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Jeudi 11 octobre 2001

**Standing committee on
public accounts**

Audit Act amendments

**Comité permanent des
comptes publics**

Amendements à la Loi sur la
vérification des comptes publics

Chair: John Gerretsen
Clerk: Tonia Grannum

Président : John Gerretsen
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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Thursday 11 October 2001

Jeudi 11 octobre 2001

The committee met at 1004 in committee room 1.

The Chair (Mr John Gerretsen): Good morning. I call the committee to order. First of all an update on the MOE material. Perhaps, Ray, you can give us an update on that.

Mr Ray McLellan: This is a follow-up to the meeting we had back in September. We sent a letter out to the ministry asking for a response by September 21. I received a call this morning from Jan Rush's office saying that we'd have the material by tomorrow morning. So, hopefully it'll come in and we can deal with it next week.

The Chair: OK, so next week, then, we'll be dealing with the second draft on the Ministry of the Environment report. For the record, it should be noted that it's the fifth extension they've requested, right?

Mr McLellan: It's taken a while.

AUDIT ACT AMENDMENTS

The Chair: This morning you may recall that some six months or so ago the committee decided that at some point in time we should take a look at the Audit Act, I think at Richard's request, and in particular the comments made by the auditor in section 2 of the special report last year. I believe it was agreed upon last week that if we were not going to deal with the Ministry of the Environment report, we would deal with this issue today. Erik, I'll ask you to lead it off.

Mr Erik Peters: I would like to make some very brief opening comments and then answer any questions the committee may have. In order to facilitate the discussion, though, what I would like to do is distribute to you the proposed amendments to the Audit Act. It's a copy again. It was given to you once before, but I thought if you don't have it with you, it may facilitate. I want to keep my comments relatively brief. That will be a challenge.

The Chair: Just so that I'm clear on this, have you discussed the proposed amendments with the Ministry of Finance?

Mr Peters: That's right.

The Chair: OK, go ahead.

Mr Peters: Currently, the status of that is that we have discussed them with the Minister of Finance. Since that initial discussion there have been, what is it, one or two, John?

Mr John Sciarra: Two.

Mr Peters: There have been two meetings with the Ministry of Finance staff on a number of other issues that they brought up, and we are currently in the process of responding to those. I am asking the minister for a further meeting to discuss both amendments proposed by them and our reaction to them. That's the current status of that.

If I may, then, Chair, go into opening comments.

The Chair: Sure.

Mr Peters: The reminder to all of us, and to me particularly, is that the principal focus is on my office being able to do discretionary audits of transfer payment recipient organizations. As I explained I think in the previous meeting on February 21, the transfer payment recipient organizations that we are focusing on are the ones that are receiving money to carry out government programs. These are organizations which are governed by boards of directors. They're principally in the area of what is commonly referred to as the CHUMS sector—colleges, hospitals, universities, municipalities and school boards—which are the main recipients. We are not going to audit, and in my opinion should not be able to audit, of course, other transfer payment recipients such as welfare recipients, or doctors who receive transfer payments on the basis of billing fees for services.

The total amount involved that these transfer payment organizations are receiving is in the \$30-billion-a-year range. Total transfer payments are well over \$40 billion a year, but the balance are those individual payments in sum total where the principal method of providing the transfer is by determining the eligibility of the recipient. Once they're eligible, what they do with the money is their own affair. These organizations that we're focusing on are the ones that are receiving transfer payments because they are not only eligible but they're also supposed to spend these funds for the purposes intended or, in other words, for the purposes given to them by the government.

1010

That is really the principal issue that has been the driving force. These proposals that we made to you are the latest, if you will. They have been private members' bills from both the government side and the opposition, with the same intent. So we are carrying on in that regard.

The second issue I wanted to talk about briefly is that the current Audit Act refers to us reporting on the public accounts of the province on the basis of accounting

policies stated by the government. That section is about 20 years old and was crafted at a time when there were no accounting standards for the public sector. What we have proposed in our amendments is to update that particular provision. We're doing that for a number of reasons, all of which are a little bit technical, but hopefully I can explain them to you.

First, we are proposing that because we would like to update the Audit Act, simply to modernize it and bring it up to date to refer to standards that are there. Second, the government has applied these standards issued by the Canadian Institute of Chartered Accountants by its public sector accounting board, in the financial statements and the public accounts since 1994 and in the budget since 1996. So it merely would be confirming what is already there. Third, all governments in Canada now follow the CICA-PSAAB standards to some extent or another. Some are 98% there and some are there to a somewhat lesser percentage.

Also, there is a generally accepted principle that preparers of financial statements should not set their own standards. That particular standard is enunciated in the private sector, for example, in both the Ontario Business Corporations Act and the Canada Business Corporations Act, which make specific reference to the standards set by the Canadian Institute of Chartered Accountants against which the private sector should report. With the existence of these standards, I see no reason why this principle should not also be applied in the public sector.

