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## **Official Report of Debates (Hansard)**

**Thursday 14 June 2001**

## **Journal des débats (Hansard)**

**Jeudi 14 juin 2001**

**Standing committee on  
public accounts**

2001-02 Estimates,  
Office of the Provincial Auditor

**Comité permanent des  
comptes publics**

Budget des dépenses 2001-2002,  
Bureau du vérificateur provincial

Chair: John Gerretsen  
Clerk: Tonia Grannum

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

## COMITÉ PERMANENT DES COMPTES PUBLICS

Thursday 14 June 2001

Jeudi 14 juin 2001

*The committee met at 1004 in committee room 1.*

### 2001-02 ESTIMATES, OFFICE OF THE PROVINCIAL AUDITOR

**The Acting Chair (Mr Bruce Crozier):** I'll call this meeting to order. The first item on the agenda is correspondence from the Provincial Auditor regarding the 2001-02 estimates of the Office of the Provincial Auditor. It's my understanding everyone has a copy of this letter. It's at your pleasure, but I'll open the floor for any discussion.

**Mrs Lyn McLeod (Thunder Bay-Atikokan):** I don't mind leading off the discussion. I'm not sure if you would want the auditor to make some comments first.

**The Acting Chair:** Do you want to make a statement first, Mr Peters?

**Mr Erik Peters:** If I may, Chair.

**Mrs McLeod:** If you do, please go ahead.

**Mr Peters:** The reason I wrote the letter regarding the denial by the Board of Internal Economy of \$609,000 of my estimate of money required for 2001-02 is actually twofold: firstly, to apprise your committee of the impacts of that denial of funds; secondly, to comply with the linkage between the board and your committee through section 29 of the Audit Act. Section 29 states that the Chair and Vice-Chair of this committee shall be notified of meetings of the board to review or alter the estimates presented by the auditor. I so notified them. The Chair and the Vice-Chair were allowed by the board to attend only part of the review in spite of the Chair's request to attend all of it.

As part of my estimates submission, I advised the board that my office is funded at about one third of the average level of the other Canadian legislative audit offices per \$1,000 of government revenues and expenditures. I attached an illustrative extract from my estimates submission to the letter to the Chair.

This means that if my office were funded at the level of the next-leanest audit office in Canada, my office's estimates would be about \$10 million higher than the \$8.9 million I requested. If my office were funded at the average funding level of the other Canadian legislative audit offices—I took out PEI for this one because of its smallness; it would be a tenfold increase if I were funded like PEI so I took them out of this average—I would be

funded at \$27 million, or about \$19 million more than we are currently getting.

In staffing terms my office has fewer staff than, of course, the federal office—they have 430 more staff than I do—124 less than Quebec, 33 less than Alberta and 10 less than British Columbia.

In 1991 my office received nine cents per \$1,000 of government revenues and expenditures compared to 6 cents now, or a drop of about 33%.

I also advised the board that my office's approved staff complement has been decreased over the past nine years, from 115 to 85, or about 26%, while revenue and expenditure subject to audit has increased by 38%. The rate of inflation in that particular period of time has been around 12%, taking 1992 as a zero base. I also attached an extract from our estimates submission to the Chair, and you can see what we call the jaws of death. Our staff is going down and the government expenditures and revenues are going up.

At the present time, how do we react to it? Forty per cent of my office's staff is at the student level, which is the only staff level at which we can offer competitive pay. Even with that, I can only afford 79 staff members at the present funding level.

I had requested an increase over the 2000-01 estimates of \$609,000 principally to fund the hiring of five additional staff members—it was the initial step and actually I had hoped to increase by five over the next three years to get back to about 100 in three years' time; second, to fund pay increases prescribed by the Ontario public service, whose salaries and benefits apply to my staff; third, to fund specialist assistance for the Bruce lease special assignment; fourth, to fund contract staff for auditing the implementation of the new government-wide accounting system, which is something we have recommended for years and is finally getting in place and we need some special contract staff to help us with that; fifth, to fund contract staff to assist in auditing the financing derivatives used by the government—I'm not sure whether you are aware, but the Ontario government uses derivative instruments more than any other government in Canada, including the federal government, and that's a very complex auditing area; sixth, to fund contract staff to meet the tightening deadlines of agency attest audits. The Ontario Financial Review Commission recommended that the public accounts be issued sooner after the year-end than they were before, and that means the agencies of the crown also have to get their accounts

out earlier and we have to audit them earlier, which overlaps between my value-for-money and the attest work that is going on.

#### 1010

My request was denied by the board.

The impact of that denial on my office's operation is significant. Key impacts are:

Reduction of the number of value-for-money audits. In 1993 we reported on 21 such audits; in 2001 we will report on 11;

Not staffing to the full complement of 85 staff members; we can currently afford only 79. In other words, the instruction is really to redirect out of my already very small budget, because I absolutely refuse to refuse my staff raises they are entitled to that their counterparts are getting in the Ontario public service;

Extending the risk-based audit frequency of major government programs; for example:

Long-term care: last audited 1995; approximate program cost, \$1.4 billion;

Highway construction: last audited 1993; approximate program cost, \$1.1 billion;

Colleges funding: last audited 1996; approximate program cost, \$400 million;

Training: last audited 1996; approximate program cost, \$368 million;

Cosmoc drug benefit plan: last audited 1991; approximate program cost, \$400 million.

The impact of the denial on special assignments under section 17 of the Audit Act by the assembly, by this committee or by a minister is generally that we will be able to handle such requests only if they have minimal resource requirements.

Specifically, as outlined in my letter of June 7, my office is not sufficiently resourced to carry out the special assignment requested by this committee to conduct a value-for-money audit of the Bruce lease of the Ontario Power Generation company.

As to the special assignment regarding Cancer Care Ontario, which requires much less resources than the Bruce lease audit, we are looking at a deferral toward the end of this calendar year.

The impact of the denial of funds on the work of this committee is that there will be fewer issues to deal with, thereby reducing the effectiveness of your committee. As to special assignments, my other work will most likely have precedence, as allowed under section 17. That is, we will not be able to carry out this work if it requires resources which we do not have, or if it forces me to drop other audits.

In spite of our low funding, we will continue to do our best in assisting 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.

In the last eight years we have made over 800 recommendations to ministries and agencies to achieve better value for money. Ministries and agencies to which we

have made our recommendations have taken action to implement them or made commitments to implement the improvements we recommended. In quantifiable dollar terms, a conservative estimate would be that by implementing the recommendations of my office, the government has saved, or would have saved, the taxpayer well over half a billion dollars. In qualitative terms, for example, through the sentinel effect, the contribution of my office to improve administration and delivery of government services is difficult to underestimate.

The impact of the board's reduction by \$609,000 of the funds requested to perform my responsibilities under the Audit Act must be considered in light of the fact that my office is already by far the most underfunded legislative audit office in Canada, and, incidentally, represents the first time, to the best of my knowledge, that my request for funds has been reduced by the committee based on review. In previous times we appeared—at one stage, I appeared with the Chair of this committee and we had the executive assistant of the Speaker come out and say, "Everybody come back next time with a 5% cut," but that was not based on a review. We then did adjust our estimates and that was approved. In fact, as long as I've been the Provincial Auditor, to the best of my recollection, that's only the second time I actually met with the board on my estimates.

As a servant of the Legislative Assembly and of the public accounts committee, I consider the inadequate funding provided as interfering with my office's ability to fulfill our responsibilities under the Audit Act in a timely manner and as counterproductive to good public accountability.

I've brought this before you because I think there is a clear link established under the Audit Act between this committee and the Board of Internal Economy, inasmuch as the Chair was invited. With that, I'd be happy to entertain questions.

**The Acting Chair:** Thank you, Mr Peters. We have those comments and the letter.

Thank you, Ms McLeod, for waiting. I'll open the floor for discussion.

**Mrs McLeod:** Is it possible, first of all, to obtain a copy of Mr Peters's presentation to the committee?

**Mr Peters:** I have provided an extract. Are you asking for the whole thing, the one I just read?

**Mrs McLeod:** The one you just read, yes.

**Mr Peters:** Yes, speaking notes. There are some, not quite delivered as written.

**Mrs McLeod:** It will be on Hansard, but sometimes Hansard takes some time before we receive it for committee.

**Mr Peters:** I'll arrange that.

**Mrs McLeod:** The alternative would be to see if we could expedite the Hansard transcription.

**The Acting Chair:** Discussion?

**Mrs McLeod:** I have a second question related to this, and that's that Bill 46 is before the House now. I think I've got the right number. It stands in the name of the public accountability act. My question is whether that

bill—I just don't know—provides for public audits of public institutions, like hospitals, that are not now subject to audit? Is that part of Bill 46?

**Mr Peters:** I can help you out. The bill I've seen provides for reviews of transfer agencies initiated by the Minister of Finance. It stands as a separate act from the amendments of the Audit Act that this committee has been dealing with, and which incidentally are provided to the Minister of Finance as well. There is an awareness from my discussion with the Minister of Finance that those two are separate.

