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## CHAPTER TWO

# Towards Better Accountability

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Chapter Two of our report is used to address specific issues of accountability and governance in government. This year, the chapter focuses on our long-standing efforts to have the *Audit Act* amended and discusses two areas critical to enhancing accountability of the government—public reporting on performance and strengthening the modern controllership function.

## PROPOSED AMENDMENTS TO THE *AUDIT ACT*

The *Audit Act* authorizes the Provincial Auditor to bring to the attention of the Legislature any cases where “money was expended without due regard for economy or efficiency” and where procedures “to measure and report on the effectiveness of programs” were not established. These provisions encompass our value-for-money mandate.

Since 1989, our Office has pursued amendments to the *Audit Act*. The primary reason for the proposed amendments is to allow the Provincial Auditor to conduct value-for-money audits of organizations that receive grants from the province such as community colleges, universities, hospitals, and school boards. Given that grants to organizations represent about 50 % of total government expenditures, we believe our Office needs to have our value-for-money audit mandate extended to these expenditures if we are to assist the Legislature in fully ensuring that the government is accountable for its stewardship of public funds. The current *Audit Act* allows the Provincial Auditor to examine only the accounting records of such organizations, effectively limiting the scope of our work to financial and compliance matters and thereby preventing us from conducting full-scope value-for-money audits.

On April 11, 2003, the then Provincial Auditor wrote the following letter to the Premier of Ontario to pursue the *Audit Act* amendments we believe are necessary.

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Dear Premier Eves:

The purpose of this letter is to express my Office's unwavering interest in the government taking action on the amendments to the *Audit Act* unanimously approved by the Standing Committee on Public Accounts in November 2002. These amendments incorporate the government's commitment to amend the *Audit Act* as outlined in the government's 2001 Speech from the Throne. The proposed amendments are principally designed to permit my Office to better serve Ontario's Legislative Assembly and enhance public accountability of the broader public sector.

As you know, for many years my Office, with the unanimous support and repeated recommendations of the Standing Committee on Public Accounts, has been requesting amendments to the *Audit Act*. The most significant amendment that we have proposed 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. Incidentally, the magnitude of provincial grants to these and other organizations is in excess of \$30 billion annually. In 1996, when you were Minister of Finance, you indicated in a letter to the then Chair of the Standing Committee on Public Accounts that you agreed with the principles upon which our proposed amendments are based.

Over the years, there have also been several private members' bills introduced incorporating the main thrust of our proposed amendments as well as those proposed by the government in its 2001 Throne Speech. The bill that progressed the furthest was Bill 5, which was 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 considered during the last session of the Legislature and represented the culmination of considerable work carried out over more than a decade by my Office and the Standing Committee on Public Accounts, including extensive public hearings. In November 2002, the Public Accounts Committee unanimously amended and approved Bill 5 and reported it to the Assembly for third reading. On December 6, 2002 I wrote to the three House Leaders to urge them to consider swift passage of Bill 5 before the House was set to rise on December 12, 2002. However, to my disappointment, Bill 5 was never called for third reading.

I would be pleased to arrange a meeting with you or your designate to discuss the benefits of making the proposed amendments to the *Audit Act*, which have received public hearings and repeated unanimous endorsements by the Standing Committee on Public Accounts.

Sincerely,

Erik Peters, FCA  
Provincial Auditor

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We did not receive a response to our letter of April 11. Nevertheless, and in spite of the repeated setbacks we have experienced over the years in our efforts to have the *Audit Act* amended, the Office remains committed to pursuing amendments to the Act so that we may better serve the Legislative Assembly.

## PUBLIC REPORTING ON PERFORMANCE

Public reporting by government ministries on their performance is intended to inform legislators, public servants, and other decision-makers about the extent to which programs and services are providing value to the public. Such reporting thus serves as a mechanism for accountability and a vehicle to help drive change and focus attention on results as opposed to activities and processes. The usefulness and value of performance measurement and reporting is reflected in its growing importance to governments around the world in recent years.

Our interest in performance reporting is driven by subclause 12(2)(f)(v) of the *Audit Act*, which requires that the Provincial Auditor report on instances where procedures to measure and report on program effectiveness have not been established or were not satisfactory. In other words, the Auditor is to report on whether the government is adequately measuring and reporting on its performance. When we report on performance, we also make recommendations on how performance measures and reporting can be improved. Our recommendations might specify, for example, the kinds of performance information that decision-makers and stakeholders ought to have available to support good decision-making and accountability.

