

June 20, 2011

Mr. Don Fast
Deputy Minister
Ministry of Community, Sport and Cultural Development
PO Box 9490, Stn Prov Govt
Victoria, BC V8W 9N7

Mr. Mike Furey
Assistant Deputy Minister
Ministry of Community, Sport and Cultural Development
PO Box 9490, Stn Prov Govt
Victoria, BC V8W 9N7

Dear Mr. Fast and Mr. Furey:

RE: MUNICIPAL AUDITOR GENERAL DISCUSSIONS

This letter is further to our discussions over the past week with regard to the Province's interest in engaging with UBCM and individual local governments around the concept of a Municipal Auditor General (MAG).

First of all, I want to make it clear that UBCM is interested in engaging in discussions about a MAG. We consider this to be a matter of mutual interest that, under both the spirit and intent of the *Community Charter*, as well as formal and informal consultation agreements, warrants a discussion between UBCM and the Province about how consultations will be conducted.

I believe our interest in undertaking discussions around MAG were clearly articulated when the UBCM Presidents Committee met with Premier Clark in April, at which time we indicated our preference for a joint policy development process. Subsequent to that meeting, the three of us have had several conversations in which I indicated our desire to initiate process discussions.

As recently as June 9, the Ministry indicated its desire to undertake those discussions with our Executive on July 21. Then last week, in response to our inquiries about a proposed meeting between Minister Chong and President Steele, I am told that an internal report has been assigned to staff with a deadline

of July 15. It is indeed challenging to see how a process discussion is appropriate given that this discussion will occur after the report has been written.

Our view of the matter has not changed since the Presidents Committee spoke with the Premier. This is a matter that is important to our membership, but one on which we have no specific policy direction from that membership. Consequently, we feel it important to engage in discussions on an early and on going basis, with respect to both the process you intend for policy development and implementation, and the substance of your proposal.

From a process perspective, we will need to understand your intentions for consultations with UBCM and individual local governments. From a substance perspective, it will be important to us to understand your conceptual framework and the potential implications of that framework to our members and more generally for the local government system.

Following that, we can seek the views of the members on that framework and its implementation. Only after that process has concluded will we be in a position to provide a UBCM position on the framework.

In the interim, we are happy to participate in discussions you are having leading up the July 15 report and would welcome a staff level meeting in advance of the scheduled meeting between Minister Chong and President Steele and in advance of your planned June 24 consultation session. The purpose of the staff level meeting would be to have a detailed discussion about your policy development and consultation process for this initiative, as set out below.

Mr. Furey has asked us to provide some suggestions of individuals that could participate in one of two teleconferences scheduled for July 4 and 5. We would be pleased to speak with you further about your objectives for those teleconferences, as the only information we have is that you are hoping to hold 2 teleconferences, think that a group of 10-12 participants would allow for a productive dialogue, and that you have some ideas about representation from small medium and large communities, various regions of the province, and the inclusion of individuals from organizations such as LGMA, GFOA and MFA.

We understand from email correspondence forwarded to us by an invitee to your June 24 - June 29 consultations that the intent of those consultations is to seek the input of representatives from the business and local government sectors, and that you are now preparing a MAG concept paper and wish their input to inform that process. Those invitees were informed that the concept paper will include a

Mr. Don Fast and Mr. Mike Furey
Page 3 of 4
June 20, 2011

description of principles, duties, benefits, staffing options and costs as well as options for the office's reporting structure.

We would be pleased to discuss whether your intention for the July 4/5 discussions is the same as you have expressed for the June 24-29 Focus Group discussions. In addition, in order to avoid duplication, it would be useful to know who from the local government sector has been invited to the June Focus Groups, prior to us considering who to suggest for the July discussions.

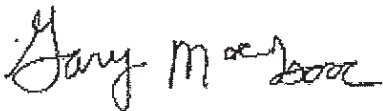
Further, in advance of providing names for participants for the July discussions, we will need to discuss a number of matters with you. For example, we would need to understand the nature of how these discussions feed into your overall policy development and consultation processes, the results of your research into the experience in other jurisdictions, whether you are interested in seeking the views of elected officials or staff, what the agenda for the discussions is, what materials will be provided to participants, how far in advance these materials will be provided, how the individual and collective comments will inform the process, and how you intend to report on these discussions.

For your information, we discussed this matter yesterday with our Presidents Committee who have set out the direction suggested in this letter. We will be updating the UBCM Executive on the matter later today.

Finally, I feel compelled to note that this is the first occasion since the *Community Charter* was adopted almost a decade ago where UBCM has felt the need to write your Ministry regarding a consultation process you are conducting. Over the past ten years, UBCM and your Ministry have engaged in a respectful relationship that has been beneficial to both parties. To date the actions taken on the MAG file represent a notable departure from this relationship.

I remain open and available for a meeting at your earliest convenience.

Yours truly,

A handwritten signature in dark ink, appearing to read "Gary MacIsaac". The signature is fluid and cursive, with the first name "Gary" being more prominent and the last name "MacIsaac" written in a more compact, connected style.

Gary MacIsaac
Executive Director
Union of BC Municipalities

Mr. Don Fast and Mr. Mike Furey
Page 4 of 4
June 20, 2011

Fast, Don CSCD:EX

From: Fast, Don CSCD:EX
Sent: Tuesday, June 21, 2011 1:10 PM
To: Gary MacIsaac
Cc: Furey, Mike CSCD:EX; Bowman, Deborah CSCD:EX
Subject: Re: Consultation - Municipal Auditor General

Thx Gary. Yes my intention for the telephone mtgs is the same as in the email you describe. I am in the Kootenays for mtgs and would be happy to discuss this further if you wish. In the meantime Gary and Deb Bowman who is coordinating the mtgs can give you more info and work with you to set up the calls. I would be happy to have more than two telephone mtgs and more participants if you think that is desirable. Decisions will not have been made when the Minister meets with the Executive on July 22 and so their discussion will be timely.

Don Fast
Deputy Minister

On 2011-06-21, at 1:04 PM, "Gary MacIsaac" <gmacisaac@ubcm.ca> wrote:

> Dear Don and Mike:
>
> I am attaching a letter regarding the Municipal Auditor General file.
> As indicated in the letter we are available to meet with you at your
> earliest convenience to discuss the issues identified by UBCM.
>
> Sincerely,
>
> Gary MacIsaac
> Executive Director, UBCM
> 60-10551 Shellbridge Way
> Richmond B.C. V6X 2W9
> (604) 270-8226 ext. 105 (Richmond)
> (250) 356-2956 (Victoria)
>
> <fast_furey.docx>

Fast, Don CSCD:EX

From: Gary MacIsaac [gmacisaac@ubcm.ca]
Sent: Thursday, June 23, 2011 1:46 PM
To: Fast, Don CSCD:EX
Cc: Furey, Mike CSCD:EX
Subject: Re: MAG Discussions

Don, thanks for forwarding this information.

Gary

Gary MacIsaac
Executive Director, UBCM
60-10551 Shellbridge Way
Richmond B.C. V6X 2W9
(604) 270-8226 ext. 105 (Richmond)
(250) 356-2956 (Victoria)

On 23/06/11 12:59 PM, "Fast, Don CSCD:EX" <Don.Fast@gov.bc.ca> wrote:

Gary, further to our discussions yesterday staff have prepared the attached questions for the focus group meetings and the draft outline for the paper they are preparing on the proposed MAG.

The final Concept Paper may not have all of the parts and appendices shown in the draft outline as the Concept Paper is intended to only be 4-5 pages long.

Thanks again for taking time to provide us with your views and I hope you will participate in organising with us and attending the telecom meetings for local government officials scheduled for July 4 and 5. We are also open to suggestions for additional meetings or format if you think that desirable within the time frame we have.

Don

Fast, Don CSCD:EX

From: Fast, Don CSCD:EX
Sent: Friday, June 24, 2011 7:47 PM
To: Gary MacIsaac
Cc: Furey, Mike CSCD:EX; Bowman, Deborah CSCD:EX
Subject: Re: Focus Group Update

Thx Gary. I will discuss this with the Minister and get back to you sometime this coming week.

Don Fast
Deputy Minister

On 2011-06-24, at 5:01 PM, "Gary MacIsaac" <gmacisaac@ubcm.ca> wrote:

- > Good afternoon Don and Mike.
- >
- > First, thank-you for arranging the conference call on Tuesday of this week.
- > I had agreed to follow up after the UBCM Executive discussion that was
- > scheduled for today. Don, I left a message on your cell phone but
- > also wanted to follow up in writing.
- >
- > You had asked UBCM to identify local government officials who could
- > participate in one of two teleconferences scheduled for July 4 and 5.
- > You requested that a group of 10-12 participants would allow for a
- > productive dialogue, and that you have some ideas about representation from
- > small, medium and large communities, various regions of the province,
- > and the inclusion of individuals from organizations such as LGMA, GFOA and MFA.
- >
- > I understand that LGMA, GFOA and MFA have already been invited
- > directly to sessions today and on Monday of next week.
- >
- > With respect to the remainder of your focus group participants, our
- > Executive has agreed to serve as the focus group. UBCM has previously
- > stated our willingness to engage in consultation on this file and this
- > is consistent with our willingness to participate. The UBCM Executive
- > represents small, medium and large local governments from all areas of
- > the Province and will fulfill your suggested criteria.
- >
- > The UBCM Executive is unable to participate in a teleconference on
- > July 4 and 5. As you are aware our Executive meets in Richmond two
- > weeks later on July 20-22. Minister Chong is presently scheduled to
- > meet with Executive on July 22 and past practice is that the Deputy
- > Minister and Assistant Deputy Minister accompany the Minister.
- >
- > Given the importance of this consultation to UBCM, our Executive is
- > prepared to schedule a 2-3 hour focus group session with Minister
- > Chong and yourselves and any other members of your team that you think should attend.
- > We would suggest that possible dates that would work for UBCM would be
- > on Wednesday, July 20 in the late afternoon/early evening and or on
- > the afternoon of Friday, July 22. We feel that a face to face focus
- > group would be more productive for both the Province and ourselves and
- > would be less rushed than the current proposed format.

>
> As we have stated earlier, UBCM does not have existing policy
> direction on this matter. However there are a number of matters that
> could be clarified at this meeting, and it will be informative to
> understand the Ministry's process going forward.
>
> The UBCM Executive has also agreed that President Steele will provide
> a written update to our membership. This will include the intention
> of the Executive to participate as a focus group as well as the
> commitment of President Steele to keep the membership informed of this issue.
>
> Please feel free to call me if you have any questions on this
> response. I also understand that we are scheduled to meet next Tuesday
> and we can discuss further at that time.
>
> Thanks
>
> Gary MacIsaac
> Executive Director, UBCM
> 60-10551 Shellbridge Way
> Richmond B.C. V6X 2W9
> (604) 270-8226 ext. 105 (Richmond)
> (250) 356-2956 (Victoria)
>
>
>

Fast, Don CSCD:EX

MAG

From: Fast, Don CSCD:EX
Sent: Thursday, July 28, 2011 11:24 AM
To: 'bgibson@ubcm.ca'
Subject: MAG Context Paper

FYI

From: Fast, Don CSCD:EX
Sent: Thursday, July 28, 2011 11:20 AM
To: 'GaryMacIsaac (gmacisaac@ubcm.ca)'
Cc: Furey, Mike CSCD:EX
Subject: MAG Context Paper

Hi Gary. Thx for sending us a copy of the Context Paper on the MAG for comment.