**Mrs McLeod:** I appreciate that. I had been told by someone that they believed that Bill 46 opened hospitals and other public institutions that are not now subject to audit, because they're not directly run by government, to the Provincial Auditor. So that's the explanation I needed. I think it's fair to say that with that provision in Bill 46, it's entirely possible that requests of your office could expand significantly if the intent of the public accountability act is to be carried forward, that all of the broader public sector institutions are to be subject to greater scrutiny. That's part of my reason for being particularly concerned with your letter and the concerns you've made very clear about the budget situation of your office.

My other concern is as health critic and it is twofold. One is the long-term-care situation and the fact that it has not been audited, I believe you said, since 1995. That's an issue that is causing considerable concern. I think there would be an expectation—not a hope but an expectation—that there would be an examination of issues around long-term care. The second issue for me is clearly the resolution, which this committee supported, that I put forward earlier this year to have a value-for-money done of the cancer care clinic that has been set up privately. I am deeply concerned when I hear that the lack of funding—and you did indicate at the time that the committee passed that resolution, Mr Peters, that it would require funding to be able to carry out the special audit. I'm concerned that the denial of that funding by the Board of Internal Economy will result in a deferral of that audit until the end of the calendar year. The contract for the private clinic will expire at about that time, there will be a question of whether or not it should be renewed, and if the audit is not completed well before that, then the purpose of having a value-for-money audit and subjecting the question of the private clinic's financial operation to a comparison to the public sector will be simply lost.

So I want to very strongly express a shared concern about the reduction in the budget request you've made. I would like to hear some discussion from the committee, but it would be my intention to put forward a motion asking that the Board of Internal Economy review the auditor's request again, review the budget request with a view to addressing the inadequacies of the Ontario audit budget in comparison to every other province in the country.

**1020**

As well, I would move that there be consideration given to the special audit requests that have been made

and are going to continue to be made of the auditor. I don't believe special audits that are requested by this committee or by the government should be done at the expense of the ongoing audit function of the Provincial Auditor's office. I think there has to be a recognition of supplemental funding for special audit requests.

**The Acting Chair:** Ms McLeod, have you just given notice that you will make that motion, or would you like some discussion?

**Mrs McLeod:** I'm prepared to table a motion, but I don't want to put this into a formal setting if there is a willingness on the part of the committee to draft something in common.

**The Acting Chair:** OK. Ms Martel.

**Ms Shelley Martel (Nickel Belt):** I have two issues that worry me. I'm not sure how we're going to deal with either of them, although I have a proposal for one.

The first is the general problem of the ability of the office to deal with its work. I think a drop from 23 value-for-money audits in 1992 to 11 some 10 years later is a significant drop. It conflicts greatly, I think, with what the government is trying to do now in terms of accountability, both in terms of all of the words that came out around accountability of the budget, but secondly by the mere fact that Bill 46 is coming forward and will require much more stringent procedures for any number of transfer payment agencies. I think the contradiction between the government moving hard with respect to transfer payment agencies and then having a situation where the auditor, who is independent and who is elected by all of us, does not have the funds to do the value-for-money audits of even each ministry is a problem.

I'm not trying to make it a partisan issue. I think we need to consider that because I think the auditor has—and this committee has seen it—offered some really valuable recommendations that have forced the government to make some changes. I think about what happened around Andersen Consulting and those changes. Were it not for a review of that, the government would not have gone back and made the changes they did which essentially saved taxpayers' money. I think we need to deal with that as a committee and I hope we can come to some consensus around that approach, which would be an approach, I hope, to increase the funding.

The second issue clearly for me has to do with the OPG-Bruce deal. Given that I moved the original motion on October 5 for the auditor to look at this special assignment, and I did it, as I said at the time, specifically in light of the comments the Premier had made on July 14, two days after the lease arrangement was made public, which were that he was quite open to have a committee look at this deal, that he felt quite confident that it would uphold public scrutiny. This committee, after two weeks and four hours of hearings, finally came to a motion that called on the auditor to do this special assignment once the licences from both the OEB and the Canadian nuclear safety board were obtained, which they have been.

I read through the committee hearings for both of those weeks again last night and can clearly point to a

general agreement that this should be done. That was made clear by both Mr Maves and Ms Mushinski, although Ms Mushinski moved an amendment to my motion at the end which delayed the assignment until after those leases were obtained.

I would like to see how the special assignment can continue to go forward, because this is the single biggest lease of a public asset in the history of the province and I think it deserves some public scrutiny to make sure we have value for money. So I have some questions and then I have a motion.

My first question would be to Mr Peters. If I'm correct, the estimates you gave to the board were general annual estimates for your office.

**Mr Peters:** That's right.

**Ms Martel:** Was it done under section 23 of the Audit Act?

**Mr Peters:** Under section 29.

**Ms Martel:** Not under section 23.

**Mr Peters:** We also built in a piece under section 23.

**Ms Martel:** Did you file actually two separate estimates?

**Mr Peters:** No, the overall estimate is filed under section 29 of the Audit Act, and within the estimates itself we identified specifically \$85,000 that we required to be funded under section 23; in other words, specialist assistants to my office to deal with special situations such as—

**Ms Martel:** Can I ask, when you appeared before the board, was there much discussion about the budget, and what was the nature of the discussion?

**Mr Peters:** The first part was actually an acknowledgement that—they said, "Let's put this aside, that you have the least funded office in Canada," but then asked me for essentially the elements that made up the dollar amount, the increase that I'd asked for. I gave them the explanation which parallels the explanation I gave to you today.

**Ms Martel:** OK. So there was a mix in that estimate of ongoing operating funding and a request for an increase, and one-time funding for the special assignments? There was a mix of both for them to consider.

**Mr Peters:** That's right, and that was explained to the committee. As I explained to this committee as well, at the time when it was debated, my decision to proceed was depending on getting the necessary funding from the Board of Internal Economy.

**Ms Martel:** OK. So you identified about \$85,000 as the request to have some special expertise to carry out the OPG-Bruce?

**Mr Peters:** Yes. We identified actually that it would be anywhere between \$50,000 to \$200,000, because we weren't sure, and we had picked \$85,000 just to put a number on the table at that time.

**Ms Martel:** If you got \$85,000, would you be in a position to undertake the assignment?

**Mr Peters:** No, because I had also built in an additional five staff to get me up, and that's where the additional problem is. We also needed other contract staff to

replace on other audits, to pull the people off. As I think I pointed out to the committee at the time—I think Mr Maves asked the question of me whether I would have to drop other work. The idea was that if I got what I asked for from the Board of Internal Economy, namely the \$600,000, I would be relatively OK.

Maybe I can add a footnote, if you'll allow me. I have just read with great interest the amendment to the audit act in Saskatchewan which deals with this issue in a rather unique way, which might be of interest. That is that the auditor builds in a fund for special assignments, and if the fund is not used, then it's of course returned to the treasury. So that's one way of another Legislature dealing with the particular problem of special assignments.

We are dealing with it through the statutory appropriation.

**Ms Martel:** Could you give the committee a more specific idea of the funds you think would be necessary to undertake the OPG assignment?

**Mr Peters:** At this point I don't think we have sufficient precision, because the key meeting to determine that is being initiated, actually is set for tomorrow morning. We're meeting with senior executives of OPG to discuss the Bruce deal and the documentation and what is available. We have done some preliminary work, but not sufficiently at this point to formulate actually an estimate of the dollar amount that is required.

**Ms Martel:** So would it be your opinion that after you have the meeting with the senior OPG staff, which I'm assuming is clearly on the assignment, you could give the committee a better idea of the funds you think might be necessary?

**Mr Peters:** We hope so. It will take up to about a week afterwards to put everything together. This is just identifying the document, rather than providing the document, so there's a little bit more look-see that we have to carry out.

**Ms Martel:** But it could clearly come forward as a number—we don't know what the value of that would be—as a one-time request to deal with this assignment that the committee has directed you do?

**Mr Peters:** We could.

**Ms Martel:** OK. Then unless there are some other questions, I ask the indulgence of the committee for a moment to consider a motion in this respect. I think that section 23 of the Audit Act, which is the section where the auditor can make a specific request for one-time funding, is an area that we should pursue.

If I can just give the committee an idea of what the section says, I'm quoting, "The auditor from time to time may appoint one or more persons having technical or special knowledge of any kind to assist the auditor for a limited period of time or in respect of a particular matter and the money required for the purposes of this section shall be charged to and paid out of the consolidated revenue fund."

I've drafted a motion I'd like to share with members of the committee, which would do the following. I'll read

it into the record. There's a correction that's not on the sheet that's coming to everyone. I'll read it into the record and then give you the correction so you can print it in on your own copies.

**1030**

I move that the public accounts committee directs the Provincial Auditor to return to the Board of Internal Economy as soon as possible to seek special, one-time funding, as per section 23 of the Audit Act, to enable him to carry out the committee's direction established on October 12, 2000, that he "examine all details of the leasing agreement between Ontario Power Generation (OPG) and Bruce Power Partnership for the Bruce A and B nuclear facilities, to determine if the deal offers value for money for Ontario taxpayers, and to report back to the public accounts committee with his findings and recommendations as soon as possible."

