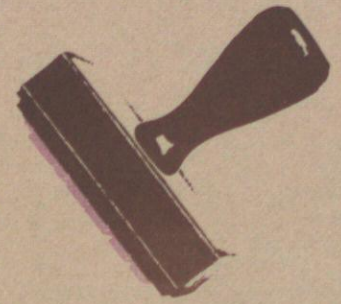




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COMMENT

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THE ROLE OF THE MUNICIPAL AUDITOR IN ONTARIO

INTRODUCTION

The importance of an independent audit of funds handled by public officials has been recognized historically as early as Aristotle's days when he described the situation in ancient Greece:¹

Inasmuch as some of the magistracies...handle large sums of public money, there must be another office to receive and account and subject it to audit, which must itself handle no other business; and these officials are called Auditors by some people, Accountants by others, Examiners by others and Advocates by others.

Such a function has been passed on in history and today all levels of government in Canada -- federal, provincial, and local -- have developed systems of financial audit of their accounts. The functions and responsibilities of government auditors vary from one province and level of government to another. This *Comment* focuses only on the role and responsibilities of auditors who are responsible for the audit of the financial transactions of municipalities in Ontario.

After reviewing briefly the present role and functions of municipal auditors in Ontario, some comments will be made on how these compare with several other jurisdictions. The paper concludes with a discussion of several issues which have arisen in discussion with those

1. Aristotle, Politics, translation by H. Rackham, London: William Heineman Ltd., 1959, p. 527, as quoted in the Report of the Independent Review Committee on the Office of the Auditor General of Canada, (Ottawa, 1975) p. 12.

who have provided information for the preparation of this *Comment* and which are considered worthy of further discussion and consideration by those interested in and concerned about municipal government in general and municipal finance and audit in particular.

LEGISLATIVE PROVISION RESPECTING MUNICIPAL AUDITS

The most important piece of provincial legislation governing the functions and conduct of municipal auditors is *The Municipal Act*. This Act requires that municipalities appoint and pay auditors, and publish or mail to all ratepayers the audited financial statements of the municipality along with the auditor's report. The auditor is also empowered to attend any meeting of members of council or local boards for which he is also the auditor, and to be heard at any such meeting that he attends on any part of the business of the meeting that concerns him as auditor.

Specifically, the pertinent sections from *The Municipal Act* read as follows:¹

- S227 (1) *The Council of every municipality shall by by-law appoint one or more auditors who shall be persons licensed by the Department as municipal auditors and who shall hold office during good behaviour and be removable for cause upon the vote of two-thirds of the members of the council, and every person so appointed shall, in addition to his duties in respect of the corporation, audit the accounts and transactions of every local board as defined in The Department of Municipal Affairs Act except school boards established under section 12 of The Public Schools Act ...*
- S227 (2) *Where an auditor audits the accounts and transactions of a local board, the cost thereof shall be paid by the municipality and charged back to the local board, and in the event of a dispute as to the amount of the cost the Department may upon application finally determine the amount thereof.*

1. The Municipal Act, R.S.O., 1970, Chapter 283.

S227 (6) *No person shall be appointed as an auditor of a municipality who is or during the preceding year was a member of the council or any local board of the municipality or of any other local board the accounts and transactions of which it would as auditor be his duty to audit or who has or during the preceding year had any direct or indirect interest in any contract or any employment with the municipality or any of such local boards other than for services within his professional capacity.*

S228 *An auditor shall perform such duties as are prescribed by the Department and also such duties as may be required by the council or any local board that do not conflict with the duties prescribed by the Department and shall prepare the material to be published by the treasurer under section 224.*

S224 (1) *The treasurer of every local municipality in every year shall, within one month after receiving the audited financial statements of the municipality, cause to be published or to be mailed or delivered to each ratepayer a copy of the balance sheet or sheets and the corresponding statements of surplus as of the 31st day of December of the preceding year, all as certified by the auditor, or a summary thereof in such form as the Department may prescribe, together with a copy of the report of the auditor.*

Each of the Acts establishing Regional governments in Ontario as well as *The Municipality of Metropolitan Toronto Act* make the identical provisions for municipal audit, excepting that they preclude a person from being appointed as auditor who has undertaken any employment with the municipality or the local boards other than as an *auditor*. This has created difficulties in some areas, where an audit firm is also involved in management consulting work and ordinarily would expect to be able to perform other services for the municipality in addition to their work as auditor. The provincial Ministry of Treasury, Economics and Intergovernmental Affairs has indicated that an amendment will be made to these statutes in the near future to rectify the difficulty.