Finally, both Ontario financial review commissions, the first and the second one, have recommended the application of CICA-PSAAB accounting rules, the first one particularly with regard to the budget because it was already done in the books when they were created, but also the second one with particular reference to tangible capital assets.

These are essentially the reasons that outline why we would like to see this update of reference to accounting standards. There is also a professional reason. The standard opinion that we are giving is normally crafted in such a way that I am supposed to opine in the end whether the financial statements of the province are fairly presented in accordance with some accounting standards. So I need the standards. I have concerns if the preparer or the government can determine its own accounting rules rather than an independent body.

Further discussion I would like to have: when we are auditing transfer payment recipients, we would like to follow the same rules we are currently following with regard to commenting on government policy matters. In my annual report we have a paragraph which was slightly altered this year because we have moved ahead with the secretary of cabinet in this area. It now reads that my office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative

sessions and through reviews of legislation and expenditure estimates. So we are not commenting on the merits of policy, on any government policy matters, as a matter of practice.

We would extend the same courtesy, of course, to transfer payment recipients. As you know, the focus of that is to see whether they have spent the money for the purposes intended. So the merit of the purposes we won't comment on, but we certainly would comment on whether they have been spent for the purposes intended.

Mr Sciarra: And value for money.

Mr Peters: And, prudently, for value for money. John is quite right. That's the other area we focus on.

With regard to that, we don't interpret this as giving us any further rights to deal with program effectiveness. As you know, under the current act under section 12, we are restricted as to program effectiveness to commenting whether management has measures and reports on effectiveness and whether those procedures to measure and report are sufficient. But we do not comment on effectiveness itself, so that's part of the value-for-money. Where we have a full audit scope on economy and efficiency we have this limitation, which I'm very pleased with and don't want to alter, with regard to effectiveness. If we were to get into that area, we would get into an area of second-guessing with the government, and that's not our purpose.

The other major issue is that we would like to de-link our salary levels from the Ontario public service.

The Chair: You'd like to what?

Mr Peters: Unlink. There is currently a provision in the act that we must use the same classification and pay scales as the public sector, but the problem is that our office is fairly unique in terms of our employees. There are currently precedents. For example, the Ontario Securities Commission, the Ontario Financing Authority, the Ontario Realty Corp and the Ontario Racing Commission are able to set their own classifications and their own pay scales.

Our problem is that currently, particularly at the senior auditor and supervisor category, we are unable to compete with the firms of chartered accountants for the same people. As a result, where I should have my major strength in people, I have a major weakness. This summer we were down to two senior auditors in my office, with a massive number of our employees actually at the student level, where we are competitive. But that is an imbalance I simply have to resolve, and I need help by being able to pay competitive salaries at that particular level.

I would also like to put on the table that clearly the act provides for significant supervision over this and required approvals by the Board of Internal Economy, so it's not a situation where I can willy-nilly determine salary levels. Under the act as it is, and we propose to retain that, I will have to come forward to the Board of Internal Economy and make proposals and obtain the approval to do that. So it is unhitching us, if you will, where we consider it necessary, but there is also the approval.

I wanted to get into one minor issue. Many of you have called my office the Office of the Auditor General. We have in this a proposal to change the name of the office to Office of the Auditor General and my title to Auditor General of Ontario.

The Chair: That's done it make it easier for the members?

Mr Peters: That's right. It's to facilitate.

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Mr Bart Maves (Niagara Falls): If you get that change in title, that will be sufficient. Instead of getting raises, it will be sufficient that you get a better title?

The Chair: I like that, Bart.

Mr Peters: Interesting linkage, but it's certainly not one we made.

It's just a generic name. Again, it is updating. Of the 11 legislative auditor offices in Canada, only three are called provincial auditors. All the others across the system are called auditors general.

Mr Maves: What are the other two provinces?

Mr Peters: Manitoba, or is that—

Mr Sciarra: Manitoba is changing.

Mr Peters: Manitoba's changing as well, so we're down to—

Mr Sciarra: Saskatchewan and Ontario.

Mr Peters: Saskatchewan and Ontario are the only two left in Canada.

Mr Maves: I'd be concerned: isn't the federal auditor the Auditor General?

Mr Peters: He certainly is.

Mr Maves: I'd hate to confuse Canadians.

The Chair: We'll make it the Provincial Auditor General.

Mr Bruce Crozier (Essex): Just because of the ignorance of the members, we don't have to confuse Canadians too.

The Chair: Yes, that's true.

Mr Peters: The other issue I want to touch upon is the budgetary issue. First, I really would like to thank this committee for the work they did in getting us to have the Board of Internal Economy reconsider the \$609,000 they'd allow for. But in light of this extended mandate into transfer payment recipient organizations, we had also said that the \$609,000 was the first in a three-step request to increase the complement of my office from about 85 budgeted positions to 100. That would still leave me, by far, the least-funded audit office in Canada.