The committee members will recognize the section that's in quotes. That comes from the motion that was moved by Ms Mushinski at our meeting on October 12. The first part of that motion is missing, but the first part was the requirement that the licensing be completed between both the OEB and the Canadian Nuclear Safety Board. I dropped it because those requirements have been met. The rest appears exactly as was the motion the committee ended up passing. The reference to section 23 of the Audit Act would go after "one-time funding," at the end of the second line, if you want to add in "as per section 23 of the Audit Act." That's a very specific section under the Audit Act that speaks very specifically to one-time funding, which is what I would be urging the committee to have us recommend the auditor ask for.

The second issue, the ongoing operating funding and the new staff, is a significant one. I'd like us to deal with that too. But this specific request refers only to the additional contract staff that would be required to carry out this assignment.

**The Acting Chair:** Ms Martel, you may be aware of this, but the motion as you have read it is out of order, as the standing committee on public accounts does not have the power, nor is it within its mandate, to direct the auditor to return to the Board of Internal Economy.

**Ms Martel:** I think the wording we got from the clerk yesterday was "recommend." I apologize; you're right. We checked it with Tonia and there was supposed to be a change. So we had, "The public accounts committee recommends...." My apologies.

**The Acting Chair:** That has been so moved. Discussion?

**Mrs McLeod:** I've had my motion circulated. To keep the discussion on Ms Martel's motion, she will recognize that my motion deals with the broader budgetary request. I would hope the committee would deal with the broader budgetary request. I would also hope that if there is to be a direction from the committee to deal with the special audit request, we could either include or have as a separate motion the request to deal specifically with the other recommendation of this committee, which was on the cancer care clinic.

Shall I move my motion, Mr Chair, as well?

**The Acting Chair:** No, we have to deal with the motion that is on the floor.

**Mrs McLeod:** Then may I ask Ms Martel, would you care to include it or would you prefer to see the cancer clinic as a separate motion?

**Ms Martel:** Perhaps the auditor can give the committee some idea. If you got a special allocation of funding, could you carry out the CCO audit as soon as possible as well, versus November and December, and would it be appropriate then to add an additional staff salary if that is what it will take to ensure that both assignments are carried out? I don't know what you had in mind in terms of dealing with the Cancer Care Ontario audit.

**Mr Peters:** The Cancer Care Ontario audit, as I pointed out, requires a lot less resources and a lot less specialist assistance in this regard. I do appreciate the motion to deal with the special assignment. I also would like to plead for the committee's overall support to deal with the overall funding shortfall that my office is facing. I'm specifically pointing out to you that it is not that we cannot do our job in a professional way, but specifically the timing is now very much of importance, because in the past we have been able to give early notice to the Legislature of problems, like we warned of situations like what ultimately turned out to be Walkerton, for example, in 1994. In our 1995 audit on long-term care, we pointed out the linkage of planning long-term-care beds with the demographics of the province; in other words, the aging population. So we have been able to give early notice in a whole raft of instances, and that facility is also going down.

So I appreciate the support to conduct the special examinations, but I also would plead for support really, in a way, for the overall situation.

**The Acting Chair:** What I'd like to do is determine what the motion is. The motion has been made, and I think that unless it's going to be amended, we should discuss the motion.

**Mr Bart Maves (Niagara Falls):** Chair, I'm sorry. I have two motions in front of me and they're different, so I don't know—

**The Acting Chair:** The only one that's been read is the one that's typed.

**Mr Maves:** What's this one?

**Mr Dave Levac (Brant):** To be moved.

**The Chair:** That may be moved, Mr Maves.

**Mr Maves:** I apologize. They were both put in front of me at the same time, and I wasn't sure which was which.

**Mrs McLeod:** I didn't move mine, in the event that we could reach some consensus on what the appropriate motion would be.

**Ms Martel:** That's what I'm still trying to determine. I'd be quite happy to add something to mine. What I don't know and what I need the auditor to answer is what you need to do the CCO audit in a timely fashion versus November or December. Another contract staff person to

do that work: is that what you need, on a one-time basis? If it's not, then I won't put it into this particular request, because this request is clearly talking about one-time-only contract staff.

**Mr Peters:** Quite frankly, I have some difficulty in answering that question, because what is happening is that my staff, after the Cancer Care Ontario audit, is very familiar with Cancer Care Ontario. If I hired outside contract staff now, there would be quite a learning curve that still would take time to get involved in that. What I would prefer to do is really to use existing staff and supplement existing work with contract staff where that can be more easily done.

For example, the competing problem I'm facing right now is that we have to do 40 attest audits, and it's easier to contract for attest audits than for special value-for-money audits such as the one on Cancer Care Ontario. But to say—

**Mr Maves:** Sorry to interrupt. Forty what kind of audits?

**Mr Peters:** So-called attest audits, where we opine on the fairness of the statements—

**Mr Maves:** OK. I just didn't hear what you had called them.

**Mr Peters:** If you were to say to engage the contract staff to supplement the office in a broader sense, I'd be fine. If it were to hire contract staff specifically only for the CCO audit, I would have a problem with it.

**The Acting Chair:** Shall we move on in the discussion on your—

**Ms Martel:** Yes, but I think we should keep the items separate then.

**The Acting Chair:** Discussion on the motion by Ms Martel?

**Mr Levac:** Having heard what I just heard, my specific question is, as you've outlined, Mr Peters, the \$608,000 is included in the request for doing the special audits. Did I hear that right?

**Mr Peters:** The special audits are—

**Mr Levac:** Are inside of that.

**Mr Peters:** Yes.

**Mr Levac:** Having done that, is there a process that takes place that if it's one-time funding to do this, then if Mrs McLeod's motion passes, there would be some type of mechanism that would separate that, where if we passed this motion, then that special funding would be taken out of the \$608,000?

**The Acting Chair:** I just remind you that Mrs McLeod's motion is not on the floor, but you do have it in front of you.

**Mr Levac:** If, and I would use the word "if," this motion is put before us and we decide to go back and say to the Board of Internal Economy, "We really think you need to give us the \$608,000," and let's say, surprise, surprise, they give us \$608,000, does that money get removed from that audit that is now being put before us, the special amount of money that's being asked for, one-time funding? Am I making myself clear?

**Mr Peters:** I would have to think about that question. I'm not 100% clear on the question.

**Mr Levac:** OK. It's going to cost money to do this, one-time funding.

**Mr Jim McCarter:** If we got the \$608,000, we would be able to do the hydro funding. Part of the \$608,000 is a recurring thing for additional staff. Part of it is a statutory item to hire people just for the hydro audit. That would not be recurring. In next year's budget we would take that back out because we would not need it. It's a bit of a mix.

1040

**Mr Levac:** If the other motion comes, we'd be covered off by that as well.

**Mr McCarter:** If we had approval for the \$608,000.

**Mr Levac:** I'm assuming that Ms Martel is not assuming we are going to get \$608,000 and that we are looking for that amount of money immediately so we can proceed with what you're requesting. Thank you for that clarification.

**The Acting Chair:** Further discussion on the motion?

**Mr Maves:** I have a series of questions for the auditor. I hope he doesn't mind. Part of this stems from your letter and your charts and whatnot.

**Mr Peters:** Sure.

**Mr Maves:** How much of your budget goes to salaries and benefits?

**Mr Peters:** Let me get the exact numbers for you. Jim, do you want to answer that?

**Mr McCarter:** I've got the numbers. Salaries and benefits: we had asked for \$6.7 million out of about \$8.9 million.

**Mr Maves:** Yes, but what are the actual numbers for the past year, because that was your request, right?

**Mr McCarter:** Yes. Last year we had, approved, \$6.4 million.

**Mr Maves:** Out of \$8.3 million?

**Mr McCarter:** Out of \$8.3 million for salaries and benefits.

**Mr Maves:** What's that on a percentage basis? Come on, you guys are accountants.

**Mr McCarter:** We are accountants. Don't ask us.

**Mr Peters:** Very close to 80%

**Mr Maves:** It's 80%.

**Mr Peters:** Roughly.

**Mr Maves:** What is the other \$2 million?

**The Acting Chair:** It is 77%.

**Mr Maves:** I thought it was a little—so the other 23% goes to—

**Mr McCarter:** Do you want the high-level breakdown?

**Mr Maves:** Sure.

**Mr McCarter:** Transportation-communication, about \$170,000; services, which is largely rent, \$1.6 million; supplies and equipment \$123,000; we have a transfer payment to the Canadian Comprehensive Auditing Foundation of \$50,000; we have statutory appropriations of \$294,000. Hopefully the math is right and that should add up to \$8.9 million.



**Mr Maves:** Can you tell me what statutory—

**Mr McCarter:** Statutory appropriations, \$294,000.

**Mr Peters:** There are two parts. There are payments made under section 23 and under section 5, which are out of the consolidated revenue fund, which we include in the estimates. They are paid out of the consolidated revenue fund and not necessarily by vote.

**Mr McCarter:** The reason we put the Hydro in there—we don't really have a good idea what the specialist expertise for the Hydro will be. It could be \$200,000; it could be \$50,000. But if we get approval as a statutory item, even though it is approved at \$85,000, my understanding is that if it costs \$125,000, we are still allowed to spend that amount of money, if it's approved as a statutory item.