While by law a municipal council appoints its auditor and can remove him for cause by a two-thirds majority of council, in effect the major controls on the scope of the activities and the way in which the auditor performs them are imposed by the provincial government. The Department of Treasury, Economics and Intergovernmental Affairs (formerly the Department of Municipal Affairs) is the responsible Ministry, and the Municipal Auditing and Accounting Branch of that administration is actively involved in overseeing municipal auditing in Ontario.

In addition to the licensing¹. function legally the responsibility of the provincial government, which includes a control over qualification of auditors, *The Department of Municipal Affairs Act* provides that the Department may².

(c) *prescribe and regulate the system of auditing of the accounts, registers, records, vouchers, receipts, and other books and documents relating to the assets, liabilities, revenues, expenditures, funds and moneys of municipalities and the reports, statements and information to be made and furnished by municipal auditors and otherwise with respect to the performance of their duties.*

Consequently, it is the province that has the power to prescribe the forms and reports of the provincial auditor, and in practice exercises a strong supervisory role over the work of auditors. The province can also order an independent report on the financial statements of a municipality.³.

FUNCTIONS OF THE AUDITOR

In 1970, the then Department of Municipal Affairs published a comprehensive guidebook entitled "A Guide for the Municipal Auditor in Ontario" which in some detail outlines the responsibilities of the municipal auditor, and reviews the municipal finance system. Included is a concise summary of the legal duties of a municipal auditor.⁴.

To report to the council, inhabitants and ratepayers whether, in his opinion the financial statements present fairly the financial position of the corporation and the results of its operations for the period under review in accordance with accounting principles generally accepted for Ontario municipalities applied on a basis consistent with that of the preceding period, if any.

1. See *The Department of Municipal Affairs Act, R.S.O., 1970, Chapter 118 9 (j)*.
2. *Op.Cit.*, Chapter 118 9 (c).
3. *Op.Cit.*, 16 (1).
4. *Department of Municipal Affairs, A Guide for the Municipal Auditor in Ontario, Toronto, 1970, p. 22.*

And to make further comment if:

1. the corporation's financial statements are not in agreement with its accounting records
2. the corporation's financial statements are not in accordance with the requirements prescribed by the Department of Municipal Affairs
3. he has not received all the information and explanations that he has required
4. proper accounting records have not been kept, so far as appears from his examination
5. the municipality or any of its local boards has undertaken any capital work, the cost of which has been or is to be paid from the proceeds of a debenture in a year beyond the term of the present council, without the prior approval of the Ontario Municipal Board, and which has not been fully disclosed in the notes to the financial statements.

To make such examination as will enable him to report to the council, inhabitants and ratepayers, as required.

In addition to those functions outlined above, the municipal auditor must also be aware of the legality of the financial transactions he audits and ensure that such transactions are not *ultra vires* of the municipality's legal authority. Although rare, the matter has occasionally arisen when a municipality may authorize an expenditure or a grant for which it has no authority.

Primarily, however, in Ontario, the municipal auditor's role is to "attest" to the inhabitants of a municipality that the published accounts of the municipality are correct and fairly presented, thereby adding credibility to them.

It is important to realize, however, that the auditor in carrying out his work does not check every transaction of the municipality. Thus, it is not possible for him to catch all possible errors, defalcations, or irregularities. Instead, he reviews a sample of transactions in order to examine the accounting system and the internal financial controls and ensure that they appear to be operating adequately enough for the auditor to be satisfied with them.

In carrying out his work, the municipal auditor is referred by the province to the standards of the Ontario Institute of Chartered Accountants. These require that the auditor undertake a study and evaluation of internal controls, to report whether the client's statements have been presented in accordance with generally-accepted accounting principles, and to state, when it occurs, why the auditor may not express an unqualified opinion on the client's statements.

Ordinarily, an auditor coming across a minor discrepancy will discuss it with the treasurer or appropriate official informally. If it is not corrected or there is not a satisfactory explanation, he will take the matter to council. If it is a serious matter, a written letter or report would be issued to council, a copy of which must then go to the province as well.

The auditor's report accompanying the financial statements of the municipality is usually a very short letter stating his opinion that the financial statements present fairly the financial position of the municipal corporation for the stated period. He may, however, qualify his opinion with respect to certain transactions, indicating, for example, that certain accounts have not yet been cleared or that certain amounts should have been charged to different funds. On occasion, more serious qualifications are made, but this is the exception in Ontario.

