
CHAPTER SIX

The Office of the Provincial Auditor

6.00

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit Six in this Report).

The Office thus fulfils its mission by conducting audits of ministries and agencies and by presenting an Annual Report to the Legislative Assembly. Additionally, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Public Accounts of the province and the Annual Report of the Provincial Auditor.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 1997/98 fiscal year have been audited by a firm of chartered accountants appointed by the

Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

AUDIT RESPONSIBILITIES

PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation.

Our audit responsibilities do not extend to government policy matters. The Office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, per subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's summary financial statements and carries out cyclical value for money audits in accordance with subsection 12(2) of the *Audit Act*. Exhibit One in this Report lists the value for money audits conducted in 1997/98.

AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, part (i), lists the agencies audited during the 1997/98 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit Two, part (ii), and Exhibit Three list the agencies of the Crown and Crown controlled corporations audited by public accounting firms during the 1997/98 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

During the period of audit activity (October 1997 to September 1998) covered by this Report, the Provincial Auditor was involved in the following two special assignments:

- At the request of the Standing Committee on Public Accounts, the Provincial Auditor undertook a review of the compensation provided to those affected by the ice storm of 1998 in Eastern Ontario. We expect to report to the Committee in October 1998.
- At the request of the Minister of Natural Resources, the Provincial Auditor undertook to report on specific individual concerns expressed by the Fish and Wildlife Advisory Board. We expect to report to the Minister in September 1998.

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AUDIT ACTIVITIES

TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of our value for money and attest audits. In addition, inspection audits of selected grant recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit categories.

VALUE FOR MONEY

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities each year. We have summarized in Chapter Three the conclusions, observations and recommendations arising from the value for money work we performed between October 1997 and September 1998.

It is not part of the Office's mandate to measure, evaluate or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of the ministry or agency management. The Office is responsible for reporting whether or not ministry or agency management has carried out these functions satisfactorily. Our value for money work deals with the administration of programs by management, including major information systems.

We plan, perform and report our value for money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity and value of our work for our client, the Legislative Assembly of Ontario. They also require that we clearly explain the nature

and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT

Major ministry and agency programs and activities are audited at approximately five-year intervals. However, various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness and breadth of scope of the work done by internal auditors can have a major impact on the timing, frequency and extent of our audits. By having access to internal audit work plans, working papers and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

OBJECTIVES AND ASSURANCE LEVELS

The objective of our value for money work is to meet the requirements of Section 12(2) of the *Audit Act* to identify and report significant value for money issues. We also include in our report recommendations for improving controls, obtaining better value for money and achieving legislated objectives. Management responses to each of these recommendations are reproduced in the report.

The specific objectives for the work are clearly stated in the “Objective and Scope” section of each report. Our work is designed to allow us to conclude on our stated objectives.

In almost all cases our work is planned and performed to provide a high or audit level of assurance. Audit level assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

A “high level of assurance” refers to the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the use of testing; the inherent limitations of control; the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgement.

Infrequently, for reasons such as the nature of the program or activity or the prohibitive cost of providing a high level of assurance, our Office will perform a review rather than an audit. A review provides a moderate level of assurance because it consists primarily of inquiries and discussions with management, analyses of information they provide, and only limited examination and testing of systems, procedures and transactions.

CRITERIA

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached

and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources such as: recognized bodies of experts; applicable laws, regulations and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed and agreed to with senior management responsible for the program or activity at the planning stage of the audit or review.

COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, office staff meet with them to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, office staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and give them an opportunity to finalize the responses. As mentioned above, these responses are provided with the report sections.

COMPLIANCE WITH LEGISLATION AND RELATED AUTHORITIES

Section 12(2) of the *Audit Act* also requires the Office to report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value for money work we:

- identify provisions in legislation and authorities that govern the programs or agencies being examined or that their management is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Where the responsibility for monitoring for compliance with certain legislation has been assigned to an independent person or office, such as the Environmental Commissioner in the case of the Environmental Bill of Rights or the Human Rights Commission in the case of the Human Rights Code, we would assess the procedures and actions taken by them only when performing value for money work in the respective organization.

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ATTEST

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the province and of various Crown agencies on an annual basis.

INSPECTION AUDITS OF GRANT RECIPIENT ORGANIZATIONS

Grants to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 50% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals and school boards. However, in recent years, the Office has deferred major inspection audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of grant recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two in the section entitled *Legislative Proposals to Improve Public Accountability*.