**Mr Maves:** Who do we pay rent to, a private sector company whose building you're in?

**Mr Peters:** Yes. We just renegotiated, incidentally, on very good terms.

**Mr Maves:** You said you hadn't allowed any staff salary increases over the past few years. What are your staff salaries, out of curiosity? Yours is public, I think. I'm just curious what most of the staff—

**Mr McCarter:** Basically, it's required under the Audit Act that our staff are at the classification levels the civil service comes under. Our managers are at that classification; our directors are at that classification; our auditors and our supervisors are at similar classifications. Our students are under contract, so they are at a lower amount. Essentially we follow the government salary scales.

**Mr Maves:** Could you give me a rough estimate? I'm just curious. There's a lot of talk about salaries around this place.

**Mr Peters:** Let me be very clear. What we've built in is fairly low. For the SMG level—that's the senior management group—it is a little bit higher, but below that, it is running only around something like 3% max.

**Mr McCarter:** Essentially we pay whatever is approved for the government, say, for SMG merits; we adopt that percentage. Whatever is approved for salary increases for the lower levels—

**Mr Maves:** Can you give me numbers, though? I don't know what they are and I don't want to have to go away and look. I'm just curious.

**Mr Peters:** Bart, if I may answer that question in another way, my staff, once they graduate, get hired away like hotcakes for tremendous increases outside, and even within, the public service.

**Mr Maves:** I don't doubt that and I'm not in any position where I want to argue.

**The Acting Chair:** Are you looking for what an average CA on staff would make?

**Mr Maves:** No, there are three levels. I'm just curious what their salaries are: senior management group managers, directors, supervisors.

**The Acting Chair:** Can we give a high and low?

**Mr Peters:** Yes, giving a rough range—Jim, correct me if I'm wrong—the student range is anywhere from

about thirty-odd thousand to about \$45,000, somewhere in that range. The audit senior and supervisor range would go anywhere from about \$55,000 up to about \$75,000, somewhere in that range. The SMG ranges, which I don't have in my head right now, are actually the ones approved by order in council which start at about—

**Mr McCarter:** There was a recent increase, but they used to range from about \$75,000 on up to an assistant deputy minister, which is about \$130,000. Basically our managers are paid the same as a manager in the civil service, our directors are paid the same, and as the assistant auditor myself, I'm equivalent to an assistant deputy minister position, basically whatever those salary ranges are; but they would be about—I'm guessing—maybe \$80,000, \$95,000, for those two levels.

**Mr Peters:** Does that answer your question?

**Mr Maves:** Yes, somewhat.

**Mr Peters:** Well, go ahead.

**Mr Maves:** Part of the charts you gave was number of staff going back to 1990-91. I'm curious to note your staff went down by 20 from 1990-91 to 1995-96. What was your actual budget in 1990-91? I don't want every year, but representative. From 1990-91, what was it, and what was it in 1994-95?

**Mr McCarter:** Mr Maves, in 1992 it was \$8.1 million.

**Mr Peters:** If I may add a footnote to that, according to statistics we have just received from the government, using 1992 as a basis, the consumer price index has grown about 13% since then.

**Mr Maves:** Do you have any other years? You've got 1991-92.

**Mr McCarter:** Yes, I've got all the years. In 1995 it was \$8.1 million; 1999 was \$7.7 million.

**Mr Maves:** Between 1991-92 and 1995-96 it must have dipped down, because you gave up 13 staff.

**Mr Peters:** Yes, very much so.

**Mr Maves:** So in this decade, what did—

**Mr Peters:** In 1997 it dropped to about \$7.1 million, \$7.066 million, actually.

**Mr Maves:** In 1992-93 and 1993-94 you lost staff, so I'm assuming you—

**Mr Peters:** That's true, we lost staff. There was a reduction of about \$100,000 over those years, from \$8.149 million in 1992 to about \$8.096 in 1994. That was also, if I may remind you, the time of the social contract. That impacted on us.

**Mr Maves:** So you went down to \$7.7 million in 1999-2000, and last year you were at \$8.3 million.

**Mr Peters:** That's right.

**Mr Maves:** One of the members opposite mentioned, and I was unaware of these numbers, that you did 23 audits in 1992-93 and 11 in 2000-01. Off the top of my head, I would imagine the gross number of audits a year is dependent on a lot of things. You could do some audits that take all kinds of resources and in that particular year you do fewer audits, and in other years you do a lot of audits, where each one takes fewer resources. Does that

average out through the years, and is the number of audits a fair way to look at what the office is doing?

**Mr Peters:** That is a very good question. First, we have brought the number before you because this raises a number of issues I can bring before you. Why the reduction now is significant is that to cope with the low funding of my office, 40% of my staff now don't have a designation. They're at the student level. They are out of university and they are coming straight in. That puts a tremendous stress on my senior staff, because they have to simultaneously do very complex work and at the same time do the supervising. For example, it used to be that a manager could handle at least two value-for-money audits in the past. Now because of the staff mix we have, we had to reduce that to one, because they can handle only one. The director in my office, who could previously handle four, is now handling two. That is one of the most influential factors in this particular situation.

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Just to put another perspective on it, the government is, to a great extent, engaging outside consultants currently to do the kind of work that we are doing. They're doing it at incredible rates. For example, we found in one audit that, just to prepare a business case, the ministry paid a consulting firm \$1 million. The work is very similar to what we are doing. You can see the disparity. To answer your question specifically, the most significant influence, to put a positive spin on it, is what we called the rejuvenation of our office, by hiring more at the lower levels. But that puts a tremendous stress on the office and reduces the number of audits we can do.

**Mr Maves:** In the early 1990s, were you averaging 20-plus audits a year and now you're down to, on average, 11 or 12 audits a year?

**Mr Peters:** We were in about the 18 to 20 range at that time. Now, as I said, we have had to extend the audit cycle.

**Mr Maves:** Do you have an average over the past six or seven years of about how many audits you're now doing?

**Mr Peters:** I think it is almost a steady decline, like 15 the year before. It has gone down. You are quite right also in your question. That's where it is tough to answer, because of the mix of the audits themselves. As I pointed out, Cancer Care Ontario can be done with fairly minimal resources while other audits—for example, if we audit forestry management, it takes significant resources, it takes travel time, it takes our staff way up into the north country and that sort of thing.

**Mr Maves:** Last year when you got a \$600,000 increase in the Board of Internal Economy, is the discussion around that on Hansard or was that in camera?

**Mr Peters:** You mean at the board?

**Mr Maves:** Yes.

**Mr Peters:** The Chair was there. We were asked, actually, the very question that you asked here: if you do this work, do you have to drop others? The question was raised by the board of whether this committee was aware that if we took the assignments, I would have to reduce

other work. The answer was yes, you were aware, because we made you aware in the discussion. That was the extent of the discussion. What happened afterwards about that answer I don't know.

**Mr Maves:** The numbers I was given were that you had \$7.7 million in 1999-2000 and this past year you had \$8.3 million. So you had a \$600,000 increase in your budget. What was the rationale on the Board of Internal Economy for that, just because they had realized that over a period of time your budget had remained stagnant and actually dropped in 1991-92, so it was a general realization that it was time for an increase in the auditor's budget, or was there some specific reason between 1999-2000 and 2000-01 they gave for giving you that increase?

**Mr Peters:** Some of it is a fairly mechanical and fairly complex issue that arose out of the fact that in certain years they decided that certain pension contributions, for example, on behalf of the employees would be made out of a central fund rather than individual budgets. Then we were asked to fund it again. Now we are asked to reduce it slightly because we are not giving that money. What I mean by that is that the pension contributions to the pension plan, to a certain extent, were handled by Management Board and not by the individual entities. That has been one of the major factors of the increase. When that was restored, we have to fund it again. I would be less than forthcoming with you if I didn't mention that also in the current year there is again a reduction for it of about a quarter of a million dollars, which helps us greatly in giving merit increases to our staff. But that's pretty well used up.

**Mr Maves:** So is that discussion before the Board of Internal Economy? You're right: budgeting is a fairly mechanical and complex thing. I'm just curious if that discussion surrounding your budget is something that's done in camera, or is that on Hansard?

**Mr Peters:** Now I can answer your question fully. In the eight years that I have been in office thus far, I've only discussed my estimates with the board twice. In all other cases, the board made its own decision and actually gave us the money that we had asked for. This is, as I said, the first time that I met with the board. I made my presentation, and I was faced with the reality that the board decided to reduce my request.

**Mr Maves:** Turning to another question, when I moved my private member's bill several years ago to increase the scope of the auditor's authority to do audits of hospitals, colleges, universities and so on, I remember at the time having some discussions. I had some of my colleagues say, "That scares me, because how big has the auditor's budget become?" I said, "No, I've had discussions about that, and what the auditor's office would do is, they have a basket of 15 audits that they do in any given year; they would then just broaden the basket of things that they could audit." So while they do 15 audits of 30% of government spending or numbers like that, where they look at internal programs of each ministry, they could now use those same resources to do audits of a bigger basket of items. They could go into the University

of Toronto or one of the hospitals and so on and use those resources to do audits of those other institutions.

