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**TOWARD FINANCIAL ACCOUNTABILITY:
THE CREATION OF THE BOARD OF AUDIT IN UPPER CANADA
1791-1864**

BY

**Michael D. Booker
B.A., Wilfrid Laurier University, 1988**

**Masters Thesis
Submitted to the Department of History
in partial fulfilment of the requirements
for the Master of Arts degree
Wilfrid Laurier University
1991**

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Toward Financial Accountability:
The Creation of the Board of Audit in Upper Canada,
1791-1864

PREFACE

This thesis examines the development of the practice of public financial accountability and the establishment of the board of audit in Canada in 1855, within the context of the province's political evolution. The issue of financial accountability, "the task of enforcing the prompt, accurate and honest discharge of responsibility by those handling public money", posed a longstanding and complex technical problem for parliament, as it concerned fundamental constitutional structures and relationships.¹ As early as 1807 Robert Thorpe (1764-1830) took up the cause of financial reform by recommending in the House of Assembly that all revenue be placed under the control of the assembly. By the 1820's and 1830's English Conservatives like Robert Peel (1788-1850) and Whigs like Henry Parnell (1776-1842) and Joseph Hume (1777-1855) began advocating a more efficient and effective system to monitor public accounts in Britain. In Canada during the same time a Reform tradition developed that was modelled on both British and American examples. Its most prominent representative was William Lyon Mackenzie (1795-1861) who epitomized early Canadian efforts at financial reform. However, owing to their colonial status,

¹Henry Rosevears, The Treasury, 1660-1870 The Foundation of Control. (London: George Allen and Urwin Ltd., 1973), p.47.

Reformers in Canada focused on responsible government as the panacea for most of their problems.

The achievement of responsible government was an important element in the development of financial accountability in Canada, as it would provide the administrative means to implement and monitor that accountability. But more importantly, this thesis argues that a change in public perception of the need for financial accountability by Canadian government officers was also required. Canadian Reformers, through their struggle to achieve responsible government, altered Canadians' perceptions of the role and duty of the government as guardian of public funds.

Two factors came to be recognized by members of government before they deemed financial control to be important. First, they came to accept that financial transactions involving public funds should be monitored. The idea of financial accountability contradicted the natural disinclination of those entrusted with public money to have their actions scrutinized. Being a member of government had traditionally had its privileges. Reformers believed that politicians in power reserved nearly all political positions for themselves, directed economic development for their own profit, and attempted to monopolize much of the public land for the advantage of one religious denomination, the Church of England.² Any "fringe benefits" that resulted were viewed as part of the position and compensation for their services. It was

²Gerald Craig, Upper Canada : The Formative Years, 1784-1841. (Toronto: McClelland and Stewart, 1963), p.201.

difficult to depart from practices established over an extended period of time, since such precedents had become entrenched. Second, members of government came to accept the view that government should be run on business principles.³ The Reformers through their struggle for responsible government convinced Canadians of the need for financial accountability by initiating changes in attitudes toward the role and duty of government. Such changes brought about the infrastructure for the independent audit.⁴

This thesis is divided into four sections. The introduction discusses the roots of the issue of financial accountability during the period from the Constitutional Act of 1791 to the arrival of Lord Durham in 1838. Most important were Mackenzie's attempts to establish a board of audit during the 1830's, as part of the wider movement for political reform. This movement was driven by glaring contradictions arising out of the Constitutional Act. Chapter One deals with attempts at financial reform during the era of Lords Durham and Sydenham, respectively Governor General Lord High Commissioner of Britain's North American colonies (1838-1839) and Governor General of British North America (1839-1841). Political, administrative, and financial reforms initiated in Durham's Report, in the report of

³A.J.V. Durell, The Principles and Practices of The System of Control Over Parliamentary Grants. (London: Gieves Publishing Co., 1917), pp.9-12. Durell was Chief Paymaster in Britain's War Office.

⁴Roseveare, p.47.

the Public Service Commission of 1839, and in the Act of Union of 1841 were executed by Lord Sydenham (1799-1841). Chapter Two focuses on four government committees of inquiry appointed between 1850 and 1854, and on the financial policy of consolidation followed by Inspector General Sir Francis Hincks (1807-1885). Hincks based his reforms on the report of the Public Service Commission of 1839 as well as on trends initiated by Sydenham. Chapter Three considers the issue of financial accountability from the inception of the board of audit in 1855 to the Audit Act of 1864. Canada's first auditor general, John Langton (1808-1894), with the help of John Young (1811-1878), chairman of the Select Committee on Public Accounts of 1856, directed a series of attacks upon financial practices of the departments of education, Crown lands, and public works, with varying degrees of success. The introduction of new reforms and the enforcement of previous ones form the core of this analysis.

INTRODUCTION

Early Attempts to Establish a Board of Audit in Upper Canada

During the 1830's the Reformer William Lyon Mackenzie led a concentrated and highly critical attack on Upper Canada's system of government. Through his efforts to achieve responsible government he uncovered many questionable practices and began to call for financial reform. Mackenzie chaired two important committees, the committee on the Welland Canal which reported in March 1835 and the committee on grievances which reported in April 1835. The latter committee's Seventh Report on Grievances succinctly expressed Reform views on the shortcomings of the Constitutional Act of 1791, on the principle of political responsibility, and on the importance of creating a board of audit.