Over the years, we have found it necessary to report many instances where the government's measuring of and reporting on the efficiency and effectiveness of its programs was insufficient. In fact, our Office has been an advocate for improvements in this area as far back as 20 years ago. In our *1983 Annual Report*, for example, we made several observations regarding the need for improved performance reporting by grant recipients such as hospitals, school boards, and sports governing bodies. Again this year, in many of the Chapter Three sections in this Report, we make a number of recommendations relating to the need to improve program performance reporting.

Notwithstanding our frequent recommendations over the years, we do acknowledge that progress is being made. Particularly in recent years, the government has made strides in enhancing both the public reporting of performance measures and the use of performance measures by program management to help focus efforts and expenditures on the achievement of results.

A very significant step in performance reporting was taken in May 1996 when, in response to recommendations of the Ontario Financial Review Commission and the Provincial

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Auditor, the government published Ontario's first business plans and committed to continue publishing the business plans annually. The business plans would include a presentation of the results achieved during the year as well as targets, goals, and objectives for the next year.

The process of business planning and public performance reporting that was begun in 1996 was further improved in 2000, when Management Board Secretariat issued the "Business Planning and Allocations Directive" in April and, in December, a companion guideline entitled "Performance Measurement In the Business Planning Process—A Reference Guide for Ministries." These documents have provided valuable guidance to ministry management and staff as they have endeavoured to enhance their reporting of performance, with a particular focus on the outcomes being achieved by significant government programs.

Because of our mandated interest in the subject of performance measurement and the fact that the Ontario government has been publishing business plans for eight years, we felt that it would be worthwhile and timely to review the guidance provided by Management Board Secretariat. As a benchmark, we used the performance-reporting principles recently developed and published by the Canadian Comprehensive Auditing Foundation (CCAF). CCAF is a national, non-profit research and educational group that has recently developed performance-reporting principles for governments in consultation with legislators, senior government officials, and legislative auditors across Canada. The principles are contained in a CCAF report entitled *Reporting Principles—Taking Public Performance to a New Level*, released in December 2002. The CCAF report explains the importance of reporting principles as follows:

Agreement of principles is an essential step toward confidence in reporting. Principles help reporters [those reporting performance] make good judgments and give them grounds for confidence that their judgments will be fairly received. They give users grounds for confidence that the judgments exercised in reporting are fair, neither arbitrary nor self-serving.

Principles also shape the evolution of reporting: they point the way to what reporting could and should be. They start out as ideals, the ceiling that reporting aspires to reach. Over time and with growing acceptance, they become standards, the floor below which reporting may not sink.

To date, the principles developed by CCAF have been endorsed by senior public servants and the legislative audit community across Canada. For instance, the provinces of British Columbia and Saskatchewan have officially adopted CCAF's performance-reporting principles as the model for how they will improve public performance reporting.

The following chart lists the nine CCAF performance reporting principles and indicates the extent to which Management Board's current guidelines incorporate these principles:

**Degree of Incorporation of CCAF Principles in  
Management Board Secretariat's Performance Reporting Guidelines**

CCAF Principle	Incorporated	Partially Incorporated	Not Incorporated
Focus on the few critical aspects of performance.	✓		
Look forward as well as back.	✓		
Explain key risk considerations.			✓
Explain key capacity considerations.			✓
Explain other factors critical to performance.			✓
Integrate financial and non-financial information.		✓	
Provide comparative information.	✓		
Present credible information, fairly interpreted.		✓	
Disclose the basis for reporting.			✓

*Prepared by the Office of the Provincial Auditor*

We acknowledge that the CCAF's performance reporting principles have only recently been published. Accordingly, it is not unexpected that some of the recommended principles are not included in Ontario's current performance-reporting guidelines. However, we do recommend that over the next few years, as ongoing refinements to the guidelines are made, the four principles not yet included be considered in future revisions of the guidelines and that ministries be encouraged to implement them as soon as possible. The four principles not yet incorporated are described as follows:

- *Explain key risk considerations*—Risk relates to the uncertainty of future events and their possible impact on the achievement of goals. By identifying key strategic risks and their influence on policy choices and performance expectations, a performance report helps the reader to relate results achieved to the level of risks accepted.
- *Explain capacity considerations*—Capacity refers to the ability of an organization to achieve a given level of results. Capacity considerations often significantly influence decisions about strategic directions, goals, and resource allocations. By explaining capacity considerations, a performance report helps the reader to understand and interpret an organization's achievements and plans.
- *Explain other factors critical to performance*—Other factors that can affect the achievement of targeted results include changes in economic, social, demographic, or environmental conditions, as well as the actions of other jurisdictions or organizations external to the government. The greater the impact these factors have on performance, the more important it is to describe that impact.
- *Disclose the basis for reporting*—Since performance reports should focus on a few critical aspects of performance rather than present volumes of information, it is especially important to tell the reader why the reported measures were selected and how they relate to the overall strategic direction of the entity.