Now, when you broaden that basket, over time I can see us having the government of the day saying they need some more resources. But I think everyone was on record and was clear to me saying it wouldn't necessarily mean that you would have to double the budget; that you would now choose to do different types of audits. So when Ms McLeod raises the appropriate question about once the Audit Act is expanding—because much to my delight and, I know, yours and several other people's, Mr Gerretsen, who is normally our Chair, also had a similar bill last year, I believe, to expand the authority of the auditor to do audits in more institutions. That possibility of doubling the budget or changing the amounts of audits: that is still the case, in your mind, right? When the government of the day passes that bill and we open up access to you to all of those institutions that we transfer money to, you will just move resources and decide to do different audits than you've been doing over the past 10 years. Will that be a large part of how you handle those new assignments?

**Mr Peters:** On the mechanics, you're right: the audit universe will be enlarged and we will continue to carry out risk assessments of the individual programs or entities being funded. But what I'm pointing out to you now is that because of these funding cuts and the relationship that is funded, I cannot see my way clear any longer such that I can really say that I would serve the Legislature well by conducting only 11 value-for-money audits out of a tremendously enlarged universe that is there. Some additional funding will be necessary.

Just to give you some idea, I have brought these figures forward with a great amount of concern for my legislative colleagues across the country, because virtually every auditor across the country has gone forward with asking for increases in their funding, far larger than mine in many cases, and in some cases have already received them; others haven't because the Legislature has recognized the complexity of the work, alternate services delivery and all other features that have to be brought in.

So I would say to you that we're delighted that the Audit Act has finally come to the forefront. We are also encouraged to some extent by the Public Sector Accountability Act, which was introduced immediately after the budget, but that public sector accountability will not allow us to do our work with fewer resources. I would suggest to you that at the current funding at six cents per \$1,000, I would not be in a position, without additional funds, to handle that audit universe.

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**Mr Maves:** Well, ultimately the Board of Internal Economy will make that call, right?

**Mr Peters:** Yes.

**Mr Maves:** We all are aware of that, but in discussions we've had, and as I put forward my bill and Mr Gerretsen put his and in the government's understanding of what happens when they open up the Audit Act, it's been clear all along that everyone says, "Well, you'll use

your same resources to do audits of a greater universe," as you put it, "of potential audits." So that is the case, and I understand that you're saying you will be able to do a much better job of that if you have a larger budget. I understand that, but I just wanted to make it clear that it's not that all of a sudden you need a whole new budget to do all of these new audits, that there's actually going to be movement from your current budget to do audits of a greater universe.

When we had discussions—and I don't even need to look, starting off the bat, in Hansard. When this committee had discussions about the Cancer Care Ontario contract audit and the OPG audit, very clearly at the time we had discussions—and I pulled the Hansard from the OPG discussions. I was very clear at the time in saying to you and the committee that my dilemma with that—although I was fine and we went on the record right away as supporting in principle the audits that were put forward by the opposition, we had the discussion at the time, a very thorough discussion, that the problem with this is that you, by your act, choose what to audit, and you have to have some freedom to do that. So I asked at the time, if you do these audits, where do the resources come from? Do you divert them from existing audits or do you have to get new money? We were very clear around this table about that discussion in that if it required new money, then you'd have to go to the Board of Internal Economy, and that's indeed what you've ended up doing.

We've had this discussion, I say to this committee. One of my fears, actually—and I wonder if you have a similar fear—is that the more often this committee, or ministers who have the authority, request that you do an audit, the more often we come forward and ask you to do audits, aren't you a little bit worried about your independence? I can see the possibility of a deepening politicization of your office, and I think all parties would want to avoid that.

**Mr Peters:** That, I think, is an excellent point, and that is why I have taken the very unusual step of bringing my estimates before this committee. Yes, I do have that concern that effectively—if you take it ad absurdum, it means that really a government, because it has a majority on the committee—and I'm not saying that to discuss any stripe; I'm using small-g government—could essentially load up my office to such an extent with special work that I won't be able to do any of the work that our risk assessments show should really be done. That would be an absurd situation and has never arisen, but we are getting closer to this when I have to handle special assignments. And we even have to enter into the debate, do you have to drop something on the other end if you do this, because we do a very careful work in our risk assessment. The Chair and I, for example, have had lengthy discussions where he thinks it's worthwhile of me coming forward to the committee and really discussing with you how we select audits, because we do it on a very strict regimentation of risk assessments to determine the audit frequency.

What I am concerned with now is that because we are funded so low, yes, I share that fear, I share that concern with you that I could get to the point where a significant part of my resources does special assignments, without doing the work that really risk assessment would dictate we should do.

**Mr Maves:** Even if you had, though, a doubling of your budget, one of my concerns is that the opposition parties or a government party could continue to ask you to do special assignments because they believe that the results of your special assignment will suit their political purposes. That makes me nervous, because I think that runs against the spirit of the intent of your office: that you have independence to choose whom you audit. The more this committee, the more perhaps ministers, decide to ask you to do certain audits, at the end of the day—I'm not going to put a motive to my colleagues on the other side, but perhaps their motive for the OPG might have been, "Wow, we think the auditor will come out and say this is an awful contract, so we want to be able to slap the government with, 'You signed a bad contract.'" Maybe the government will want to have you do an audit of an institution so that it will justify us taking over a transfer agency or something like that. It really makes me nervous that we could be headed down that road of totally politicizing your office. I'd be surprised if you didn't share that concern.

**Mr Peters:** I share the concern. As the percentage of resources required to do special assignments increases, to that extent, yes, there will be a certain degree of politicization. The more we are directed, the less independent we get.

**Mr Maves:** Right.

During the debates that we had October 5, 2000, in Hansard, and I'm referring specifically to some of the discussions we had about asking you to do the audit on OPG, I said, and I'll read from page 267, "... the committee assigned a certain number of assignments that competed with the assignments that the auditor's office wanted to do and the Board of Internal Economy said, 'No, you can't have any more resources,' and so the auditor had to choose what took precedence?" The Chair then said, "I think the section is quite clear on that.... He has to do his regular work first." You said, "That's right. It says that these 'assignments shall not take precedence.' That means that the assignments that I have determined I should do take precedence."

**Mr Peters:** That's right. That's what the section reads.

**Mr Maves:** Right? OK. Then you said, "There are two ways of dealing with it: additional resources," which is what you've gone to the Board of Internal Economy to do, "or deferring in terms of time." So on the OPG audit, have there been any discussions with regard to doing the audit but deferring it in terms of time?

**Mr Peters:** In this particular case, we felt that actually the deferment had already occurred through the motion by making the item dependent on the licensing arrangements being in place. So at this point a certain degree of deferment had already taken place. Remember that that

discussion took place in October. We submitted our estimates in about March, I think, to the assembly. So the discussion has taken place and we have, because of the decline of the resources that we identified to the board, decided that it was not a matter of deferment in time; it was a matter that the resource requirements would be so strong that they would interfere or they should not take precedence over my other duties.

**Mr Maves:** But you had a choice of two routes to go. You went the one route to ask for more resources. Members opposite said that doing the audit, once the contract is agreed to—the contract's already been signed and agreed to, so you're not going to be able to change it, so what's the difference if you do the audit this year or next year? The contract's there.

**McLeod:** The contract expires in a year.

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**Mr Peters:** No, that's Cancer Care Ontario, but the Bruce deal is at 20 to 30 years.

There is a concern as to what our audit will actually accomplish in that regard. The CBC piece that I already distributed to the committee cites a U of T professor saying that the deal is a financial disaster. I don't know whether it is or not—we haven't looked at the examination—but that is what was broadcast on the Canadian Broadcasting Corp.

So how much difference our audit is going to make is how this committee will ultimately handle the outcome of our audit, because we are working together with this committee on these things. We can come to our conclusion and then we bring it forward as a special assignment for the committee to deal with. But to come back to the point, we have decided it makes such a strong demand on our resources, which is even stronger because we have been refused the money to do it, that I came forward to you and said I couldn't do it.

**Mr Maves:** You further said, on page 267 of Hansard—we talked about how you would go about doing the audit on the OPG contract, and in the discussion you brought up subsection 9(3), which states that you would first be—I don't know if it's required, but your first approach is to approach the current auditor at OPG and say, "What do you know about this particular transaction?" and that auditor shall provide you with "all working papers, reports, schedules and other documents in respect of the audit, or in respect of any other audit the corporation specified in this request." On page 268 you said, "Why reinvent the wheel if they have already done some work?"

So the discussion centred around the fact that before you would decide on whether or not you would put staff to do an audit of OPG, you would work with Ernst and Young, which is the auditor of OPG, and get all the reports, working papers, schedules and so on to determine whether you even needed to divert your resources to do that audit. Has that work been completed?

**Mr Peters:** I've had contact with them, but because Ernst and Young's work is confined to issuing an opinion on the fairness of the financial statements, it is my under-

standing that there is no specific work done along the nature of the assignment we were given by this committee.

As a result, I deferred discussions with Ernst and Young until I met with the senior executives of OPG to give us a layout of the whole transaction. From that we then would determine what information we require from Ernst and Young. I talked to the senior partner from Ernst and Young and so have advised them, and that was OK. So we have communicated on it, we have continually communicated with them, but we want to find out what all the documents are that are available, and then determine which of these have actually been assessed by Ernst and Young and which have not been assessed, as part of their attest work on the job.