Although the province requires the municipality either to publish or deliver to every ratepayer a copy of certain of its major financial statements along with the auditor's report within one month of receiving them, this is often not carried out and the province does not try to enforce the requirement. In some cases, the municipality will redraft the financial statements in a simplified form using diagrams and illustrations to show sources of municipal revenue and various categories of expenditures. These are often mailed to ratepayers with tax or assessment notices. Generally, the auditor's report receives little or no attention from either the public or the media unless he has unearthed some significant irregularity.

In all except two municipalities in Ontario, the municipal auditor is not an employee of the municipality but an outside accountant -- either a chartered accountant in private practice, or a firm of chartered accountants. There are still a few municipal auditors licensed by the province who are not chartered accountants. The outside accountants are retained by the municipality to undertake the municipal audit once a year.

In many cases, the auditors also assist the municipality with other aspects of their financial management as well. Indeed, this has been encouraged by the province which, in "A Guide for the Municipal Auditor in Ontario", advises the auditor that he is "*probably the professional advisor who is best able to help your client improve its accounting and information systems*".¹ Other areas where it is suggested that auditors could assist the municipality are in preparing both the current and long-term budget by putting together a package of budget information and introducing improved business methods. However, the guide warns the auditor to be sure to have a clear understanding with the client municipality with respect to fees charged for such additional services, and recommends that they be distinguished by billing for each service separately.

In some very small municipalities, where there may be only one person in the community with the background necessary to qualify as a municipal auditor and where there is no professional treasury staff, the auditor may both keep the books for the municipality and later audit them, something the province is trying to discourage at this time.

The two exceptions to the use of outside auditors mentioned earlier are the City of Toronto and the Municipality of Metropolitan Toronto. Prior to the establishment of Metro Toronto, the City had traditionally appointed its auditor and employed him as a full-time employee, along with the necessary support staff. The tradition went back to the early 1900's where, under *The City of Toronto Act*, provision was made for the arrangement. At the time, the City had a choice of whether to improve its financial departments or to set up a separate department to scrutinize all accounts and set up a prepayment audit. When Metro was formed in 1954, most of the City audit staff transferred to Metro and the same system of employee auditor and pre-audit continues to this day.

In these two municipalities, no account can be paid unless it has been authorized by the audit department. Opinions vary as to the necessity or appropriateness of continuing with the system. Some allege that, if the auditor has already authorized payments, his later audit will not be truly independent. Although the system is designed to ensure that payments cannot be made illegally, the introduction of more sophisticated computerized systems for handling accounts is hindered. Metro Toronto is now in the process of considering such a system, which would eliminate the pre-audit function. It could be replaced, however, by a regular audit of the computerized system to ensure that the necessary controls are included.

1. Op.Cit., Pp. 32-33.

The other issue with respect to the Auditor-Employee is the question of his real independence. Independence is vital in the auditing profession, and some people question whether a person on the full-time payroll of a municipality can really exercise independence and will be able to report when his employer has been lax or perhaps even deceptive in financial transactions. On the other hand, both the Provincial Auditor and the Auditor General of Canada are government employees, although in the recent examination of the role of the Auditor General, the necessity for strengthening the independence of his office was urged by the Review Committee.¹

It is expected that there will be further examination of the issue both in the City of Toronto and at Metro over the next year or so to determine if changes should be made with respect to the relationship of the auditor to these municipalities.

Only one brief to the Royal Commission on Metropolitan Toronto, presently undertaking a review of Metro Government, mentioned the role of the municipal auditor. Alderman Frank Faubert, of the Borough of Scarborough, recommended in his brief that the Metropolitan auditor's function be set up in line with the recent federal government study recommendations regarding the Auditor General. Such a move would require that the auditor be appointed by Metro but that his independence be protected by provincial statute and that he be freed of all pre-audit functions. Faubert suggests that his post-audit function would be primarily to analyse the productivity of budget expenditures and to report same annually to the Metropolitan Council.²

Alderman Faubert made another recommendation to strengthen the audit function in Metro by suggesting that Metro set up a Public Accounts Committee to receive and consider the report of the Metro Auditor, and to send on to Metropolitan Council its recommendations arising from the auditor's report. Faubert sees the introduction of such a committee as operating as a further restraint on expenditures as well as resulting in greater efficiency of spending.

1. See The Report of the Independent Review Committee on the Office of the Auditor General, p. 111, which states, "The personal independence of the Auditor General must be ensured and Parliament must be certain that he could not be vulnerable to administrative pressures that would hamper him in carrying out the examination necessary to the discharge of his responsibilities".
2. Faubert, Frank, Brief to the Royal Commission on Metropolitan Toronto, December 1975, p. 3.