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Fully implementing Management Board's business-planning and performance-reporting guidelines across all ministries and improving on these guidelines is an ongoing process. It is encouraging to see the progress that has already been made in the public reporting of the government's performance. Nevertheless, in these days of constrained resources, increased delegation of responsibilities, complex service-delivery relationships, and rapid and constant change, the need for clear, credible, and timely performance reporting has never been greater.

## ***ONGOING CONTRIBUTIONS FROM THE LEGISLATIVE AUDIT COMMUNITY***

The Canadian Council of Legislative Auditors (CCOLA) is an organization of legislative auditors from the federal government and the provinces that meets periodically to share ideas and exchange information. CCOLA has been very active in the development of CCAF's performance-reporting principles.

In 1997, CCOLA established a Performance Reporting and Auditing Group to study and make recommendations on ways to advance the quality and usefulness of government performance reports. The Group developed a draft set of reporting principles and provided advice to CCOLA and CCAF as the CCAF principles were being developed. Recently, the Group has focused on the development of audit criteria and programs for interpreting and providing assurance on published performance information.

## **STRENGTHENING THE MODERN CONTROLLERSHIP FUNCTION**

### ***OVERVIEW***

A controllership function is common in most large organizations that maintain accounting records and use those records to produce financial information for decision-makers. Webster's dictionary defines a Controller as the chief accounting officer of a business enterprise or an institution. In addition to their accounting role, controllers are also responsible for establishing a good system of internal control to ensure that information produced by the accounting system is timely, relevant, reliable, comparable, and understandable.

Public-sector controllers have historically focused primarily on establishing basic accounting systems and financial controls to, for example, ensure that government spending is within the levels approved by the Legislature. However, over the last decade there have been a number of initiatives at the federal and provincial government level to expand this traditional role of the controller.

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For instance, in 1996, the federal government acknowledged that the modernization of the controllership function was key to improving the performance of government. To help achieve this, a federal panel known as the Independent Review Panel on Modernization of Comptrollership in the Government of Canada was established. The Panel issued a report identifying four key elements of modern controllership:

- integrated performance information;
- appropriate control systems;
- a sound approach to risk management; and
- a shared set of ethical practices and organizational values.

The Panel also stated that the single most important change needed was a move to a new guiding philosophy for controllership. Essentially, the culture of controllership had to move from a “command/control” orientation to a “loose-tight” orientation that would combine a strong commitment to centralized standards and values designed to achieve planned results with a flexible approach to processes and operating results.

## ***DEVELOPMENTS IN ONTARIO***

Our Office has long advocated the need for improved information for decision-makers and better measurement and reporting of government program performance. We have also advocated the need for a strong controllership function as a key means to achieving these objectives. For example, in 1993, we played an instrumental role in assisting the government’s move from producing narrowly focused financial statements that reported on the modified cash basis of accounting to more comprehensive accrual-based financial statements that consolidated all of the organizations that were accountable to the Legislature and owned or controlled by the government. In 1993 we also stressed the need for a governmental annual report that would contain not only the audited financial statements but also understandable information on the government’s fiscal performance. In addition, for many years we have recommended that the government adopt the same basis of accounting for the Budget and the Estimates as that used in the financial statements and that it enhance the Estimates review process by taking performance information into consideration during the review process.

Over the years, the government, largely through the Ministry of Finance, has responded positively to many of our recommendations. Significant progress has been made in the area of improved financial reporting, in terms of both financial statements and the related Budget and Estimates processes. Progress is also being made in developing and implementing the key elements of modern controllership in Ontario. Some of the more recent initiatives in this regard include the following:

- In 1999, in response to the global shift to a more results-driven culture in the public service, Ontario established a task force to review the controllership function. Particular emphasis was placed on reviewing the role of a ministry chief financial officer. The

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review recognized that a modernized controllership function could improve decision-making by establishing processes for the strategic use of financial and performance information and for the management of risks within acceptable levels.