In terms of cents per thousand dollars of government expenditure, I would still be at less than one half of the nearest office, which is the federal office, which is at about 33 cents per thousand. I don't know if you're aware of that, but I think I mentioned it before. They were just given a budgetary increase which alone is equivalent to 100% of my budget.

The Chair: They were increased by the equivalent of your total budget?

Mr Peters: Of what my total budget is. I would like to thank you for the \$600,000, but in connection with being able to do discretionary value-for-money audits, I would

like to point out that I can fulfill that mandate within any nearness of reason only if I can increase the complement of my office over the next two years so that I end up with about 100 staff members. Otherwise I wouldn't be able to do much work in this particular area, because my current resources are pretty well employed doing ministry, crown agency and crown corporation audits. Thank you again for the \$600,000 and the support this committee has given me, but in all honesty I do think I have to bring this budgetary item up to you.

With that, I would like to open it for any questions you may have.

The Chair: Just so we're clear: the budgetary item is really something separate and apart from the amendments here. You'd just like us to put more pressure on the Board of Internal Economy.

Mr Peters: No, not quite. What I'm saying is that if it is the wish of the Legislature that I now expand the domain to 170 school boards, 280 hospitals and so many other organizations to do any one of these, and because my office is funded so low—I'm at a bare minimum—I'm so far below the other offices in Canada that to fulfill that mandate with any reasonable expectation of serving the Legislature the way I should, the amount we are talking about over two years is about \$1.2 million, about another \$600,000 in each year.

The Chair: Just so I'm clear, and then I'll throw it open, the kind of audit you would do of, let's say, one of these grant recipient agencies like a school board would not be the kind of audit that is done by their own auditors right now. That is mainly, in many cases like that, purely a financial audit, isn't it?

Mr Peters: That's absolutely right.

The Chair: What would you do in addition to the audit that's already done within municipalities and school boards, delving into what kinds of issues?

Mr Peters: We would delve into the issue of due regard for economy and efficiency in delivering the government services they're charged to deliver. We would go into how they measure and report on their own effectiveness, how they safeguard public assets that are entrusted to them. When I talk about due regard for economy and efficiency, that deals with financial, human and physical resources entrusted to them.

We would also take a look at their reporting practices, their transparency, issues of that nature. There would be a report to the Legislature. That is the additional feature, because the current reports of the financial auditors are essentially addressed to the board of directors of the organization. It would be a more public reporting of due regard for economy and efficiency.

The Chair: Let's go into rotation. I'll start with the government side. Julia?

Mrs Julia Munro (York North): I just have one question. You were talking about doing the various agencies. The Ontario Hospital Association has initiated a format for assessment of the hospitals. I don't know if this is a fair question in the sense of, would you know anything about that kind of thing? My question came

from the notion that would they have the opportunity to do something like that. I realize yours would probably fit in with a single hospital, if we were to take this idea. How would your analysis differ from that of maybe a group like the Ontario Hospital Association?

Mr Peters: There would be no duplication, because we would take their work into consideration. In fact, we are aware of the report cards that have been developed by the hospitals. It would certainly be taken into consideration in our audit in several aspects.

First, its very existence, of course, is intended to go a long way toward improving the performance of hospitals. That would ultimately be to the benefit of everybody, and we would be aware of that. We would certainly take a good look at it. Also, interestingly enough, that report card is really a wonderful initiative in itself because in many hospitals—at least in some I've seen—the report card has already been made public.

Certainly initiatives such as the one taken by the Ontario Hospital Association are totally appreciated and will be taken into consideration, and would, in fact, reduce the work. It would also give us an opportunity to report back to you as the legislators on whether the report card is all-encompassing, whether there are areas where improvements could be made. For example, one idea that was advanced to us already by some people is that currently it deals largely with the human and service element but does not deal with where they stand on the state-of-the-art or capital equipment used by the hospitals.

I think the president of the hospital association—who has made a very interesting presentation, incidentally, on that to the second Ontario Financial Review Commission—certainly does not view this as a static development. He views it as a dynamic development where they make improvements over time. Certainly we would take that; there would be no duplication. As we do right now, virtually any performance evaluation or performance reporting that is done by the ministries is taken into consideration by us, and it would fall into the same category.

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Mr Crozier: I just want to say at the outset that I'm in full support of the recommended changes to the Audit Act as they have been discussed over the years. I'm kind of revisiting, having been on this committee previously and having been in support of them then.

I agree with you your comments about not auditing policy as well. But I wonder if you could just explain to us that fine line, where it may be government policy that results in grants being given to various organizations, but agreeing that the policy itself shouldn't be audited. How would you do the value-for-money audit in view of that? How would you draw that line in your value-for-money audit?

