CHAPTER FIVE

Public Accounts of the Province

5.00 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. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the Assembly. Accordingly, the *Public Accounts* have normally been available for tabling by September 30 of each year.

The Financial Statements of the province are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the objectivity and integrity of the information presented in the Statements, including the many amounts which must of necessity be based on estimates and judgment. The government is also responsible for maintaining systems of financial management and internal control to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the Financial Statements of the province. This opinion is intended to provide reasonable assurance that the Financial Statements are free of material misstatement. The Financial Statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the *Public Accounts.* In addition to the Financial Statements, the *Public Accounts* include the following three supplementary volumes:

> *Volume 1* of the *Public Accounts* provides details of the significant transactions of the province's Consolidated Revenue Fund. It includes schedules of the Fund's revenues, expenditures, financing transactions, financial assets, liabilities and contingent liabilities. It also contains the individual statements for each government ministry.
>
> *Volume 2* contains reproductions of the audited financial statements of the most significant — in terms of size — agencies of the Crown and Crown controlled corporations. For purposes of consolidating the activities of these entities into the province's Financial Statements, they are classified as government service organizations, government enterprises, or trusts under administration. *Volume 2* also contains certain other audited and unaudited financial statements.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. *Volume 3* also contains the salaries of senior Ontario Public Service employees as required by the *Public Sector Salary Disclosure Act, 1996.*

The Provincial Auditor reviews the information in these three supplementary volumes for consistency with information presented in the Financial Statements.

THE PROVINCE'S 1996/97 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 fiscal year ended March 31, 1997 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, 1997 and the statements of operations and accumulated deficit and of changes in financial position 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 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. An 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, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by Section 12 of the Audit Act, *I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.*

Toronto, Ontario	*Erik Peters, FCA*
August 15, 1997	*Provincial Auditor*

5.00

ACCOUNTING PRINCIPLES RECOMMENDED FOR GOVERNMENTS

The Financial Statements reflect the implementation of accrual and consolidation accounting as recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA). PSAAB recommendations are contained in the CICA's *Public Sector Accounting and Auditing Handbook*. They represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments.

The Financial Statements also reflect, where applicable, the *CICA Handbook* for private and public corporations in Canada, for example, the recommendations on financial instruments disclosure and presentation.

Crown agencies owned or controlled by the government are consolidated in the Financial Statements as either service organizations or as government business enterprises. In accordance with revised PSAAB recommendations on the reporting entity, the province reclassified the Ontario Housing Corporation and the Toronto Area Transit Operating Authority (GO Transit) from government enterprises to government service organizations effective April 1, 1995. The impact on the 1996/97 and 1995/96 deficits was an increase of $98 million and $74 million, respectively.

Because of their unique nature, two of the largest agencies of the province, the Workers' Compensation Board and Ontario Hydro, warrant special mention.

Under the *Workers' Compensation Act*, funding of the Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the province. The Board has therefore been classified as a trust fund and details are provided in a note to the Financial Statements.

By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets are neither intended nor available for distribution to the province. Accordingly, Hydro is not consolidated into the Financial Statements, but details of certain aspects of Hydro's operations are disclosed in the notes. The province's guarantee of Hydro's debt is discussed below.

OBSERVATIONS ARISING FROM 1997 AUDIT

PROVINCIAL GUARANTEE OF ONTARIO HYDRO DEBT

As at March 31, 1997 the province had guaranteed various debt issues of Ontario Hydro totalling $29 billion. In its Financial Statements for the year ended December 31, 1996, Hydro reported that its regulated and monopoly status would likely change during the next several years to allow for more competition, and that its existing debt load was too great to compete in a more open and competitive marketplace. The Advisory Committee on Competition in Ontario's Electricity System has estimated that a $15 billion reduction in Hydro's existing debt would be required to restructure Hydro along more commercial lines and to offset unrecoverable assets.

