
CHAPTER TWO

Toward Better Accountability

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ACCOUNTABILITY AND DECISION MAKING

As advocated in my annual reports since 1993, an improved accountability framework, preferably anchored in legislation, is necessary for the effective management of government finances, spending and resources. Such a framework would better allow the Legislature to assess whether all funds have been and are being spent prudently for the intended legislated purposes and would result in better information being provided to the ministers and the government for decision making.

To make the right decisions, decision makers must be provided with reliable information so they can assess the performance of each government program and decide whether it should continue as is, be modified, outsourced or discontinued. In summary, this results-oriented focus should be the driving force behind prudent management of financial, human and physical government resources and reductions in government spending, deficits and debts.

CURRENT ACCOUNTABILITY INITIATIVES

During the past few years, several encouraging steps have been taken toward better accountability to the Legislature and the taxpayers for performance and results by ministries, agencies and the government as a whole. On July 3, 1997, Management Board Secretariat provided my Office with the following comments regarding several accountability initiatives.

GENERAL

The broad thrust of recommendations from the Office of the Provincial Auditor and the Ontario Financial Review Commission has been towards substantially improving the accountability of the government to both the Legislature and the public at large. At the heart of this have been recommendations to increase the availability and timeliness of the detailed financial and performance measurement information presented by the government. Both the Office of the Provincial Auditor and the Ontario Financial Review Commission stressed the need for improvements in internal decision making throughout the Government of Ontario, particularly the introduction of rigorous planning based on financial and performance measurement data.

During the past two years, the government has undertaken a wide range of measures aimed at improving the provision and use of information, both internally and to the Legislature and the public. These efforts were intended to improve decision making and accountability.

FINANCIAL INFORMATION

A primary objective of the government has been to improve the quality of financial information available to the Legislature and all Ontarians. The implementation of PSAAB-based [Public Sector Auditing and Accounting Board] accounting for the Provincial Budget, Ontario Finances quarterly reporting, Ontario Public Accounts summary statements and other public reporting has been a key step in this regard. The adoption of a PSAAB accounting framework responds to the strong recommendations of both the Office of the Provincial Auditor and the Ontario Financial Review Commission.

BUSINESS PLANS

The government has also implemented a comprehensive and rigorous business planning process, both as the centre-piece of government's financial and policy decision making and for public reporting. Ministries present business plans to Management Board and Cabinet on an annual basis. These plans are used for determining ministry financial allocations and policy directions.

Published business plans for each ministry have been tabled in the Legislature for the 1996/97 and 1997/98 fiscal years, with a firm commitment towards continuously improving annual plans. Published business plans clearly outline the core businesses, key strategies, and financial allocations and human resource complements associated with each ministry.

The government has also undertaken public consultations on its published business plans, seeking feedback on both ministry plans and on the government's overall financial and operational directions. Over the balance of the 1997/98 fiscal year, ministries will be actively working with client groups to review and refine business plans, particularly in terms of key objectives and performance measures. Tools such as a website are also being used to seek the views of the general public.

For 1997/98, the government is introducing a brief summary of business plan commitments, called Making Progress, Managing Change: A Report to Ontario Taxpayers. This document provides both legislators and the general public with an accessible compilation of the key themes from ministry business plans, emphasizing key performance measures for the 1997/98 fiscal year.

PUBLIC SECTOR ACCOUNTABILITY ACT

The 1997 Ontario Budget proposed the Public Sector Accountability Act to ensure that each publicly-funded organization prepares a specific

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business plan and that these plans are made available to the Legislature and the public. The Act will require these organizations to report on their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The Act will also require these organizations to prepare a corporate plan and annual report which details objectives, resources required and performance against the plan. Benchmarks, against both private and public sector practices, will also be required.

The Act will fulfill the intent of recommendation 1.18 of the Ontario Financial Review Commission [which called for the requirement for business plans at the government, ministry and agency level to be legislated]. The Minister of Finance has indicated he will introduce the Public Sector Accountability Act in the Legislature's fall session of this year.

AUDIT ACT

Enactment of the proposed *Public Sector Accountability Act* will represent a very positive step in enhancing public accountability. Additional improvements would be made by enacting proposed amendments to the *Audit Act*.

As detailed in last year's *Annual Report* and Chapter Seven of this *Report*, after public hearings on this issue in June 1996, I submitted to the Standing Committee on Public Accounts specific draft proposals for amending the *Audit Act*. The proposed amendments were drafted by Legislative Counsel in consultation with my Office, and their primary objective was to provide my Office with the discretionary authority to perform value for money audits of organizations that receive significant conditional grants (transfer payments) from the province. Such transfer payments represent about 50% of the provincial government's annual spending.

These proposed amendments were accepted by the Committee which, in turn, provided them to the Minister of Finance. In a September 1996 letter to the Chair of the Committee, the Minister responded, in part, as follows:

The draft bill to amend the Audit Act as developed by the Provincial Auditor, in consultation with the Office of the Legislative Counsel, represents a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.

With respect to the amendments affecting the auditing of transfer payment recipients, it should be noted that a number of initiatives are underway, including the "Who Does What" discussions, which may result in a significant restructuring of the nature and magnitude of the Province's transfer payment arrangements. It might be more appropriate to assess needed changes to the auditing of transfer payments following this restructuring.

In a subsequent meeting with the Minister to discuss the timeframe for introducing these amendments, he stated that his preference was to await the outcome of the transfer payment restructuring initiatives which he expected to be substantially completed in the fall of 1997, before considering possible amendments to the *Audit Act*.

INFORMATION FOR BETTER ACCOUNTABILITY

PERFORMANCE AND FINANCIAL INFORMATION

In 1997, as in prior years, many of our value for money audits included an assessment of the quality of performance information available for planning and decision making for the programs we audited.