Under the Constitutional Act of 1791 (31 Geo., c.31), often referred to as the Canada Act, the executive function of government was performed by the lieutenant governor, who was appointed by the Crown. He was responsible to the Crown and had the power to give or withhold Royal Assent to a bill, or to reserve a bill for the approval of the home government. However he could be overruled and a bill for which he had given Royal Assent could be disallowed in Britain within two years of its

passage.¹

Since the lieutenant governor came from Britain with little firsthand knowledge of Canada, he was provided with an advisory board, the executive council. The executive, like the British privy council, was appointed for life by the Crown upon nomination by the lieutenant governor. It was supposed to provide stability, continuity, and to "advise and assist in all affairs of the province," but the lieutenant governor was not required to follow its advice. Members of the council were not responsible for particular departments, nor did they function as a unified team with a centrally co-ordinated policy. Instead its members followed either their own interests or those of the lieutenant governor. In addition department heads like the receivers and inspectors general, offices founded in 1791 and 1801 respectively, were not required to be members of the council.² The Constitutional Act did not define the duties of the executive council or its relationship to the lieutenant governor. The council remained rather "a shadowy body", mentioned only indirectly in the Act.³ As a result, Reformers objected to the fact that the lieutenant governor was left totally unchecked and

¹"Report of the Select Committee Referring to the Answer of His Excellency the Lieutenant Governor to an Address of the House of Assembly Relative to a Responsible Executive Council, 1836," in Canadian Pamphlets, 1835-1840. (Toronto: Stanton, 1840).

²Ibid.

³Gerald Craig, Upper Canada: The Formative Years, 1784-1841. (Toronto: McClelland and Stewart, 1963), pp.17-19, 202.

Mackenzie therefore considered him "irresponsible".⁴

The legislature created by the Constitutional Act consisted of a nominated legislative council and an elected assembly. The legislative council was to be the colonial counterpart of the British House of Lords, and was to contribute a strong aristocratic element to the government. In addition, its members could also belong to the executive council.⁵ The elected assembly was the counterpart of the British House of Commons. Members held office for four years and were to be elected by male town voters who either owned property worth a yearly value of five pounds or had paid rent for at least a year at the rate of ten pounds per annum. Voters in rural areas were to possess a freehold worth at least forty shillings annually. The assembly was to be kept in check by the strong monarchical and aristocratic elements in the system.⁶

In addition to its ambiguities where political jurisdictions were concerned, the Constitutional Act created a large financial problem. The Act was intended to appease French Canadians with greater control over their own affairs by dividing the province of Quebec into Upper and Lower Canada.⁷ However, the financial result of this change was to make Upper Canada dependent upon the

⁴"Report of the Select Committee on a Responsible Executive Council," p. 41.

⁵Patrick Brode, Sir John Beverley Robinson, Bone and Sineu of the Compact. (Toronto: University of Toronto Press, 1984), p.5.

⁶Craig, pp.14, 17-18.

⁷Ibid., pp.14-17.

lower province for customs duties, the main source of public revenue. This arrangement inflamed a dispute between the two provinces which was not corrected until August 5, 1822 with the passing of the Imperial Canada Trade Act. Under the Act the Lower Canadian legislature was prohibited from varying customs duties levied at its ports to the detriment of Upper Canada. Upper Canada was given one fifth of the collections, an amount increased to one third in 1836. However, Upper Canada was never able fully to recover financially. By the late 1830's the province was practically bankrupt and numerous public works projects were either put on hold or suspended altogether, owing to a shortage and mismanagement of funds.⁸

In the early 1800's the lack of political responsibility, financial accountability, and control over the public revenue came to be seen by Reformers as flaws in the Constitutional Act. In 1807 Robert Thorpe, a judge and politician, expressed the belief that the assembly could not be supreme over the executive branch of government unless it "acquired control of the purse." Robert Gourlay (1778-1863), a Scot who immigrated to Upper Canada in 1817 and consolidated the Thorpe contingent of Reformers was the first to use township meetings successfully as a forum to advocate the more productive use of taxes and to criticize

⁸Lord Durham's Report On The Affairs Of British North America, Vol.1, Ed. C.P. Lucas, (Oxford: Clarendon Press, 1912), pp.33,45 and Adam Shortt, "Lord Sydenham, " The Makers of Canada, Vol.7, Ed. W. Kennedy, (Toronto: Oxford University Press, 1928), p.7.

publicly the ruling Tory oligarchy, the "Family Compact". He raised the ire of the Compact to such a degree that he was banished from Upper Canada in 1819.

The Compact developed after the American Revolution and consolidated its stronghold as a result of the War of 1812. It can best be described as a group of "like-minded" individuals who sought to uphold British values and who possessed a strong anti-American sentiment.⁹ In the mid-1820's William Lyon Mackenzie took up the Thorpe-Gourlay critical tradition to form what became known as the "Reform Party", the self-appointed spokesmen of the common people of Upper Canada. Mackenzie intensified the attack against the government, brought Canada's political problems before British government officials, and in the process made Canadians more aware of the issue of financial accountability.