Hydro had estimated $16 billion in potentially stranded debt (debt that may not be supportable in a fully competitive commercial environment) for "strategic discussion purposes" and expects that a suitable mechanism can be put in place to allow any stranded debt to be discharged over a reasonable timeframe without the need for rate increases. Hydro estimated that about $2 billion of the $16 billion of stranded debt related to assets that might not be recoverable and to uneconomic purchase agreements. As well, Hydro has stated that given the significant amount of uncertainty regarding the general shape of the future electricity industry in Ontario and specific uncertainties regarding future electricity prices, the existence and amount of any potential future loss was not reasonably determinable. Hydro has also stated that this does not pose a risk for holders of its bonds and notes as they are either held ($3 billion) or guaranteed ($29 billion) by the province.

As a result of the potential stranded debt and the recent developments regarding nuclear power generating plants, for which much of Hydro's debt was issued, we share the government's concern, as expressed in the province's 1996/97 Financial Statements, that the province's risk to make payments under these guarantees has increased.

PUBLIC ACCOUNTS TABLED EARLIER

As noted in the introduction to this chapter, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the Assembly. Accordingly, the *Public Accounts,* which include the audited Financial Statements of the province, have normally been tabled by September 30 of each year.

The Ontario Financial Review Commission was concerned that up to 18 months might elapse between the tabling of the *Budget*, which outlines the government's plans for the fiscal year, and the release of the actual audited results for the year. The Commission believed that the excessive length of this period impaired accountability. It recommended that the government's annual report and the *Public Accounts* should be presented no later than 120 days after the year-end, but preferably within 90 days. The Commission acknowledged that the incompatible accounting systems within the Ontario government made it very difficult to prepare the *Public Accounts* much earlier.

This year the *Public Accounts* and the province's annual report were tabled on September 9, 1997, almost three weeks earlier than last year's tabling date. This was a significant step in the right direction and required a determined effort by ministry and Crown agency staff and the staff of my Office.

In my 1996 *Annual Report*, I had recommended that significant accounting and disclosure issues be resolved earlier in the fiscal year. This becomes increasingly important as the government endeavours to move up the tabling date of the *Public Accounts*. I am pleased that Ministry of Finance officials have agreed to integrate consultation with my Office on all significant accounting decisions into their pre-*Budget* consultation process. This will help ensure that a consistent accounting methodology is used in both the *Budget* and the audited Financial Statements of the province.

5.00

NEW PSAAB STANDARDS

PSAAB attempts to foster improved financial and performance information by developing and promulgating recommendations for governments to deal with emerging accounting and auditing issues. There are several current projects at various stages of completion. One recently completed project warrants further discussion because of its significant implications for the future preparation and presentation of the province's Financial Statements.

TANGIBLE CAPITAL ASSETS

The private sector amortizes capital assets over their multi-year useful lives, whereas current practice in the federal and most provincial governments, including Ontario, is to expense the full cost of a capital asset in the year of acquisition in accordance with PSAAB recommendations. However, in June 1997 PSAAB approved a new set of recommendations dealing with government tangible capital assets. The Ontario Government is actively considering the implementation of these recommendations in the future.

These new recommendations require governments to define capital assets and set out rules for their recognition, measurement, amortization and presentation. We look forward to working in an advisory capacity on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that value for money is obtained, and that cost-effective business practices, systems and procedures are in place to manage, control and account for these assets.

Additionally, in implementing these recommendations, we urge the government to specifically address the following issues.

- The capitalization of physical assets should be implemented at the ministry and program level as well as at the summary Financial Statement level to ensure that individual ministry programs are properly costed.
- The government's appropriation process should be changed to include full accrual accounting for tangible capital assets.
- Clear rules for depreciation and valuing physical assets should be developed and implemented. These rules must be based on economic and financial realities and be applied in a consistent manner from one fiscal year to the next.
- Capitalizing physical assets could create the impression of an improved financial position or a reduction in expenditures when no improvement in the government's net debt position has, in fact, occurred. To address this situation, the government should ensure that the province's deficit is measured as the change in net debt as recommended by PSAAB.
- Infrastructure assets will require special consideration. For example, the government's investments in the province's highway system are difficult to appropriately allocate to accounting periods, and differentiating between investments in new capacity and maintaining existing capacity is often difficult. New accounting models may need to be developed to adequately address these issues.

