
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 am bringing forward issues that warrant discussion to improve accountability to the Legislature for the prudent use of public funds. These are:

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

LEGISLATIVE PROPOSALS TO IMPROVE PUBLIC-SECTOR ACCOUNTABILITY

STATUS OF RECOMMENDATIONS FOR AMENDMENTS TO THE AUDIT ACT

In my 2001 Annual Report, I was pleased to note the government's intention to amend the *Audit Act* as announced in its Speech from the Throne on April 19, 2001. The 2001 Throne Speech announcement to amend the *Audit Act* was intended to permit the Provincial Auditor to assess the extent to which organizations funded by Ontario taxpayers use that money prudently, effectively, and for the purposes intended. Inconclusive discussions on a comprehensive set of amendments took place during the summer and fall of 2001 between my Office and the former Minister of Finance, the Honourable Jim Flaherty, and his staff.

I want to reiterate that I am of the view that all transfer-payment partners should be subject to legislated public accountability, including performance reporting and a full-scope legislative audit regime, because provincial monies flowing to grant-recipient organizations continue to represent the single most significant demand on the province's financial resources, with about 50% of total government expenditures flowing to grant-recipient organizations. Under the current *Audit Act*, the Provincial Auditor may carry out only

limited-scope audits of grant recipient organizations by examining their accounting records to determine whether the grants were used for the intended purposes. This limitation on access to information prevents my Office from conducting full-scope value-for-money audits of grant-recipient organizations.

For the past 11 years, my Office has, with the support and repeated 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 derive a very significant portion of their income from provincial grants—such as school boards, hospitals, community colleges, and universities.

More recently, the major thrust of my proposed amendments to the *Audit Act* have been included in Bill 5, entitled *An Act to amend the Audit Act to insure greater accountability of hospitals, universities and colleges, municipalities and other organizations which receive grants or other transfer payments from the government or agencies of the Crown*. Bill 5 was introduced on April 23, 2001 by Mr. John Gerretsen, Chair of the Standing Committee on Public Accounts. The Bill passed second reading on June 20, 2002 and was referred to the Standing Committee on Public Accounts for detailed review.

It is expected that the Standing Committee on Public Accounts will hold hearings on Bill 5 in fall 2002.

THE PROPOSED PUBLIC-SECTOR ACCOUNTABILITY ACT

Since 1993, I have advocated a legislated accountability framework for the broader public sector. In 1993, the Standing Committee on Public Accounts, by way of a unanimous motion, supported my 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 ministers, and of the funding ministries and agencies that can be used to help ensure cost-effective program and service delivery.
- Ministry management and recipients of transfer payments need a framework to hold them accountable for the economy, efficiency, and effectiveness of their activities. Such a framework would also enhance the effectiveness of my Office's work.

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, the *2001 Ontario Budget* 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 performances and present annual business plans and to 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 then Minister of Finance introduced for first reading Bill 46, *An Act respecting the accountability of public sector organizations*. However, Bill 46 has not advanced on the legislative calendar.

CONCLUSION

To facilitate good performance and accountability and to ensure that taxpayers’ money is spent prudently and for the purposes intended, both a legislated accountability framework and a full value-for-money legislative audit regime need to be applied to the broader public sector. I again strongly urge the government to enact my proposed amendments to the *Audit Act* and the proposed *Public Sector Accountability Act*. Once approved by the Legislative Assembly, I look forward to applying the amended *Audit Act* to a legislated accountability framework.

On behalf of the Legislative Assembly, I will continue to advocate for improvements in public-sector accountability and will also continue to monitor government initiatives and developments in this important area.

ONTARIO INNOVATION TRUST

Since 1999, the government has transferred \$750 million to the Ontario Innovation Trust (Trust). The Trust was established during the 1998/99 fiscal year to be an arm’s-length entity 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.

In my past three Annual Reports, I have raised accountability concerns about the Trust, including:

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- 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, I also commented in my past three 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 intended 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 only \$2.5 million had actually been disbursed for eligible projects in that year. The accounting treatment applied also allowed the government to distort financial results in the first year and in subsequent years.

After the Trust's first year of operation, I concluded that a significant amount of the \$750 million was preflowed to the Trust well before it actually required the funds. For the three-year period ending on March 31, 2002, the Trust had only disbursed \$240 million for eligible projects, and it held \$577 million of taxpayers' funds without an accountability requirement to the Legislative Assembly.

The *2002 Ontario Budget* included a \$300 million enhancement to the Trust. This additional commitment to the Trust will, when paid, bring the government's total transfer to the Trust to over \$1 billion.

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 ensure that any necessary corrective action is being taken.

During the past audit year, the Standing Committee on Public Accounts held a meeting with the officials of the Trust to review my past commentary. The Committee acted on my concerns and, in fall 2002, tabled in the Legislature its recommendations to improve public accountability and provide for a better legislative audit regime for the Trust.