Mackenzie was born March 12, 1795 at Springfield, Dundee, Forfarshire, Scotland and in 1820 he sailed to Canada and worked at several jobs before devoting his life to journalism and politics. The first issue of the Colonial Advocate, his news-

⁹The term Family Compact was used to describe Tory government leaders and was first used by Thomas Dalton (1792-1840), editor of the reform paper the Patriot. The term was later made popular by historians but Reformers used it only occasionally. David Flint, William Lyon Mackenzie, rebel against authority. (Toronto: Oxford University Press, 1971), p.119. For a discussion of the Family Compact and responsible government see Robert Saunders, "What was the Family Compact?" Ontario History, Vol.49, (1957), pp.165-178, and Graeme Patterson, "An enduring Canadian Myth: responsible government and the family compact," Journal of Canadian Studies, Vol.12, No.2, (Spring 1977), pp.3-16.

paper published in York, appeared on May 18, 1824 with the purpose of influencing the electorate. His paper was a very successful organ for disseminating reform propaganda and in 1825 had a circulation of 825. In 1827 Mackenzie was elected in the riding of York and he began immediately to press for political and financial reform.¹⁰

Mackenzie was greatly influenced by both the American political system and the British political philosophy of Joseph Hume. In 1829 he travelled to the United States to study the policies of the newly elected president Andrew Jackson. He was immediately struck by the efficiency of the American system of checks and balances compared to that of Upper Canada under the Constitutional Act.¹¹ In April 1832 Mackenzie travelled to London and met Hume and John Arthur Roebuck (1810-1879). In London he wrote for the Morning Chronicle to gain public support for his reforms, and presented his grievances on Upper Canada to the Whig Colonial Secretary Lord Goderich (1782-1859).¹² By this time he had established himself as the principal spokesman of the Reform movement in Upper Canada and the leading critic of the Family Compact.

Mackenzie articulated his two areas of concern, political and financial, with the latter evolving out of the first. In 1831

¹⁰Frederick Armstrong and Ronald Stagy, DCB, Vol.8, pp.496-498.

¹¹PAC, William Lyon Mackenzie Papers, MG 24 B 18, "Some Particulars on the Life and Opinions of Andrew Jackson," 1829.

¹²DCB, Vol.8, pp.498-500.

his first "politicized almanac", Poor Richard, Mackenzie demanded for Canadians an independent judiciary and legislative council, "an administration or executive government responsible to the province for its actions", and "control of the provincial revenue to be vested in the representatives of the people in parliament".¹³ In the House of Assembly he elaborated further, stressing the importance of gaining control of both revenue raised in the country and the person sent to govern Upper Canada. Both, he argued, had to be placed under the direction of advisors responsible to the public.¹⁴

On March 6, 1835 Mackenzie was appointed by the assembly as a director of the Welland Canal Company, since the province owned stock in the company. This gave him the opportunity to examine the company's books. He met the challenge with eagerness and zeal and made "startling disclosures of worse than mismanagement." Three findings were published in a report entitled The Welland Canal before Mackenzie reported officially to the government. William Hamilton Merritt, president of the canal company, launched a libel suit for two shillings against Mackenzie and moved for a committee to investigate the charges

¹³Lindsey-Mackenzie Papers, University of Toronto, Fisher Library, Toronto and William Mackenzie, "Demanded by the Canadians But Actually Withheld by the Government", Yorkshire Almanac, 1831, quoted in The Selected Writings of William Lyon Mackenzie, Ed. Margaret Fairley (Toronto: Oxford University Press, 1960), pp.297-298.

¹⁴Charles Lindsey, Life and Times of W.L. Mackenzie, Vol.1, (Toronto: P.R. Randall, 1862), p.328.

against the directors and officers of the company.¹⁵ Francis Hincks, a banker, accountant, journalist, and the province's first inspector general, along with John Young, later commissioner of public works in the Hincks-Morin administration, were appointed to investigate Mackenzie's charges.

The 1836 Select Committee on the Welland Canal, referred to as the Hincks-Young committee, condemned the company for its mismanagement but stopped short of accusing the directors of negligence or dishonesty even in the face of some overwhelming evidence. The committee discovered that the company's secretary had submitted an incorrect statement of accounts, which Hincks described as "full of false and fictitious entries."¹⁶ Hincks continued that the vouchers were of little or no use and that large sums of public money had been lost to the company. For example William Robinson (1797-1873), commissioner of the canal expended 7,500 pounds but was lacking vouchers for 300 pounds. In addition Merritt had been paid twice for his services, \$1,000 of which even he admitted to, but no steps had been taken to correct the error. Hincks concluded by offering his support to Mackenzie, who had met with a torrent of abuse even from the assembly and

¹⁵William Le Sueur, William Lyon Mackenzie: A Reinterpretation. Ed. A.B. Mc Killop. (Toronto: Macmillan Company of Canada, 1980), p.346.
William Hamilton Merritt (1793-1862) was born July 31, at Bedford New York. In 1818 he proposed to build the Welland Canal but it was not until 1829 that it became operational. The canal was constantly an object of mistrust and over 150,000 pounds had to be obtained from the Canadian and British governments.
J.J. Talman, DCB, Vol.9. pp.544-548.