Despite the challenges and the potential costs to the government of implementing the new PSAAB recommendations, it is my view that their application will enhance the value of the Financial Statements for both decision makers and stakeholders.

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, I noted a number of areas during the audit where I believed improvements could have been made. While none of these matters affects the fairness of the Financial Statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

AUTHORIZATION, PROCESSING AND RECORDING OF EXPENDITURES

During the past year, in nine ministries and the central agencies, we reviewed the adequacy of financial controls, systems and procedures for ensuring that expenditures were properly authorized, processed and recorded. Ministries require adequate financial controls, systems and procedures to provide reasonable assurance that financial records are complete and accurate and that programs comply with applicable legislation and policy directives.

We found that, on an overall basis, ministries had satisfactory controls, systems and procedures to ensure that expenditures were properly authorized, processed and recorded. However, in many of our reviews, we found that internal control procedures for two particular areas, accountable advances and payrolls, required strengthening. Although we noted weaknesses in other areas and made related recommendations, which were agreed to by the ministries, their nature and frequency was such that they do not warrant repetition here.

ACCOUNTABLE ADVANCES

Accountable advances (imprest bank accounts) are authorized by the Minister of Finance under section 14 of the *Financial Administration Act*. The purpose of these bank accounts is to provide ministries with the flexibility to meet their local requirements and make emergency payments that cannot be made efficiently through the centralized government payment system.

The total authorized amount of these accounts exceeds $50 million, and, for the year ended March 31, 1997, the value of transactions flowing through them was approximately $600 million.

The major control weaknesses we noted involved the timely reconciliation of these accounts. Although ministries are required to reconcile these accounts on a monthly basis to ensure that all transactions are legitimate and promptly and accurately accounted for, some ministries had not prepared reconciliations for several months. Other weaknesses pertained to ongoing unreconciled differences and the monitoring and recovery of individual employee advances. The lack of timely reconciliations and related matters expose ministries to the risk of inappropriate payments being made and remaining undetected for prolonged periods.

The ministries where we identified control weaknesses agreed to take action, and in some cases were in the process of taking action, to update the reconciliations of their accountable advances.

PAYROLLS

The central CORPAY system processes the bi-weekly government payroll, which includes the calculation of the associated deductions. Ministries are responsible for providing CORPAY with the information needed to calculate the employee payrolls. Once the payroll has been processed, CORPAY provides the necessary data files and reports to the various ministries for updating their internal accounting records, and to the Ministry of Finance for updating Central Accounts, the government's centralized financial accounting system.

Controls over all aspects of payroll processing are necessary to ensure that employees are paid the amounts to which they are entitled and that employee withholdings are accurately calculated and remitted.

Although a variety of weaknesses were noted, the most common were as follows.

- Gross payroll reconciliations were incomplete. Bi-weekly CORPAY payroll reports were not being compared to the previous bi-weekly payroll for each program area and in total to ensure that all changes were accurate and had been properly authorized.
- Clearance certificates for departing employees were not always completed to ensure that any ministry assets (for example, personal computers, access cards, corporate travel and purchasing cards, outstanding advances) were recovered before releasing the final payments.

Again, the ministries to which these weaknesses pertained agreed to take appropriate corrective action.

In CORPAY, there are about 50 payroll source deduction accounts (for items such as income tax, pensions, group life insurance and charities). We noted that a number of these accounts had unreconciled balances, some of which were significant and that reconciliations were substantially behind in being prepared. At the time of our review, reconciliations of all of these accounts back to the inception of CORPAY in 1992 were in progress.

OTHER - INTERNAL AUDIT

Internal auditors assist management in fulfilling its responsibilities by periodically examining both financial and management information systems, procedures and controls to provide assurance that they are operating effectively. Internal financial audits are designed to provide assurance that systems and procedures are adequate to safeguard assets and to produce accurate and reliable financial information.