Mr Peters: Essentially by auditing whether the monies are being used for the purposes intended. Let me just give you an almost humorous example that I normally use, if I can do that.

Mr Crozier: A little humour never hurts.

Mr Peters: If the government were to decide to give every homeowner in Ontario \$100 for digging a five-foot hole in their backyard, we may have all sorts of views and there may be all sorts of debates in the Legislature as to the merits of that particular policy. We would—

Ms Marilyn Mushinski (Scarborough Centre): Depending on who they're going to bury in it.

Mr Peters: That may be one purpose. But our audit would only extend to the fact that they are paying \$100 only to those people who actually dig a five-foot hole, not paying somebody for a three-foot hole, not paying \$500 to somebody who only should be getting \$100, or paying somebody for not digging a hole at all.

So the merit of the policy that created that is outside our commentary, but the administration of the policy is what we would audit. For example, if you have in Community and Social Services a home for the disabled, and they are given money for the disabled, we would not question the policy of giving money to a home for the disabled, but we certainly would raise questions if the head of that agency bought himself a Cadillac with it—that sort of thing. Not that we know of anybody who has.

Mr Crozier: No. In the area of funding that you mentioned, it's always difficult for me to rationalize. If you're underfunded compared to the federal government or other provinces, that may be the case, but there may be a number of reasons why that's the case. I certainly support adequate funding, and I think we have to be competitive to get the best people in the job. But perhaps the funding should be approached—and I'm sure it would be—from the basis of what it is you really need. It doesn't matter what somebody else in Manitoba or anywhere else pays, but your budgeting would be based on the needs of your department, and I assume that would be the case.

Mr Peters: That is totally the case. It goes beyond it, really. I also have to take into consideration the needs of the Legislature. As I pointed out in the previous one, when I started, in the first year in 1993 we were able to present this committee with 21 value-for-money audits. In the upcoming report, I believe we have 11. So we had to cut back.

At the same time, the mandates of the offices across the country are relatively similar. For example, Alberta does a lot more attest work—that is, financial statement audits—than we do because in Alberta, hospitals, universities and the health care system, I believe, are audited. The individual organizations are audited for attest purposes by the Auditor General. Well, of course, we don't audit universities or hospitals in Ontario. On the other hand, we have 47 fairly large organizations and, as the Provincial Auditor for Saskatchewan always reminds me, he can always add one or two zeros after any number that he has when you compare this with Ontario. We are roughly in staffing levels equivalent to Saskatchewan, just slightly above.

Mr Richard Patten (Ottawa Centre): The spirit of the letter Ernie Eves sent back to you referring to the Ontario Financial Review Commission was, "Let's look

at things in light of the recommendations from that commission.” Is that complete?

Mr Peters: Yes, that report has been published I believe at the end of April. I forget the exact title; Raising the Bar: Enhanced Accountability in the Province of Ontario, something along those lines.

Mr Patten: Is that a big report?

Mr Peters: It’s a fairly big report. It certainly deals with, as they are referred to in the report, the key transfer partners and it makes quite a number of suggestions as to how to improve the transfer payment accountability. It is to be, to the best of my understanding, incorporated in a piece of legislation that will also come forward I believe, which is called the Public Sector Accountability Act. There is a direct relationship between the two because, right from the outset when I arrived, I always felt it was necessary that in order to achieve value for money from transfer payments there had to be a legislated framework in place for management to achieve value for money. It wasn’t good enough for the taxpayers of the province for my office to come in and do pre-audit audits if they are achieving value for money. It should be part of the day-to-day responsibilities of management.

There is a distinct link here between the report from this Ontario Financial Review Commission leading to a Public Sector Accountability Act, which in turn would make the amendments that we are proposing to the Audit Act far more efficient to implement and easier to work with. For example, that’s why I’m asking for only a relatively small increase in funds to accommodate it, because I hope that this framework will go a long way in establishing better transfer payment accountability in the public sector. So that’s the linkage I established. As I said in 1993 and I say now, there is a link and certainly our work would be enhanced by the existence of a legislated accountability framework for the transfer partners of the government.

Mr Patten: So, in summation, you’ve taken into consideration the recommendations of that report as you’ve drafted the amendment.

Mr Peters: Very much. We have adapted the amendments slightly. The timing was such that when we discussed this last, I believe in February of this year, that report was not out but I was aware of it because I was appointed by the minister as a special adviser. So I was aware of it and took it into consideration.

Mr Patten: Good. Anyway, I’m supportive of it.

Ms Shelley Martel (Nickel Belt): What commitment, if any, have you been given by the government that this legislation will go forward, and were you given a time frame?