¹⁶Lindsey, Vol.1, p.347.

been characterized as an enemy both of the canal and of the country.¹⁷

The committee revealed further acts of mismanagement. Large sums of company funds, one amounting 2,500 pounds, had been borrowed from the board by company officers without authority. Contracts had been neglectfully carried out and officers had leased water power to themselves. The company sold on a credit of ten years 15,000 acres of land and water privileges to Roman Catholic Bishop Alexander McDonnell (1796-1861) in trust for an American by the name of John Barentse Yates, who had been involved in the planning and construction of the Erie Canal and "advanced a large and crucial portion of the necessary funds" for the Welland Canal.¹⁸ Yates kept 200 acres, which formed part of the towns of Port Colborne and Allanburg, and sold the land for \$40 an acre. The company repurchased the remainder for 17,000 pounds worth of its bonds. The committee declared that if such a transaction were to occur in private business it "would not only be deemed ruinous, but the result of insanity." In addition a substantial number of original estimates and receipts were unaccounted for and the company's books were kept in a

¹⁷Upper Canada House of Assembly. 1836, App. 2, "Report of the select Committee on the Welland Canal". Mackenzie spent several months in his investigation at the company's headquarters in St. Catharines. In 1836 a committee of the assembly recommended he be remunerated \$1,000 for his services. However the regular supply was not granted and he was not paid. In 1837 he went into exile owing to his role in the rebellion, and he was not paid until 1851, without interest. Lindsey, Vol.1, pp.350.

¹⁸J.J. Talman, DCB, Vol.9, pp.544-548.

discreditable manner, being full of errors and questionable entries. Merritt had charged to the contingency fund such personal expenses as "play" (3s.9d), a "barber" (7.5s), "repairing my watch" (7s.6d), "club for gin" (3s.1.5d), and "doctor for attendance" (10s). The board had audited and passed expenditures similar to these, amounting to \$400.00.¹⁹ However, as noted, the government did not act on the committee's findings and no reprimand was given to the company's officers.

Early in 1835 the Reform-dominated assembly appointed Mackenzie as chairman, T.D. Morrison (1796-1856), David Gibson (1804-1864), and Charles Waters, all Reformers, to the select committee on grievances. The committee was to "reply to the House of Assembly... [concerning] certain other messages, petitions and documents on various subjects of grievances and public and private wrongs."²⁰ Mackenzie examined a wide range of colonists including a number of radical reformers who gladly answered his "loaded questions".²¹

Mackenzie's committee produced its harsh findings on April 10, 1835 in a five-hundred-page report chastising the "government for not exercising its constitutional powers to remedy the evils from which the people desire relief." The committee singled out

¹⁹Journals, 1836, App. 2.

²⁰Seventh Report From the Committee on Grievances. (Toronto: Reynolds, 1835), pp.1-2.

²¹Craig, p.223.

the inadequate political system as being the root cause of discontent and recommended sweeping changes, notably limiting the lieutenant governor's control over patronage, an elected legislative council, an executive council responsible to the assembly, and the introduction of a board of audit.²²

The report has been described as the "most outstanding of several legislative committees which plucked fretfully at various aspects of public finance before the union." The report noted that "an adequate system of public accounting would demand as a prerequisite responsible government, and as a corollary a major change in the constitution of the upper house".²³ Mackenzie believed that the deepening financial conflict of the 1830's grew out of the political situation created by the Constitutional Act. He felt that responsible government would solve the political as well as the financial problems of Upper Canada. Since the system of government was not based upon responsibility, and government officials, both elected and non-elected, were not accountable for their actions, financial transactions were difficult if not almost impossible to monitor and control. Mackenzie viewed responsible government as an important element in holding government officers accountable by providing the means to keep them in check. In short, Norman Ward writes that responsible

²²Seventh Report, pp.2-3.

²³Norman Ward, The Public Purse, A Study In Canadian Democracy. (Toronto: University of Toronto, 1962), pp.20,25.

government was necessary to create the "requisite institutional controls" for financial accountability to emerge.²⁴

The Constitutional Act divided control of the public revenue between the executive and legislative branches of government which created a struggle between the two to gain control over the public revenue. The governor and the executive controlled the majority of the public funds called the municipal fund. The fund was comprised of the Casual and Territorial Revenue, Crown Land sales, the King's Rights over rents from mills and ferries, fees for instruments under the great seal, and after 1826 Canada Company payments, and was to be used in conjunction with imperial funds to meet the expenses of the civil government.²⁵ The assembly was given control over all revenue arising from taxation under acts of the provincial legislature. The Provincial Fund was composed of the Clergy Reserve Rents, sale of School Reserves, Law Society fees, licenses, militia fines, and certain duties on imports arriving over land from the United States.

Since the funds under the control of the executive exceeded government expenses, the lieutenant governor was never required

²⁴Ibid., p.37.

Hodgetts writes that responsible government was a significant element in the "tightening of the purse strings" and in centralizing the audit, estimates, and issuance of public funds. John Hodgetts, Pioneer Public Service, An Administrative History of the United Canadas, 1841-1867. (Toronto: University of Toronto Press, 1955), p.273.

²⁵"Report of a Select Committee in an Address to the King," p.23, Craig, p.191, and Aileen Dunham, Political Unrest In Upper Canada 1815-1836. (Toronto: McClelland and Stewart Limited, 1963), pp.35-39,103.

to call upon the assembly for additional supplies. Magistrates, appointed by the Crown, met in Quarter Sessions to dispose of local taxes without a legislative vote, and in one case the magistrates in the Eastern District had refused to render the assembly an account of their expenditures.²⁶ Consequently the executive was able to remain almost totally financially independent from the assembly. Lord Goderich (1782-1859) of the House of Lords was disturbed by this situation and stated that

the Government has annually supplied itself with the revenues of the Province, utterly disregarding every resolution of the Assembly.... There is no portion of the Royal revenue, whether the proceeds of Crown Lands or from whatever source derived...which the House of Assembly should not have the most ample and particular information which they may at any time think proper to call for.²⁷

Nothing was to be gained by concealing the use of funds and concocting fictitious returns, as suspicion and prejudice abounded.²⁸ This independence was justified by John Beverly Robinson (1791-1863), the attorney general as being very important because the government was responsible to the Crown and not to the assembly.²⁹

²⁶Lindsey, Vol.1, p.331 and Colin Read, The Rising in Western Upper Canada, 1837-38: The Duncombe Revolt and after. (Toronto: University of Toronto Press, 1982), p.47.

