



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Presentation to the Government of Mongolia

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Overview

- Background: Ontario
- About the Office of the Auditor General
- 2016 Reports
- Overview of Audit on Mines and Minerals Program (2015)
- Questions?



Background: Ontario

Key Statistics

- Ontario is one of ten provinces in Canada
- Population: 13.5 million
- 28 government ministries and secretariats in the province
- Ontario is Canada's leading manufacturing province, accounting for 46% of manufacturing GDP
- In 2013, Ontario's main international exports were motor vehicles and parts, precious metals and stones, mechanical equipment, and electrical machinery
- Ontario was the leading state/province for attracting foreign direct investment in North America in 2013, with \$7.23 billion



Picture: Ontario Flag

Background: Ontario

Structure of Government in Ontario

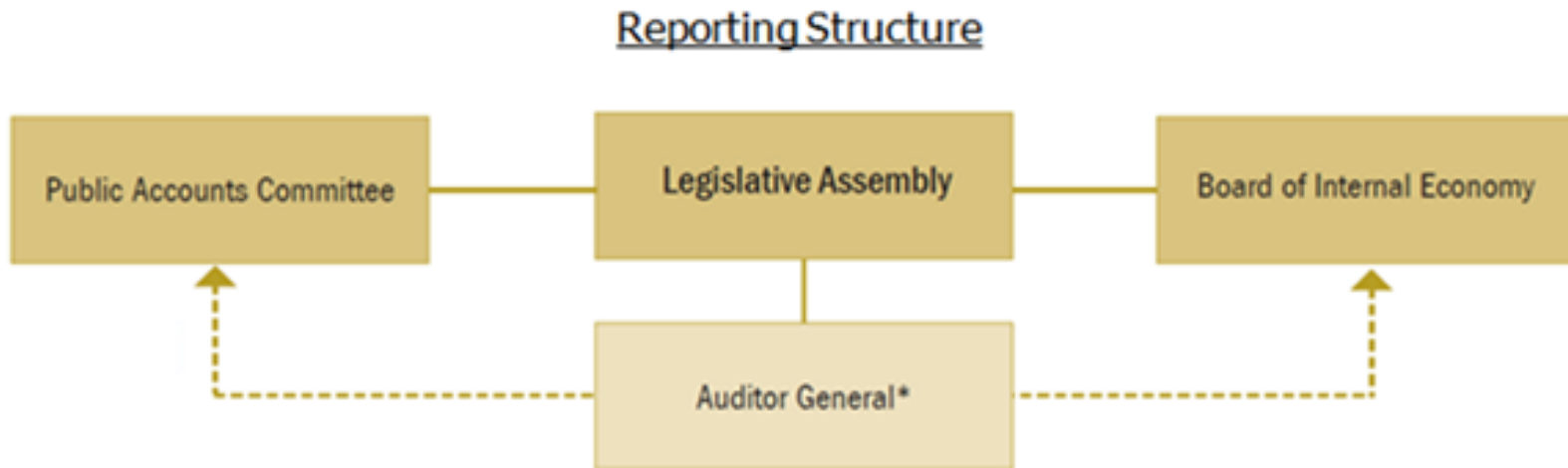
- There are three main political parties: Liberal Party (centre-left), Progressive Conservative Party (centre-right), and New Democratic Party (left)
- Ontario is led by the majority government of Premier Kathleen Wynne, the leader of the Liberal Party
- The Liberal Party has been in power since 2003
- There are 107 seats in the Ontario Legislature, which represent different areas across the province



Picture: Ontario Legislature

Role of the Auditor General

- As an Officer of the Assembly, the Auditor General is independent from the government. Our key stakeholder is the Legislative Assembly.



* Member of the following Associations: Chartered Professional Accountants of Canada (CPA), Canadian Council of Legislative Auditors (CCOLA), and Canadian Comprehensive Audit Foundation (CCAF).



Role of the Auditor General

- Appointed under *The Auditor General Act*.
- The Auditor General has a 10 year non-renewable term.
- We provide information to the Legislature to help ensure taxpayer funds are prudently spent and government administrators follow sound business practices.
- We encourage improvements in the way the government delivers public services by reviewing their economy, efficiency, and effectiveness.
- We provide assurance that financial accounts are fairly presented (traditional auditor role).