**Mr Maves:** Why would you make that request to the Board of Internal Economy before having those conversations with the senior executives at OPG and making the determination that there were not sufficient papers available to you?

**Mr Peters:** As we said, we had to really estimate only. That was a very preliminary estimate, but it was also because of the nature of the motion, which said we should not commence any audit work until the licensing arrangements were in place. They were only put in place, actually, at the end of May; in May sometime we were advised of it. The minute we got word from both the OEB and the Canadian Nuclear Safety Association, we started our work and that's when the communications started.

**Mr Maves:** But from that point, shouldn't your office's first actions be to have those meetings with Ernst and Young about what papers were available, and then have that meeting with the seniors at OPG and have the discussion with them to determine what might be available before you would go ahead and have the audit? I'm just saying the cart got put before the horse a little bit, it seems, because you still have to follow through on determining whether you need to do the audit and whether papers might be available from Ernst and Young and OPG that would preclude you from having to divert your resources.

**Mr Peters:** No. The fact of the matter is that as soon as the motion was passed by this committee, I was in touch with Ernst and Young. That was already way back in October, I think, when the motion was passed. When we prepared our estimates I knew already from Ernst and Young that they had not done work in this area, because they only—well, not “only”—they had to do the attest audit of OPG. Of course the lease not being executed at that particular time when they had to formulate their opinion, it was not an issue in formulating an opinion on the fairness of the financial statements of OPG. We knew at that time that there were no special records or anything we would get from Ernst and Young on this particular situation.

**Mr Maves:** But you haven't met yet with seniors at OPG to discuss the transaction.

**Mr Peters:** No. That meeting was set for tomorrow. It was the earliest date they could give me. I don't want to

prejudge the meeting, but I suspect we will get the same answer; in other words, that there are no Ernst and Young working papers dealing with this particular situation, that virtually all the documents we have to look at have to be seen by looking at OPG's direct records.

**Mr Maves:** Is it possible that after meeting with executives at OPG, they may come forward with some of their own paperwork to offer to your office and that your office might come back and say, “OK, this is good enough. We don't need to do a value-for-money audit”? Is that a possibility.

**Mr Peters:** No. From what we know this far, I don't think that's a possibility. I think we'll have to do extensive audit work there, and in fact we will get outside advice. We need engineering advice. We require probably some assessment as to whether the costing was right as to what it would cost to reactivate the reactors. We need specialists, for example, to look at such things as the market rates of electricity, what rate is implied. There are other issues involved as to, what is the return on investment and how was the investment itself determined? Those numbers we can get certainly from the audit working papers and we will use those to the maximum. But as to the cost of the investment, all communication this far that has taken place is that there was no special work done by Ernst and Young on this particular issue.

**Mrs McLeod:** Chair, I realize the comments I want to make address the broader issue of the audit budget in its entirety as opposed to the specific motion. I'll stand my comments down if you could leave me on the list once the motion has been placed.

**Mr Hastings:** Mr Peters, a couple of things. I am most interested in your letter to us—memo, whatever you want to call it—about the additional staff you're asking for. What kind of specific specialties are required in the new people if they were granted to you? You're saying about four or five pages in, where you list the bullets, down about the sixth bullet, “to fund contract staff for auditing the implementation of the new government-wide accounting system.” The next one I find the most intriguing: “to fund contract staff to assist in auditing the financing derivatives used by the government.” Are you saying one of the new people you would need as a specialty is lacking in the staff you have already? Is it the level of experience in analysing the use and application of derivatives and how much risk is involved in some of those situations? You're looking at it around the bond issues that are issued by the province and its agencies, I assume.

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**Mr Peters:** Most of our hedging is actually done through the Ontario Financing Authority, which is dealing with protection against fluctuations in interest rates, foreign exchange currency, as well as maturity dates. Very sophisticated arrangements are being made. One of the problems we are facing is that those people who really can assess the situations are very few and far between. We actually had quite good staff but they immediately went for the big bucks elsewhere. Once you

have that specialty, they go out. What we are currently doing is that we still have staff on hand who are sufficiently qualified to supervise the work, but the actual conducting of the work—we went to the major accounting firms, who of course are facing these issues in their bank audits continually and therefore it falls into the area of really specialist training. They have given us advice on it and we have decided to contract their staff, rather than having high-priced specialists continually on staff for, say, a three-month audit window. It is less expensive. It is far more economical to hire as much assistance from the outside as we can for the short bursts of activity, and also because it is so specialized.

**Mr Hastings:** I assume you have students and you have some junior auditors, middle-range auditors, senior auditors based on years and the projects and where they were before they started here. What are the salary ranges you have right now in effect for these situations, especially for the person or persons you require for auditing the derivatives situation?

**Mr McCarter:** The in-charge auditor we have who's handling our derivatives section would be a chartered accountant with a couple of years of experience. Maybe I shouldn't say his salary on the public record. It would be in the range of \$58,000 to \$68,000. To go out to contract people from CA firms, say a chartered accountant with experience in the derivatives area, we will probably need to pay about \$130 an hour. What we are trying to do is bring in a couple of people with that experience from outside and get some knowledge transfer to our more junior staff. Again, because we used to have three or four people who had quite good expertise in the derivatives area and we are now down to about one or two, we have a very difficult time getting the work done. We have gone out and we are bringing in one or two people to help us out. It's expensive, but we feel we need that to get the work done. We are hoping to get some good knowledge transfer down to our junior staff so that next year we don't have to do that.

**Mr Hastings:** What's the private sector comparable for a salary range for somebody who left who had some experience with us?

**Mr McCarter:** If you are asking, when we lose our new CAs typically, often they will get what's called a \$5,000 golden handshake and maybe anywhere from a \$6,000- to a \$9,000-salary increase.

**Mr Peters:** The handshake is for joining, not for going away.

**Mr Hastings:** Yes, plus also the potential for a partnership in about eight or 10 years. What other specialties are missing in your operation right now or, if not missing, need beefing up?

**Mr Peters:** Right now, I would say we are totally abnormally staffed compared to the other offices. Normally you're an oval, if you think of our staffing. The most staff would be at the auditor and supervisor level, in other words, qualified people. Right now that is where we are the weakest. These are people with accounting designations earned and anywhere from one to four years'

experience, in that range. That's where we are the weakest and that's where our recruiting would be targeted. Below that, 40% of our staff currently are at the student level. Really, the only way we can perform as well as we do is through a very good senior management group.

**Mr Hastings:** What are the salary levels for the junior auditor or whatever?

**Mr Peters:** The student level?

**Mr Hastings:** Yes, compared to internally at some of the ministries or ABCs.

**Mr Peters:** With the ministries, these people can raise themselves by anywhere between \$10,000 and \$15,000 if they join a ministry.

**Mr Hastings:** For a junior auditor.

**Mr Peters:** For a junior auditor, largely because before they become a full auditor, they need an accounting designation in our office. Out in the ministries accounting designations are fairly rare. Most of the financial audit work is actually carried by people who don't necessarily have an accounting designation. So they can move up the ladder in the general public sector in terms of salary faster than in our shop.

**Mr McCarter:** Except for chartered accountants. Chartered accountants cannot get a CA with a government ministry; they have to be with basically a public accounting office like our office. So we generally have to be competitive at the student level with the private sector. We try to be competitive, and to answer your question, our salary range at the student level would run sort of \$38,000 to \$48,000.

**Mr Peters:** To be fair, my office is the only one I think in the government that is licensed actually to train all three accounting designations: CGAs, CMAs and CAs.

**Mr Hastings:** What percentage of your budget is devoted to training?

**Mr Peters:** Too darned little, off hand, but I would say that we are trying to get away with a budget of about—do you have the numbers specifically?

**Mr McCarter:** It's a mix. We've got some conferences in there, and different things, but maybe \$30,000 or \$40,000 for training.

**Mr Hastings:** How is that range with Alberta and BC?

**Mr Peters:** I would very strongly believe that we are below.

**Mr Hastings:** Would theirs be \$100,000?

**Mr Peters:** I'm not sure. They don't necessarily have to publish their numbers. I don't have them; I'm sorry.

**Mr Hastings:** Thank you for that information.

**Ms Martel:** I have some questions and some comments.

**Mr Levac:** On a point of order, Mr Chair: I would just make note that I did stand down. I didn't get a chance to mention that. I would stand down my comments because I would prefer us to talk about the specific amendment, and when that's done I want to talk about the general letter.

**Ms Martel:** I apologize, Erik. You became Provincial Auditor in what year?

**Mr Peters:** In 1993.

**Ms Martel:** If we go back to one of the points that Mr Maves was making, which was the number of special assignments and the possibility of your office becoming politicized, one of the responses you gave to us when we debated this issue on October 12, you brought back some information to show that since you've been auditor, which is 1993, you have had seven special requests for audits, which would be, over the lifespan of your being in this position, less than one a year. I appreciate what the concern might be about what happens in the future, but I think all of us would be hard-pressed to say that there has been an effort by anyone, and I include government and opposition members, to use the possibility of a special audit to deter you or detract from you doing your other work.