In three of the above-mentioned reviews, we noted that, for various reasons (including ministry management priorities and reduced staffing levels), internal audit coverage of ministry financial systems and controls as well as of financial systems and controls in individual program areas has been lacking in recent years. Such lack of audit coverage increases exposure to losses and increases the risk that significant internal control weaknesses are not being promptly identified and corrected.

In many cases, internal audit branches are in the process of redefining their ministry audit universes based on the use of risk assessment methodologies. This work may require further review and revision once government-wide restructuring of internal audit services, now in progress, is finalized. In the meantime, it is important that internal audit branches provide sufficient coverage and devote the necessary quality and quantity of resources to audits of financial management controls and adhere to the professional standards established for internal auditors.

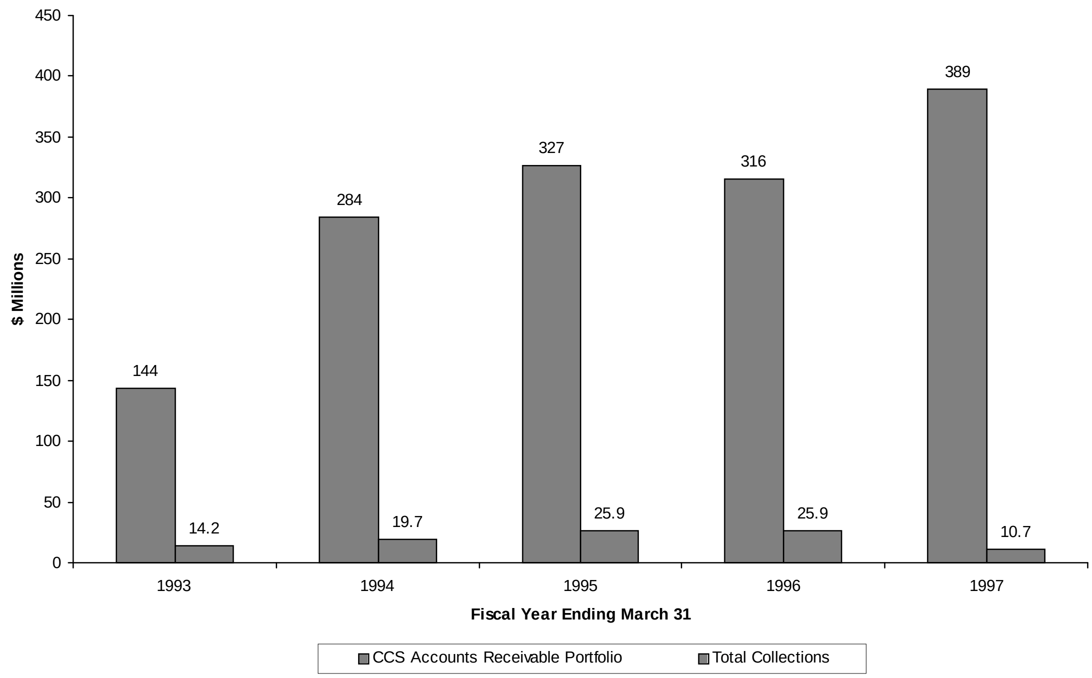
ACCOUNTS RECEIVABLE COLLECTION ACTIVITIES

In several value for money audits and the financial control reviews we noted a significant deterioration in accounts receivable collection activities. The instances noted related to receivables arising from the Ontario Student Loans program in the Ministry of Education and Training, provincial fines administered by the Ministry of the Attorney General and family benefit overpayments owing to the Ministry of Community and Social Services. These organizations as well as the Ontario Development Corporations informed us that one key reason receivables collections had deteriorated was because the Central Collection Service (CCS) of the Management Board Secretariat (MBS) was unable to accept many new accounts after June 1996.