Our Work

- **Value for Money audits** are conducted annually – mandate extends to ministries, crown agencies, school boards, long-term care homes, hospitals, universities, colleges, etc.
- **Follow-ups** on VFM audits are conducted every two years to determine the status of implementation of recommendations.
- **Financial statement audits** are conducted on the province's Public Accounts, as well as numerous provincial Crown agencies such as the Liquor Control Board of Ontario, TV Ontario, and the Ontario Securities Commission.



Our Work

- Review/approve **Government Advertising**
- Review and report on reasonableness of the **Pre-election Report on Ontario's Finances**
- Conduct **special audits** when requested by the Legislature, the Premier, the Standing Committee on Public Accounts or a Minister
- Work closely with and assist **the Standing Committee on Public Accounts**
- The *Auditor General Act* requires that the results of our audits be tabled in an **Annual Report**



Our Team



Our Portfolios

- Public Accounts
- Attest (2 Portfolios)
- Education and Training
- Health
- Health and Energy
- Infrastructure and Environment
- Social Services and Finance
- Justice, Government Services
- IT Services
- Government-Wide and Recommendation Follow up



2016 Reports

Special Reports:

- Teacher Union Payments
- Pan Am Games



2016 Annual Report:

- Mental Health - 3 Audits
- Hospital Operations
- Climate Change
- Environmental Approvals
- Employment Ontario
- Construction Contracting
- Cross Ministry Contracting
- Physician Billing
- Implementation of E-Health
- Public Appointment Process
- IT General Controls & IT Governance – 2 Audits



2016 Reports

- 12 Follow ups of 2014 Value For Money Reports
- 7 Public Accounts Committee Follow up Reports
- 3 Follow ups of Special Reports (Ornge, OLG Modernization, Winter Highway Maintenance)
- Chapter 2 – Public Accounts of Ontario & Pensions





Mines and Minerals Program (2015 Annual Report)



Background

- Ontario is the largest mineral producer in Canada (accounts for ¼ of Canada's mineral production)
- Ministry of Northern Development and Mines oversees the minerals sector in Ontario, in accordance with *the Mining Act*. The Act is intended to encourage the development of Ontario's mineral resources. Mining activities must be conducted in a way that:
 - Recognizes existing Aboriginal and treaty rights
 - Minimizes adverse effects on public health and safety and on the environment
- Number of mines in production (Aug 2015): 43
- Number of abandoned mines (Aug 2015): 4,415
- Mining profit tax accounts for 90% of total mining revenue



Objective

To assess whether the Ministry of Northern Development and Mines has effective systems and processes in place to:

- Support the sustainable and responsible exploration and development of Ontario's mineral resources;
- Ensure compliance with relevant legislation and ministry policies; and
- Measure and report on its effectiveness in encouraging the development and use of the province's mineral resources while minimizing the impacts of mining activities on public health and the environment.



Scope

- Ministry of Northern Development and Mines
 - Interviewed key staff at Sudbury head office, and Thunder Bay and Timmins regional offices
 - Reviewed internal systems, procedures and documents
- Ministry of Finance
- Ministry of Environment and Climate Change
- Ministry of Natural Resources and Forestry
- Visited Webequie First Nations in the Ring of Fire
- Industry associations
- Other Jurisdictions



What happens before a mine opens?

- The first step in exploration is for licensed prospectors to stake a mining claim, or mark an area to claim exclusive rights to explore
- A claim range can range in size from 16 hectares to 256 hectares
- It can take 10 years or longer from early exploration to the mine opening, but most exploration work never moves to production
- To promote mineral potential and attract exploration investment, the Ministry:
 - Provides industry with access to an online warehouse of geological data (maps, etc);
 - Monitors the investment climate, and analyzes industry health and trends; and
 - Develops initiatives and policies to respond to those trends.



What happens after a mine closes?

- Mining activities can affect groundwater and surface water, aquatic life, soil, vegetation, wildlife and air quality
- Under the *Mining Act*, all land affected by mining must be rehabilitated when mining ends
- Before building a mine, a certified closure plan has to be in place
- The closure plan outlines how the affected land will be rehabilitated and how much rehabilitation will cost
- To ensure the company is able to follow through with the plan, the Ministry obtains financial assurance or security from the company



What is the Ring of Fire?

