
LEGISLATIVE PROPOSALS TO IMPROVE PUBLIC ACCOUNTABILITY

Status of Recommendations for Amendments to the *Audit Act*

2.02

Recent Standing Committees on Public Accounts have expressed their support for the Provincial Auditor's views and concerns regarding the current limitations of the scope of inspection audits of certain grant recipients under the *Audit Act*. In aggregate, provincial monies flowing to grant recipient organizations represent the single most significant fiscal demand on the province's Treasury. In 1997/98, grant recipient organizations received about \$27 billion, which is about 50% of total government expenditures.

Under the current *Audit Act*, the Provincial Auditor may carry out only financial and compliance audits of grant recipients to determine whether the grants were used for the intended purposes. In early 1996, the Committee held public hearings on proposed amendments to the *Audit Act* and invited the deputy ministers of the main transfer payment ministries, representatives of the major transfer payment recipients and other interested organizations to meet and discuss the proposed changes. The primary objective of the proposed amendments is to provide the Provincial Auditor with the discretionary authority to perform value for money audits of organizations, such as community colleges, universities, hospitals, municipalities and school boards, which receive grants from the Province of Ontario or from an agency of the Crown. Other amendments, mainly of an administrative nature, were also proposed.

At the conclusion of the public hearing process on June 13, 1996, the Provincial Auditor submitted to the Committee specific draft proposals for amending the *Audit Act*. After discussion of the proposed amendments, the Committee unanimously adopted the following motion:

That the proposed amendments be provided to the Minister of Finance and that the Committee requests a response and action plan from the Minister of Finance by the Committee's first meeting following the Summer recess [September 26, 1996].

In a letter to the Committee Chair dated September 26, 1996, the Minister of Finance 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.

I concur with the proposed amendments dealing with the administrative changes to modernize the Act and to have the Auditor express an opinion as to whether the province's financial statements are presented fairly in accordance with the accounting principles which the Canadian Institute of Chartered Accountants has recommended for governments. This requirement is consistent with the direction taken by the government in response to the recommendations of the Ontario Financial Review Commission.

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 may be more appropriate to assess needed changes to the auditing of transfer payments following this restructuring.

The Provincial Auditor met with the Minister of Finance on October 2, 1996 to discuss this subject and the timeframe for introducing a bill to amend the *Audit Act*, given the possible restructuring in the transfer payment area as a result of the “Who Does What” discussions. In this regard, it was the Minister's preference to await the outcome of the transfer payment restructuring exercise, which he expected to be substantially completed by the fall of 1997, before considering possible amendments to the *Audit Act*.

INTRODUCTION OF PRIVATE MEMBER'S BILLS TO AMEND THE *AUDIT ACT*

- On June 12, 1996, Bernard Grandmaître, MPP for Ottawa East, introduced Bill 74 entitled *An Act to amend the Audit Act*.

The purpose of the Bill was to allow the Provincial Auditor to present the Speaker of the Legislature with up to three reports a year, in addition to the Auditor's *Annual Report*. The Provincial Auditor would retain the power to submit special reports to the Speaker whenever the Auditor believes that a matter is urgent.

On March 6, 1997, this Bill passed second reading and was referred to the Standing Committee on Public Accounts for its consideration.

On November 20, 1997, the Committee considered the Bill, clause by clause, and reported it to the House without amendment. The Speaker then ordered the Bill for third reading.

The Bill was not called for third reading before the prorogation of the First Session of the Thirty-sixth Parliament and consequently “died.”

- On November 5, 1996, Bart Maves, MPP for Niagara Falls, introduced Bill 89 entitled *An Act to amend the Audit Act to improve the accountability of hospitals, school boards, universities and colleges, municipalities and other organizations which receive payments from the government*.

The purpose of the Bill was to permit the Provincial Auditor to conduct value for money audits of organizations, corporations, associations, foundations, institutions and other bodies that receive transfer payments, directly or indirectly, from the Consolidated Revenue Fund or government agencies.

On November 21, 1996, this Bill passed second reading and was referred to the Standing Committee on General Government for further review.

The Committee did not consider the Bill and it, too, “died” because of the prorogation of the First Session of the Thirty-sixth Parliament.

THE PROPOSED PUBLIC SECTOR ACCOUNTABILITY ACT

- In our *1997 Annual Report*, we included the following update on the status of the proposed the *Public Sector Accountability Act* (PSAA) as it was provided to us by Management Board Secretariat in a letter dated July 3, 1997.

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

At that time, we were also informed that the Minister of Finance would be introducing the PSAA during the Legislature’s 1997 fall session. However, by the summer of 1998, the proposed PSAA had not been introduced in the Legislature for first reading.

CONCLUSION

In his September 26, 1996 letter to the Standing Committee on Public Accounts, the Minister of Finance stated that the draft bill to amend the *Audit Act* represented “a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.”

Additionally, the *1997 Ontario Budget* specifically referred to Bill 89 introduced by Mr. Maves as being important in the development of a *Public Sector Accountability Act*. The main thrust of Mr. Maves’ proposed legislation was to enhance accountability by providing the Provincial Auditor with access to the information necessary to carry out discretionary value for money audits of grant recipient organizations that, in total, account for about 50% of provincial expenditures (\$27 billion in the year ended March 31, 1998). However, the draft PSAA proposals that have been shared with this Office did not contain any reference to the thrust of Mr. Maves’ Bill 89.

The Provincial Auditor continues to be a strong advocate of any legislation that enhances public accountability.

The Provincial Auditor also believes that the proposed *Audit Act* amendments are directly related to enhancing public sector accountability. Now that the government’s restructuring

exercise has been substantially completed, we urge the government to consider our proposed amendments to the *Audit Act*.

We also look forward to the Minister of Finance proceeding with the public sector accountability enhancements inherent in the proposed *Public Sector Accountability Act*.