Mr Peters: I don’t know a time frame but I know, of course, as we all do, that it was mentioned in the speech from the throne on April 19, that it was one of the agenda items. I believe it was one of the 21 agenda items that the government put forth in the speech from the throne. So the commitment is there; it’s public. But when exactly, I’m not sure.

The Chair: Just so I’m clear, how are these amendments different from the 1996 amendments on which

there were public hearings, the way I understand it? Are they basically the same, subject to minor amendments that you’ve made as a result of your discussions with the Ministry of Finance? Would that be a fair assessment?

1040

Mr Peters: That is a fair assessment. The changes from 1996 to now are fairly minor.

Mr John Hastings (Etobicoke North): Mr Peters, in your reorganization of the office and the appointment or hiring of new staff, will you make recommendations to the Board of Internal Economy as to salary ranges for old and new staff?

Mr Peters: I would have to do that if I’m departing from the OPS scales, but with the OPS scales, we just inform the board that those are the scales which we are paying, because they are set by the Management Board Secretariat.

Mr Hastings: But your recommendation is to decouple.

Mr Peters: To decouple, and once we decouple, then we would have to go forward to the board and say to the board, “This is what we have been paying, this what we are proposing to pay and this is why we want to do it.” I have to seek their approval for that; I have to explain that in great detail, I’m sure.

Mr Hastings: So what will be your organizational model?

Mr Peters: The organizational model will essentially not—

Mr Hastings: The Auditor General of Canada?

Mr Peters: No. It would be our own model that we are using. As I tried to explain, it would overcome the weakness that is in our organization at the moment. That is, because of the constraints we were under, approximately 40% of my complement are students who are moving towards an accounting designation. There will be a shift in that. One of the things that is happening to us is that once the students obtain their accounting designation, it is profitable for them to seek employment elsewhere because of the limitations imposed on me by the OPS salary range at the audit senior level. Audit senior is somebody who has completed the studies, has obtained an accounting designation and has at least two years of experience in the field. These individuals are highly sought after, and right now, in dollar terms, I cannot compete. Occasionally we can compete when there’s a downturn in the economy; then things seem to even out. We would take that into consideration, of course.

Mr Hastings: Your salary ranges for existing staff across the province are the third-lowest or the second-lowest?

Mr Peters: No, we have not done a comparison of the salaries, but I wouldn’t rank us lowest. We are probably fairly within range. It is just that we are competing for staff in a different market than, say, Regina, Prince Edward Island or Quebec City.

Mr Hastings: What salary ranges would you use as your model?

Mr Peters: We would probably use the major CA firms, medium to major-size CA firms, as a model, be-

cause they are doing roughly the same kind of work and have the same kind of people. The other model would be such organizations as the Ontario Securities Commission and the Ontario Financing Authority, which are both broader public sector organizations, and they have been given the right to pay their people.

Mr Patten: There's a commission you could audit.

Mr Peters: I do.

Mr Hastings: With respect to charge-back fees, you have mentioned before, I think—I can't think of specific examples—where are there charge-back fees for ministries providing services to other ministries or agencies in the government? Isn't there such a thing?

Mr Peters: Yes, it happens.

Mr Hastings: Can you think of one?

Mr Peters: Yes. Offhand, for example, under the Ontario drug benefit program, certain welfare recipients are entitled to drug benefits and, for example, the Ministry of Community and Social Services will pay the Ministry of Health and Long-Term Care for drug benefits received by welfare recipients.

Mr Hastings: Similarly, then, what is your philosophy about charge-back fees? Should charge-back fees be applied to the new entities you are about to audit when this legislation gets passed, ie, hospital boards, transit authorities—there are grants going to them, I guess—and school boards?

Mr Peters: Could you help me out: what sort of financial transactions do you have in mind?

Mr Hastings: Assuming this legislation passes, you will have the authority to audit a school board.

Mr Peters: Right.

Mr Hastings: School board X. So it will take you X number of person-hours or -weeks to go through their books for a given past fiscal year, so you or your staff will be there X number of hours.

My question is, do you think you ought to apply, under the regulations when they're developed, a charge-back for the hours that you or your staff are there, depending on the circumstances, at school board X where you're auditing whatever year?

The Chair: A charge-back to the school board or to the Ministry of Education?

Mr Hastings: Charged back to the school board for your staff hours put in auditing school board X.

Mr Peters: It's a fair question. I would like to answer it this way: I really have only one client and that is the Legislative Assembly of Ontario. It is the Legislative Assembly of Ontario which, by way of a vote and statute, pays my office. The school board would be the auditee. As a result, hopefully there may be, and I am sure there will be, benefit to the school board from our work. But the client to whom we report is the client that normally has to pay the freight and that, in this case, is the Legislative Assembly of Ontario.

If the Ministry of Education decides to build a feature into the school board funding—if you recall, because of the local services realignment, school board funding is now entirely a provincial responsibility, so it would just

be a circuitous way of paying out of the same pocket, if you will.