Ministries and Schedule 1 agencies are authorized to refer the collection of non-tax accounts receivable only to the CCS, the government's internal collection agency. CCS has its own collection staff and also outsources collection activities to private collection agencies (PCAs). Several years ago we conducted a special audit for the Standing Committee on Public Accounts wherein we assessed the quality of receivables information and the timeliness with which it was transferred to CCS by ministries and agencies. We concluded that while the quality of information received by CCS was, for the most part, adequate to enable it to pursue collection activities, the accounts were generally not being transferred in a timely manner.

CCS advised us that as of March 31, 1997 it was responsible for a receivables portfolio of $389 million which included about $90 million of accounts previously written off that had recently been transferred to the PCAs as part of a pilot project. CCS informed us that the number and dollar value of new accounts transferred to CCS had dropped from 11,246 accounts totalling $35.1 million in the 1995/96 fiscal year to only 855 accounts totalling $3.6 million in the 1996/97 fiscal year. As the following chart illustrates, the amount of receivables collected by CCS and the PCAs also decreased significantly in the 1996/97 fiscal year compared to previous fiscal years.

CCS Accounts Receivable Portfolio and Total Collections



Source: Central Collection Service

In May 1996 the government announced that the collection of non-tax accounts receivable was a good candidate for outsourcing. At the time of the announcement CCS had a staff of 49; however, 20 staff including three collection managers left between May and December 1996 and were not replaced. We were informed that due to the reduction in staff and because the outsourcing was considered imminent, CCS decided not to accept most new accounts as the remaining staff were all needed to reconcile the older accounts and process collections.

Action to outsource CCS collection activities began in May 1996; however, the Request for Proposal (RFP) to the PCA community had still not been issued by the summer of 1997. In discussing the length of time needed to prepare and issue the RFP, we were informed by MBS and CCS that a number of human resource and staffing issues arose that had to be addressed. The following table provides a chronology of events.

Date	Events
May 1996	The government announced that the collection of non-tax accounts receivable was a good candidate for outsourcing.
June 1996	The balances in approximately 800,000 accounts currently handled by private collection agencies (PCAs) needed to be verified before being included in the primary outsourcing RFP to the PCA community.
July 1996	An unrelated RFP was issued for a number of Ministry of the Attorney General (MAG) accounts and other previously written-off tax and non-tax accounts.
August 1996	It was determined that the CCS computer system requirements needed to be refined to enable electronic linkage with the computer systems of the PCAs before the primary outsourcing RFP could be finalized.
September 1996	The ministries were informed how to meet their obligations related to outsourcing under the collective agreement. This enabled CCS to commence preparation of a business case to the Management Board of Cabinet (MBC) on outsourcing all collection activities. Existing contracts with PCAs expired and were not renewed pending the final outcome of the primary outsourcing RFP. Accounts with PCAs were transferred back to CCS.
November 1996	The business case to outsource CCS collection activities was submitted to and approved by MBC. The RFP for MAG and previously written-off accounts was awarded to four PCAs.
March 1997	The verification of the 800,000 PCA accounts was completed. This enabled CCS to proceed with finalizing the primary outsourcing RFP.
June 1997	A new manager for the Collection Management Unit was hired to oversee the monitoring of the PCAs. A consultant's report identified additional computer system requirements needed to enable CCS to effectively manage the outsourcing of the collection activity. As a result of the decision by the Grievance Settlement Board requiring the employer to make reasonable efforts at redeploying employees made redundant by outsourcing initiatives, the RFP has been put on hold.

The decision to outsource the CCS collection activities and the subsequent actions needed to implement the decision have taken significant time. During this time there was a reduced level of collection activity. Collection experience has shown that delays in collection efforts impair the ability to collect accounts receivable and increase the risk of not collecting at all. The immediate effect has been that receivables collected for the 1996/97 fiscal year are $15 million lower than the amounts collected in each of the two preceding fiscal years.

We are concerned that millions of dollars of collections may be foregone as the collectability of both those accounts presently with CCS, as well as those awaiting transfer to CCS, will continue to deteriorate the longer it takes to initiate effective and timely collection activities.