This type of public accounts or audit committee is commonly used in the private sector and often includes members from outside the regular Board of Directors who have special expertise in such matters. Suggestions have been made from various quarters that this kind of committee might be useful at the municipal level as a further check on the accounting and auditing functions. One of the contentious points is whether such a committee could operate in open session effectively. If it did not, could it cope with the criticism which is directed to any closed meetings at the municipal level?

CONTROLS ON THE MUNICIPAL AUDITOR

As indicated above, the municipal auditor is controlled to some degree in his activities by legislation. He must also be licensed by the province through the Department of Treasury, Economics and Intergovernmental Affairs, although there is no longer any special examination required of chartered accountants in order to obtain a license as a municipal auditor.

Additionally, the province has established in great detail the financial statements and reports which must be completed by municipalities which are later audited by the municipal auditor, and publishes instruction booklets and regular bulletins on all aspects of municipal accounting and auditing. This is done in the interests of establishing a uniform system of accounting and auditing across the province in order that financial and statistical data regarding municipalities can be collected on a more orderly and meaningful basis to assist in economic and financial forecasting by the province. A number of new provisions came into effect in 1976 which were accompanied by new forms and accounting requirements. These led to some criticism from municipalities as they felt they had not been allowed enough lead time to change their accounting systems to meet the new requirements.

Other criticisms of the provincial requirement for a uniform system of accounting and auditing come from the larger municipalities who believe that the requirements can be a hindrance to the development of a more sophisticated financial information system base appropriate for a large municipality but not necessarily required for the smaller ones.

On the other hand, there are criticisms that, despite the supposedly uniform methods for reporting expenditures on various municipal programs, there are still wide variations on how this is carried out between municipalities so that it is difficult for someone trying to obtain comparative data on a specific program to do so effectively as some expenditures continue to be classified differently from one municipality to another.

The objectives of the province in revising their reporting requirements are to improve the financial reporting of municipalities both to the public and to the financial community. However, because there is such a discrepancy in the level of sophistication among the 832 municipalities in Ontario, which vary in size from the smallest of one person to the largest of Metro Toronto with over two million people, it seems almost unrealistic to expect to establish any meaningful uniform standards which can meet all requirements.

In another area related to audit functions of a municipality, there has been some concern about the plethora of provincial departmental auditors who must audit a municipality's transactions for specific provincial programs. These include, for example, auditors from the Ministry of Community and Social Services who audit the social service payments to municipalities, Ministry of Transportation and Communications auditors who audit highway and road grant expenditures.

While all of these are specialized audits to ensure that a municipality has properly expended provincial monies tied to certain programs, there is some feeling that this work could be as well done either by establishing a separate audit department of the province which could cover all of these programs, or indeed whether this function might be assumed by the municipal auditor. At a January 1976 meeting of the Provincial-Municipal Liaison Committee, the matter was raised and the Minister of Treasury, Economics and Intergovernmental Affairs indicated that he would look into it. A review of the matter is in progress.

The provincial government receives very few inquiries or direct complaints from the public with respect to the municipal auditor's functions. Recently, there have been increasing inquiries from municipalities about auditors' fees. With the increasing amount of work involved in financial auditing, partially as a result of the increasing complexity of the financial statements required by the province, the costs of auditing services have been going up in many municipalities. This is also a concern in considering an expanded role for the municipal auditor. Any such changes would necessarily involve increased costs on the part of the municipalities and there needs to be some way to ensure that there are benefits to the municipality resulting from such an expanded role to justify these additional costs.

There have been other concerns raised about the quality of the work of some municipal auditors. In June 1976, a member of the Ontario Municipal Board, Mr. F. G. Blake, raised a concern at a meeting of the Association of Municipal Clerks and Treasurers of Ontario in Toronto. He noted that the OMB had come across a number of cases where auditors had failed to point out in their reports instances where municipalities had undertaken capital works, the costs of which were to be paid for in future years without prior approval of the Municipal Board. This is clearly a responsibility of the auditor under the province's guidelines, and Mr. Blake observed that, while the Board had examined only a small percentage of auditors' reports, they had found examples where there were no such qualifying reports and hoped that this did not indicate a more widespread trend or a reduction in the quality of municipal audits.

The Ontario Municipal Board, in allocating permissible debt limits or quotas for municipalities on an annual basis, does not use the auditors' reports as part of their assessment of a municipality's financial capability but requires separate information for its own use and undertakes its own analysis.