Mr Hastings: Isn't the charge-back between ministries really circuitous, but done for a purpose? Isn't it to show what the costs were for the number of people who were getting paid from one purse rather than the other? It's still the same purse. Is there any value to it, I guess, is the further question?

Mr Peters: It's a good question. If you were to talk to the Ministry of Community and Social Services, they would probably say it's a by-product. They are just saying that under the welfare act they are charged with a responsibility to ensure that people on welfare are getting certain drug benefits by the ministry providing that. But in the vote, when they come forward to the Legislature, Community and Social Services will ask for that amount of money and the Ministry of Health will take it into revenue so the overall amount that is being spent on this particular issue remains the same. So it's just a loop within a loop.

The question I'm raising on this is, because the Legislature is my client and they are the auditee, like everybody else, would we want to create a separate loop or do we just leave the funding as the Legislature receiving the service from my office as an office of the Legislature, and leave the funding there?

As far as the financial statements audit of the school boards is concerned, that is already funded. That is paid to outside auditors on that basis, and the amount paid to the outside auditors of course is built into the school board funding.

Mr Hastings: On the issue of the Ontario Financing Authority and the Ontario Securities Commission, in the second case, the OSC now charges the brokerage industry—other companies; mutual funds, I guess—for the services they provide, whether it's compliance, registration and so on. What happens to the pension contributions of the staff at the OSC? Do they go into the general pension plan of the province, even though they get their funding now from the industry they regulate?

Mr Peters: Yes. The Ontario Securities Commission actually has dual funding. There was a start-up amount given of about \$20 million, I believe, by the government to ensure that the fee actually covers the cost. Also, the securities commission does return to the province excess—

Mr Hastings: Any surplus?

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Mr Peters: Surpluses and excess amounts. To some extent, under some arrangement, they can be ordered by the Minister of Finance, I believe, to pay back certain amounts based on their financial performance. So yes, there is a fee for service to outsiders.

The Ontario Securities Commission's clients are to a certain extent—of course it's public policy that they have to regulate the stock exchange and who can trade there, but there is a benefit to listing to the organizations that list with the Ontario Securities Commission.

To give you a further example, I am actually the auditor of the Ontario Securities Commission.

Mr Hastings: You are?

Mr Peters: Yes, and I don't charge. We do that within the funding envelope we receive from the Board of Internal Economy.

Mr Hastings: I find that fascinating.

Mr Patten: Do they give you any stock options?

Mr Peters: Of course not.

Mr Hastings: You would think the OSC, now that it's more independent, would prefer an external audit. It can't do it under the legislation, I assume.

Mr Peters: Oh yes, they can.

Mr Hastings: So they can pick you or they can pick auditor Z?

Mr Peters: They can pick auditor Z. Certainly there are a whole raft of factors that are taken into consideration in the appointment of auditors, but one of the advantages that my office clearly has is that we are not involved in any listings.

Mr Hastings: That's true.

Finally, since you have preached from the bible of value for money for so long and you now want to have a changed name, from auditor to auditor general, your office presumably has correspondence, paper, letterhead etc, under the old title, and will have until this gets changed, whenever that is. I guess it'll be up to cabinet. Will you promise faithfully to execute the use of the old paper so it won't get thrown out? Do I have every assurance that you will use the old stuff up before you use the new?

Mr Peters: I gladly promise that, because we'll order our paper on a just-in-time basis from now on, so we don't have significant stock.

The Chair: You shouldn't have to order your paper at all. Don't computers give you letterhead now?

Mr Peters: They certainly do.

The Chair: You're not old-fashioned and still ordering paper are you?

Mr Peters: There is a distinction made between draft paper and final letterhead.

Mr Hastings: That's finely printed letterhead.

Mr Peters: That's right; neat quality paper.

The Chair: That's only when you're corresponding with government ministries.

Mr Maves?

Mr Maves: I only have one question. I support the expansion of the ability of the auditor to do audits of colleges, universities, hospitals and others. I've had a private member's bill pass in the Legislature so I'm on the record as supporting—

The Chair: I modelled my bill on your bill.

Mr Maves: You copied my bill. You stole my bill, Chair.

The Chair: There is a difference. Take a close look.

Mr Maves: My question is, was there a point in time when there was a municipal auditor who did value-for-money audits of municipal spending? If so, what happened to that? I was under the impression that at one

time in the province there was a municipal audit office similar to yours that would go and do value-for-money audits of municipalities. I don't know if that's true or not. If it is, what happened to it?

Mr Peters: There was. It was actually more structured along the line of an internal auditor, because it reported to a number of ministries that were involved with the municipalities; for example, the Ministry of Transportation with regard to grants for the road system, and municipal affairs itself. Offhand, I can't name the others, but maybe even agriculture and environment were involved in one way or another with municipalities. That was structured as what is now called a cluster office, if you will, and would have been considered an internal audit office. I forget the exact year it was disbanded. Quite frankly, at the time it was done I did oppose the disbandment. I thought it was a good idea.