²⁷Seventh Report, p.227.
Frederick John Robinson, Lord Goderich, became chancellor of the exchequer in 1823 and ushered in financial reform by reducing the debt and strengthening the Bank of England's position. DNB, Vol.49, pp.7-11.

²⁸Ibid., pp.197-227.

²⁹Brode, p.58.

The committee noted that the assembly was not immune to extravagance either, as it controlled its own revenue raised through taxation. Influential members were able to expend these funds without being held accountable. For example, in many cases information, including receipts and expenditures from the public funds, was withheld and the post office accounts "unnecessarily delayed."³⁰ The areas of Upper Canada which needed public improvements most, primarily newly settled regions, usually did not receive their appropriate share. These regions were too sparsely populated and members of the assembly felt that funds could better be applied to more politically useful, more populated constituencies. Anne Langton, sister of John Langton the future auditor general, wrote that there was constant agitation on the part of the pioneers for improvements.³¹

In 1831 Mackenzie lamented that settlers "have been thus obliged to spend their time in making roads through these wastes!!" Settlers wanted roads between York and Dundas to be made "perfectly passable" and funds had to be directed to make

³⁰Government officers were required to post a bond and in the case of the province's receiver general, John Dunn (1794-1854), it was 30,000 pounds. If officers were dilatory in making returns or if they lost funds entrusted to them they would forfeit their bond and their personal assets could be seized. However this was not enforced. Seventh Report, pp.20,47,68.

³¹Anne Langton, A Gentlewoman in Upper Canada, Journals of Anne Langton, Ed. H.H. Langton (Toronto: Clarke, Irwin, and Company Limited, 1950), p.183.

"bye roads passable rather than to Macadamize Trunk roads."³² But instead money was being directed to areas which needed it least, and was being spent under great "political degeneration".³³ In 1832 Mackenzie wrote to Randall Wixson and declared that he wished the government had a great deal less revenue because the amounts annually squandered were one of the greatest evils the people had to contend with. It furnished the means of "bribery and corruption" to a degree which was unimaginable.³⁴ And, in 1833 Mackenzie claimed that a great deal of the revenue was dispersed of secretly, with very little of it under popular control. Erroneous statements of the incomes and expenditures were officially transmitted to the Colonial Office on one hand, while equally unsatisfactory and incomplete accounts served to delude the colonial legislature on the other hand.³⁵ Mackenzie described the situation succinctly when he said,

There is no check on the activity of the officials: a combination grasps power, seizes the revenue, dispenses the patronage, audits its own expenditure, never lays out a dollar to profit, holds its four sessions, becomes odious, and gives way to another combination founded like its predecessor upon the

³²"Report on certain petitions concerning statute labour and road improvements in the Home District," February 22, 1831, Select Writings, pp.231-233.

³³William Le Sueur, p.367.

³⁴Mackenzie to Randal Wixson, November 6, 1832, Select Writings, p.314.

³⁵William Lyon Mackenzie, "Political Condition of U.C.," February 21, 1833, Sketches of Canada, (London: Effingham Wilson, 1853), pp.361-362.

distribution of the spoils.³⁶

The system of voting supplies was further confused. If the lieutenant governor over committed himself he could call upon the assembly to vote relief funds on the pretext that the work was of the utmost importance to the colony. Or, the assembly could be "influenced" into offering relief or be faced with the possibility of having the lieutenant governor withhold future bills in retaliation. This particular scenario also applied in the reverse when the assembly required additional funds. In a letter to John Neilson (1776-1848), a prominent Lower Canadian Reformer, Mackenzie wrote in 1830 that

Our expenditures are enormous, but we cannot control it in any way, for whatever we refuse out of one fund the government pays out of another. The very nature of the system prevents the passage of laws which under a more responsible government would be eminently useful.³⁷

To remedy this situation Mackenzie agreed with Goderich that the treasury should control the entire revenue, and that by giving Canadians control over their expenditures it would certainly end the proliferation and extravagance of "jobbing", the "free-for-all" system which had existed.³⁸

³⁶Ibid., p.368.

³⁷Mackenzie to John Neilson, February, 1830, Select Writings, p.293.

³⁸Mackenzie, "False and Deceptive Revenue Returns - The Blue Book," February, 1831, Sketches of Canada, p.438. Hodgetts writes that the assembly was "virtually unfettered" in its application of funds through the use of the "free-for-all" system which was prevalent to the United States. It was the practice whereby any member of the legislature could establish ad hoc committees and could introduce his own supply bills without

The absence of a means for auditing of the public accounts contributed further to the deficiency of financial accountability. The Honourable Peter Robinson (1785-1838), brother of John Beverley Robinson, testified before the committee that the executive audited and examined all accounts of expenditure within the province, except money appropriated by the legislature. At the same time Receiver General John Dunn was unaware of any provincial statute which designated the executive to judge or audit accounts of public officers. Dunn explained to the committee that all appropriations made from the Casual and Territorial Revenue, which the magistrates controlled, were taken from the receiver general by warrants duly authorized by the lieutenant governor, and they therefore had the highest available approval. The warrants were then referred to the Board of Audit in London for a "rigid examination" whereupon the transactions of the lieutenant governor and his executive were approved. The flaw in this system, according to the committee, was that the assembly was not consulted on the appropriation of funds, and once the funds had been spent it was impossible to recover them if London did not give approval.³⁹

executive consent. In Canada this was synonymous to "jobbing".
Hodgetts, p.14.