- The Ring of Fire is a mineral-rich area located in Northern Ontario with no infrastructure linking the region to existing roads, rail or electricity
- The area is approximately 5,000 sq. km, with most mineral discoveries located within a 20-kilometre-long strip
- Early exploration in the region in 2001 identified significant deposits of nickel, copper, zinc, platinum and chromite



Main Findings



Ontario Could Do Better to Attract Mining Investment

- Exploration spending and active claims peaked in 2011, but have since declined dramatically in Ontario from 2011 to 2014
- In 2014, Ontario ranked ninth among Canadian provinces and territories in investment attractiveness in mineral exploration
- The Ministry has not assessed the effectiveness of its current marketing efforts, and only focuses on participating in five selected events annually
- Mapping projects not completed on timely basis and Ministry slow to upload geological assessment reports, which are frequently accessed
- Lack of clarity and understanding around Aboriginal consultation among reasons for Ontario's low ranking in investment attractiveness



Recommendation #1

- To attract more investment in the province's mining sector, the Ministry of Northern Development and Mines should:
 - fully evaluate the cost-effectiveness of its current investment-marketing activities and determine if new, more appropriate strategies should be implemented (we made a similar recommendation in our 2005 Annual Report);
 - complete geological mapping projects and upload the final reports, including geological assessment reports from prospectors, on a timely basis to better facilitate the use of this information by potential prospectors; and
 - ensure that the requirements surrounding its Aboriginal consultation process are clarified and can be easily understood by potential investors and Aboriginal communities with serious consideration of the province assuming more of a leadership role.



Ring of Fire Development Has Been Slow

- The Ring of Fire is one of Ontario's most promising mineral development opportunities, but the area requires significant infrastructure investment
- In 2010, an international company acquired the mineral rights to three of the known chromite deposits in the region for \$350 million, and started feasibility and environmental assessment studies to pursue development of these deposits
- The company suspended its work in 2013 due to lack of infrastructure development and sold its interests to a Canadian company in 2015
- In 2014, the government committed \$1 billion to infrastructure in the region, but had few defined timelines for completion



Recommendation #2

- To help ensure the timely development of the Ring of Fire, the Ministry of Northern Development and Mines should:
 - establish a detailed plan with measurable outcomes, and regularly assess and report on progress in achieving them;
 - continue to engage all stakeholders, including the federal government, in the funding and development of the region; and
 - work to expedite negotiations with Aboriginal communities.



Few Controls over Funds Provided to Aboriginal Communities for Capacity Building

- The Ring of Fire Secretariat has a number of transfer payment agreements with the nine Matawa First Nations impacted by development in the Ring of Fire that are intended to build capacity within the communities
- These resources have funded training workshops on negotiations, project management, partnerships with mining companies, etc.
- The Secretariat has transferred about \$16 million to the nine communities
- Reports for payments received were not submitted on a timely basis, and contained little supporting documentation to show whether the funds were spent according to the transfer-payment agreements



Recommendation #3

- The Ring of Fire Secretariat should ensure that transfer payments made to Aboriginal communities in the Ring of Fire are used in accordance with the transfer-payment agreements by obtaining the requisite reporting (progress reports, expense reports and audited financial statements) on a timely basis. The reports submitted should be detailed enough to show how the funds are spent.



Staking and Claims System Needs Improvement to Ensure Exploration Work Continues Responsibly

- As of April 2015, there were about 33,000 registered claims covering about 4.1 million hectares of Crown land
- Ministry had difficulties in determining which claims have been cancelled and re-staked by the same person
- The *Mining Act* requires rehabilitation of sites where exploration work has impacted the environment
- In 2013 and 2014, the Ministry performed just 41 inspections, representing only 6% of the sites that had an active plan or permit



Recommendation #4

- To ensure continual exploration on claimed land, and proper rehabilitation of sites where exploration has taken place, the Ministry of Northern Development and Mines should:
 - disallow forfeited claims from being re-staked by the same owners until an appropriate period has passed (we made a similar recommendation in our 2005 Annual Report); and
 - develop a risk-based plan to inspect sites undergoing exploration work with the potential to have a negative impact on the environment.