Ms Mushinski: I think it was the Liberal government, actually.

The Chair: No, I think it was the previous Conservative government—the enlightened Conservative government, Mr Davis's.

Mr Peters: Yes, you're quite right: there was such a structure in place. In fact, our role in doing municipal audits is not quite as clear-cut yet. I think that particular area and domain of audit, firstly because we're dealing with separately elected councils, causes a certain amount of concern. But there's also a second issue involved, and that is how the government is going to deal with municipalities in the Public Sector Accountability Act. Again, if they include it, I will include it. If they exclude it, I may have to exclude it, depending on the reason for which it was excluded. But that is an area we would have to closely look into.

Also, because the granting system—for many years, with regard to municipalities, they had received grants for a specific purpose. Late in the last few years, that has changed to almost an unconditional grant. And of course the minute the grant recipient receives an unconditional grant, in fact it becomes of not much use for me to audit, because what criteria do I use as to what purpose it was intended for?

Mr Maves: I think it's more along the lines of, with all the municipalities and the size of all their budgets, if you add them up, it would be valuable to have a municipal auditor who just went into certain municipalities and did value-for-money audits on them, regardless of any connection with the provincial government. They are a creation of the province, and I just think it would be a valuable tool.

There used to be a mayor of Kingston who wasted money like crazy, and to have had a municipal auditor go in there would have saved that city millions of dollars.

The Chair: That was back in the 1960s and the 1970s, yes.

Mr Peters: Chair, I don't know whether you want to comment on that.

I certainly would advocate that. As you know—well, you may not know—in the last election campaign in the

city of Toronto, the mayor made the proposal for an auditor general of Toronto. In fact, we were approached, both directly and indirectly, to see if we could help them set that up. I've done so—I have not done so personally, but by playing traffic cop, persuaded the retired—not persuaded; I let them negotiate that. But I suggested approaching the former Auditor General of Canada, to see if they could help the city to do that. I believe that work is currently underway.

So it's up to the municipalities in that regard. Certainly, if the Public Sector Accountability Act were to extend that act to municipalities, any value-for-money work that is done at the municipality would certainly be taken into consideration in determining the scope of our work. That's another commitment I can certainly make, because we are doing it all along.

Mr Patten: It has been 20 years since there have been any amendments; is that what you're saying?

Mr Peters: About that, yes.

Mr Patten: During that period of time, both the percentage of the provincial budget in terms of money that goes to transfer agencies—money that is transferred out of the budget—has grown, and presumably as well, which is the underpinning of why we need to expand your role in terms of public accountability, there has been an increase in commissions or agencies that have picked up doing what the government used to do itself within its own budgetary framework.

Your audit adjustments are not simply limited to those agencies that receive portions of money out of the provincial budget, are they? I mean, there are agencies that you have the opportunity to audit. Does this cover that? In other words, what about Ontario Hydro or some of the other big agencies that carry on things on behalf of the people of Ontario?

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Mr Peters: There are quite a variety of practices in place. I'll give you one example: the WSIB is audited under the direction of my office, both as to attest audit as well as value-for-money audit. But they have legislation that asks the board to arrange for value-for-money audits directly and we review the work; we have a direct responsibility on those.

As far as audits on which we are the appointed auditors, we can by extension apply all provisions of the Audit Act already. We could, for example, carry out a value-for-money, as we have done—was it last year, or 1999?—of the Liquor Control Board of Ontario. So where we are the auditors, the full scope—Agricorp, for example—

Mr Patten: You have that now.

Mr Peters: We have that now.

Mr Patten: What about the Ontario Racing Commission?

Mr Peters: Yes, we do.

Mr Patten: So where is that in the act?

Mr Peters: I believe that's within section 12. In other words, the reporting section 12 comes into play because it says what we shall report on in every audit. So we can

report on the organization just on the attest audit of the financial statement or, if we have done other work, then we would report under section 12.

Mr Patten: Let's take, for example, the Ontario Lottery Corp.

Mr Peters: Which we just lost as an audit. It just went over to the Alcohol and Gaming Commission, I think—the Ontario Casino Corp.

Interjection.

Mr Peters: It still is, but it's now audited by a private sector auditor.

Mr Patten: Some of these may be part of your tour to look at every once in a while, and to examine.

Mr Peters: That's right.

Mr Patten: So that doesn't change. What you're saying is really the transfer agencies—municipalities, universities, colleges, that kind of thing.

Mr Peters: Yes. The important feature of these organizations, though, is that they derive their income other than from votes of the Legislature.

Mr Patten: Yes, that's right.

Mr Peters: The main purpose of our amendment is really so that we can follow the money from the Legislature all the way down. That would be the distinction.