I have not had time to go through the paper in detail but I have a couple of initial comments:

S13, S17

Thanks again for sending the paper to us for comment. Pls give me a call if you want to discuss this further.

Don Fast
Deputy Minister
Ministry of Community, Sport and Cultural Development
250-387-4104; cell S17



Union of BC Municipalities
Suite 60 10551 Shellbridge Way
Richmond, BC, Canada V6X 2W9

Phone: 604.270.8226

Email: ubcm@ubcm.ca

August 16, 2011

Sent to all MLA's at Their Constituency Office

Dear :

RE: MUNICIPAL AUDITOR GENERAL

The Honourable Ida Chong, Minister of Community, Sport and Cultural Development, recently spoke with the Union of BC Municipalities Executive about a proposed Office of the Municipal Auditor General. During that discussion, the Minister indicated she intended to survey all local governments on the design of the Office, and she invited us to share our views on the proposal with her Colleagues.

Our Executive made it clear to the Minister that it is not questioning the need for local governments to be accountable, and in fact stressed that we have a strong interest in a robust accountability framework. At the same time, however, we raised a number of questions about the Office and how it is intended to enhance the current framework.

UBCM provided the attached Member Release and Municipal Auditor General Context Paper to all local governments in late July in order to help inform their Council and Board discussions related to the Minister's survey. The documents also indicate that they may be useful if local governments wish to discuss the issues more broadly within their communities or with Members of the Legislative Assembly. In order that the same information be available to all for these potential discussions, I am providing these documents to the Members of the Legislative Assembly for their reference.

Electronic versions of these documents are also available on our website at <http://www.ubcm.ca/EN/meta/news/municipal-auditor-general.html>.

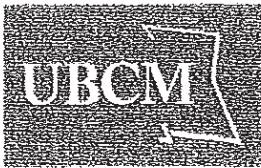
Yours truly,

A handwritten signature in black ink, appearing to read "B Steele", written over a horizontal line.

Councillor Barbara Steele
President

Enclosures

ubcm.ca



MEMBER RELEASE

July 28, 2011

TO: Mayor and Council | Chair and Board | Senior Staff
FROM: Councillor Barbara Steele, President
RE: **MUNICIPAL AUDITOR GENERAL UPDATE**

Summary

UBCM has been advised that the Minister is surveying local governments about the proposed Office of the Municipal Auditor General (MAG). The attached MAG Context Paper is a UBCM document intended to support Council/Board discussions as they prepare their responses to the survey.

The Minister has also invited us to share our views on MAG with her colleagues.

The Context Paper may also be useful if local governments wish to conduct MAG discussions more broadly within their communities or with Members of the Legislative Assembly.

Background

My June 27 Member Release provided information about the Office of the MAG work underway by the Ministry of Community, Sport and Cultural Development. In that Release, I made a commitment to update the membership as new information became available.

Minister Chong spoke with Executive about MAG on July 22. This Member Release provides a MAG update focusing on that discussion.

Minister/Executive Discussion

Executive appreciates the two hours the Minister and her staff devoted to the MAG discussion, which allowed for considerable dialogue on the issue.

The Minister made it clear that she is responsible for implementing the MAG commitment made by the Premier, and that she is interested in receiving views on such matter as: the Office's roles, duties and functions; to whom it should report; and how it should be funded.

Executive stated that it was not in a position to speak on behalf of the membership on this issue, due to the lack of specific policy direction at this time, but indicated that it was seeking that direction at the next Convention.

Executive stressed that local governments have a strong interest in a robust accountability system, and that questions it has posed about MAG should not be taken as questioning the need for local government accountability. Rather, Executive was seeking some clarity about what, if any, gaps there are in the existing accountability system, and if there are gaps, whether a MAG is the best corrective measure.

www.ubcm.ca

Consequently, Executive raised questions about: what problem the MAG is intended to resolve; whether the MAG was the best mechanism to resolve the problem; how the work on MAG is related to other municipal tax reform commitments made by the Premier, including ensuring municipalities are properly funded; how the MAG fits within the overall accountability system; and what other options have been, or would be, considered.

Further details of the discussion are included in the attached Context Paper.

Ministry's Next Steps

In order to solicit the views of local governments on the structure and powers of a MAG, the Minister has asked for a MAG session at our next Convention.

The Minister is surveying local governments prior to the Convention so that the results can inform design of the Convention session. We understand that the Minister distributed this survey to all local governments yesterday.

Municipal Auditor General Context Paper

Information accompanying the Minister's MAG survey was brief. Given this, and in order to support an informed discussion by Councils and Boards, UBCM has prepared the attached Context Paper.

The Context Paper is not intended to influence the outcome of Council or Board discussions on MAG, but rather to inform those discussions.

The Context Paper may also provide useful background information should you wish to discuss the MAG with Members of the Legislative Assembly, or with others in your community.

Further Information and Feedback Request

If you have any questions or concerns about the MAG Concept Paper, please feel free to contact us as noted below.

UBCM is in the process of developing a Policy Paper on MAG for consideration at Convention and your feedback would be useful to that process.

If you wish to contribute your thoughts or experiences about the local government accountability system, performance reporting or auditing, how best to support value for money for local governments, or the proposed MAG in BC, please feel free to provide these to us via email as noted below.

Particularly useful are examples of the ways in which your local government demonstrates value for money to its taxpayers.

Contact Information

email: ubcm@ubcm.ca
telephone: 250 356-5133

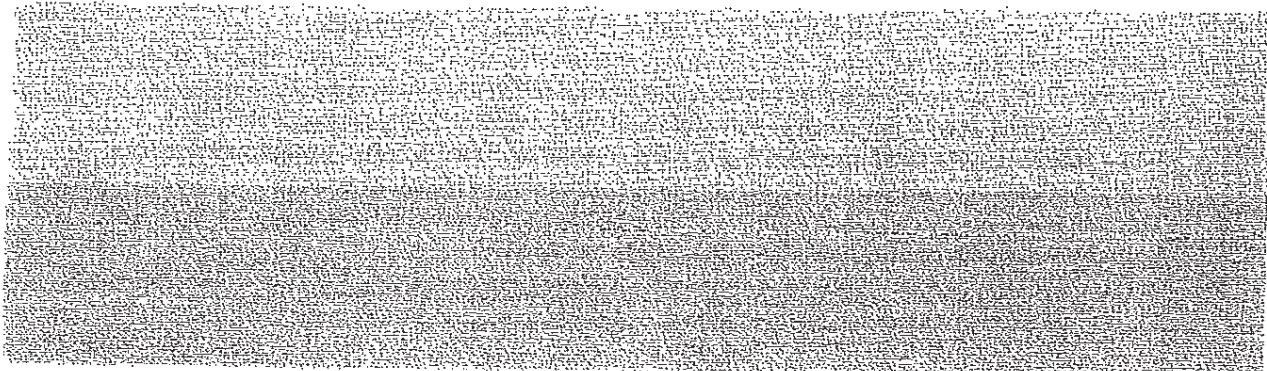
Municipal Auditor General Context Paper

**Background and context to the proposed
Office of the Municipal Auditor General under
consideration by the Province of British Columbia**

Prepared by: Union of British Columbia Municipalities



July, 2011





EXECUTIVE SUMMARY

The Honourable Ida Chong, Minister of Community, Sport and Cultural Development, is surveying local governments about the design of a proposed Office of the Municipal Auditor General (MAG) in BC. The Minister has also invited us to share our views on MAG with her colleagues. This paper provides information to local governments to support these activities.

UBCM has declared a strong local government interest in a robust accountability system to the Minister and her staff, and has stressed that the MAG questions it poses should not be taken as questioning the need for local government accountability. Rather, UBCM is seeking clarity about what gaps there are in the existing accountability system, and if there are gaps, whether a MAG is the best corrective action.

The paper sets out UBCM's preliminary policy analysis, with the following key findings:

CONSIDERATIONS FOR FURTHER POLICY DEVELOPMENT

- Policy development has been challenged by a process that began with a solution rather than the identification of a problem to be addressed and an analysis of the options to resolve it.
- The approach carries a risk of creating a new public institution at considerable public cost, which does not address the public policy problem that it is intended to resolve.
- Problem definition could be enhanced through a review of the local government accountability framework, to consider whether or not the system is performing as intended. If weaknesses are identified, further policy development could be focused on options to address those weaknesses.
- Principles could be established that would help to evaluate options to resolve the problem that is to be identified, including both a MAG and alternative options.
- Principles under consideration by the Province are a good starting point, but policy development could benefit from a broader perspective, and consideration of additional principles, such as: *Respect for local government policy choices; Respect for jurisdiction; Build on existing systems; and Maximize public accountability benefits while respecting local autonomy and recognizing local capacity.*

LOCAL GOVERNMENT FINANCIAL ACCOUNTABILITY SYSTEM IN BC

- While different, the local government and provincial accountability systems in BC compare favourably. The Provincial system relies more heavily on performance measurement and performance auditing; but the local government system is heavily reliant on statutory limitations imposed by the Province, and direct Provincial oversight roles.
- The Role of the Inspector of Municipalities is a significant component of the overall accountability system for local governments, and there is no equivalent in the Provincial system. Significant powers of the Inspector include: require local governments to provide financial information; require local government auditors to provide further reports; and ability to hold an inquiry into any local government matter, which may ultimately result in a Cabinet Order that is binding on the local government.

MUNICIPAL AUDITORS GENERAL IN CANADIAN PROVINCES

- MAGs are only required for municipalities in Nova Scotia, municipalities over 100,000 in Quebec, and for the City of Toronto; specific statutory provisions Ontario and for Winnipeg, and generalized statutory powers in Alberta and BC allow local government to establish a MAG and assign duties to the Office.
- Duties include compliance and performance auditing; auditors are typically prohibited from commenting on government policy and do not typically have the power to enforce recommendations.
- Most MAGs are appointed by, and report to, municipal Councils; the Nova Scotia MAG is to be appointed by the Minister, and report to Council(s) with a copy to the Minister.



INTRODUCTION

The Ministry of Community, Sport and Cultural Development (the Ministry) is engaged in policy development work towards the implementation of an Office of the Municipal Auditor General (MAG)¹ commitment made by Premier Clark.

UBCM does not have specific policy direction from the membership on a MAG, so has begun research and policy development work prior to seeking that direction, most likely through a Policy Paper to be presented for consideration at the next Convention.

The Minister has asked for a session at Convention, and is conducting a survey of Councils and Boards on various aspects of a MAG prior to Convention, in order that the results of the survey can be used to shape the Convention session.

UBCM is aware that information provided by the Minister in conjunction with the survey is brief. Consequently, UBCM has prepared this Municipal Auditor General Context Paper in order to provide further information to Councils and Boards as they consider their responses to the survey.