³⁹Seventh Report, p.131. During Dunn's testimony he was unaware under what law the London Board of Audit, the Lords of the Treasury, exercised control over Casual and Territorial Revenue. He also admitted that the funds dispersed by the magistrates were not voted on by the assembly.

As for the auditing of the assembly's expenditures, it too was inefficient and insufficient. The assembly, acting through its committees, did not have sufficient time to examine the accounts and vouchers of the several public accounts, owing to the "complex, obscure and unsatisfactory manner in which they are furnished."⁴⁰ For example, a road grant in 1833 entrusted 12,000 pounds to commissioners but two years later the money remained unaccounted for and grants for canals were also imperfectly accounted for.⁴¹

To remedy the above problems and gain greater control over the public purse the committee proposed a greater degree of centralization in which public funds could not be applied without a legislative vote. In addition, three statutes were to be passed specifying the time, manner, and officers responsible for submitting accounts, that the entire revenue of the province be brought into the treasury, and that a board of audit be established. The committee believed that these recommendations would solve the province's financial problems and would save the country many thousands each year by centralizing its financial affairs.⁴²

⁴⁰Glenelg to Bond Head, December 15, 1835, Journals, 1854, App. JJ.

⁴¹Seventh Report, pp.19,69,91.

⁴²Ibid., pp.3,19,52-53,70,76. At this time all government officers were liable for funds entrusted to them. If funds were missing and the officer was found to be negligent his personal assets could be seized.

The Seventh Report was so "honeycombed" with errors, owing to its Reform bias, that it was dismissed even by many Reformers, yet its "virulence stung the Colonial Secretary, Lord Glenelg (1778-1866), into a sudden awareness of Upper Canada" and led to the replacement of Lieutenant Governor Sir John Colborne (1778-1863) in 1835.⁴³ However Colborne's replacement, Lieutenant Governor Sir Francis Bond Head, according to Syd Wise, was poorly qualified for the position and governed in a most disruptive and acrimonious manner, dismissing even Glenelg's directives.⁴⁴

Bond Head arrived in Toronto in January 1836 and was welcomed as a "Tried Reformer" because of his vigorous administration of the new Poor Laws and his writings on the subject. However he had virtually no political experience, was unaware of the Constitutional Act, and unsure even where Canada was.⁴⁵ Even before arriving in Canada he showed his insubordination to Glenelg by ignoring his directives concerning the Seventh Report. On December 5, 1835 Glenelg wrote to Bond Head concerning the proposed board of audit that "the present system of auditing the public accounts is altogether insufficient

⁴³Brode, p.186.

⁴⁴S.F. Wise, DCB, pp.242-243.

⁴⁵Ibid.

Sir Francis Bond Head (1793-1875) was born at the Heritage, Higham, Kent. He received his education at the Royal Military academy in Woolwich and was appointed second lieutenant in the Royal Engineers. On September 10, 1837 he tendered his resignation and was replaced by Sir George Arthur (1784-1854).

for ensuring the application of the revenue to the purpose to which it is intended to be applied." Glenelg thought that the establishment of a board of audit by law was the best remedy. In his view, the board should consist of three to five members but great care must be taken to prevent it from being converted into a means of patronage.⁴⁶

But Bond Head did not believe that a board of audit was the solution and in his view the committee received much undue attention. In a December 5, 1835 letter to Glenelg he wrote that the grievance committee was a "concoction of a few designing individuals who had brought out a few grievances and proceeded to prescribe for the disease a violent remedy accounting to nothing less than rebellion."⁴⁷ Having the public accounts laid before the legislature at a particular time and by particular persons would confer upon them the right to

exercise a control over all the functions of the Executive Government and give them the right to inspect the records of all public offices leaving His Majesty's representatives little more than a dependent and subordinate authority.⁴⁸

The measure would be "irresponsible" and give too much "independence" to the board.⁴⁹

⁴⁶Glenelg to Bond Head, December 5, 1835, Copies or Extracts of Despatches from Sir F.B. Head, Bart., K.C.H. on the Subject of Canada, March 1839. pp.5,11.

⁴⁷Governor General's Letter Book, Head to Glenelg, February 5 and April 6, 1836.

⁴⁸Lindsey, Vol.1, p.343.

⁴⁹Ibid., p.345. Thirty four years later Langton was still attempting to achieve "independence".