In general, three categories of performance and financial information are needed for planning and decision making—inputs, outputs and outcomes. Inputs refer to the amount of financial and other resources that are used to deliver specific services or programs/activities. Outputs are the quantity and quality of services or goods delivered in relation to the resources deployed. Outcomes refer to the extent to which programs/activities are meeting their objectives in terms of intended program results.

Outputs, together with the related ratios and comparisons derived therefrom, are indicators of efficiency, whereas outcomes are indicators of effectiveness. In evaluating outcomes, decision makers are not only interested in whether a program/activity is effective in meeting its objectives, but also whether:

- the costs of achieving the outcomes are justified by the value of the results obtained; and
- the same outcomes could be achieved at less cost.

It should be noted that, in some cases, outcomes are difficult to quantify since they deal with qualitative measures related to improvements in desirable society benefits (for example, improvements in the quality of areas such as education, drinking water, community safety and food safety). This, coupled with the fact that, in other cases, factors external to a program/activity contribute to the effectiveness of achieving an objective (for example, economic conditions can lead to increased or decreased tourism), can, at times, make the measurement of outcomes or effectiveness very complex and possibly too costly.

ALTERNATIVE SERVICE DELIVERY

In recent years, all ministries have been affected by the government's policy of restructuring, which involves the creation of a new Ontario Public Service (OPS) that: focuses on core businesses; improves service delivery to the public; is smaller, more flexible and efficient; encourages coordination/integration across ministries; and has clearly defined roles and responsibilities.

In many cases, this restructuring involves the management and delivery of programs and services through alternative arrangements, commonly referred to as "alternative service delivery." Such arrangements include partnering, outsourcing and complete privatization.

Partnering can consist of several ministries within the OPS sharing services and providing a "single window" service delivery or establishing a single ministry to provide common services. It can also entail arrangements between different levels of government to meet common objectives and save money by pooling expertise or harmonizing service delivery.

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Outsourcing involves a ministry or a central agency entering into a contract with a private sector party for the delivery of specific services or the delivery of a common service across the OPS.

Outsourcing also includes partnerships with private, non-government or voluntary partners to deliver program services. In such partnerships, risks and rewards are to be shared between the partners. The principal risks and rewards that would be shared with a non-government partner are those pertaining to:

- ownership — that is, the non-government partner should make a reasonable equity investment in the partnership with the opportunity of making a return on that investment;
- operations — that is, the non-government partner should assume all or most of the risk that the revenues will cover expenditures while providing stipulated service levels; and
- financing — that is, the non-government partner should arrange for a substantial portion, if not all, of the financing, without government guarantees or financial obligation, at borrowing costs which do not negate the financial benefits to the government from the partnership.

Because ministers remain accountable to the Legislature in any outsourcing arrangement, the government has issued guidelines to ensure that government objectives and expected service levels are met and that contracts stipulate in reasonable detail:

- the standards to be maintained;
- the monitoring mechanisms to be used, including the timing, nature and quality of information requirements, data retention and rights to evaluate and audit compliance with those standards; and
- the remedial action to be imposed, including penalties, where compliance is not achieved.

As is our practice, my Office will use any directives or guidelines for outsourcing issued by the government to set criteria (audit expectations) for the value for money audit of any outsourcing arrangement and its performance.

Complete privatization is an option in cases where programs and services are deemed to no longer serve a needed public policy objective. With this option, direct accountability through a minister to the Legislative Assembly is significantly limited or ceases all together.

CONCERNS

We would expect decisions for choosing a method of alternative service delivery to be grounded in a sound business case, whereby the costs and benefits of current and alternative methods of delivery are compared. In order to prepare such a case, ministry decision makers should have reliable information regarding the performance of the current methods of program or service delivery.

In other cases, where alternative service delivery is not a factor, reliable performance information is necessary to assist decision makers in evaluating the current delivery of services and programs and their future.

The continuing development and refinement of business plans by ministries, which include performance measures, is helpful in this regard. However, improvements in such results-based

information are required, as recognized by Management Board. The current service delivery arrangements between ministries and certain transfer payment recipients are very similar to the proposed arrangements for alternative service delivery. The Management Board Secretariat issued frameworks and guidance for transfer payment accountability in 1989, which are currently being updated, and for alternative service delivery in 1996.

Many of our value for money audits reported on in previous annual reports have commented on insufficient measuring and reporting by ministries on the performance and effectiveness of government programs and made recommendations to ensure that appropriate accountability is established and that funding of transfer payment recipients is commensurate with service levels and quality.

Again this year, many sections of Chapter Three of this Report set out observations and related recommendations dealing with the need for improvements in these areas.

CONCLUSION

I am encouraged by steps that have been taken by government during the past few years toward better accountability to the Legislature and the taxpayers for performance and results.

Regarding the preparation and publishing of annual business plans, Management Board Secretariat has referred to the government's firm commitment toward continuously improving these plans. In this regard, Chapter Three of this Report contains a number of recommendations pertaining to the measurement and reporting of performance and effectiveness at the program level in government ministries.

Enactment of the proposed *Public Sector Accountability Act* is expected to enhance public accountability. Further improvement to public accountability would be achieved if proposed amendments to the *Audit Act* were enacted. These amendments are designed to allow my Office to better serve the Legislative Assembly and, through it, the taxpayers of Ontario.

Chapter Three also contains our observations and recommendations for improving the accountability relationship between ministries and those program service deliverers that ministries fund through transfer payments. We believe these observations and recommendations are also relevant for the alternative service delivery arrangements to be implemented by the OPS.