Financial Assurance May Be Insufficient to Cover Mine Closeout Costs

- The *Mining Act* requires a mining company to submit a closure plan and financial assurance for the estimated cost to rehabilitate a site before it commences advanced exploration activities or mining operations
- The Ministry's in-house consultants responsible for ensuring compliance with assessing the adequacy of financial assurances are also responsible for promoting mineral exploration and development in Ontario – these roles conflict with one another
- Ministry does not regularly conduct site inspections to ensure that closure plans for mines accurately reflect the mining activities that are taking place
- Of the 162 closure plans on file as at August 2015, a number of the sites had not been inspected in the last five years, or had never been inspected since the submission of their respective closure plans to the Ministry



Recommendation #5

- To ensure submitted closure plans are adequately reviewed and reflect activities that are taking place on a mine site, the Ministry of Northern Development and Mines should:
 - segregate the responsibility for the promotion of mineral exploration and development in Ontario from those responsible for the oversight of mine-closure plans;
 - develop specific guidelines on when high-risk components of closure plans should be subjected to expert review;
 - inspect sites that have a closure plan in place on a regular basis to ensure the plan accurately reflects current mining activities on the sites; and
 - enforce the rehabilitation requirements recommended by ministry specialists and inspectors and take proactive measures to ensure that the financial assurance is adjusted accordingly on a timely basis.



Financial Assurance May Be Insufficient to Cover Mine Closeout Costs

- Although companies are required to submit financial assurance for the estimated cost to close out the mine, there is no requirement for mining companies to subsequently update their estimated costs
- 1/3 of closure plans were filed in the 1990s/2000s, by simply applying an inflation adjustment, there is a potential \$63M shortfall
- Ministry has taken no action to ensure that companies update any closure plans and close-out costs that are not compliant with current standards
- Financial assurance returned without adequate inspection of mine sites:
 - Ex. In 2010, the Ministry returned \$500,000 after a mining company had completed rehabilitation work, but the company didn't provide financial assurance for contamination below the surface and the Ministry became liable for approx \$2M
- If a mining company has a good credit rating, they are allowed to fully self-assure mine closeout costs for the entire life of the mine



Recommendation #6

- To ensure that the amount of the financial assurance collected by the Ministry of Northern Development and Mines (Ministry) provides sufficient security against potential liabilities related to mine close-out costs, the Ministry should:
 - require mining companies to regularly update their estimated mine close-out costs and the related financial assurance to reflect changing market conditions and changes to rehabilitation standards (we made a similar recommendation in our 2005 Annual Report);
 - verify when it inspects progressive rehabilitation prior to returning a portion of the financial assurance whether mine development is still in line with the existing closure plan, and that no other hazards exist on site which the Ministry was not previously aware of; and
 - reassess its practice of allowing certain companies to self-assure mine close-out costs (we made a similar recommendation in our 2005 Annual Report).



Recommendation #7

- To inform the public on the potential liabilities related to mine close-out costs, the Ministry of Northern Development and Mines should annually publish the approved mine closure plans (for rehabilitation and restoration), including the estimated closure cost and associated financial assurance held by the Ministry.



Provincial Environmental Assessment not Mandatory for Mining Projects

- Ontario is the only province in Canada that does not require a provincial environmental assessment to be performed for mining projects
- Provincial environmental assessments are submitted to the Ministry of the Environment and Climate Change for review and approval under the Ontario Environmental Assessment Act (Act); however, the Act applies only to provincial ministries and agencies, municipalities and public bodies – not the private sector



Recommendation #8

- The Ministry of Northern Development and Mines should work with the Ministry of Environment and Climate Change to assess the benefits of larger mining projects in Ontario undergoing a provincial environmental assessment similar to the environmental assessments conducted in other Canadian provinces.