ONTARIO FINANCIAL REVIEW COMMISSION: UPDATE ON FINANCIAL REPORTING AND ACCOUNTING RECOMMENDATIONS

5.00

In November 1995, the Ontario Financial Review Commission submitted its report entitled "Beyond the Numbers: a New Financial Management and Accountability Framework for Ontario" to the Minister of Finance. The report contained a number of recommendations directed at improving the cycle of planning, monitoring, reporting and evaluating to ensure that programs meet real needs and meet them effectively. In its May *1996 Ontario Budget* the government outlined its response to each of the Commission's recommendations.

The Commission made recommendations in three broad areas. One related to financial reporting and accounting issues, where 15 specific recommendations were made. In my 1996 *Annual Report*, I reported that eight of the 15 recommendations had been implemented and the other seven were in the process of being implemented. The following chart outlines the current status of these seven recommendations based on information provided by the Ministry of Finance.

Recommendation	Current Status*
Adopt the PSAAB basis of accounting for the *Budget*, related spending authority and fiscal updates.	PSAAB standards are now used in *Budget* and fiscal updates. The government is working toward adopting PSAAB standards for spending authority as part of its implementation of one financial system.
Adopt one financial system for all ministries.	The government has initiated a project to implement one financial system, targeted for the 2000/01 fiscal year.
Present the government's annual report and the *Public Accounts* 90-120 days after the year-end.	The *Public Accounts* for 1996/97 were tabled in the Legislative Assembly on September 9, 1997. The Ministry of Finance will continue to review means to move up the *Public Accounts* release within the established target of 90-120 days. The 1995/96 *Public Accounts* had been tabled on September 30, 1996.
Release quarterly financial statements on the PSAAB basis and include updated fiscal and economic forecasts and comparison to *Budget* and prior year numbers.	The recommendation was accepted by the government. System changes are needed to permit reporting of year-to-date numbers on a PSAAB basis and will be implemented as part of the one financial system project.
The government clarify the ownership of Ontario Hydro to end confusion in financial reporting.	The government accepts this recommendation in principle and is working with Ontario Hydro on this and other matters impacting the future of the electricity market in Ontario.
A credible plan is needed to eliminate the unfunded liability of the WCB. The plan should include benchmarks and corrective action if benchmarks are not being met.	Bill 99, the *Workers' Compensation Reform Act,* is awaiting 3rd reading in the Legislative Assembly. Upon proclamation, the Bill would introduce changes in benefit levels and indexing that would immediately reduce the WCB's unfunded liability. These changes, coupled with significant service improvements at the Board, are expected to retire the unfunded liability by the year 2014.
The government continue to expense all spending on assets but adopt PSAAB standards for capital assets if and when new standards are issued.	The government is actively considering the future implementation of the recently approved PSAAB recommendations for tangible capital assets as part of the one financial system project.

**Source: Ministry of Finance*

As can be seen from the current status column of the chart, progress is being made by the government in implementing the outstanding financial reporting and accounting recommendations made by the Ontario Financial Review Commission. Nevertheless, several of the Commission's recommendations warrant further comment.

5.00

SPENDING AUTHORITY ON PSAAB BASIS

The government requires the approval of the Legislative Assembly for the funds it intends to spend each year. As a first step in requesting such approval, near the start of each fiscal year, the government tables an annual *Budget* outlining in general terms its proposed spending plans for the year. Shortly thereafter, the government tables the *Expenditure Estimates* which outline each ministry's spending proposals on a program-by-program basis. The Legislative Assembly then provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts that can be spent according to the *Estimates*.

The Ontario Financial Review Commission recommended "that the government adopt PSAAB standards for the *Budget*, related spending authority and updates on the fiscal situation." The government has successfully adopted PSAAB standards for the *Budget* and the quarterly fiscal updates.

With respect to spending authority, the Commission suggested making the entire process of planning and reporting consistent by using the PSAAB basis to prepare the *Estimates* and any other detailed financial information that supplemented or replaced the *Estimates*. However, the *Estimates* still are prepared on the modified cash basis of accounting. While a summary is provided, reconciling each ministry's proposed cash expenditures with their expenditures on a PSAAB basis as outlined in the *Budget*, legislative spending authority and appropriation controls are still on the cash basis of accounting.