The paper identifies our early findings in relation to MAG across Canada, sets out the local government financial accountability framework in BC, and considers what further policy development work is needed.

This paper presents UBCM's initial research relating to Auditors General and Municipal Auditors General across Canada; and the local government financial accountability framework in British Columbia; along with considerations relating to further policy development work.

The paper is intended to inform discussions of local government Councils and Boards as they consider responses to a survey on the proposed BC Municipal Auditor General from the Minister of Community, Sport and Cultural Development.

As well, this paper is intended to assist members as they prepare for a broader public discussion of the initiative within their communities.

It should be noted that UBCM's policy development on this file is just beginning, and as such, the paper identifies some information gaps. We apologize for these information gaps, and commit to a more fulsome discussion in the Policy Paper.

This paper is not intended to influence the outcomes of Council and Board discussions in response to the Minister's MAG survey, but merely to inform them.

Local governments may also find the paper useful as they prepare for further discussions on MAG within their communities or with Members of the Legislative Assembly.

¹ While the commitments related to a Municipal Auditor General made by Premier Clark refer to municipalities only, the Minister's survey was directed to both municipalities and regional districts, and asks for feedback on whether the MAG should have authority to audit "just municipalities and regional districts, or should the office also have authority over other local bodies". Consequently, local governments are advised to consider that the discussion includes all local governments, despite language that would suggest that the MAG is intended only for municipalities.



PROVINCIAL POLICY DEVELOPMENT AND DISCUSSIONS WITH UBCM

The impetus behind the Province's policy development on the MAG file is the Premier's stated intention to implement an Office of the MAG. This intention was first expressed in a speech to the BC Chamber of Commerce, and later featured in the Families First Agenda.

Creating an Office of the MAG is one element of the Families First Agenda commitments related to the review of municipal taxation, but there are others, including funding the office as

Families First Agenda Review Municipal Taxation

Our government will:

- Create an Office of the Municipal Auditor General.
- Fund the office as part of the Auditor General's Office. The office will provide advice on financial decisions and provide a measure of accountability.
- Review the municipal taxation formula.
- Work with the Union of B.C. Municipalities to ensure municipalities are properly funded and communities can provide the services British Columbians want from local government.

part of the Provincial Auditor General's office, reviewing the municipal taxation formula, and ensuring municipalities are properly funded.

UBCM has offered to participate in a joint Provincial/UBCM policy development process related to the MAG. To date the Province has not agreed to such a joint process. Consequently, UBCM is reliant on discussions with Minister Chong and her staff to become informed on the Province's policy development process and timelines.

Discussions between the Ministry and UBCM began in June, and Minister Chong and her senior staff devoted 2 hours to a discussion of the MAG with UBCM Executive on July 22.

Highlights of the Minister's July 22 Discussion with Executive

- Executive expressed concern about the lack of consultation with UBCM and local governments; the Minister clarified that consultations are ongoing and that government has not yet taken a position on the MAG;
- MAG is part of the Premier's platform and a key priority for the Ministry. The Minister is responsible for its implementation. No specific implementation timelines were given, but the Minister indicated it would likely not be ready for a Fall 2011 Legislative Session;
- Ministry officials indicated that although the local government accountability framework was strong, it could be strengthened, particularly in relation to performance auditing;
- Ministry research into MAG models found nothing suitable for BC; research is still underway; they are seeking input from local government, business and ratepayer groups on design;
- The Minister indicated that MAG was not intended to question local government accountability to the public, but rather to find best practices which could support local governments;
- The Ministry noted that AGs are usually precluded from a review of policy decisions of elected officials; no assurances were given that the design of a BC MAG would ensure this; the Minister indicated the MAG would initially be responsible for value for money auditing and best practices, but that further roles, including a municipal tax review, if suggested by the MAG, might be considered;



Highlights of the Minister's July 22 discussion with Executive, continued

- Executive asked for a commitment to undertake policy development on the Premier's commitment to ensure local governments are properly funded in parallel with policy development on MAG, since both issues have been connected by the Premier in the Families First Agenda; the Minister declined to make that commitment, stating a preference to ensure implementation of MAG was not delayed by dealing with the more complex issue of local government funding at the same time;
- Executive asked about the Premier's commitment that MAG be funded as part of the Provincial Auditor General's office; the Ministry advised that those decisions have not yet been made, and that they are gathering information about whether this would be appropriate;
- Executive asked the Minister to identify the problem MAG was intended to resolve, how MAG fits into the overall local government accountability system, what gaps there were in that system, if any, and whether any consideration had been given to strengthening existing mechanisms as an alternative to developing a new Office of the MAG if there were gaps. The Minister stated that specific problems may only come to light once a MAG is in place, but that a MAG will produce benefits by finding efficiencies and best practices to help local governments do things better;
- The Minister indicated her intention to survey local governments on various elements of the MAG prior to Convention, in order to use the results to help shape a Ministry session on MAG at Convention. In addition, the Minister invited UBCM to share its views on MAG with all of her colleagues.

UBCM RESEARCH AND POLICY DEVELOPMENT TO DATE

Extent of MAG in Canada

Nova Scotia legislation requires a MAG for all municipalities, although only the legislation specific to Halifax has been implemented. Discussions are ongoing between the Union of Nova Scotia Municipalities and the Province about how best to implement the 2008 legislation for all other municipalities.

The only other MAG requirements in Canada are for municipalities with populations greater than 100,000 in Quebec, and for the City of Toronto.

Both Ontario municipalities and the City of Winnipeg are specifically empowered to appoint a MAG, but are not required to do so (examples of those that have are Ottawa and Oshawa). More generalized legislative authority allows Alberta and BC local governments to appoint a MAG, and this power has been used by Edmonton and Calgary.

The legislative provisions relating to BC local governments warrant discussion. While there is no specific authority for a BC local government to appoint a MAG, the audit provisions relating to both municipalities and regional districts allow Councils and Boards to require reports (in addition to the required financial statement reports) from their auditors. This would allow Councils/Boards to require such things as performance audits. In addition, the natural persons powers' of municipalities and broad corporate powers of regional districts should be sufficient for Councils/Boards to establish an Office of the MAG and assign duties to that Office, if they so choose.



Legislation to require a MAG for all Alberta municipalities was introduced in 2009 and subsequently dropped in favour of other measures that the Minister stated “**would meet the intent of the Bill with current resources and without the creation of a new government body**”. The proposed alternatives to the creation of a MAG in Alberta are: rotating municipal corporate reviews; reviewing auditor independence; establishing an information portal to enhance public access to municipal financial information; and releasing recommendations made in audit letters.

This table shows an initial scan of MAG legislation for Canadian provinces:

Nova Scotia (all)	BC (through general corporate powers)	Saskatchewan
Quebec (over 100,000)	Alberta (through general officer powers)	Manitoba (except Winnipeg)
Toronto	Ontario (specific provisions)	Quebec (under 100,000)
	Winnipeg (specific provisions)	New Brunswick
		Prince Edward Island
		Newfoundland

Typical powers/duties, restrictions and reporting relationships of Auditors General

Early research into the structure of Auditor General (AG) and MAGs, where they are authorized or required, indicated that they typically undertake the following core functions:

- Compliance auditing: to determine whether financial and administrative rules have been complied with;
- Performance auditing³: to determine whether money was spent with due regard for economy and efficiency and whether appropriate procedures are in place to measure and report on the effectiveness of government programs; and
- Some form of special examinations at the discretion of the AG/MAG or upon request of the governing body of the entity being audited.

All federal and provincial AGs are also responsible for attest audits (i.e. to provide an opinion on the fair representation of the government’s financial statements in accordance with applicable accounting rules). External auditors carry out this function for local governments, and MAG legislation typically excludes this from MAG responsibilities.

² While the scan did not indicate a specific requirement for a MAG or specific municipal empowerment to appoint a MAG, local governments in these provinces may have sufficient generalized powers to appoint a MAG, under the same types of authorities as are available in Alberta and BC. Consequently, research into more generalize legislative powers that could be used for this purpose would be required before making a final determination as to the ability of local governments in these provinces to appoint a MAG.

³ Some statutes refer to “Performance Auditing” whereas others refer to “Value for Money Auditing”. While there may be some technical differences, for the purposes of this discussion they can be considered parallel terms; therefore, for simplicity, we refer to both as “Performance Auditing”.



In addition, some AGs/MAGs have duties/powers not listed above (e.g. some MAGs take on internal audit functions, some provincial AGs have customized review powers in areas of significance to that Province, such as government advertising or environmental stewardship).

AGs and MAGs are typically precluded from making comment on government policy. That is, they may consider how policy is implemented, how effectiveness is measured, etc, but cannot comment on the policy itself.

For instance, an AG would not report on whether or not a program or service should be undertaken or the extent of the program or service (since that is a matter of government policy) but could report on how well the program or service was meeting the objectives that it was intended to achieve. Similarly, it would not be typical for an AG/MAG to report on whether a government body should be undertaking a program or service on its own or in partnership with other governments.

All the research thus far indicates that AGs and MAGs are empowered to investigate, report and make recommendations. None of the legislation examined indicates that the powers of an AG or MAG extend to require compliance with recommendations.

Further, all of the research to date has indicated that AGs and MAGs are concerned only with the government entity being audited, along with other related government organizations, corporations, or grant recipients. That is, in undertaking duties such as performance auditing, the AG/MAG did not compare whether government entity A was getting better value for money than government entity B.

Finally, all AGs were appointed by the elected body representing the government entity being audited, and report to that body. Most MAGs have this same appointment and reporting structure (i.e. they are appointed by, and report to, the municipal Council). The one exception is the yet to be implemented MAG for Nova Scotia municipalities, which will be appointed by the Minister, and which will report to the Council(s) being audited with a copy of all reports to the Minister.

Canadian Auditors General and Municipal Auditors General

Typical Duties: compliance audit; performance audit; attest audit (AGs only; not typical for MAGs); special examinations; some customized powers.

All AGs and MAGs studied are precluded from reporting on government policy.

No AGs or MAGs studied have the power to enforce their recommendations.

No AGs or MAGs studied compared the government entity being audited with other government entities to determine their comparative performance.

All provincial AGs were appointed by the Legislative Assembly and reported to that body.

All MAGs studied were appointed by Council and reported to Council, except for Nova Scotia where the MAG is appointed by the Minister and reports to the municipality being audited, with a copy of the report to the Minister.



Financial accountability framework for BC local governments

UBCM is in the process of reviewing the financial accountability framework for BC local governments and comparing this to the financial accountability system applicable to the Province of BC.

One element that has drawn the attention of Provincial officials is that the local government system lacks mandatory performance auditing, whereas this is included in the provincial system, with the function carried out by the Auditor General. The lack of performance auditing in the local government system has been cited as a weakness of that system.

However, in order to evaluate whether or not the lack of mandated performance auditing is truly a weakness, the system needs to be evaluated as a whole to determine if it is operating efficiently and effectively. Considering one component of a complex system in isolation cannot give a complete picture of the adequacy of the checks and balances in the system.

The following table presents a summary of research to date.