- In 1999, both Management Board Secretariat and the Ministry of Finance initiated a risk-management review process that ultimately resulted in the development of a Risk Management Framework, a “how-to” guide, and a Risk Management Policy. By managing risk systematically, managers can increase the likelihood that programs and activities will meet their desired objectives. Since the guide was released, a number of courses have been provided to train government managers and staff in improving risk management practices, controls, and governance processes.
- In 2000, the government implemented a Controllershship Capacity Check self-assessment tool (the tool had originally been developed for the federal government). The tool enabled senior ministry management to assess their controllership practices in seven key areas against the best practices of other leading organizations. In 2000, ministries completed the self-assessments and developed action plans to improve the controllership function in their organizations.
- In 2000, a Modern Controllershship Training Unit was created in the Fiscal and Financial Policy Division of the Ministry of Finance to help public servants upgrade their financial skills. Courses offered through the unit cover all aspects of modern controllership, including risk management, values and ethics, accounting practices and policies, and integrated decision-making. Courses are designed for and suited to staff at every level up to and including deputy ministers. Since its creation, the unit has provided approximately 7,500 days of staff training.
- In 2001, an Intranet Web site was launched to help educate the entire public service on modernized controllership. The site provides users with detailed information on modern controllership initiatives and government accounting policies and practices, as well as a listing of available courses.
- In 2002, the government began the roll-out of its new Integrated Financial Information System (IFIS). This government-wide system will replace numerous separate and unrelated financial systems that were in use by different ministries across Ontario. IFIS is a key component of the government’s modern controllership initiatives and is intended to:
  - allow for better estimation of the full cost of government activities, thus improving the planning and resource-allocation process;
  - put all ministries on the same accrual accounting basis, ending the need for manual adjustment or reconciliation of data from incompatible financial systems across the government;

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- support the standards for accrual accounting and for capitalization of long-term assets recommended by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board;
  - give decision-makers better and faster access to in-year information; and
  - support more timely preparation of the government's financial statements.
- In 2003, the Ministry of Finance published *A Guide to Financial Policies and Practices in Ontario*. The guide was written in plain English for non-financial decision-makers to help them understand the major changes being undertaken in the government's budgeting, planning, accounting, and reporting practices.
  - By 2004, all government accounting systems will operate on the accrual basis. As a result, the Budget, the Estimates, the appropriation control system, and the financial statements and the Public Accounts for the 2003/04 fiscal year will, for the first time, all have been prepared using the same comparable basis of accounting.

## **THE WAY AHEAD**

While we are encouraged by the progress made to date in modernizing the controllership function, much remains to be done. To realize a full return on its investment in modern controllership, the government must successfully make further advances, including the following:

- The culture of the Ontario Public Service must be changed to one where management thinks and behaves in "accrual" terms rather than in "cash" terms. Beyond asking, "How much money can I spend this year?", management should also ask, "What government resources will I need to deliver this program this year, and are the benefits to the public worth these resources?"
- The government must ensure that individual ministries fully adopt the modern controllership approach, in which resources are managed wisely and with due regard for economy, efficiency, and effectiveness. Management at ministries must develop effective risk-mitigation strategies and a proper internal-control environment and must ensure that staff have the information they need to enable them to make informed decisions on where and how government resources should be committed.
- The government must ensure that IFIS is implemented smoothly and is both sufficiently controlled and sufficiently flexible to produce relevant and reliable government financial and operating information for decision-makers.

These advances will not be possible if controllership is delegated solely to financial specialists. Successful modernization of controllership across the hundreds of programs of the Ontario government will depend largely on management adopting a "controllership mindset." In other words, a culture in which government managers and staff regularly act in accordance with the principles of modern controllership must be developed, under the leadership of

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the Ministry of Finance and senior program management throughout the government. Such a culture will help ensure that risks are managed, resources are used effectively, and the effectiveness of the public service is improved. In such a culture, ministries will be better able to account to the Legislature and to taxpayers for what they have accomplished with the resources entrusted to them.

Ultimately, a strengthened modern controllership will lead to better decision-making. As we have emphasized over the years, good decisions depend on appropriate, reliable, and timely information. Such information enables decision-makers to make good choices regarding how best to deliver government programs, how to reap the benefits of opportunities, and when to take corrective action when problems arise. Thus, ensuring that decision-makers have timely access to all the information they need may well be the most significant contribution the controllership function can make in the years ahead.