The Commission also recommended that, besides providing quarterly fiscal updates, the "government produce quarterly financial statements on the PSAAB basis." It concluded that having the quarterly financial statements compare actual year-to-date results for the current year to the previous year would provide useful new information. While the government accepted this recommendation, it noted that system changes would be needed before year-to-date actual results on the PSAAB basis could be produced.

The Commission acknowledged that to change spending authority and appropriations control to the PSAAB basis would be very time consuming and costly, given the myriad of different accounting systems in place across the government that are presently geared to the cash basis of accounting. Additionally, the adoption of a PSAAB-based spending authority would require various legislative changes such as amendments to the *Ministry of Treasury and Economics Act*.

I understand that a number of other provinces have made or are in the process of making the necessary legislative and administrative changes for converting the spending authority to the PSAAB basis so that the process of planning, reporting, monitoring and evaluating is on a consistent basis of accounting. While acknowledging that this will be a significant undertaking, I encourage the government and the Legislative Assembly to work toward achievement of the same objective.

INTEGRATED GOVERNMENT-WIDE FINANCIAL SYSTEM

In view of the fact that generally Ontario government ministries had been using different accounting systems that were largely incompatible with each other, the Ontario Financial Review Commission recommended that the government adopt a single integrated financial management and reporting system. It concluded that such a system would offer a number of advantages, including:

- allowing on-line access to central data to support operational monitoring and decision making;
- eliminating duplication of effort and data storage among ministries;
- adopting new technologies that would improve service and accessibility of information, and lower costs; and
- allowing detailed expenditure information to be prepared on the PSAAB basis at a reasonable cost and facilitating the earlier preparation of the *Public Accounts*.

The Commission also recognized the contribution that an integrated financial system could make in addressing certain obstacles that the government was currently facing in meeting its deficit reduction goals in the most effective and efficient manner. The Commission noted that:

> *…At the ministry level, because (expenditure) cuts are applied uniformly, a ministry which is operating efficiently will face the same proportionate spending cut as a ministry which may be highly inefficient.*
>
> *This reflects a failure to set consistently rigorous performance standards for expected ministry and program performance. Existing financial-management and reporting systems in ministries are incompatible, so it is difficult or impossible to compare performance data on a consistent basis. …Moving to a single financial management and reporting system is vital to this effort and to measuring results consistently.*

The Commission also expressed concern that Ontario has been slower than other jurisdictions to pursue these benefits and was the only province that was not either currently using, or moving toward, a unified financial system. The Commission acknowledged that the Ministry of Finance had done a cost-benefit study of a single financial system and suggested that this study be reviewed externally.

In response, the Ministry of Finance engaged two private sector firms to jointly review its study and conduct a needs assessment and evaluation. The firms concluded that the current and future financial information needs of decision makers in the Ontario government could not be met by the existing systems. In April 1997 the government approved the implementation of a single, integrated, corporate financial system. An implementation plan and timetable have been developed and a new senior level position has been established to provide appropriate leadership for this important and technologically challenging project.

PROVINCE OF ONTARIO ANNUAL REPORT NOW PREPARED

In my 1995 *Annual Report* I urged the government to prepare an annual report consisting of an easily understandable analysis and management commentary on the financial and operational results for the year. The Ontario Financial Review Commission also recommended that the government produce an annual report and suggested that it:

- include financial statements comparing actual results to prior year results and to the *Budget* plan;
- include a 10-12 page "management discussion and analysis" section reporting the financial and economic highlights and performance against the goals set out in the *Budget* and business plan; and
- be written in clear, non-technical language, using graphics where appropriate.

For the second consecutive year, the Province of Ontario has tabled an annual report. These reports go a long way toward enhancing the fiscal accountability of the government to both the Legislative Assembly and the public.

5.00 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. Additionally, 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 one 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 then 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, 1997,* pertaining to the fiscal year ended March 31, 1997, received Royal Assent on September 3, 1997.

Prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 1996/97 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:

- December 1, 1995 to April 30, 1996 — passed November 23, 1995;
- May 1, 1996 to October 31, 1996 — passed April 16, 1996; and
- November 1, 1996 to April 30, 1997 — passed October 24, 1996.

SPECIAL WARRANTS

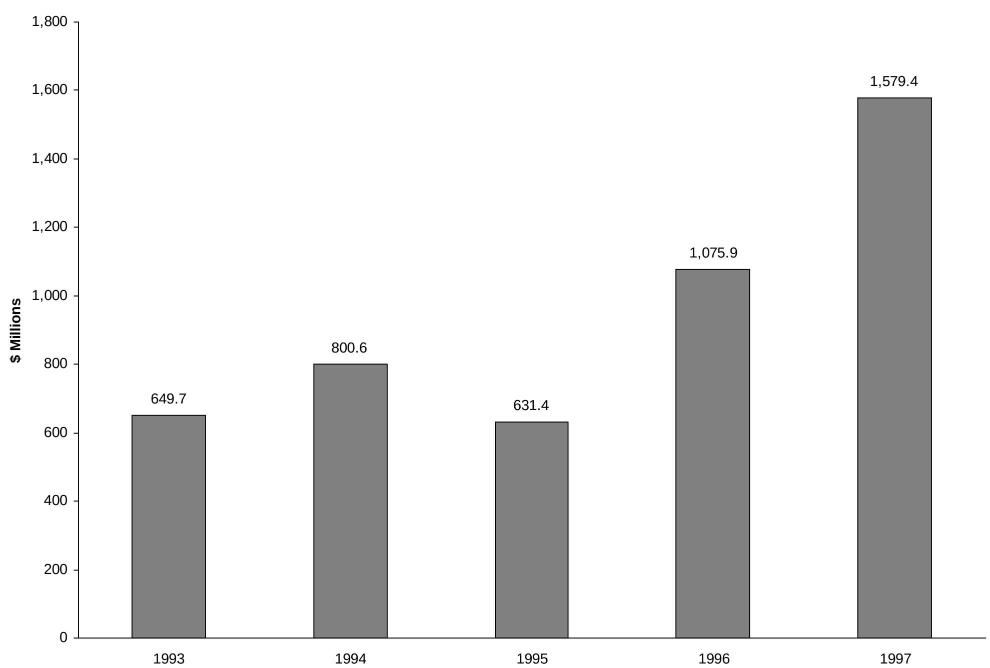
If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by 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, 1996 to March 31, 1997, no Special Warrants were required during the 1996/97 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 which 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. 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 Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 1996/97 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
September 1996-February 1997	18	666,736,500
March 1997	7	184,130,900
April 1997	15	728,564,400
	40	1,579,431,800

5.00 In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders have been listed in *The Ontario Gazette*, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this Report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

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

In respect of the 1996/97 *Estimates*, the following transfers were made within Vote 201:

From:	Item 5	Assembly Services	$	94,000
To:	Item 4	Finance and Administration		51,000
	Item 10	Restructuring Costs		43,000

In addition, within Vote 202, $21,000 was transferred from Item 3 (Office of the Information and Privacy Commissioner) to Item 4 (Office of the Integrity Commissioner).

UNCOLLECTABLE ACCOUNTS

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

In the 1996/97 fiscal year, receivables of $116.5 million (in 1995/96 the comparable amount was $185.7 million) due to the Crown from individuals and non-government organizations were written off.

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 $116.5 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. Page 3-105 of *Volume 2* of the *Public Accounts* provides a listing of these write-offs in total by ministry or Crown agency.

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

- $76.8 million for uncollectable taxes relating to various tax receivables;
- $13.3 million for uncollectable loans made under the *Development Corporations Act*;
- $9.7 million pertaining to uncollectable overpayments made under the *Family Benefits Act* and the *General Welfare Act*; and
- $6.7 million for uncollectable loans made under the Ontario Student Loan program and the Ontario Study Grant Plan.