The Chair: Any further comments? Just a question: I take it that back in 1996, when there were presentations made by 17 different organizations and individuals, most of the larger organizations, such as the Ontario Hospital Association, Ontario universities and school boards, were against your having this power, these additional responsibilities. Is that correct?

Mr Peters: That is correct, and we reacted in the amendments to the act accordingly.

The Chair: So those amendments have been taken into account in the revised amendments now?

Mr Peters: That's right. I can give you a specific example, if you don't mind.

The Chair: OK.

Mr Peters: The hospital association was very concerned about access by my office to medical records. As a result, we invited the privacy commissioner—actually, the committee invited the privacy commissioner—to make a presentation on that issue to the committee. The upshot of it was that the section specifically—I forget the number, but in the draft, in the proposed amendments that you have, there is a specific section dealing with these kinds of records. That was not only drafted by the privacy commissioner directly with legal counsel, but it was also updated less than a year ago, I believe. When the issue came up again in the speech from the throne, I went back to the privacy commissioner and said, "That's what you said at that time about medical records. Where do you stand now? Has there been a shift?" and they have been updated for the comments. So they're really current on advice by the privacy commissioner.

The other organizations largely had—well, this is a problem we might want to address. Some organizations felt that because they received a little bit of money, it shouldn't branch out into a massive value-for-money

audit of an organization. The extreme example that I've always used, and it's deliberately extreme and totally unrealistic: assume General Motors of Canada gets a \$1-million grant for an apprenticeship program. Certainly, we would not interpret this as our being able to do a value-for-money audit of General Motors of Canada. There would be lower practical limits. Currently, for example, many of the social agencies spending money on behalf of the Ministry of Community and Social Services will receive \$100,000 or \$75,000. I would consider it not practical to consider that. There will be a practical limit above which—as we do currently with government programs. A government program must spend a certain amount of money or must have some other social impact on a large number of people before we would consider it, in our audit risk assessment, as a candidate. The same approach would be taken to transfer payment agencies.

Mr Patten: They're audited anyway.

Mr Peters: The financial statements are audited anyway.

The Chair: But let me ask you something very practical. There are a lot of hospitals out there, and a lot of universities, colleges and school boards. How would you determine on an ongoing basis, "OK, I'm going to look at hospital A or school board B"? What determination do you make in that? How would you decide that?

Mr Peters: We would run, probably, as we do on government programs right now, quite an extensive risk assessment; that would be complexity of the work they're doing, the amount of funding they receive, problems that have been identified. Our first approach would be, of course, to go to the transfer-payment-making ministries to determine the controls exercised by the ministries already over it. For example, what are the qualities of the administration of hospital funding by the Ministry of Health and Long-Term Care, or Comsoc on homes for disabled, or young offenders institutions? We would look at that, actually, first. That would then develop the risk assessment and would also determine how far down the pipe we would go in auditing individual organizations as we go along. That would be the first approach, because virtually all transfer payments are made by one ministry or another. So that would be the first approach, and from then we do a risk assessment.

So the first assessment would be really the quality of the work the ministry is doing in administering the funds,

and then we would take the next step; for example, as we did on curriculum development for school boards, or on our university audits. We would first look at the ministry doing the work on universities and then we would move on from there.

The Chair: Any further comments? All right.

I take it that back in 1996, just going from the notes here, basically a motion was passed by the committee that indicated that the proposed amendments were provided to the Ministry of Finance and that we would request some sort of response from them in that regard. I'm open to any motion you want to make at this point in time. Does anybody want to make a motion? We've got this information. Do we want to follow up on it and go to the Ministry of Finance and say, "We think these amendments to the Audit Act are a good idea. We'd like you to do something about it"?

Mr Maves: I'll make a motion, Chair, that the committee continues to support the expansion of the Provincial Auditor's responsibilities—

Mr Peters: Audit domain.

Mr Maves: Audit domain? That sounds good—and that we would appreciate the Ministry of Finance taking the Auditor's draft Audit Statute Law Amendment Act, 2001, into account when drafting amendments to the Audit Act.

The Chair: Could we go one step further, that we urge them to proceed with bringing the legislation forward to actually make these amendments a reality?

Mr Maves: Yes, I don't mind urging them. I've urged them with bills.

Mr Peters: May I make a small—you used the word "ministry." Could we replace that with the word "minister"? The ministry is being audited by us; the minister is the sponsoring minister, and the motion in the past went to the minister. Could it go to the minister as well?

The Chair: Any problems?

Ms Mushinski: That's fine.

The Chair: Is there a seconder for that? Do we need a seconder? We don't need a seconder. Well, that's easy.

Any further comments or discussion? All those favour? Opposed? It's carried unanimously.

The meeting is adjourned until next Thursday.

The committee adjourned at 1110.

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