Statutorily provided responsibilities	5 year financial planning; expenditures limited to plan; ethical conduct for elected officials	Similar financial planning requirements (i.e., Estimates); expenditures limited to plan; ethical conduct provisions for elected officials are comparable
Statutory limits	Cannot budget for a deficit; no long term borrowing for operating; limitations on aggregate liabilities and/or debt servicing limits	Borrowing is not restricted to capital purposes; there is some history of balanced budget legislation, although since this is enacted by the Province, it can also be amended or repealed by the Province at its discretion.
Audit	External auditor responsible for attest/financial audit, and other reports required by Council, Board or Inspector, or on auditor's initiative	Auditor General responsible for attest/financial audits, performance audits, some compliance auditing, and special reports as required by the Legislative Assembly, or on the AG's Initiative
Transparency and openness	Most meetings open, financial and performance reporting, specific expenditure reporting, access to information	More robust performance reporting requirements; parallel FOI rules except for arguably broader exclusions given the nature of the Cabinet system; similarly, while Legislative Assembly debates are open, Cabinet discussions are not, making local government decision-making arguably more open than Provincial decision-making
Public Participation	Some direct public participation mechanisms (borrowing, RD services); financial plan consultation; opportunities at annual meeting	<i>Recall and Initiative Act</i> provides opportunity for electors to initiate a legislative proposal on any matter within the jurisdiction of the Legislature
Third Party Oversight	Ombudsperson; Inspector of Municipalities (binding orders); Commissioner (replaces Council/Board)	Ombudsperson (which can make recommendations) is an exact parallel. No equivalent of the Inspector of Municipalities or Commissioner.



While different, the two accountability systems appear to compare favourably. The Provincial system relies more heavily on performance measurement and performance auditing; but the local government system is heavily reliant on statutory limitations imposed by the Province, and Provincial oversight roles, including the Inspector of Municipalities.

Role of the Office of the Inspector of Municipalities

The role of the Inspector of Municipalities deserves some discussion with respect to the oversight powers afforded the Office, since the powers provided to the Inspector add considerably to the checks and balances in the overall system.

The Inspector is responsible for approving a range of local government bylaws, primarily with respect to borrowing, establishment of services within Regional Districts, and some fees and charges. This approval provides a measure of assurance of compliance with applicable rules and restrictions.

Local governments are required to submit their financial statements to the Inspector, along with any other information the Inspector requests. This information is used to prepare and publish a range of local government financial statistics, including revenues, expenses, and tax rates, affording considerable centralized public access to local government financial information.

The Inspector may require a local government auditor to provide a report on any matter. In addition, upon request of the Inspector, the auditor must forward any recorded communication in relation to these reports.

With the approval of Cabinet, the Inspector may hold an inquiry into any local government matter, if the Inspector believes it to be expedient, or if a complaint is made to the Inspector about a matter of local government business. Powers related to inquiries include compelling witnesses and requiring documents, as well as powers to direct actions of the Board or Council, or suspend officers and employees.

The Inspector must report to Cabinet on the inquiry, and make recommendations in relation to it. Cabinet may then make any Order it believes is in the public interest, which is binding on the local government. The power to make Orders that are binding on the local government is an extremely significant component in the accountability system.

While the powers to require local government auditors to report to the Inspector and the Inspector's power to hold an inquiry are rarely used, they should not be discounted in the context of the strength they add to the overall local government accountability framework.

Role of the Inspector of Municipalities

- Formal approval/review role for:
Borrowing, some fees and charges (e.g., DCC); RD service establishment bylaws;
RD requisitions in rural areas
- Require that financial statements and any other financial information the Inspector requests be sent to Province; Province annually publishes local government statistics based on the financial information provided under this provision
- May require the local government auditor to make further reports
- May hold an inquiry into any local government matter; report to Cabinet on that inquiry, and make recommendations to Cabinet, after which Cabinet may make an Order which is binding on the local government



CONSIDERATIONS RELATING TO FURTHER POLICY DEVELOPMENT

Problem definition

Policy development on this initiative has been challenged by a process that began with a solution (i.e., MAG) rather than identification of a problem to be addressed and analysis of the options to resolve the problem. Adding to this challenge is the solicitation of views of interested parties about specific design elements of the solution, such as powers of the MAG, appropriate reporting relationships, etc, rather than a more broadly based problem identification exercise.

Since the problem is not well defined, there is a natural tendency for those asked about MAG design elements to suggest that the Office be used to resolve a broad range of things that they may perceive as problems. Without considerable policy analysis, this could result in powers bestowed on a MAG that would not be typical of such an Office.

Examples of MAG functions that would be atypical

Considerable recent discussion about municipal taxation may have prompted suggestions that a MAG could review the municipal taxation system, or individual municipal tax decisions. Based on our research to date, these would be atypical functions for an AG or MAG, and not be in keeping with the usual practice of precluding AGs/MAGs from reporting on government policy, given that design of the municipal tax system is a matter of Provincial policy and tax policy decisions at a local level are matters of local government policy.

Similarly, making recommendations in relation to governance, local government amalgamations or the efficiencies of joint or shared service delivery would be atypical of AGs/MAGs. Decisions about what types of services a local government offers, appropriate service levels, and methods of delivery are matters of government policy, as are decisions about whether or not to amalgamate service delivery amongst two or more local governments.

Further, this approach to policy development carries a risk of creating a new public institution at considerable public cost, which does not address the public policy problem that it is intended to resolve.

Problem definition could be enhanced through a more thorough review of the local government accountability framework in BC, to consider whether or not the system is performing its intended purpose of providing sufficient public accountability for local governments. If weaknesses are identified, then further policy development could be focused on options to address those weaknesses.

Problem Definition

Is the problem that is being considered a weakness in the local government financial accountability system, or is this initiative working towards resolution of a different problem?

If the problem is a weakness in the accountability system, what is the weakness?

If there is another problem to be addressed, what is it?



Principles development

The Province has suggested that the design of the MAG office should be guided by a number of principles, as set out in the text box below.

Provincial suggestions of principles to keep in mind in designing the Office of the new MAG:

- It should not duplicate the existing accountability framework for local government;
- It should have independence and credibility;
- It should be cost effective; and
- It should be accountable to the taxpayer (e.g., by making information publicly available).

Development of principles to guide the evaluation of options to resolve the problem, after the problem has been identified, is a good idea.

Principles could be established that would not only be useful to evaluate various design options for a MAG, but also to evaluate alternative options to resolve the problem if one is identified.

In this way, the various MAG design choices can be compared against alternative options to determine which, if any, of the MAG choices are the preferred option, or whether alternative options are in better alignment with the principles.

As part of its policy development towards a Policy Paper for consideration at Convention, UBCM will be considering principles that could guide policy development and options evaluation. While principles such as those suggested by the Province are a good starting point, policy development could benefit from a broader perspective, and consideration of additional principles, such as:

<i>Respect for government policy choices</i>	Ensure that, like other AG and MAG legislation, a BC MAG would be precluded from reporting on local government policy choices.
<i>Respect for jurisdiction</i>	Ensure that individual local governments are treated as separate government entities, since they are autonomous, responsible and accountable orders of government.
<i>Build on existing systems</i>	Once a problem is identified, look to resolving the problem first through use of existing institutions/systems, rather than creating new institutions and bureaucracy.
<i>Maximize public accountability benefits while respecting local autonomy and recognizing local capacity</i>	Evaluate alternatives not only by how well they are able to overcome identified gaps in the local government accountability framework, but also by their ability to maintain local autonomy and their practicality given the range of local government capacity.

CONCLUSIONS

Further policy analysis is needed in order to properly identify the problem to be resolved and the best options to resolve it. UBCM is actively engaged in policy work towards that goal. Executive looks forward to presenting a Policy Paper on this issue for consideration of the membership in September. In the meantime, we are hopeful that the information provided in this paper has been useful to members as they actively engage in discussion of this initiative in their communities, and as they respond to the Minister's invitation to provide feedback.

Fast, Don CSCD:EX

From: Fast, Don CSCD:EX
Sent: Wednesday, August 31, 2011 4:05 PM
To: Gary MacIsaac
Cc: Barbara Steele; Heath Slee; Chong, Ida CSCD:EX
Subject: Follow up to Aug 22 Mtg

Hi Gary. Thx for your comments and for taking time to discuss the possibility of a joint draft paper. Regrettably, it seems we will be unable to meet your expectations for a joint paper.

It is my understanding that there is a desire for us to consult with LG before the Govt makes it's decisions and so it would seem inappropriate for Govt to state positions on duties prior to the Sept workshop. In addition we cannot usurp the decision authority of Govt and the Legislature and state positions on duties, etc as a given at this stage in our Legislative process.

Also to clarify my comments I believe it likely that the MAG will proceed this Oct but it is not my decision to make and will depend on several factors including the assignment of sufficient drafting time for the Legn post UBCM.

I would appreciate any further thoughts you may have on this as we would like to have a joint paper if possible but it would have to be based on what we have heard to date and not usurp the Legislative and Govt decision making process.

Don Fast
Deputy Minister

-----Original Message-----

From: Gary MacIsaac [<mailto:gmacisaac@ubcm.ca>]
Sent: Wednesday, August 31, 2011 8:37 AM
To: Paget, Gary CSCD:EX
Subject: Draft Outline for MAG Paper

Hello Gary.

Thank-you for meeting with Brenda and I and on Friday and the follow-up outline that was forwarded Monday afternoon.

The outline raises a number of questions for UBCM.

On Friday we discussed the importance of the Province putting some parameters around the proposed powers and duties of the MAG. We discussed a

document that describes what the MAG in British Columbia would do and would not do. Your outline is proposing a section that talks about "typical" duties of Auditor Generals but doesn't suggest that the proposed duties of the BC MAG would be a subset of these typical duties.

Provincial staff were going to confirm whether or not you would be able to state that the BC MAG would be given typical duties. This would go a long way to defining the roles of the BC MAG. For example we discussed that a MAG would only be provided with value for money/performance auditing powers; would be precluded from reviewing/commenting on local government policy choices and would be limited to making recommendations only. Since this is missing from the outline are you indicating that the paper can't discuss this?

Last week Don informed our President that the MAG will come forward as legislation in the October sitting of the Legislature. Given this information I believe that our membership would expect at convention to move beyond discussion of the powers of a "typical" MAG and discuss what is being proposed for the BC Municipal Auditor General.

On Friday we discussed that the report could also include options. This is not a part of your suggested outline. Has the notion of options been dropped? This seems to be quite a departure from our conversation.

The outline we talked of also included inter-jurisdictional research. We believe there is value in sharing the research that has been undertaken. I am not seeing this proposed anywhere in the outline. Will the results of your research and that of UBCM be provided?

At the meeting on Friday we were told quite clearly that the Province will be deciding on structure issues and there was no sense including something in the joint paper that was going to be decided upon by the Province. At the time we suggested that the paper needs to be up front with this information so as to fully inform our membership of what is open for discussion and what is not open for discussion. The outline does not reference this. Can we assume that your direction is to remain silent on these issues?

The intent of a joint paper was to better inform the UBCM membership about MAG. As it currently stands this outline will not meet the needs of our membership. We also discussed the need to move quickly on a decision to issue a joint document. As it currently stands the draft outline does not in our view provide the necessary scope of information and discussion that will better inform our membership.

