactions or events and when the liability can be measured in dollars.

The federal government, however, has adopted an explicit accounting policy to provide for the expected costs and liabilities that the government would be obligated—or would likely be obligated—to incur to manage and remediate sites when envir-onmental contamination occurs. Such costs might be incurred in order, for example, to ensure public health or safety, satisfy contractual commitments, or meet standards set in legislation or regulation. To obtain the cost information necessary to implement this accounting policy, the federal government instituted the Federal Contaminated Sites Assessment Initiative, under which government departments assessed sites under their various domains and provided these assessments to the Treasury Board to enable the government to develop an overall environmental liability estimate.

Given the CICA's decision to review the need for an accounting standard in this area, we encourage the government of Ontario to consider whether a similar exercise in the province would be beneficial. We also encourage the government to develop an accounting and disclosure policy for such contingencies once the CICA has completed its environmental liabilities project.

For instance, one area warranting review was discussed in a recent value-for-money audit we conducted of the province's Mines and Minerals program. At the time of this audit, the Ministry of Northern Development and Mines had information on more than 5,600 abandoned mine sites, and had estimated that approximately 250 of these sites posed possible environmental risks due to the potential for the leaching of minerals and other contaminants from mine tailings. Since the province is primarily responsible for these abandoned mines, costs arising from environmental damage or costs to remediate these sites so that environmental damage does not occur would likely be a provincial responsibility. However, until additional data are collected, there is insufficient information to determine if a liability exists and, if it does, the amount thereof.

CAPITAL ASSETS

PSAB has approved revisions to Section PS 3150 on Tangible Assets focused primarily on local governments, calling for the recognition and amortization of all their tangible capital assets for fiscal years beginning on or after January 1, 2009. Revisions affecting all governments include the clarification of the definition of "cost" to stop the netting of capital grants received against tangible capital assets costs, the provision of additional guidance on when to start and stop the capitalization of carrying costs, and the removal of a 40-year amortization cap.

TAX REVENUE

In March 2006, PSAB approved an Invitation to Comment (ITC) on Tax Revenues that proposes to adopt for tax revenues in Canada the definitions and standards in the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft on Revenues from Non-Exchange Transactions (including Taxes and Transfers). This is the first Canadian project running concurrently with an IPSASB project and is an outgrowth of the strategic direction of the CICA to converge Canadian and international accounting rules.

FUTURE PROJECTS

In June 2006, PSAB approved a number of future projects. In addition to the project on environmental liabilities mentioned earlier, projects have also been launched to address infrastructure deficits, accounting for trusts, and foreign-currency translation.

Other Matter

The Auditor General is required under section 12 of the *Auditor General 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 Auditor General 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

Shortly after presenting its budget, the government tables in the Legislature detailed Expenditure Estimates outlining each ministry's spending proposals on a program-by-program basis. 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 by 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* pertaining to the fiscal year ended March 31, 2006, received Royal Assent on March 31, 2006. When we compared the estimates of each ministry to the voted appropriations in the *Supply Act*, we noted that an amount totalling $12,130,000 included in the Estimates under the Ministry of Citizenship and Immigration had been omitted from the *Supply Act*. To rectify this omission, the Ministry of Finance obtained an Order-in-Council in fall 2006 approving the amount.

Ministry programs usually require funds before the *Supply Act* is passed, and the Legislature authorizes these payments by means of motions for interim supply. For the 2005/06 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:

- April 1, 2005, to June 30, 2005—passed March 8, 2005;
- July 1, 2005, to December 31, 2005—passed June 2, 2005; and
- January 1, 2006, to March 31, 2006—passed December 13, 2005.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because, for instance, the Legislature is not in session, section 7(1) of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council approved by the Lieutenant Governor on the recommendation of the government.

There were no special warrants issued for the fiscal year ended March 31, 2006.

TREASURY BOARD ORDERS

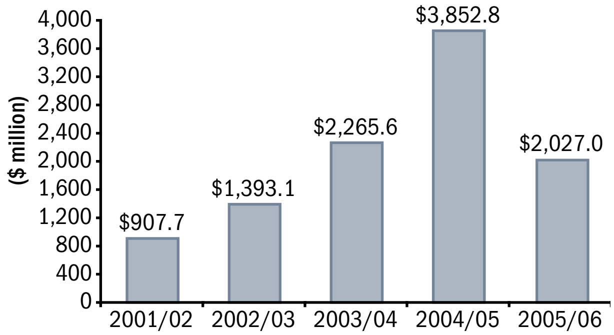
Section 8(1) of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any Voted Appropriation that is insufficient for the purpose for which it was made. Such an order can be made provided that the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the audit of the books of the government of Ontario for the fiscal year is completed.

Figure 3 is a summary of the total value of Treasury Board orders issued for the past five fiscal years. Figure 4 summarizes Treasury Board orders for the 2005/06 fiscal year by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to

Figure 3: Total Value of Treasury Board Orders Issued, 2001/02–2005/06

Source of data: Treasury Board



be printed in *The Ontario Gazette*, together with explanatory information. The most recent Orders printed in the *Gazette* were those issued for the 2004/05 fiscal year. A detailed list of 2005/06 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 3 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 that the Auditor General make special mention of the transfer(s) in the Annual Report.

With respect to the 2005/06 Estimates, the following transfer was made within Vote 201:

From:	Item 10	Members' Office Support Services	$80,000
To:	Item 9	Members' Compensation and Travel	$80,000

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

Figure 4: Treasury Board Orders by Month of Issue, 2005/06

Source of data: Treasury Board

Month of Issue	#	Authorized ($)
June 2005–February 2006	39	462,410,700
March 2006	44	1,293,234,600
April 2006	6	271,402,700
Total	**89**	**2,027,048,000**

any amount due to the Crown that is deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2005/06 fiscal year, receivables of $171 million due to the Crown from individuals and non-government organizations were written off (in 2004/05, the comparable amount was $208.5 million). The major portion of the write-offs related to the following:

- $46.9 million for uncollectible retail sales tax;
- $46.7 million for uncollectible corporate taxes;
- $26.7 million for uncollectible fuel taxes;
- $10.6 million for uncollectible receivables under the Student Support Program;
- $9.7 million for uncollectible employer health taxes;
- $7.9 million for uncollectible receivables under the Ontario Disability Support Program;
- $6.1 million write-down of an infrastructure loan made by the Province related to the purchase of the Ottawa Senators Hockey Club; and
- $5.2 million for uncollectible receivables under the Motor Vehicle Accident Claims Fund.

Volume 2 of the 2005/06 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against accounts receivable balances. Accordingly, most of the write-offs had already been expensed in the audited financial statements. However, the actual deletion from the accounts required Order-in-Council approval.