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Provincial Allowances and Benefits program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor.

REPORTING ACTIVITIES

VALUE FOR MONEY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit or review is completed. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The resulting draft report with the ministry or agency response included is then reviewed with the appropriate deputy minister or agency head (chair). Following clearance of the preliminary draft report and the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of the Management Board of Cabinet.

These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

AGENCY ATTEST AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter with management's response included is also reviewed with the agency's chief executive officer. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head. Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

Section 12(2) of the *Audit Act* specifies the reporting requirements for the *Annual Report*.

Chapter Two of the *Annual Report* contains observations on the subject of improving public sector accountability.

Chapter Three contains the reports resulting from our value for money audits of ministries and agencies conducted during the year.

To ensure that our recommendations receive timely attention, we follow up on the progress of action taken by the ministry or agency to address our audit observations and recommendations and report on their status two years after they were reported. A detailed account of the current status of recommendations made in the *1996 Annual Report* is provided in Chapter Four of this Report.

Chapter Five is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the Province. The reporting requirements under subsections 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Six we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited financial statement for the year ended March 31, 1998.

Chapter Seven provides information on the composition and activities of the Standing Committee on Public Accounts.

OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The Provincial Auditor, the Assistant Provincial Auditor and the portfolio directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1998 consisted of:

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|------------------------|---|---|
| Erik Peters, FCA | - | Provincial Auditor |
| Ken Leishman, CA | - | Assistant Provincial Auditor |
| Jim McCarter, CA | - | Executive Director, Finance, Public Accounts, Management Board Secretariat and Professional Practices Portfolio |
| Walter Bordne, CA | - | Director, Community and Social Services and Revenue Portfolio |
| Andrew Cheung, CA | - | Director, Justice and Regulatory Portfolio |
| Gerard Fitzmaurice, CA | - | Director, Economic Development and Transportation Portfolio |
| John McDowell, CA | - | Director, Crown Agencies, Corporations, Boards and Commissions Portfolio |
| Nick Mishchenko, CMA | - | Director, Health Portfolio |
| Gary Peall, CA | - | Director, Education and Training, and Municipal Affairs and Housing Portfolio |

Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

CODE OF PROFESSIONAL CONDUCT

The Office has a *Code of Professional Conduct* to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations.

CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 26th annual meeting of the Council of Legislative Auditors was held in Yellowknife, Northwest Territories from August 16 to 18, 1998. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's conference, which covered such topics as:

- government accounting standards;
- performance measurement for audit offices;
- public sector accountability; and
- a joint session with the Canadian Council of Public Accounts Committees on the subject of *Governments Moving into the Third Millennium*.

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ACKNOWLEDGMENTS

EXTERNAL ADVISORY COMMITTEE

The External Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile and provides advice relating to sensitive audit issues. The Committee meets at the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies and other entities for their cooperation in providing his staff with all the information and explanations required during the performance of the Office's audit work.

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 1998 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor
Statement of Expenditure
For the Year Ended March 31, 1998**

	1998		1997	
	Actual (\$000s)	Estimates (\$000s)	Actual (\$000s)	Estimates (\$000s)
Salaries and wages	4,314	4,838	4,500	4,581
Employee benefits	1,133	1,124	680	678
Transportation and communication	179	154	126	179
Services	1,434	1,386	1,375	1,381
Supplies and equipment	294	73	153	59
Transfer payment - CCAF – FCVI Inc.	50	50	50	50
	7,404	7,625	6,884	6,928
The Audit Act	167	168	138	138
	7,571	7,793	7,022	7,066

Notes:

1. Accounting Policy

The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.

2. Pension Plan

The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.

The Office's contribution related to the PSPF for the year was \$582,858 (1997 - \$162,892). The increase is due to the termination of the pension holiday provided by the Ontario Public Service Employees' Union Pension Act, 1994.

3. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of Ontario public sector employees paid an annual salary in excess of \$100,000 in calendar year 1997. For the Office, this disclosure is as follows:

		<i>Salary Paid</i> \$	<i>Taxable Benefits</i> \$
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	<i>161,489</i>	<i>5,770</i>
<i>Leishman, Ken</i>	<i>Assistant Provincial Auditor</i>	<i>125,000</i>	<i>311</i>

These amounts do not represent the actual annual salary rates, since they include payments in 1997 for salary adjustments retroactive to July 1, 1996.

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Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1998. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

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

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1998 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 8, 1998

ALLEN & MILES
CHARTERED ACCOUNTANTS

