
CHAPTER TWO

Towards Better Accountability

In all previous years, I have used Chapter Two of my report to address specific issues of governance and accountability in government. Again this year, I believe the following two issues warrant discussion to improve accountability to the Legislature for the prudent use of public funds:

- continued concerns regarding public accountability for the Ontario Innovation Trust; and
- legislative proposals for better public-sector accountability.

ONTARIO INNOVATION TRUST

As mentioned in our *2000 Special Report*, the government of Ontario flowed a total of \$750 million in multi-year funding to the Ontario Innovation Trust (Trust). The Trust was designed to be an arm's-length entity and was established during the 1998/99 fiscal year for the purpose of providing funding to increase the capability of Ontario universities, colleges, hospitals, and other non-profit organizations to carry out scientific research and technology development.

We raised accountability concerns with the Trust in our past reports, including:

- the inability of the government and the Legislature to obtain assurance that the Trust is spending public funds prudently and for the purposes intended and to take corrective action if it is not;
- the lack of ministerial accountability to the Legislative Assembly for the Trust's activities; and
- the fact that as the province's Legislative Auditor, I am not permitted, under my current mandate, to conduct value-for-money audits of the Trust or inspection audits of the beneficiaries of the Trust's grants.

In addition to these accountability concerns, we also commented in our past two reports about the consequences and the appropriateness of the accounting treatment of the endowments to the Trust. Although technically in accordance with accounting rules established by the Canadian Institute of Chartered Accountants for government, the timing of the grant approvals allowed the government to recognize the expenditures in the years before the Trust actually disbursed funds to the final grant recipients. This resulted in a significant exaggeration in the amounts that were reported as having been spent on innovation in the 1998/99 and 1999/2000 fiscal years. In fact, at the end of the Trust's first year of operation—March 31, 2000—the accounts of the province

gave the impression that the government had spent \$750 million (the total flowed to the Trust from the province) on innovation expenditures, when actual Trust commitments amounted to only \$161 million, of which merely \$2.5 million had been disbursed for eligible projects in that year.

At that time, we concluded that a significant amount of the \$750 million provided to the Trust was preflowed to it well before the Trust actually required the funds. In the latest fiscal year, this conclusion was reinforced given that for the two-year period ending on March 31, 2001, the Trust had only disbursed \$119 million for eligible projects, and it held \$670 million of taxpayers' funds without an accountability requirement to the Legislative Assembly.

Although the Trust's lack of public accountability, about which I have expressed concerns, cannot be undone because of the irrevocable nature of the Trust Agreement, I am pleased to report that the government did not preflow any additional grants to the Trust during the 2000/01 fiscal year.

Nonetheless, I continue to hold the view that all transfer-payment partners should be subject to legislated public accountability, including performance reporting and a better legislative audit regime. This would permit the Legislature to evaluate what was accomplished with the funding provided and to have the ability to ensure that any necessary corrective action is being taken.

LEGISLATIVE PROPOSALS TO IMPROVE PUBLIC ACCOUNTABILITY

STATUS OF RECOMMENDATIONS FOR AMENDMENTS TO THE AUDIT ACT

As noted above, I am of the view that all transfer-payment partners should be subject to legislated public accountability, including performance reporting and a better legislative audit regime. Provincial monies flowing to grant-recipient organizations continue to represent the single most significant demand on the province's treasury, with about 50% of total government expenditures flowing to grant-recipient organizations. Under the *Audit Act*, the Provincial Auditor may carry out only limited-scope audits of grant recipients to determine whether the recipients have used the grants for the intended purposes. Although value-for-money observations may arise as a by-product of such audits, the audits cannot be value-for-money oriented because only accounting records can be examined in audits of grant recipients. For the past 10 years, my Office has, with the support and recommendations of the Standing Committee on Public Accounts, pursued amendments to the *Audit Act*. These amendments would provide the Provincial Auditor with the discretionary authority to perform full-scope value-for-money audits of organizations that receive provincial grants—such as community colleges, universities, hospitals, municipalities, and school boards.