When the Ministry of Treasury, Economics and Intergovernmental Affairs has some reservations about the quality of auditing services, it may call in the auditor in question and discuss the matter with him. Where the auditor is a C.A., the Ministry may also refer the matter to the Ontario Institute of Chartered Accountants. The province however, is aware that it has a limited capability of really checking into the quality of an auditor's performance as it only has the auditor's own reports to review and does not have access to his working papers.

In *The Guide for the Municipal Auditor*, the auditor is advised that, prior to undertaking engagements as a municipal auditor, it is imperative that the auditor acquire a full working knowledge of municipal operations, municipal accounting, and various statutes and regulations concerned with local government. However, there is little existing means of policing this requirement, since specific examinations are not required for licensing. Some of the municipal auditor's problems which have come to the attention of the province appear to have arisen as a result of lack of knowledge of municipal legislation and finance.

In addition to the control exerted by the province on the municipal auditor, the Ontario Institute of Chartered Accountants has taken an increasing interest in the field over the past few years as more of its members have become involved in this type of work. The Institute has established a Municipal Accounting and Auditing Committee which, in turn, has recently appointed a Municipal Audit Subcommittee to review the need for further study of the municipal audit role.

As well, there is a continuing Municipal Audit Advisory Committee which is responsible for reviewing the technical aspects and standards of municipal auditing, including, for example, the kinds of statements which should be required and the procedures which should be followed in conducting such audits. It works closely with provincial officials operating in the field.

It is this Committee to whom the province would refer matters pertaining to quality of practice, and the Committee would review questions of knowledge and expertise with the individual involved. In instances of continued incompetence or negligence, the Committee could refer the member for further disciplinary action.

Municipal auditing receives almost no attention during the regular academic program for preparing chartered accountants. It is considered a rather specialized field, unlikely to be a major focus of interest for the majority of C.A.'s in private practice. Obviously, however, government auditing of any kind requires a good grounding and understanding of government itself and the intricacies of the legal and political framework in which it operates. Municipal government is a further specialization with its own peculiarities. Consequently, several years ago the Institute developed a short continuing education program specifically geared to introducing C.A.'s to municipal government and auditing. It has been conducted in various centres across the province and is now given on a regular basis twice a year for those entering this area of practice. The Institute considers it to have been a successful venture but is continuing to review the program to determine if further continuing education efforts may be warranted.

The Institute has indicated concern that municipal auditors maintain their independence from their clients in order to fulfill their functions properly. As the organization responsible for professional ethics and discipline, they are concerned if a member's professional income is tied, for example, to any one main source such as a particular municipality. This could compromise the auditor's ability to act independently, or the appearance of such, as it could become increasingly difficult to criticize a client, if the auditor felt this would lead to a loss of a major part of his professional income.

THE AUDITOR IN OTHER JURISDICTIONS

- a. Other Provinces. While most provinces follow a system similar to Ontario in undertaking municipal audits, Manitoba has developed a centralized system. The province itself appoints the auditors who conduct the municipal audits and the audit service is centrally directed by the province. While this obviously gives greater control over standards of qualification and performance, there is a plaguing doubt in many minds that this is not the most appropriate way of dealing with a professional service. If such a system were in effect in Ontario, it is alleged by some that it would not be possible to get some of the kinds of professionals now available with highly-recognized expertise to work under such arrangements, particularly in the larger municipalities in Ontario.
- b. England. The English system of audit of local authorities is perhaps one of the most interesting to review. It dates to the passage of the 1834 *Poor Law Amendment Act* which provided for a system of audit of parish accounts by auditors elected by local Boards of Guardians. In 1868, the central government assumed complete control of the audit function providing for the appointment of district auditors, and in 1879 the *District Auditors' Act* was passed, extending the district audit process to a wide variety of local authorities not included in the earlier legislation.

Under the system, there is a centrally-directed district audit staff which, until the revised 1972 *Local Government Act* came into effect, was responsible for undertaking the audits of most local authorities. District auditors in the early days were trained in law as solicitors or barristers with specialized training programs to prepare them for their district audit duties. In 1912, accountancy and auditing were added to the list of approved training for district auditing. In 1972, local governments were given a choice of either using the district auditor to undertake their audit or of hiring an external accountant.

The most interesting aspect of the district auditor's role, however, has been his power to "*surcharged*". Traditionally, the auditor has been able to disallow any expenditure that was not legally made or accounted for, and the persons responsible could be "*surcharged*", and could be personally liable for repaying funds to the municipality. The auditor could also investigate whether payments were excessive.