Please don't hesitate to give me a call if you wish to discuss this further.

Thank-you

Gary MacIsaac
Executive Director, UBCM

60-10551 Shellbridge Way
Richmond B.C. V6X 2W9
(604) 270-8226 ext. 105 (Richmond)
(250) 356-2956 (Victoria)



Union of BC Municipalities
Suite 60 10551 Shellbridge Way
Richmond, BC, Canada V6X 2W9

Phone: 604.270.8226
Email: ubcm@ubcm.ca

September 14, 2011

Honourable Christy Clark
Suite 740 - 999 Canada Place
Vancouver BC
V6C 3E1

Dear Premier Clark:

Thank you for meeting with the Union of BC Municipalities Executive yesterday to discuss the provincial government's Municipal Auditor General initiative. With the many demands upon your schedule, we appreciate the time you made available to provide an update and respond to the Executive's questions.

During the meeting, we heard you say a number of things that clarified the government's direction as you prepare legislation for the session beginning in October. It is helpful to know that the intention for this office is to work within the parameters typical of auditor generals for the federal and provincial governments. In keeping with the standard practices of an auditor general, you made it clear that local government policies such as tax rates would be exempt from consideration by the new office, and that it would focus instead on value for money audits. It was also helpful to know that the office of the Municipal Auditor General will be fully funded by the provincial government.

You also shared that the governance structure for the proposed office is still under consideration. We appreciate your invitation to work more closely with provincial staff to design an appropriate governance structure. Our staff would be pleased to work with their counterparts in the Ministry of Community, Sport and Cultural Development in advance of UBCM's annual meeting to develop governance model options that will ensure the independence of this office.

As you heard at the meeting, there are a number of indications - such as the low response rate to the province's survey - that a different consultation process would have increased local government engagement with this initiative. The Province of British Columbia has signed a Consultation Agreement with UBCM that sets out principles, processes and other considerations for implementing consultations in matters of mutual interest. The guiding vision for the Consultation Agreement is the *Community Charter*, which affirms that the Province of BC will relate to local governments as an order of government.

As we look ahead to future provincial initiatives that broadly impact local government, there are many models available that have proven effective in delivering substantial works of policy. The Elections Task Force, for instance, was able to consult broadly with the public and deliver a final report with 31 recommendations within six months. The recommendations received the full endorsement from the Cabinet. The process also allowed for policy direction from UBCM's membership at Convention, ensuring local government support for the Task Force's findings.

As we shared during our meeting, we are committed to working with you on this file, and look forward to a further update from the Ministry of Community, Sport and Cultural Development at our convention. We also wish you all the best as you prepare to address convention for the first time as Premier.

Sincerely,

A handwritten signature in black ink, appearing to read 'B Steele', written in a cursive style.

Councillor Barbara Steele
President

Cc: Minister Ida Chong

Fast, Don CSCD:EX

From: Gary MacIsaac [gmacisaac@ubcm.ca]
Sent: Monday, September 19, 2011 1:07 PM
To: Fast, Don CSCD:EX
Subject: UBCM Member Release and Policy Paper
Attachments: convention policy paper.pdf; mag member release with policy paper.pdf

Hello Don.

At the September 13 meeting with the Premier and Minister Chong the UBCM President committed to sharing a copy of UBCM correspondence to our membership prior to it being distributed.

I am attaching a Member Release and Policy Paper on the MAG. It is our intention to send this out late this afternoon. There will be some minor formatting changes but the attached documents are essentially in their final form.

Will the Province be distributing any additional information on this subject prior to Convention? If so we would appreciate an advance notice as well.

Thanks
Gary

Gary MacIsaac
Executive Director, UBCM
60-10551 Shellbridge Way
Richmond B.C. V6X 2W9
(604) 270-8226 ext. 105 (Richmond)
(250) 356-2956 (Victoria)

TO: UBCM Members
FROM: UBCM Executive
DATE: September 19, 2011
RE: MUNICIPAL AUDITOR GENERAL

POLICY PAPER

#1

2011 Convention

1. DECISION REQUEST

To consider recommendations to guide further policy development in relation to a proposed Municipal Auditor General for BC local governments.

2. BACKGROUND

The Province is currently engaged in a policy development process aimed at implementing an Office of the Municipal Auditor General (MAG).

The UBCM membership has not provided specific policy direction on a MAG. Consequently, this Policy Paper sets out recommendations that, if endorsed, will form the basis for that policy direction. In considering policy direction, the membership is advised to consider the terminology "Municipal Auditor General" or "MAG" to be inclusive of both municipalities and regional districts.

The Premier's commitment to create a MAG is one element of a "review of municipal taxation" set out in the Families First Agenda, which also commits to fund the office as part of the Provincial Auditor General's Office, review the municipal taxation formula, and work with UBCM to ensure municipalities are properly funded and communities can provide the services British Columbians want from local government. The Province has indicated it wants to implement the MAG commitment prior to considering other elements, including ensuring municipalities are properly funded.

Consultations with interested parties, including the business community, are underway. In late July, Minister Chong also surveyed all local governments to solicit their views about specific design elements of the proposed MAG. At that time UBCM produced a MAG Context Paper to provide background to local governments as they considered the Minister's survey. While much of the background research set out in this Policy Paper replicates that provided in the Context Paper, the Policy Paper moves beyond that background by setting out a number of relevant policy considerations, as well as principles and a recommendation for the consideration of the membership.

3. RESEARCH

3(a) Local Government Financial Accountability System

An overview of the local government and provincial financial accountability systems, is presented in Appendix I. While the local government and provincial government financial accountability systems are different, they appear to compare favourably.

Convention Policy Paper #1: Municipal Auditor General

Both the federal and provincial orders of government have Auditors General in place, and the lack of performance auditing has been cited as a weakness of the local government system. However, while the Provincial system does rely more heavily on performance measurement and performance auditing, the local government system is heavily reliant on statutory limitations imposed by the Province, and Provincial oversight roles.

3(b) MAG legislation in other Canadian provinces

The following table summarizes what municipalities in other Canadian provinces must have a MAG, and which could appoint one at their discretion.

MAG Required	Local government is empowered to appoint MAG	No provision for MAG ¹
Quebec (municipalities with populations over 100,000)	Ontario (specific provisions)	Quebec (municipalities with populations under 100,000)
Toronto	Winnipeg (specific provisions)	Manitoba (except Winnipeg)
Nova Scotia: Halifax (legislation in force); all other municipalities (if the 2008 legislation is brought into force)	Alberta (through general officer powers) ²	Saskatchewan
	BC (through corporate or natural person powers and audit powers) ²	New Brunswick
		Prince Edward Island
		Newfoundland

There is no province in Canada that currently has a MAG in place for all local governments; further, there is currently no MAG in Canada with jurisdiction over more than one local government entity. Further details of the cross-jurisdictional analysis are set out in Appendix II.

3(c) Key elements of powers, scope and structure of Auditors General and MAG Offices in Canada

Details of the key structural elements set out in various AG/MAG legislation is set out in Appendix III. The following provides a summary of that information.

¹ While a legislative scan did not indicate a specific requirement for a MAG or specific municipal empowerment to appoint a MAG, local governments in these provinces may have sufficient generalized powers to appoint a MAG, under the same types of authorities as are available in Alberta and BC.

² General empowerment provisions allow local governments in these Province's to appoint a MAG, but do not prescribe how those Offices function, so each local government wishing to implement a MAG could have different structures/functions etc for the Office, and potentially differing degrees of independence.

Scope: AGs and MAGs typically are responsible for audits in relation to a single government, including all departments/ministries, agencies, corporations, etc, which are part of the government's reporting entity, as well as funds held in trust by the government, and individuals or organizations receiving government funds.

Duties/Functions: AGs/MAGs can typically perform three types of audits: attest/financial audit; compliance audit; and performance audit. Attest audits are often specifically excluded from MAG duties, as a local government's external auditor customarily undertakes these audits. Additional duties can be assigned through the governing legislation. These typically involve special examinations upon request of the governing body of the entity being audited.

Government policy exclusions: AGs/MAGs typically do not comment on the merits of government policy. While a performance audit seeks to determine the effectiveness, efficiency or economy of the implementation of a policy choice, it does not question the policy choice itself.

Enforcement: AGs/MAGs typically make recommendations only, and cannot require implementation of those recommendations.

Auditor independence and accountability: AG/MAG legislative provisions typically employ a number of techniques to enhance the independence of auditors (e.g., set terms of office and super-majority vote to terminate; considerable independence for AG/MAG to set audit priorities; Officer of the Legislature for provincial AGs; statutorily set minimum funding). In addition, most legislation also provides elements designed to maintain AG/MAG accountability in relation to the efficiency and effectiveness of the Office and compliance with the Office's legislative framework (e.g., required performance planning and reporting).

4. CONSIDERATIONS

4(a) Powers, duties and limitations for a BC MAG

An approach to considering the appropriate powers, duties and limitations for a BC MAG could be based on using the core powers, duties and limitations provided in other AG/MAG legislation in Canada as a starting point, and then making adjustments to these in order to meet other principles or system objectives. Key in that regard are objectives to maintain overall accountability system efficiencies by avoiding duplication and to build on existing elements of the accountability system wherever possible.

This approach would lead to the following powers, duties and limitations for the BC MAG:

- Audit functions: performance auditing only;
- Limitation on audit functions: no review or comment on merits of local government policy choices; and
- Procedural powers in relation to audits, such as: must conduct audits in accordance with generally accepted auditing and assurance standards; power to require information in relation to audits; requirement to report to

Convention Policy Paper #1: Municipal Auditor General

local government (and publicly) on results of audit, but no power to enforce recommendations.

This list is consistent with the core powers, duties and limitations provided for most AGs/MAGs, with the exception of eliminating powers related to compliance auditing and attest auditing (which are a feature of the federal and many provincial AGs), but which are often excluded from the duties of MAGs.

The attest audit function is appropriate to exclude from MAG duties given that this function is currently required to be performed for all local governments by external auditors. To avoid duplication, the function should either be retained as an external audit function, or moved to a MAG function, and there does not appear to be any system advantages to moving it to a MAG function.

Similarly, there is a potential duplication if a compliance audit function were to be provided to the MAG, since the local government accountability system has several elements that provide assurance of compliance with legislated rules related to local government financial matters (e.g., third party oversight of local government borrowing, financial plan, etc), and since compliance auditing is already undertaken in relation to other local government matters (e.g., compliance with funding agreements).

In addition to considering duplication in the context of typical MAG/AG roles, other elements of the accountability system need to be reviewed in order to ensure no duplication between these roles and the proposed MAG role.

For example, while the role of the Inspector is separate and distinct from that of a MAG, there are some functions of the Inspector that, without careful thought in designing of the MAG office, could be duplicated by the MAG. The most obvious of these is the Inspector's collection and publication of financial information from all local governments on an annual basis. In order to avoid duplication, the legislation empowering a MAG should ensure that that Office's collection of financial information does not provide for broad application, but rather is audit-specific.