I think if there have been seven since 1993, that's just not where this committee has been heading. We have been respectful of your work, and from time to time when issues are really important to individuals, like this one is to me because I'm the energy critic, those special requests come forward. But I don't think they in any way detract from you doing your other work.

Secondly, if I'm correct, you didn't determine the schedule to go before the BOIE. As I understand it, you and the other officers of the assembly, like the Environmental Commissioner etc, all had their estimates dealt with at this most recent meeting. Is that correct?

**Mr Peters:** That's correct.

**Ms Martel:** So part of the dilemma you found yourself in is that your first meeting with OPG, where you could have gotten some more information that might have given you a better number in terms of putting in the estimates, happened after the scheduling of a meeting that you had no control over.

**Mr Peters:** That's true.

**Ms Martel:** So in actual fact, there's nothing stopping this committee from recommending that you go forward again when you have some more concrete idea of what your costs might be.

**Mr Peters:** No there isn't.

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**Ms Martel:** OK. I guess there are two other points, because there was a good question raised: now that the contract has been signed, what can we hope to get from this? I think it's important that members go back, because we had the same question raised on October 5, and you said at that time there were two reasons why doing this would be important.

I think I'll just put them back into the record, and I'm quoting, "With regard to the benefit of looking at a contract that is done, I can make two comments. Normally our approach is to allow the government to learn from our findings. In other words, to use our findings and recommendations as a constructive input into the way such deals would be structured in the future, to take the

elements that we have concerns with into account when future deals are being struck."

That's key in this case because your second point was, "The second point in that regard is that certainly the entire Energy Competition Act was introduced in order to privatize. There is a learning curve in place right now about how we best privatize deals, and this seems to be the first big one. I would see a benefit from learning what went right and what went wrong in a contract like this."

That is the point, because under Bill 35, OPG has to divest itself of 65% of its assets, and the OPG-Bruce nuclear deal is the first of the divestments of those assets. So the benefit that I see of you doing this work is that we will be able to learn whether or not the government approach in the first of these deals was a good approach, whether or not we got value for money, and how we can ensure that we're going to get value for money in the other assets that are going to be sold or going to be leased, because they have to be under the terms and conditions of Bill 35.

I continue to argue at this committee that there is a huge benefit for us in looking at this particular audit, because it is not separate and stand-alone, and once it's over that is the end of the story. In fact, it's the first of a number of divestments the government will have to do in the energy sector. Because the assets we're talking about were bought and paid for by the public, we want to guarantee to the public that we're getting the best value for money through those sales or through those leases. So I would argue, with respect to the other committee members, that's why this should go on.

The final point I want to make has to do with the use of resources and whether or not you can do this assignment. Mr Maves is quite correct because, as he read his comments into the record, it was very clear that if you didn't have the resources, you had two choices: to go to the BOIE and ask for supplementary funding on a one-time basis to deal with this audit—and that's what I'm requesting that you do, because when you went forward to the BOIE it was a mix of both your annual allocation and a special request. I'm urging you to go forward with only a special request. Or, you would have to come to committee and tell us you can't do this at all, which is what you're coming to say. Mr Maves was quite correct; that was made clear to all of us.

I would ask the government members specifically to consider the following. There are reasons why I wanted this done at the time that I did in October: one, because if there was a problem with the contract, I would have hoped we could have dealt with those changes before the deal was finalized. That's nothing new; I made that clear. The second thing had to do with the timing and the ability of the auditor to undertake the review. If you go to the October 12 Hansard, on page 289 Ms Mushinski asked a series of questions about the auditor's ability to undertake this assignment, and I think they're very important as we deal with my motion today.

She asked you the following: "Mr Peters, if you were asked today to proceed with a value-for-money audit of

OPG and this deal, what are your commitments to date, and how will that affect those commitments in terms of your other duties and responsibilities as the Provincial Auditor?"

You responded, "The audit work for my 2001 report is underway right now, and it pretty well occupies my staff. I would probably have to engage additional resources on one basis or another, but I do have room in my budget to do it." You went on, "What I mean by that is that I currently do not have the full staff complement I would like to have, and that allows room in my budget to engage specialists or whatever I have to do to carry out this work."

The Chair said, "But there is room in your budget right now."

You said, "There is room in my budget right now to do that simply because I'm understaffed."

Ms Mushinski said, "But it would essentially take all your existing resources," and you said, "No, the existing resources would carry on with what they were doing, and I would staff this with money I have available because I am understaffed."

So here we are, months later, and we're in the position where you don't have the money to do it, and had we done what I was asking then, we might have been in the position to do so.

That's old ground. We went over that in two committee hearings over four hours. What I'm saying to the government today is that because we didn't do it then, when there was money, I think the least we can do now is accept the motion, which would ask the auditor to go forward with a special request under section 23 to get the resources available to do this. We all agreed it was important. We agreed to a motion that put it off to a later date, but said it would be done. This is the one and only mechanism I can see right now that would still allow this special assignment to proceed, so I would really ask for the support of the committee to pass this motion.

**The Acting Chair:** Thank you, Ms Martel. Ms Munro, you had your hand up a while ago. Is it still up?

**Mrs Munro:** Yes. If I can find my notes, it's still up.

**The Acting Chair:** And if you can't find your notes?

**Mrs Munro:** A couple of things. I want to ask about the question that I guess Bart was talking about right at the very end of his comments, with regard to the nature of the work that was done by Ernst and Young and the fact that you had had an opportunity to look at those and that they did not cover the kind of analysis you would need to have as a better than starting point, if I might say that. Is the obstacle to the kind of analysis you're talking about because of the fact that it would be the kind of analysis the company itself might have undertaken? It seems to me they would have wanted to know whether they were doing the right thing in making that. Would their analysis, then, not be available to you?

**Mr Peters:** If I may answer both questions, firstly, we didn't look at the Ernst and Young records. I communicated with the senior partner in charge and asked him if they had done any work on that particular Bruce deal and

they said no, because it was not an issue in the attest audit they were conducting for the year ended December 31, 2000. That is the first one.

Secondly, yes, your assumption is quite correct. That's what we hope to get tomorrow, to find out from them what papers they have, what analyses were conducted by OPG before they went into the deal and what options they had. In fact, the vice-president I talked to already indicated over the telephone that they would be very interested in showing us the various options they looked at and how they analyzed these individual options. Certainly we would be very interested in looking at that.

**Mrs Munro:** Could we say that there is the possibility at this point—because obviously you haven't met with them—that the possibility exists, then, that there could in fact be some value to what they have already done in terms of your ability to move forward?

**Mr Peters:** One would expect that any good executives have done their homework, so that's what we're going to look at. I can't prejudge what it is, but I would certainly expect—also taking from the comments made to me already by that senior vice-president—that quite a bit of thought has gone into this.

**Mrs Munro:** Another area I want to ask you about is that here in committee this morning you've answered a number of questions and explained the difficulties you have with regard to staffing, and the kind of comparison you've provided for us, where ministries and you yourself have made the investment of contracts and things like that to gain that expertise. You mentioned that recently when you were at the Board of Internal Economy—would that kind of analysis have been available to them?

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**Mr Peters:** The analysis as to where we need contract staff etc?

**Mrs Munro:** And the staffing issue.

**Mr Peters:** Very definitely. It's part of my estimates submission to the committee. We actually outlined dollar for dollar, virtually, why we needed this \$608,000. That is in there. In fact, the bullets I provided you with this morning are actually taken from our submission. For example, we said, "The increase is due primarily to additional consulting expertise needed to assist in auditing the implementation of the new government-wide accounting system, along with an increase in contract staff required for agency attest audits." It used all these bullets you'll find in here somewhere, so they were aware.

**Mrs Munro:** The only reason I asked the question was simply because in the letter to Mr Gerretsen, that wasn't the focus of the letter. That's why I wondered whether that had been part of that original inclusion, which obviously it was.

**Mr Peters:** There was some reluctance on my part to actually present you with the total estimates review, because I didn't want to get into the issue of second-guessing the board, so I just extracted—I thought it would be worthwhile for this committee to know two things: where my office stood in relation to other legis-



lative audit offices, and where my office stood in terms of funding to overall government revenues and expenditures over that period of time.

**Mrs McLeod:** Not to interrupt, Julia—I don't have the floor—but I believe we are going to have a vote fairly shortly and I just wanted a determination that since this issue has not been time-allocated, the committee will return to it next Thursday morning.

**The Acting Chair:** If the bells were to ring, it's at the Chair's discretion. In other words, we would adjourn in time to go for the vote, and yes, it would carry over till next week, or till the next meeting, which is next Thursday.

**Mrs Munro:** You mentioned much earlier in your conversation the prospect of amendments to the Audit Act. You mentioned, I believe, that you had been in discussions. Do I remember correctly?

**Mr Peters:** Yes, we have been in discussion, but the amendment to the Audit Act, that the government would act on it, was made on April 19 in the speech from the throne. My estimates submission to the Board of Internal Economy was made on March 8 and was not in contemplation of any of these events. So the \$609,000 that I asked for was to merely carry out the current workload better, but did not include any consideration of amendments to the Audit Act.