In this regard and in response to this Office's proposed amendments to the *Audit Act*, the government announced in its Speech from the Throne on April 19, 2001—under the heading "Holding the Broad Public Sector Accountable to Taxpayers"—that it would be introducing sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario. Included in the planned reforms was a commitment to make amendments to the *Audit*

Act that would permit the Provincial Auditor to assess the extent to which institutions funded by Ontario taxpayers use that money prudently, effectively, and as intended. The government's intention in this regard was also referred to in Budget Paper F of *Ontario Budget 2001*.

This Office is very pleased with the government's announcement to amend the *Audit Act*, which we believe will help to achieve greater accountability for the expenditure of public funds in the broader public sector. I discussed the proposed amendments to the *Audit Act* with the Minister of Finance, who indicated that he expects to introduce a Bill to amend the *Audit Act* in the fall 2001 session of the Legislative Assembly.

THE PROPOSED PUBLIC-SECTOR ACCOUNTABILITY ACT

In 1993, I began to advocate for the need for a legislated accountability framework for the broader public sector. At that time, the Standing Committee on Public Accounts supported this Office's pursuit of a workable legislated accountability framework. As reported in our *1993 Annual Report*, the following are two of the primary reasons for advocating such an accountability framework:

- The Legislative Assembly and the ministers need better legislated or regulatory tools to establish greater accountability for the economy, efficiency, and effectiveness of program delivery. A framework that is legislated becomes a tool of the Legislative Assembly, of the minister, and of the various functions that can take action to ensure cost-effective program and service delivery.
- Periodic audits are not sufficient for ministry management to fully ensure that value for money is achieved. Audits can only provide periodic, reasonable assurance. Ministry management and recipients of transfer payments need a framework to hold them accountable for the economy, efficiency, and effectiveness of their activities.

Following through on an announcement from the *1997 Ontario Budget* to establish a legislated accountability framework to improve accountability in the public sector, the government announced in its Speech from the Throne on April 19, 2001—under the heading “Holding the Broad Public Sector Accountable to Taxpayers”—that it would be introducing sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario. In this regard, *Ontario Budget 2001* contained a proposal to introduce a new Public Sector Accountability Act, which would require all major public-sector organizations that receive taxpayer dollars from the government to report annually on their performance, present annual business plans, and balance their budgets every year.

The government's proposal also addresses one of the recommendations of the Ontario Financial Review Commission in its 2001 report entitled *Raising the bar: Enhanced accountability to the people of Ontario*. Having served as Special Advisor to the Commission, I was encouraged by the Commission's recommendation that the government introduce legislation incorporating an accountability framework.

On May 9, 2001, the Minister of Finance introduced for first reading Bill 46, *An Act respecting the accountability of public sector organizations*. It is expected that the Bill will be presented for second and third reading in the fall 2001 session of the Legislative Assembly.

CONCLUSION

The announcements made in the Speech from the Throne on April 19, 2001 regarding the planned improvements to the accountability of the broader public sector and to the legislative audit regime that affects organizations in that sector brings to fruition this Office's ongoing advocacy for legislated public-sector accountability. I am particularly pleased that the government has acted on the advocacy we initiated in our 1993 Annual Report and have reported on since that date.

My Office will continue to closely monitor developments in the area of public-sector accountability, including the government's proposal to create an Accountability Office in the Ministry of Finance, with its key objective being "to support continuous improvement in the accountability practices of the broader public sector" (this proposal is discussed in Budget Paper F of *Ontario Budget 2001*).

To ensure good performance and accountability and to ensure that taxpayers' money is spent prudently and for the purposes intended, both a government management accountability and a legislative audit regime need to be applied to the broader public sector. Once approved by the Legislative Assembly, we look forward to applying the amended *Audit Act* to the new accountability framework envisioned in the proposed Public Sector Accountability Act.