A broad range of potential powers/duties for a BC MAG has come forward from interested parties in response to the Ministry's consultation on this initiative. Most of these, if considered in the context of the roles of a typical AG/MAG, would not be appropriate.

The following sets out some examples of roles suggested for the BC MAG, which would not be typical of other AGs/MAGs in Canada:

- *Reviewing municipal taxation, tax rates, municipal tax distribution policies, the relative tax burden borne by various assessment classes, or the municipal tax formula*

The policy choices made by elected officials are not typically reviewed or commented on by AGs or MAGs. Consequently, it would not be typical to have a MAG review tax rates or tax distribution policies of

municipalities; nor would it be typical to review the provincial policy choices inherent in establishing the municipal taxation framework.

Assuming a BC MAG were given powers typical of other MAGs or AGs, the Office could report on such things as the economy and efficiency of administration procedures to collect the tax, whether the actual tax distribution met the tax distribution policies and objectives set out in the municipality's financial plan, or whether the taxes were properly imposed, and exemptions authorized, according to the legislative framework in place.

The Office would not, however, report or comment on the tax distribution policy itself – such as the choices that Council made with respect to the proportion of the tax burden to be borne by each assessment class, or the relative tax rates amongst these classes.

- *Reviewing a local government choice to offer a service, the service levels of that service, or the choice not to offer a service or program*
The range of services and programs a government chooses to offer and the service levels within those programs and services are all policy choices these governments make.

While the efficiency, effectiveness and economy of these services and programs is an appropriate audit function – and is, in essence, the core of performance auditing – a review of the policy choices inherent in whether or not to deliver the service at all or the level of service delivery are not an appropriate line of inquiry for a MAG. This is in keeping with the principle that an AG/MAG does not review the merits of government policy choices, but does consider whether the services/programs were effective in meeting the objectives set out for them, and whether they were implemented with due regard to economy and efficiency.

- *Requiring recommendations be implemented or imposing requirements*
Some of the suggestions in the consultation process indicated a desire to afford the MAG the ability to require a local government to implement recommendations resulting from audits, or suggested that a MAG should or could impose requirements on all local governments (e.g., requiring consistent financial reporting methodologies in order to enhance comparability of financial information; or requiring all local governments to provide the MAG with specified financial information annually). Neither of these functions would be consistent with the role of other AGs/MAGs in Canada.

4(b) Financial considerations

Estimating the costs of a MAG Office is dependent on considerations of the scope, powers and duties of the Office. UBCM has not estimated these costs, primarily because the Province has indicated its intention to pay for the MAG Office. It will be important to recognize this cost recovery commitment in the legislation creating the Office.

Convention Policy Paper #1: Municipal Auditor General

The Province has not indicated its intention to pay the costs that local governments will incur in responding to the audit requests of the MAG. Consequently, it will be important to consider these costs and practical realities related to the varying capacity of individual local governments to respond to auditor's needs within the legislative framework, administrative and governance structures and/or implementation plans for the Office.

4(c) Administrative/governance and reporting structure options

Most MAG legislation in Canada relates to a MAG for an individual local government, and the legislation does not need to refer extensively to administrative or governance structure. This is because the MAG is reporting to a single Council, so the Council is the appropriate body to make administrative decisions about the MAG within the legislated framework (e.g., approving an audit plan or deciding on an annual budget for the Office).

Administrative decisions are more challenging when a MAG is instituted with jurisdiction for multiple local governments, since there are few mechanisms in place for local governments to make decisions, such as budget approvals, collectively. Consequently, the legislation establishing the MAG Office may need a more extensive administrative or governance structural framework.

Administrative/governance structure is linked to independence in that the structure needs to strike an appropriate balance between ensuring the MAG is sufficiently independent to be able to undertake its work free from political or other interference, and ensuring that the MAG is accountable to some entity in relation to its own efficiency and effectiveness and compliance with its legislative framework.

The consultation process to date has suggested three options for an administrative/governance structure, as follows:

Description	Comments
Legislative Assembly Model	
Administrative structure for the Provincial AG would be used for the MAG. This structure could mean that the MAG would be accountable, either directly or indirectly, to the Legislative Assembly, and would report to the Legislative Assembly in relation to its performance. The MAG would be responsible for presenting a service plan and estimate of resources needed to a committee of the Legislative Assembly, and that committee would be responsible for approval of the estimate.	<ul style="list-style-type: none">• May represent some efficiencies and/or economies of scale, when considered in conjunction with administrative processes of provincial AG;• Provides a mechanism for approved budget amounts to be included in provincial estimates;• Most detrimental to local autonomy, in that the accountability link is to another order of government which does not represent the interests of local government or the local government system.
Ministerial Model	
MAG would be accountable to the Minister (presumably the Minister of	<ul style="list-style-type: none">• High potential for conflict between the Minister's role in relation to the MAG

Community, Sport and Cultural Development), and would likely be responsible to report to the Minister on its performance. Provisions would also be need in relation to development of a service or performance plan and estimates of resources needed, as well as some form of budget and/or performance plan approval.	and a number of other roles of that Minister and Ministry (e.g., funder of local government grants; third party oversight/approval of local government bylaws; involvement in setting the legislative framework).
Stand-alone Board or Committee Model	
A separate stand alone board or committee would be the cornerstone of the administrative/governance structure, with likely elements being MAG reporting to the board/committee in relation to its performance, some board/committee oversight in relation to service/performance planning, and other administrative matters, including for example, appointment of the MAG.	<ul style="list-style-type: none"> • Could be most compatible with local government autonomy, since reporting/accountability relationship not to another order of government; • Success will depend on achieving the right balance between auditor independence and auditor accountability; • Both board/committee composition and powers must be carefully crafted in order to achieve desired balance; • Represents some challenges with respect to cost recovery since it has the potential to have a performance plan approved by one entity (i.e., the board/committee) while another entity (i.e., the province) is responsible to pay for it.

While all of these options, and potentially other options, should be evaluated in the context of principles established to guide the development of the proposal, the stand-alone board or committee would appear on initial review to be the most likely to allow for both an appropriate reporting relationship for a MAG responsible for all local governments, and as a means of ensuring the auditor is independent from both political influence and stakeholder bias.

In order to achieve these objectives, however, consideration must be given to the following elements:

- *The MAG should ultimately be accountable to the public* (just as is the Provincial AG). This would mean that while individual local governments, interest groups, or individual taxpayers or taxpayer organizations, could be afforded opportunities to make their views known to the governing body or the MAG (e.g., what audits should be undertaken), mechanisms should be in place to ensure these interests do not control or direct the work of the auditor (i.e., ensuring that the auditor independently chooses audit assignments and priorities, within the legislative framework).

- *Legislation should set out the accountability framework for the MAG, and then allow the MAG to operate independently within that framework.* Elements in the accountability framework could include such things as stating the overall goals and objectives of the Office and requiring the MAG to develop an annual plan in relation to those goals/objectives that would be similar in content to the municipal performance report (i.e., set objectives for the coming year, state how the Office will meet those objectives, and report on how well the Office met its prior year objectives). The MAG would then independently develop audit plans in keeping with those objectives.
- *The governing body should focus on technical and administrative elements in order to avoid political influence and/or stakeholder bias.* For example, the governing body could be responsible for approving the annual plan prepared by the MAG, but would be restricted in the factors it could use in withholding that approval (i.e., the approval would be technically based in relation to such things as whether the plan complied with the legislative framework, etc). The governing body could also be responsible for appointing the MAG.
- *The governing body should be composed of representatives from the local government system, supplemented, if needed, by performance audit expertise.* This representation is consistent with the governance structure in place for the BC provincial AG and the federal AG. In both these cases, the auditor reports to the elected body (i.e., Legislative Assembly for provincial AG and House of Commons for federal AG), but each have a committee comprised of Members of the Legislative Assembly/Members of Parliament.

Such a structure could also be designed to provide opportunities for consultation with, or input from, members of the public or other interested parties.

5. POLICY DEVELOPMENT PROCESS AND PRINCIPLES

While the Province has stated it is committed to implementing an Office of the MAG within BC in the near future, that implementation will benefit from careful consideration of a number of elements, including those related to the Office itself, and those related to the overall financial accountability system for local governments.

Clearly, there are a range of options and design choices available to make changes to that system, and each of these options will have its own set of advantages and disadvantages, which will need to be evaluated against the objectives of the system as a whole. One way to systematically evaluate the various options is to consider them against the backdrop of principles that have been established for the initiative.

The following principles and framework statements could therefore guide continued policy development for this initiative:

- *Consultation between the province and local governments which promotes effective information sharing, healthy debate, and mutual understanding of respective interests is critical to a constructive governmental working relationship, more effective provincial policy development, and improved implementation at the local level.*

There are many elements of the proposal that need careful consideration and a full exchange of views by both the provincial and local orders of government. Working intensively together is particularly important in this particular initiative given the provincial government's intention to introduce legislative amendments in the next Legislative session. Working together at this stage of the process is also likely to improve the economy, efficiency and effectiveness of the eventual policy product.

- *Changes to the accountability framework should build on existing systems, avoid duplication and meet specific objectives in relation to the system as a whole.*

This principle would indicate the need to consider a MAG proposal, and specific elements of that proposal, in the context of defined outcomes or objectives that the Office is intended to work towards, as well as how it fits in with other elements of the existing accountability system. Inherent in these considerations is a determination that the MAG will fill an identified gap in the existing accountability framework and that the powers/duties of the MAG are not a duplication of existing system elements.

- *System changes should maximize public accountability benefits while respecting local autonomy and recognizing local capacity.*

This principle would operate to consider design options in relation to whether they strike an appropriate balance between public accountability and local autonomy objectives, as well as whether their accountability benefits are reasonable given the range of capacity of local governments.

For example, the principle might be used to compare a model that provides a single MAG with jurisdiction for all local governments against a model that empowers individual local governments to establish their own MAG Office.

In addition, this principle could lead towards a legislative framework for a MAG that recognizes each local government as a separate government entity, in keeping with legislation governing local governments that recognizes each as an autonomous, responsible and accountable order of government.

- *Legislative empowerment of a MAG should not exceed that typical of a federal or provincial AG, and the MAG legislation should specifically prohibit the MAG from considering the merits of local government program policy or objectives of local governments.*

This principle, in combination with principles related to building on existing systems and avoiding duplication, could result in a model which focuses the duties of the MAG on performance auditing and reports, including recommendations, in relation to those audits, while ensuring the MAG is not able to consider local government policy choices in those audits, reports and recommendations.

- *Administrative and governance structures should strike a balance between ensuring the Office of the MAG is sufficiently independent to be able to undertake its work free from political or other interference, and ensuring that the Office is accountable to the governments within its audit mandate in relation to its own efficiency and effectiveness and compliance with its legislative framework.*

This principle recognizes that the MAG should ultimately be accountable to the public, and that in order to achieve this accountability, the Office must be afforded considerable independence in carrying out its duties, while remaining accountable for the efficiency and effectiveness of its operations.

Methods to ensure the independence of the Office is not compromised by political interference or stakeholder bias can and likely should include embedding elements of the Offices overall objectives, goals and accountabilities in the legislation which establishes the Office, and then allowing the MAG to operate independently within that framework, through limiting the role of the governing body to technical and administrative elements.