In a famous case of *Rex v. Roberts* involving the Poplar Borough Council in 1924, the court rules that the auditor could interfere if wages paid were so excessive as to pass reasonable limits of discretion.¹ The case went all the way to the House of Lords, which finally upheld the auditor in his decision. There have been a number of other examples of the auditor's employing his right to "*surcharge*" which have resulted in municipal officials having to repay large amounts of money to the municipality.

The 1972 *Local Government Act*² introduced some amendments to this system. Rather than the district auditor being able to "*surcharge*" directly, he may, when it appears to him that any item of account is contrary to law, apply to the court for a declaration that the item is contrary to law. An exception is when the Secretary of State has sanctioned the item. This is a change from the previous system where the auditor could decide in the first instance whether the item was illegal, after which the persons responsible had a right of appeal to either the courts or the Secretary of State.

Now when an auditor takes an item to court, the court, if it finds that the expenditure has been made illegally, may, depending upon circumstances of the case, require the persons responsible to make restitution in whole or in part. If the expenditure exceeds two thousand pounds, the person may be disqualified from being a member of any local authority for a specified period.

In cases where the district auditor finds that a sum has not been brought into the accounts or a loss has been incurred by the *willful misconduct* of a person, he may certify the amount, and, subject to the right of the persons concerned to appeal to the court, recover the sum or amount for the municipality or local authority from the persons responsible.

In other respects, the auditor also has a wider mandate than that provided for in Ontario. Among his responsibilities as listed in *Local Government Audit Code of Practice*, published by the Department of the Environment, is one to "*promote integrity*

1. See full description in Finer, Herman, English and Local Government, 4th Ed. Rev., London: Methuen & Co. Ltd., 1950, pp. 326-343.
2. Local Government Act, 1972, c. 70, Part VIII, S. 161, 162.

in the conduct of public affairs". It is apparently a well-established practice for officers and members of local government bodies to consult the auditor informally on matters which touch on integrity in the conduct of public affairs, even though they may be outside or merely on the fringe of the auditor's jurisdiction. Where it is considered in the public interest, the auditor is to refer any such matter for further investigation to the proper authority.¹

The auditor is also responsible for ensuring the inhabitants of the municipality that they have received "*value for money*". The concept, which is receiving increased attention in all jurisdictions, includes an assurance that the accounts do not disclose any significant loss arising from waste, extravagance, inefficient financial administration, poor value for money or other cause. Examples could be in respect to unexplained high costs of staff or labour, purchasing arrangements, or sales or charges not reviewed for long periods. The auditor is also to direct his attention to ensuring that the authority in reaching important financial decisions, such as the letting of tenders, granting salary increases, disclosing the financial effects of capital projects, has taken into account all relevant factors and not taken into account extraneous matters.²

In a paper by the Chief Inspector of Audit, Department of the Environment, Mr. S. V. Collins,³ the author foresees the role of the municipal auditor with respect to ascertaining "*value for money*" looking even larger in the future.

Collins explained that in England, with the increasing size and complexity of local government, there has been a greater systemization of financial arrangements and development of better systems of internal audit. Consequently, the proportion of time devoted by auditors to the first two aspects of accountability, namely integrity and regularity of expenditures, has declined. But, the changes which have made this possible have also increased the concern for more effective measures to ascertain financial effectiveness or "*value for money*". Even though the prime responsibility

1. Her Majesty's Stationery Office, Local Government Audit Code of Practices, 1973, Appendix S. viii.
2. Stationery Office, Audit Code, Appendix S viii.
3. Collins, S. V., The Role of the External Audit, London: The Chartered Institute of Public Finance and Accountancy, May 1975, pp. 5-6.

for improving efficiency remains with the authority's own staff or specialized consultants, the auditor will play an increasing role in providing an independent review to determine if efficiency is being achieved. Collins points out, however, that the auditor's role with respect to determining "value for money" must have its roots in the accounts or in his review of office systems.

Auditors are not operational efficiency consultants and they must work mainly from their assessment of the financial implications of an authority's actions. Secondly, the auditor must recognize that there are circumstances in which financial considerations may not be paramount and that an authority may quite properly decide that they are outweighed by non-financial factors.¹

- c. United States. In the United States, with some exceptions, external auditors are generally used by municipalities to conduct audits. The audits are usually conducted by public accounting firms and the main emphasis to date has been on strictly financial audits.

The American Institute of Certified Public Accountants has published a comprehensive *Industry Audit Guide for the Audits of State and Local Government Units* in which it sets out the standards which should be used in conducting audits of local governments.