**Mrs Munro:** We talked earlier this morning about the private members' bills that have been introduced and debated, increasing the responsibilities. Has that been part of your discussion with the finance ministry with regard to changes in the Audit Act? Is that the thrust of those discussions?

**Mr Peters:** Have I talked to them about the resource requirements?

**Mrs Munro:** No. Expanding the horizon of responsibility: is that the thrust of those discussions, that would be sort of consistent with those private members' initiatives?

**Mr Peters:** That's right. Actually the initiative of amending the Audit Act for that purpose is now a decade old at least, for years. It has been twice before this committee and received endorsement. It received, for example, the endorsement of Mr Harris when he printed the Blueprint for Learning in 1991 or 1992. There's a specific section that says the Provincial Auditor shall audit all of the transfer payment recipients. So it's of long standing and there have been quite a few discussions with the Ministry of Finance.

There also have been discussions as to how that would relate to the Public Sector Accountability Act. It is my office's view, and we have made that clear, that we are really looking at a tripod, if you will, the tripod consisting of the Public Sector Accountability Act, which we have always recommended be in place so we can audit against something when we audit; the amendments to the Audit Act; and there's a third element which was raised by the two Ontario financial review commissions, and that is that there is also some onus on the government to put its own budgeting and estimates processes in order in

such a way that the demands made on the transfer payment recipients are actually realistic in terms of timing. For example, how do you ask a transfer payment recipient for a business plan for a year when the government itself has not decided yet how much money to give them? These are aspects that have to be dealt with and looked at.

**Mrs Munro:** Then I guess it's premature to ask you if there has been any consideration on your part and that of your staff in terms of how you would respond from a fiscal point of view to any of those kind of legislative initiatives?

**Mr Peters:** We certainly are looking at it, but we cannot reach a conclusion until we find out what is really going to happen. To give you an example, the first draft of the Public Sector Accountability Act had certain lower limits in mind, like an agency, before they had to comply, had to receive so much money from the government. The draft legislation that we have seen does not contain any of those limits. When we raised the question we were told that it would be covered through regulations. So it's not just the act itself but it's also the regulations that follow with it which will have a significant influence on that, and we haven't seen any of those.

**Mrs Munro:** OK. Thank you.

**Mr Raminder Gill (Bramalea-Gore-Malton-Springdale):** In your charts, Mr Peters, at the end of your letter, you have tried to show some variances between different provinces. This \$600,000 of extra money that you're requesting, how would that change the picture? Is that going to bring you to average, are you going to be a leader or are you still going to be way behind?

**Mr Peters:** I would still be way behind. If we had gotten the \$600,000, my number would have gone from .06 to .07, so I would still be less than half the nearest, leanest—

**Mr Gill:** In your submission, why would you not be asking for millions and millions more to be average?

**Mr Peters:** It would just increase the amount by which I would be turned down.

**Mr Gill:** But you'll be happy with \$600,000?

**Mr Peters:** I submitted the \$600,000 to the board on the basis that it would be the first step. Some \$360,000 of that amount was the first step toward increasing my overall staff complement back to 100. That's what we were hoping for over the next three years, in other words, from 85 to 90 in the current year, 95 the year after and 100 in the year after. So I did indicate that it was a first step.

**Mr Gill:** Last year you got \$600,000?

**Mr Peters:** Last year we got what we asked for, which was the \$8.3 million. We did not—

**Mr Gill:** No, the increment from \$7.7 million to \$8.3 million.

**Mr Peters:** We got about \$500,000.

**Mr Gill:** OK. You're hoping to get \$600,000 this year. I guess I can't ask you to extrapolate that to next year's request. Too early?

**Mr Peters:** A little bit too early, but I would think we are probably going to be in the same range again.

**Mr Gill:** So it's going to be, for argument's sake, \$600,000 last year, \$600,000 this year, \$600,000 next year and so on.

**Mr Peters:** Right, and when I'm done with that particular leg I hope to be at maybe .09, back to the level we had in 1991-92.

**Mr Gill:** So this ratio that you're trying to show between other provinces really doesn't mean much in this context. You are happy with \$600,000 for the next—my concern is, what do those ratios show, other than telling us that we're way below? You're not trying to average out, you're not trying to say, "Give me millions more."

**Mr Peters:** I want to be realistic from another perspective, and that is, I very much have in mind how much this committee, which is really my client, can deal with. I believe there is no point in bringing, say, 100 issues to you when the committee, in the time that is allowed, can only deal with 10 or 15 of them.

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**Mr Gill:** Last year, at the October 12 meeting, in the Hansard notes, because you were understaffed you said you could take on this OPG audit. Has your staff complement increased since then? Are you fully staffed, so-called?

**Mr Peters:** No. It has increased, but we are not fully staffed.

**Mr Gill:** So you still may have some room for OPG, using the same analogy?

**Mr Peters:** The money we are returning? No. That's what I'm advising you of. I don't have the room any more because my request for \$609,000 was turned down.

**Mr Maves:** Let me just add one thing to that, a question that occurred to me. When Ms Martel did her bit last time, she noted that you had the money in October. Your fiscal year ended March 31. You knew that this was outstanding. Why didn't you earmark a certain amount of money within this fiscal year to do that audit?

**Mr Peters:** Firstly, because under the rules, I cannot carry forward surpluses.

**Mr Maves:** I understand.

**Mr Peters:** I've got to return the money. In October, it looked like we were heading—because we were so understaffed and because of turnover advantages, which we incidentally budget to the greatest extent we can, it looked like we had some room to hire contract staff at that particular time.

**Mr Maves:** When you entered into this new fiscal year, some of your money was already earmarked for ongoing audits, I would assume. But you've obviously also earmarked dollars for audits that you were starting to undertake as of this fiscal year, April 1, 2001. Why wouldn't you just earmark some money to do this OPG audit in that process?

**Mr Peters:** I did. I did. I went to the board and asked them for money to do it. They turned me down.

**Mr Maves:** No. You went and asked for additional resources. Out of your resources from which you were

going to do your normal audits, you didn't earmark money for this audit?

**Mr Peters:** For OPG?

**Mr Maves:** Right.

**Mr Peters:** We said we need specialist assistance to do this work. There was no point, if I didn't get the specialist assistance, to earmark other staff for this work.

**Mr Maves:** Maybe, as Chair Gerretsen has said to you, you should come to the committee and explain how it is you choose to do the audits that you choose to do. I'm assuming as of April 2001 you looked at your budget and said, "OK, I have to do certain audits," and your office earmarked money to do those certain audits. In doing that, you didn't earmark money to do this audit out of your existing resources. You chose not to.

**Mr Peters:** No, that's not quite correct. Firstly, I approach it totally the other way around. What I mean by that is that my office is organized in portfolio teams. Each portfolio team runs a risk assessment on their portfolio of ministries that they're handling. They come forward with what we want to do, what is high urgency right now. Then we have a meeting on that. We are doing that right now actually for the 2002 annual report. That meeting is due in about the beginning of July time frame. At that point, we then decide on the overall picture, which audits, based on this risk analysis, have priority. Then I send the teams back to put together their resource requirements to conduct those particular audits. Then we have the second round which says, "OK, what can we do and what can we not do?"

It is in that process that we would build in the OPG audit if we are asked to do it further. It certainly adds a new dimension if we were to follow this motion that was given right now. If this motion were passed, I would suggest that my audit teams go ahead with their plans in the normal process and they would re-fund OPG entirely out of the supplemental estimates that I'm asked to request.

**The Acting Chair:** Any further discussion?

**Mr Maves:** Chair, we'd like to move adjournment and pick up the conversation and voting on the motion next Thursday morning. I think we have agreement from everyone to do that.

**Ms Martel:** Can you just explain why?

**Mr Maves:** We think we can support kind of a combination of the two motions, but we'd like the opportunity to go away and work on that. We'll be in touch with the members opposite throughout the week.

**Ms Martel:** Can I just ask one question? Just so I'm clear then, Mr Maves, is part of what you're looking for to hear back from the auditor about the meeting he's going to have with OPG tomorrow to assess what his needs might be after he has a chance to talk to them? So the auditor will start off the next meeting by reporting back on what has happened and what his needs might be? Is that primarily the outstanding issue, or are there others?

**Mr Maves:** That's it.

**Mr Peters:** I just want to be realistic about it. That is the first meeting we have, so I won't have a definite

conclusion from it. That's just to analyze the past documentation available etc. We have to move a little bit further down the pipe to put that into actual resource requirements. Beyond that, I just wanted to add the quick footnote that section 23 only covers specialist assistance; it doesn't cover anything else.

**Mrs McLeod:** Chair, I'm comfortable with the adjournment. I do want to indicate that I would let my notice that has been circulated stand as notice of motion,

but I would be more than willing to stand down my motion if there is consensus reached on an alternate motion that the committee can support.

**The Acting Chair:** OK. Everybody happy? I've enjoyed being with you this morning. I used to be on the public accounts committee, and I said this morning that I wanted to make a coup and come back. Anyway, thank you. The committee is adjourned.

*The committee adjourned at 1157.*

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