Like all other AGs/MAGs, the BC MAG should be accountable for its performance to the government bodies within its audit mandate. This can be achieved through a model under which the MAG reports to a governing body composed of representatives from the local government system.

6. RECOMMENDATIONS

That the membership endorse an approach whereby UBCM, on behalf of local governments, engage with the Ministry of Community, Sport and Cultural Development, on behalf of the Province, through a respectful inter-governmental relationship in keeping with the consultation agreement between the Ministry and UBCM, to work towards identification of gaps in the local government financial accountability system, and implement solutions to those gaps in keeping with the principles set out in section 5 of this Policy Paper.

APPENDIX 1: BC Local Government Financial Accountability Framework

One element of the local government accountability system that has drawn the attention of Provincial officials is that the local government system lacks mandatory performance auditing, whereas this is included in the provincial system, with the function carried out by the Auditor General. The lack of performance auditing in the local government system has been cited as a weakness of that system.

However, in order to evaluate whether or not the lack of mandated performance auditing is truly a weakness, the system needs to be evaluated as a whole to determine if it is operating efficiently and effectively. Considering one component of a complex system in isolation cannot give a complete picture of the adequacy of the checks and balances in the system.

This table summarizes the local government system and compares that system with elements of the accountability system in place for the Province of BC.

Measure	Local Government System	Comparison to Provincial System
Financial planning	5 year financial planning, including operating and capital; expenditures limited to plan	Similar financial planning requirements (i.e., Estimates); expenditures limited to plan
Provincially legislated financial limits	Cannot budget for a deficit; no long term borrowing for operating; limitations on aggregate liabilities and/or debt servicing limits	Borrowing not restricted to capital; some history of balanced budget legislation, although this can be amended or repealed by the Province at its discretion.
Audit	External auditor responsible for attest/financial audit, and other reports required by Council/Board or Inspector, or on auditor's initiative	AG responsible for attest/financial audits, performance audits, some compliance auditing, and special reports as required by the Legislative Assembly, or on the AG's initiative
Transparency and openness	Most meetings open, annual financial and performance reporting, specific expenditure reporting (e.g., remuneration and contracts over specified amounts), access to information	More robust performance reporting requirements; parallel specific expenditure reporting; parallel FOI rules except for arguably broader exclusions due to exclusion relating to substance of Cabinet deliberations; similarly, while Legislative Assembly debates are open, Cabinet discussions are not, making local government decision-making arguably more open than Provincial
Public Participation	Some direct public participation mechanisms (borrowing, RD services); financial plan consultation; opportunities at annual meeting	<i>Recall and Initiative Act</i> provides opportunity for electors to initiate a legislative proposal on any matter within the jurisdiction of the Legislature
Third Party Oversight	Ombudsperson (recommendations only); Inspector of Municipalities (binding orders); Commissioner (replaces Council/Board)	Ombudsperson (exact parallel); Auditor General (recommendations only); No equivalent of the Inspector of Municipalities or Commissioner.

While different, the two accountability systems appear to compare favourably. The Provincial system relies more heavily on performance measurement and performance auditing; but the local government system is heavily reliant on statutory limitations imposed by the Province, and Provincial oversight roles, including the Inspector of Municipalities (Inspector).

The role of the Inspector deserves some discussion with respect to its oversight powers, since those powers add considerably to the checks and balances in the overall system. Powers of the Inspector include:

- approving a range of local government bylaws (e.g., borrowing, some fees and changes such as Development Cost Charges). This approval provides a measure of assurance of compliance with applicable rules, restrictions and limitations, as well as measure of accountability;
- annually require financial information from all local governments, which is used to prepare and publish a range of local government financial statistics, including revenues, expenses, and tax rates, affording considerable centralized public access to local government financial information;
- may require a local government auditor to provide a report on any matter; and
- may hold an inquiry into any local government matter and make recommendations to Cabinet, which may result in Cabinet Order that is binding on the local government.

While the powers to require local government auditors to report to the Inspector and the Inspector's power to hold an inquiry are rarely used, they should not be discounted since they strengthen the overall framework.

APPENDIX II: MUNICIPAL AUDITORS GERNERAL IN CANADA

Nova Scotia has two pieces of MAG legislation: one specific to the Halifax Regional Municipality, which is in force; and the other which, if brought into force, will require a MAG for all other municipalities in the province. The latter legislative amendments were passed in 2008, but have not yet been brought into force, since discussions are ongoing about how best to implement it.

The only other MAG requirements in Canada are for municipalities with populations greater than 100,000 in Quebec, and for the City of Toronto. Ontario municipalities and the City of Winnipeg are specifically empowered to appoint a MAG, but are not required to do so. More generalized legislative authority allows Alberta and BC local governments to appoint a MAG.

In BC, while there is no specific authority for a local government to appoint a MAG, the audit provisions relating to both municipalities and regional districts allow Councils and Boards to require reports (in addition to the required financial statement reports) from their auditors. This would allow Councils/Boards to require such things as performance audits. In addition, the natural persons powers' of municipalities and broad corporate powers of regional districts should be sufficient for Councils/Boards to establish an Office of the MAG and assign duties to that Office, if they so choose.

Legislation to require a MAG for all Alberta municipalities was introduced in 2009 but not passed. Instead, other measures were instituted that the Minister stated "would meet the intent of the Bill with current resources and without the creation of a new government body". These measures are: rotating municipal corporate reviews; reviewing auditor independence; establishing an information portal to enhance public access to municipal financial information; and releasing recommendations made in audit letters.

APPENDIX III: KEY ELEMENTS OF THE STRUCTURE AND SCOPE OF OFFICES OF AUDITORS GENERAL AND MAG IN CANADA

Scope

Audited entities/funds are typically limited to:

- government departments/ministries, and agencies, corporations or organizations which are part of the applicable government's reporting entity (e.g., controlled by the government);
- funds held in trust by the government or an organization that is part of the government's reporting entity; and
- individuals or organizations either collecting money for, or receiving grants, transfers, loans, etc, from, the government or an organization that is part of the government's reporting entity (although audits for these are generally limited to compliance auditing in relation to the collection, grant etc).

Typical functions/duties

Auditors General (AG) and MAGs within Canada typically undertake:

- Attest auditing: to provide an opinion on the fair representation of the government's financial statements in accordance with applicable accounting rules (although in some MAG cases this function is specifically excluded, since it is undertaken by a municipality's external auditor);
- Compliance auditing: to determine whether financial and administrative rules have been complied with;
- Performance auditing³: to determine whether money was spent with due regard for economy and efficiency and whether appropriate procedures are in place to measure and report on the effectiveness of government programs; and
- Some form of special examinations at the discretion of the AG/MAG or upon request of the governing body of the entity being audited.

In addition, some AGs/MAGs have duties/powers not listed above (e.g. some MAGs take on internal audit functions, some provincial AGs have customized review powers in areas of significance to that Province, such as government advertising or environmental stewardship).

Government policy exclusions

AGs and MAGs typically do not comment on government policy. For example, the *BC Auditor General Act* states that the AG must not "...call into question the merits of program policies or objectives of the government...", a provision that is also present in some MAG bylaw provisions (e.g., Ottawa).

³ Some statutes refer to "Performance Auditing" whereas others refer to "Value for Money Auditing". Performance auditing includes value for money auditing, but is broader in scope than value for money. Performance auditing is concerned with three, and increasingly four, "E's": economy, efficiency, effectiveness, and most recently, environment. For simplicity, this paper refers only to performance auditing.

Convention Policy Paper #1: Municipal Auditor General

Information from the federal AG provides the following plain language explanation: "Performance audits do not question the merits of government policies. Rather, they examine the government's management practices, controls, and reporting systems based on its own public administration policies and on best practices."

Consequently, AGs/MAGs would consider how policy is implemented, how effectiveness is measured, etc, but would not typically comment on the policy itself. For instance, an AG would not report on whether or not a program or service should be undertaken or the extent of the program or service (since that is a matter of government policy) but could report on how well the program or service was meeting the objectives that the government set out for it, and how economically and efficiently it was operated.

Enforcement

AGs and MAGs are empowered to investigate, report and make recommendations. None of the legislation examined indicates that the powers of an AG or MAG extend to requiring compliance with recommendations.

Auditor independence and auditor accountability

Legislation establishing the Office of an AG or MAG and setting out the framework for that Office typically provides elements relating to auditor independence, as well as auditor accountability.

AGs and MAGs typically make reports to the elected body of the government entity being audited (e.g., House of Commons, Legislative Assembly, City Council), and most are also appointed by these same entities. There is an exception to this general rule for the MAG for all municipalities in Nova Scotia, other than Halifax, which, if the legislation is brought into force, will be appointed by the Minister, after consultation with the Union of Nova Scotia Municipalities. That auditor will also provide a copy of all reports to the Minister, as must the Halifax MAG. There are also typically provisions in place for additional reporting to the Board, Commission, Ministry, etc which was the subject of the audit.

While not all of these items are present in all cases, there are several other commonly used legislative means, often used in combination, to preserve the independence of AGs/MAGs including:

- a set term of office and limited ability to reappointment;
- requiring a 2/3 vote of Council/Legislative Assembly to suspend or terminate an auditor;
- required minimum funding thresholds (e.g., MAG legislation in Quebec requires MAG budget be set at a percentage of the municipality's annual operating budget);
- independence for AG/MAG to develop annual work plan and set audit priorities;
- requirements for persons (including staff etc) to provide information requested by AG/MAG and in some cases, penalties for failure to do so; and

Convention Policy Paper #1: Municipal Auditor General

- establishment of an Audit Committee, with functions related to independence of the auditor (e.g., City of Winnipeg audit committee purposes include an objective "to strengthen the independence of the audit function by providing a forum for communicating findings to elected officials and facilitating the audit function's independence from management");
- specific independence provisions (e.g., statements that auditors are independent from City staff; provisions that AG is Officer of the Legislature)

Legislation and/or administrative structures also typically provide elements related to the accountability of the AG/MAG. While not universal, the following types of things, sometimes in combination, will be present in the system:

- requirement that audits be performed to a particular standard (e.g., CICA generally accepted auditing and assurance standards);
- requirement for the auditor to develop a plan, and in many cases, for an audit committee to approve the plan;
- requirement for auditor to report out on activities in the previous year in relation to the objectives set out in the plan; and
- an audit or other form of committee (usually a committee of Council/Legislative Assembly, etc) is provided with an oversight role, (e.g., Toronto's bylaw provides that the audit committee (consisting of 5 members of Council) considers the auditor general's reports and audit plan and conducts an annual review of the accomplishments of the AG).



September 22, 2011

Councillor Barbara Steele, President
Union of BC Municipalities
60 – 10551 Shellbridge Way
Richmond, BC V6X 2W9

Dear Councillor Steele:

Thank you for your letter regarding the proposed Municipal Auditor General office. It was great to talk to you and I do appreciate receiving your summary and follow-up on this matter.

I see that you have also copied Minister Ida Chong on your correspondence. I know she will appreciate your staff's willingness to assist in the work surrounding this proposal going forward. Minister Chong will be responding to your letter in more detail.