There has been apparently little attempt by the financial auditors to move into the larger field of economy and efficiency auditing or program results auditing at the local government level. However, one example was cited in an article reviewing the current status of "extended scope audits" in the United States. This was a study prepared by Peat, Marwick, Mitchell & Co., in 1974 for the Study and Development of a Performance Audit Program for the Department of Public Safety, City of Sunnyvale, California.²

On the other hand, the U. S. General Accounting Office (GAO), which is responsible for the conduct of audits of all federal government programs and agencies, now requires that a proper audit include not only a financial and compliance audit but also an economy and efficiency audit and a program results

1. Op.Cit., p. 11.

2. Diley, Steven, "Expanded Scope Audits-Untapped Opportunities?", The CPA Journal, December 1975, p. 34.

audit.¹ The GAO sets its own standards for conducting these audits and has a large staff involved in them although at times contracts out specific audits to private accountancy firms which may also be involved in financial auditing of local governments.

A number of State Legislative Audit Agencies (SLAA's) have also expanded their jurisdictions from financial audits into "operational audits" and "program results audits" and utilize a wide variety of multi-disciplinary personnel to conduct these expanded scope audits of state programs and agencies. There is no general agreement, however, on whether these audits have really proven to be effective methods of measuring or predicting program performance or success. The state of the art is still, of course, in its infancy and subject to wide variations of opinion.

ISSUES FACING THE MUNICIPAL AUDITOR

The municipal auditor in Ontario has certainly a low, if not a "non-existent", profile insofar as the majority of the populace is concerned. Only on the rarest of occasions has an auditor created any public stir about the conduct of a municipality's financial affairs. His reports are little used by the public or press in assessing the financial efficiency or effectiveness of a municipality's operations, and even provide little substantive information to the potential investor in determining the financial capability of the municipality.

This results primarily because the auditor's function has been limited by legislation and tradition to a rather strict interpretation of "attesting" to the fact that the municipal financial statements present a true picture of the financial affairs of the municipality. Part of the problem, of course, is the inadequacy in certain respects of the financial information emanating from municipalities and its capability to provide the kinds of information that potential investors require, let alone give the voter any kind of basis upon which to meaningfully assess the health of his municipality as revealed through its finances.

T. American Institute of Certified Public Accountants, Industry Audit Guide: Audits of State and Local Government Units, New York, 1974, pp. 38-39.

As has been mentioned above, the requirements of the province for uniform accounting and auditing standards, while important in ensuring minimum standards, do little to promote innovation or the development of more meaningful financial indicators of the current state of a municipality. The financial statements as they now stand are weak instruments -- and a good audit can only be as effective as the information upon which it is based.

Even here, however, can municipal auditors individually or collectively be called to task for not exerting more pressure to improve the state of financial management and reporting at the municipal level? Would they be fearful of stepping on toes if they made such needs known more forcibly?

The introduction of tough Public Accounts or Audit Committees at the municipal level could assist in pushing for the advancement of awareness and expertise in this field and possibly support the promotion of more comprehensive audits at the local level.

There are problems, too, within very small municipalities where there continues to be a question of the independence of an auditor who, in some cases, may end up auditing the transactions that he has recorded for the municipality. This is not to question the integrity of any individual auditor, but merely to note that the appearance of independence is as important as the fact. Efforts should be made by municipalities to ensure that their auditors are not involved in the actual recording or day-to-day management of financial affairs of the municipality. The auditor's advice on the establishing of financial systems and procedures and other matters of financial management expertise should be welcomed, but every effort should be made to avoid potential conflicts of interest which could be embarrassing to both the auditor and the municipality at some later date.

Questions have been raised too about the "tenure" of municipal auditors and whether or not the present system is conducive to productivity and cost consciousness. Because it is rare for an auditor, once appointed, to be replaced except through death, retirement, or gross negligence, the job becomes somewhat of a sinecure. It becomes a highly political matter to review the appointment of an auditor or determine whether a fresh face might be more effective for a municipality's current needs.

In other jurisdictions and in the private sector, some clients are requiring competitive proposals on auditors' services or are rotating auditors after a specified period of time. It might be worthwhile to consider such a system within the municipal scene where an auditor's appointment could be for a pre-established time period, say five years, to ensure independence from day-to-day political considerations. At the end of that period the contract could be open to competitive submissions without prejudice to the competence of the incumbent. This might introduce a greater element of competition on both service and productivity among potential municipal auditors.