Abandoned Mines Pose Significant Financial Risks to Ontario

- In the last five years, 63 privately held abandoned mines have reverted to the Crown, and the Ministry has reported it will cost approx \$40 million to rehabilitate four of these abandoned mines that have contamination
- The Ministry does not have a current estimate of the total cost of, or a long-term plan for, rehabilitating physical hazards and contamination on all abandoned mine sites in Ontario
- In the past five years, the Ministry has only inspected about 6% (248) of the approximately 4,400 abandoned mines on both Crown and privately held sites
- In 2015, in response to a new accounting standard for public-sector reporting on liabilities for contaminated sites, the Ministry recorded a liability of \$303 million for 44 contaminated abandoned mine sites that the government is, or would likely be, responsible for rehabilitating



Recommendation #9

- To protect public health and safety and the environment from the risks posed by abandoned mines, the Ministry of Northern Development and Mines should:
 - as soon as possible inspect all high-risk abandoned mines that have not been inspected in the last five years to determine if these sites pose risks to public safety;
 - adopt a risk-based process to regularly monitor and inspect previously inspected abandoned mines to ensure that the conditions at the sites are not posing a risk to human health or the environment (we made a similar recommendation in our 2005 Annual Report); and
 - develop an operational and financial short- and long-term plan to clean up mine sites posing a threat to human health and safety or the environment (we made a similar recommendation in our 2005 Annual Report).



Recommendation #10

- To ensure that the owners of privately held abandoned mines take all reasonable steps to reduce potential health and environmental risks, the Ministry of Northern Development and Mines (Ministry) should:
 - take timely follow-up actions to ensure that private owners are complying with ministry inspection results; and
 - develop a strategy to make private owners aware of the requirement to rehabilitate abandoned mines on their land.



Abandoned Mines Pose Significant Financial Risks to Ontario

- The Abandoned Mines Information System (AMIS) was developed and implemented in 1989 to create a centralized way to track all abandoned mines in Ontario
- A number of limitations impede full utilization of AMIS:
 - *Information in the system is outdated:* information on abandoned mines within AMIS comes primarily from site assessments completed in 1993 and 2000
 - *Key system functionality is not producing accurate information:* site ranking system is not functioning properly due to error in formula, and is not used
- Without complete and accurate information on the mine sites, it would be difficult for the Ministry to effectively manage the rehabilitation of abandoned mines in Ontario



Recommendation #11

- The Ministry of Northern Development and Mines should:
 - update the information on abandoned mines in Ontario and their associated mine hazards in its Abandoned Mines Information System (AMIS); and
 - improve the functionality in AMIS to identify sites for rehabilitation that pose the greatest risk to public health and safety, and to the environment.



Provincial Revenue from Mining Low in Relation to Significant Value of Mineral Resources Extracted

- The province has collected on average less than 2% of the value of minerals extracted in taxes and royalties from mining companies over the last 20 years
- As of September 2015, Ontario's marginal effective mining tax rate was only 5.6%, considerably lower than the national average of 8.6%
- Ontario's sole operating diamond mine had extracted over \$2.5 billion worth of diamonds up to 2014, but paid under \$20 million in royalties to the province - less than 1% of the value of diamonds extracted
- In 2014, the Ministry completed a jurisdictional scan of fees for mining leases across Canada, and found that Ontario's fees were the second-lowest in Canada after Prince Edward Island



Recommendation #12

- To ensure that Ontarians receive a fair share of the province's mineral resources while remaining competitive to attract mining investments to the province, the Ministry of Northern Development and Mines should:
 - review and update where necessary the province's current mining lease rate, mining profit tax, and diamond royalty regimes (we made a similar recommendation relating to mining fees in our 2005 Annual Report); and
 - take timely collection actions for amounts owing that are in arrears (we made a similar recommendation in our 2005 Annual Report).



Performance Measures Do Not Address Ministry Goals and Responsibilities

- The *Mining Act* requires the development of mineral resources to be carried out in a manner consistent with the recognition and affirmation of existing Aboriginal and treaty rights, including the duty to consult, and to minimize the impact of mining activities on public health and safety and on the environment
- While the Ministry has some indicators to assess certain aspects of the operations of the program (for example, percentage of sites with closure plans inspected, and abandoned mine sites rehabilitated annually), it has yet to develop indicators to help it assess its effectiveness in achieving its overarching goals and objectives



Recommendation #13

- The Ministry of Northern Development and Mines should develop more comprehensive measures to assess its effectiveness in meeting its goals of developing the province's mining sector, while minimizing the impact of development on public health and safety, and on the environment, and regularly report to the public its progress in meeting its goals (we made a similar recommendation in our 2005 Annual Report).



Thank you!

Any questions?



For more information or to provide comments on current/future audits, contact comments@auditor.on.ca or visit www.auditor.on.ca.