Thanks again for taking the time to write to me. I look forward to seeing you at the UBCM Convention.

Sincerely,

Christy Clark
Premier

pc: Honourable Ida Chong

September 23, 2011

Ref: 147824

Councillor Barbara Steele
President
Union of British Columbia Municipalities
Suite 60, 10551 Shellbridge Way
Richmond, BC V6X 2W9

Dear Councillor Steele:

Thank you for your letter of September 14, 2011, addressed to Honourable Christy Clark, Premier, regarding an office of the Municipal Auditor General (MAG). As Minister of Community, Sport and Cultural Development, I am pleased to respond on behalf of Premier Christy Clark (Premier).

As described in your letter, the meeting between the Premier, the Union of British Columbia Municipalities (UBCM) Executive, and me, was an excellent opportunity for clarification and further dialogue regarding the MAG. At that meeting, the Premier reinforced that a MAG would operate as other Auditors General do and would not second-guess the policy choices of locally elected officials, for example the setting of tax rates. The MAG would focus on value-for-money audits, and not duplicate existing financial accountability requirements. In addition, the Premier committed that the MAG would be funded by the Province of British Columbia (Province).

I believe that there is common ground between the Province and the UBCM on the purpose of an office of the MAG, and a solid basis for moving forward on determining the design details of that office. I look forward to consulting with you further, and especially look forward to further discussion and engagement with your members during the upcoming UBCM Convention.

Sincerely,

Ida Chong, FCGA
Minister

pc: Honourable Christy Clark, Premier

Councillor Barbara Steele
Page 2

Minister: file copy Branch: file copy Branch: pending copy ARCS/ORCS#: 0280-30
Date Typed: September 23, 2011 Prepared by: LGPRB:ejanusze:
Document Location: c:\users\janehall\appdata\local\microsoft\windows\temporary internet
files\content.outlook\6bgb832z\147824_min_lgd_prb_steele ubcm mag_revisedfinal110923.docx

HONOURABLE CHRISTY CLARK
PREMIER
PO BOX 9041 STN PROV GOVT
VICTORIA, BC V8W 9E1

Hawkins, Sylvia E. CSCD:EX

From: Brown, Tom G CSCD:EX
Sent: Tuesday, October 18, 2011 3:53 PM
To: Hawkins, Sylvia E. CSCD:EX
Cc: Wyllie, Sandra CSCD:EX
Subject: FW: Follow-up letter
Attachments: Min Chong Letter - Oct 17-11 re MAG.pdf; ATT00001.htm

Hi Sylvia – I'm sure that Shauna/Gary will distribute this to MAG team staff but just wanted to ensure it was officially in the system.....

Thanks Sylvia

Tom

From: Fast, Don CSCD:EX
Sent: Tuesday, October 18, 2011 3:33 PM
To: Brouwer, Shauna CSCD:EX; Paget, Gary CSCD:EX
Cc: Brown, Tom G CSCD:EX; Valentine, Lee CSCD:EX
Subject: Fwd: Follow-up letter

Pls provide comments by Thurs and let's discuss with MIC Mon
Lee and Tom can we fit this into the agenda?

Don Fast
Deputy Minister

Begin forwarded message:

From: "Brenda Gibson" <bgibson@ubcm.ca>
To: "Fast, Don CSCD:EX" <Don.Fast@gov.bc.ca>, "Paget, Gary CSCD:EX" <Gary.Paget@gov.bc.ca>
Cc: "Gary MacIsaac" <gmacisaac@ubcm.ca>
Subject: Follow-up letter

Please see attached letter from President Slee to Minister Chong. In follow-up to our MAG meeting last week. The original is being mailed to Minister Chong this afternoon. Gary and/or I would be happy to discuss the letter or the project at your convenience. Thanks.

Brenda

Brenda Gibson
General Manager, Victoria Operations
UBCM
250 356-0862



Union of BC Municipalities
Suite 60 10551 Shellbridge Way
Richmond, BC, Canada V6X 2W9

Phone: 604.270.8226
Email: ubcm@ubcm.ca

October 17, 2011

Honourable Ida Chong
Minister of Community, Sport and Cultural Development
PO BOX 9056, STN PROV GOVT.
Victoria BC V8W9E2

Dear Minister Chong:

RE: AUDITOR GENERAL FOR LOCAL GOVERNMENT

Thank you for arranging the October 14 meeting to discuss planned design details for the Office of the Auditor General for Local Government (AGLG). It was useful to hear your views.

We have now had the opportunity to review the document you provided in more detail and have the following observations.

The document has suggested that although local governments will not be required to follow AGLG recommendations, they must consider these recommendations. This is inconsistent with the *Auditor General Act*, which does not provide for a similar requirement for the provincial government to consider the results or recommendations of audits. Consequently, it is inconsistent with the policy direction we received from our membership at Convention.

With respect to the composition of the Audit Council, the information supplied at the meeting does not provide sufficient detail for us to gauge whether or not the proposal is consistent with standard practice across Canada, or with the policy direction we received from the membership. The members supported an Audit Council comprised of representatives from the local government system, along with members with specific audit or legal expertise, if this is needed.

The Province has proposed appointments made by Cabinet on the Minister's recommendation, with membership based on "professional knowledge and skill". Given that the initiative is to be funded Provincially, UBCM can certainly support the appointment of the Audit Council by Cabinet. However, before we could support this appointment strategy, we would appreciate further information about the basis of the recommendations to Cabinet. The discussion at the meeting did not elaborate on what "professional knowledge and skills" would be required, or whether the proposal means that individuals with these skills would be sought first from within the local government system, with membership from outside of that system only considered where the required skills are not available within the local government system.

A good example of how the Audit Council could be structured to meet both the proposal outlined in your document and the policy direction UBCM has from the membership is the proposed structure for the governing body for the Nova Scotia MAG. In that case, appointments are made from the equivalent of UBCM, Local Government Management Association, and your Ministry. In BC, this could be expanded to include the Government Finance Officers Association, and if it were needed, a member with specific audit or legal expertise.

This type of structure, combined with the focus of the Audit Council as you have suggested (i.e., approving the service plan, reviewing the AGLG's annual reports and monitoring its performance) and clearly defined independent powers of the AGLG, provides for both auditor independence and accountability of the auditor to the entities within its audit mandate, a key feature of all MAG and Auditor General legislation in Canada.

The model has the added advantage of a linkage between the Audit Council and the Province, through direct Provincial representation on the Audit Council. In addition, by ensuring the Audit Council does not have authority over budget matters, as you have suggested, the Province is able to make independent budget decisions for the Office, making the composition of the Audit Council irrelevant to these budgetary issues.

You have suggested that the Province should consult with organizations representing the business community and others prior to appointing individuals to the Audit Council. As an alternative to that consultation process, it may be more effective to provide for a regular forum for consultation with these interests, perhaps during the Audit Council's review of the AGLG's service plan.

Subject to these key changes to the model, the AGLG legislation may align with the policy direction we received from our membership at Convention, all other MAG and Auditor General legislation in Canada, and the fundamental principle that Auditors General must be accountable for their performance to the entities within its audit mandate. In addition, providing an opportunity for interested parties, including the business community, to influence the AGLG service plan, through Audit Council consultations on that plan, will ensure that these interests are heard on a regular basis.

Thank you for agreeing to share the draft legislation with our staff on a confidential basis, in keeping with the consultation agreement between UBCM and the Ministry. We recognize that this may be challenging given the extremely short timeframe available to draft the legislation if it is to be introduced this session. Consequently, sharing of early drafts of the legislation may be most helpful, rather than waiting until the drafting is complete. UBCM staff will then commit to reviewing these drafts in a timely manner so that they can advise of any gaps or technical problems with the legislation in time for the Province to make the needed adjustments prior to introduction.

While we recognize that timing of introduction may be beyond your control, we would appreciate it if you could provide us, on a confidential basis, with your anticipated timeline. This will help to ensure that we are able to promptly provide information about the legislation to our membership once it is introduced.

Thank you.

Sincerely,



Heath Slee
President

Ref: 148270

Mr. Heath Slee
President
Union of British Columbia Municipalities
Suite 60, 10551 Shellbridge Way
Richmond, BC V6X 2W9

Dear Mr. Slee:

Thank you for your letter of October 17, 2011, regarding the design details for the Office of a Municipal Auditor General (OMAG).

I was pleased to meet with you on Friday, October 14, in Vancouver. I believe there is a high degree of consensus between the Union of British Columbia Municipalities (UBCM) and the Province of British Columbia on the OMAG. Your letter confirms that the key area where there continues to be a difference of views is in the composition of the Audit Council. I understand that this comes from two places. First, UBCM needs to have a clearer picture of the proposed composition of the Audit Council and the process for appointment. Second, I understand that UBCM's Executive has to reflect the direction set out in its policy paper which was endorsed in principle by your members at the recent UBCM Convention. Set out below is further information about the Audit Council. I believe the clarity that you seek will be more evident once your staff have had an opportunity to review the draft legislation.

It is intended that the legislation will specify baseline knowledge, skills and abilities that persons must have to be considered for appointment to the Audit Council (e.g. provincial government operations; or auditing; or accounting; or local and regional governance).

It is intended that the legislation will provide that the Minister of Community, Sport and Cultural Development must consult with UBCM, and also with representatives of business or other organizations, before the Province appoints the Audit Council members. The legislation will provide flexibility as to the nature of that consultation and I am interested in discussing with you what this consultation with UBCM would look like.

As with other Provincial appointments to agencies, boards and other bodies there will be an open, transparent and public process for assembling the full list of names that could be included in the Minister's recommendation to government on Audit Council appointments. The Audit Council members will be persons with the expertise and technical skills necessary to fulfill the

.../2

Mr. Heath Slee
Page 2

functions of the Audit Council. Specifically, these functions include recommending appointment of the Auditor General, approving an annual service plan, providing comments on performance audit reports and evaluating the performance of the OMAG.

I acknowledge your suggestion that the OMAG parallel the reporting body for the proposed Nova Scotia Municipal Auditor General, which will be comprised of appointments made by representatives of the local government system. That approach is not suitable for British Columbia, given that the approach being taken here is one of provincial establishment and funding of the office.

You also propose an alternative for consulting with representative organizations, such as business, namely, to consult annually on the service plan. That approach could cause challenges for the OMAG's practical ability to get the service plan done in a timely way. More importantly, it could also create the challenge of containing such consultations to the limits of the OMAG's mandate and not having them venture into a broader annual discussion of concerns or perceptions about the policy choices being made by local government.

I acknowledge the accuracy of UBCM's point that including a "must consider the recommendations" provision in the legislation would go further than what the Province must do in response to recommendations of the provincial Auditor General, or what is included in the legislation for auditors general in other jurisdictions. I am prepared to reconsider this proposal.

I confirm that draft legislation will be shared with UBCM staff on a confidential basis and that Ministry of Community, Sport and Cultural Development staff will follow up as soon as possible to discuss the timing and process for that to take place.

Thank you again for writing and I look forward to continuing discussions on this important initiative.

Sincerely,

Ida Chong, FCGA
Minister