The financial independence of the executive and the lieutenant governor was evident in the actions of Bond Head. In April 1836 he prorogued the legislature and on May 28 dissolved parliament in retaliation for the assembly's stoppage of supplies. He then refused to give Royal Assent to money bills already passed. The Casual and Territorial Revenue Fund was relatively flush, so Bond Head was able to carry on the government without having to rely upon the assembly to vote supplies. In this instance the assembly's practice of withholding supplies was circumvented, greatly affecting the commercial interests of the province.⁵⁰ The problem was recognized in Britain, as Glenelg wrote to Bond Head that "large revenues have been annually disposed of without the sanction of law or even being accounted for to Parliament."⁵¹ He proposed that, as in Britain, "the entire revenue" should be placed at the disposal of the assembly which would be authorized by the governor, with the advice of the executive, to spend the sums necessary to pay for the collection and management of the revenue. In conjunction, he proposed that all supply bills originate in the assembly with

⁵⁰PAC, Governor General's Office, Despatches from the Lieutenant Governor to the Governor of Upper Canada, 1821-1840, RG 7 G 7, Vol. 1, Thompson to Arthur, October 26, 1839 and Craig, pp.235-236.

⁵¹Lord Glenelg to Sir F.B. Head, September 29, 1836, Despatches from Sir F.B. Head, p.52.

the lieutenant governor giving final consent.⁵²

According to Mackenzie and the Reformers, Bond Head's lack of colonial experience and financial accountability was evident in the 1836-37 session of parliament. Previously he had created a scandal when he appropriated 50,000 pounds for roads but in the next session of parliament ten times that amount had been voted for transportation improvements. Charles Lindsey in The Life and Times of W.L. Mackenzie (1862), thought that the bill's passage showed a great degree of recklessness, because it authorized the government to appoint commissioners to expend the funds. A portion of the funds went to increase the Welland Canal debt to the extent of \$1,000,000 and authority to borrow on the credit of the province for over \$750,000 was given to the Hamilton to Sandwich railroad, \$400,000 to the Toronto to Lake Huron Railway Company, and 77,000 pounds for the improvement of the Trent navigation system. It was estimated that the entire sum must have amounted to \$5,000,000 and at a time when the province was already deeply in debt.⁵³

Another example of extravagance in Bond Head's administration was revealed later by Major Head, an assistant in Lord Durham's commission. Head stated that in 1837 one commissioner was given power to divide 10,000 pounds for local improvements into 830 portions. As many commissioners were

⁵²Glenelg to Sir A. Campbell, September 5, 1836, and Glenelg to Bond Head, December 5, 1835, Ibid., pp.64-65.

⁵³Lindsey, Vol.1, pp.396-397.

appointed to spend it at a salary of five shillings a day and further remuneration of two and one half per cent, on the money expended, was deducted out of each share.⁵⁴ The commissioners were from the assembly but a large portion of the funds entrusted to them went to their own constituencies in the older settled districts to provide patronage and to keep funds from the executive.⁵⁵

However, this was but one view. Tory economic policy concentrated on public improvements, trade, commerce, and banking. These projects were viewed as "national, British, or imperial," which meant that they were or should be removed from the sphere of private relationships and placed in control of the government. Tories saw themselves as responding to a general desire for public improvements and were prepared to "mortgage the public credit" to attain a canal like the Welland Canal which was a "protective device" of a military nature.⁵⁶

In 1825 the Robinson-Strachan committee on internal navigation recommended that a rapid program of canal building be

⁵⁴Lord Durham's Report, Ed. Lucas, Vol. 2, p.93.

⁵⁵Craig, p.236.

⁵⁶S.F. Wise, "Upper Canada and the Conservative Tradition," Profiles of a Province, Studies in the history of Ontario. (Toronto: Ontario Historical Society, 1967), pp.28-31 and Dunham, pp.133,137.

Peter Baskerville writes that Family Compact entrepreneurship approached from a "socio-cultural, rather than a simple economic perspective" reveals that in most cases development centered on "pet projects" such as canal building and the Bank of Upper Canada which aided economic development. Peter Baskerville, "Entrepreneurship and the Family Compact: York-Toronto, 1822-1855," Urban History Review. Vol. 9, (1981), pp.15-34.

undertaken in Upper Canada. Even Mackenzie warmly and heartily supported the projects as establishing a "firm base" for the province.⁵⁷ The Welland Canal fit wonderfully into Canada's political, social, and economic contexts. Merritt felt that the canal should be the property of the province because benefits would be greater to the province than to any individuals.⁵⁸ However as the province's financial position worsened Reformers became more suspicious of the ties between the government and projects like the Welland Canal and the Bank of Upper Canada. Public improvements for Reformers meant roads and bridges for their own constituencies. Marshall Bidwell, the Reform speaker of the House of Assembly, stated in January 1834 that these projects were "consuming the life's blood of this young province" and asked, "Is all to be subservient to this Great Moloch?" But Reformers did not recognize that the debts incurred were necessary to develop the provincial economy.⁵⁹

Glenelg was ready to support reform directed against specific grievances listed in the report, such as the introduction of a board of audit, the submission of all revenue to the treasury, and the creation of a more active executive. However, because Mackenzie's political arguments were similar to those of Americans, Bond Head believed that "all Reformers were

⁵⁷Brode, p.121.

⁵⁸PAO, Merritt Papers, MS 74, Memo, June 1832.