But the most important challenge on the horizon for municipal auditors in Ontario is to determine if they can effectively expand their scope of service to assist municipalities in meeting the increasingly difficult problems of managing the affairs of local governments.

The Independent Review Committee of the Office of the Auditor General of Canada reaffirmed the important role of the federal Auditor General in the area of effectiveness measurement.

The report states that, while the Auditor General's concern is for a proper and accurate accounting for expenditures by the administration, he has responsibilities beyond that. *"Essentially, his task is to determine whether value has been received for the money the Government has spent"*.¹

The Committee points out that, when a new program is contemplated, the administration should have a reasonable idea of the results to be achieved. While it may not always be possible to quantify accurately the anticipated results, the efforts of developing methods of measurement, although crude in the beginning, will make a certain effectiveness evaluation possible.² They note that other countries are making considerable efforts in this area and that Canada should be paying more attention to this. They see the Auditor General assuming a role of reporting on such program evaluation studies and even to be able to make his own evaluation of program results if there is no other satisfactory way of obtaining this.

1. Report of the Independent Review Committee, Op.Cit., p. 33.

2. Ibid., p. 35.

This is consistent with the direction which the government audit function is taking in the United States, particularly at the federal and state levels where "expanded scope audits", which include considerations of economy, efficiency, and program results, are becoming increasingly well established.

At the local level, England has moved ahead in the area where it is well accepted that the local auditor includes in his mandate an audit of "value for money".

In Ontario, there has been some reticence from all parties to enter into serious dialogue on this matter. While individuals from local and provincial governments, and from the auditing profession all profess an interest, a serious attempt is needed to bring these parties together to determine whether and how these concepts might be introduced in Ontario to the benefit of the public.

Of course, there are attendant problems with expanding the role of the auditor. Probably the most pertinent are the qualifications of existing auditors to undertake an expanded role. It is apparent that greater efforts are required to upgrade the expertise of some municipal auditors with respect to the growing sophistication of municipal government, even given their existing functions. Broadening their role might require further consideration of not only the continuing education requirements involved but the most appropriate basic training which will best prepare people to fulfil these new roles.

As mentioned already, the costs of auditors' services are also a matter for consideration. Municipalities must develop ways of satisfying themselves that the costs reflect appropriately the benefits they receive from the advice and input of the auditor.

Local government has grown too large for the individual taxpayer to be able to maintain a personal familiarity with its operations. Even the elected representative has difficulties in understanding all the many facets of his municipal responsibilities. If local government is to maintain proper accountability to the taxpayers, there is a requirement for more strenuous efforts to ensure that the public is obtaining "value for its money" from municipal programs and that the results of these efforts are made known to the public on a regular basis and in a comprehensible way.

As local government has grown, the power and responsibility of administrative officials has grown with it. However, accountability still remains primarily with the elected officials. In the interest of administrative efficiency, it is essential that elected officials transfer certain of their traditional roles to the

administration, but this must be accompanied by increasing attention to ensuring an independent review of the administration's effectiveness and a capability of calling them into account where necessary.

Fears have been expressed that to introduce the auditor into these new areas would result in conflicts between the auditor and management and an overlapping of jurisdictions. As Collins points out in his review of the English situation, however, this need not happen:

...The factors that give rise to the continuance of inefficiency -- vested interest, inertia or an inability to see the problem through being too closely involved in the machine -- are such that an independent review is likely on occasions to stimulate awareness or provide motivation which might otherwise be lacking. In addition to his independence the external auditor has the advantage of a wide experience not only of what goes wrong but also what goes right in a number of local authorities. These activities of the auditor are in no sense an encroachment on the field of management but rather a supplementation of management's own efforts. One of the lessons to be learnt from past experience is that the dividing line between the sphere of audit and that of management is moveable; the auditor is no longer just an outside critic; in many issues he is almost a member of the team. This greater involvement has been achieved without any sacrifice of audit independence when that independence needs to be exercised.¹

The possibility of assumption of such new roles requires a review of appropriate training for auditors, which could involve a broader basis than that existing at present. It also requires a review of the capability of being able to develop program objectives at the municipal level and proper methods of measuring effectiveness and efficiency, particularly as these are reflected in financial terms.

These questions can be dealt with. Certainly, efforts are being made successfully in other jurisdictions. It should be beneficial to all, for those interested in and involved with municipal auditing in the province to proceed with further discussions on the matter as quickly as possible in order to assist in the continuing development of strong, responsible, accountable local government in Ontario.

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1. Collins, *Op.Cit.*, p. 6.