⁵⁹Wise, pp.28-31.

the Republican party and that their aim was to use responsible government to sever the imperial connection."⁶⁰ Consequently he dismissed the report, listened neither to his executive nor to his superior, Glenelg, and urged the "abandonment of the policy of conciliation".⁶¹

Events in Britain in the early 1830's gave Canadian Reformers a vote of confidence. In 1830 the Duke of Wellington's Tory government was replaced by Lord Grey's Whig administration, and in 1832 the first Reform Bill was passed. However, Reformers in Canada were unable to obtain their objectives by constitutional means, and they eventually resorted to force. Bond Head fought the forces of "democracy" and "republicanism" by ignoring his executive and proroguing parliament, but these political problems alone did not drive Upper Canada to rebellion. Other pressures, including the growing financial crisis which gripped Britain and the United States and spread to Canada, the political situation and reversal of colonial policy in Lower Canada, and the province's proximity to the American hotbed of republican principles, added to the crisis.⁶² The desire for political progress, the defective Constitutional Act, the

⁶⁰Thomas Robertson, The Fighting Bishop, John Strachan-The First Bishop of Toronto. (Ottawa: The Graphic Publishers Limited, 1926), p.133.

⁶¹Glenelg to Bond Head, December 5, 1835, Despatches from Sir F.B Head. pp.5,11.

⁶²Craig, pp.241-245.

monopoly of power of a relatively small minority, and the strong tendency of provincial society to favour American democracy all contributed to the rebellion. In the view of the British government of the time, the rebellion was a result of "unwise and oppressive conduct of a colonial function."⁶³

The rebellion of 1837 "provided complex stimulus to change" by making the British government aware of the seriousness of Upper Canadian problems.⁶⁴ Through their demand for responsible government the Reformers had exposed a multitude of financial problems. They believed responsible government would cure these as well as Canada's political problems as it facilitated the emergence of financial accountability by creating the "requisite institutional controls".⁶⁵ The infrastructure on which financial accountability would be based and the administrative means with which to implement and monitor financial accountability would then be in place.

⁶³Governor General's Office, Despatches From the Lieutenant Governor to the Governor, Glenelg to Bond Head, December 29, 1837, and Thomson to Arthur, October 29, 1839 and Dunham, p.143.

⁶⁴Donald Beer, Sir Allan Napier MacNab. (Hamilton: W.L. Griffin Printing Limited, 1984), p.155.

⁶⁵Ward, p.37.

CHAPTER ONE

Financial Reform Under Durham and Sydenham

Lord Durham was sent to Canada in 1838 to investigate the problems confronting Canada after the rebellion of 1837. His report highlighted many of the same problems that Mackenzie had revealed. To solve the province's problems he advocated a union of all the British North American colonies, responsible government, and municipal government. Lord Sydenham, Durham's successor, was guided to some extent by Durham's report and by the May 9, 1839 report of the Public Service Commission but he also successfully implemented some of his own reforms. Sydenham presided over the union of Upper and Lower Canada, established a Civil List, placed all funds under executive control, and rationalized departmental structures. In addition the board of works was centralized and then reorganized during these years. In general the cause of financial reform was advanced during the 1840's.

John George Lambton, later Lord Durham, was born April 12, 1792 in London. The Durham family was very active politically and his father's political connections with Charles Grey and many other prominent reformers had a great influence upon him and assisted his advancement with the Whigs.¹ Durham studied at Eton and then chose a military career. But three years later he left

¹Chester New, Lord Durham. (Oxford: Clarendon Press, 1929), pp.1-4 and Fernand Ouellet, DCB, Vol. 7, p.476.

the military and in September 1813 was elected to the House of Commons for Durham County. Durham was a champion of reform and earned the nickname "Radical Jack" for his role in drafting the Reform Bill of 1832.²

On July 22, 1837 Whig Prime Minister Lord Melbourne (1782-1853), who knew or cared little about Canadian politics, wrote to Durham with a proposal that he undertake another mission abroad, to the Canadas, where a crisis was growing worse. Melbourne appointed Durham because he was an unruly colleague who might be less dangerous outside the country. According to Craig the appointment was one of "political expediency not of any great imperial vision".³

Durham was sent as Governor General Lord High Commissioner of Britain's North American colonies, with powers which no other official had been invested with. He set sail on the H.M.S. Hastings on April 24, 1838 with the task of "adjusting certain important affairs affecting the Province of Upper and Lower Canada." He arrived at Quebec on May 27, 1838 and on June 18 established commissions on education, municipal government, settlement, immigration, communications, police, the judicial system, and registry offices.⁴

²New, pp.8,9,24 and DCB, pp.477-478.

³Lord Melbourne to Durham, July 22,1837, Stuart Reid, Ed. Life and Letters of the First Earle of Durham, Vol.2, (London: Longmans, Green, and Co., 1906), pp.137,149 and Gerald Craig, Upper Canada: The Formative Years 1784-1841. (Toronto Mc Clelland and Stewart, 1963), p.255.

⁴Reid, pp.153,160-161,180 and New, pp.336,409.

Durham's report was officially laid before parliament on February 11, 1839 in which he recommended that the principles of the British constitution and responsible government be established.⁵ Durham was first introduced to the principle of responsible government on August 23, 1838 by William (1775-1844) and Robert Baldwin (1804-1858). They proposed to maintain the Imperial connection and did not propose a "separation from the Mother Country" as it was the "Tribunal in whose hands should be retained all the powers of general legislation essential to the welfare of the Empire as a whole." The connection could be maintained by giving colonists a system that would "tend to establish and strengthen that connection" and by establishing the government to fit more closely to the "genius of the people." British subjects in the colonies would be satisfied with nothing less than what their fellow countrymen in England had, some influence over the executive government.⁶

Colonial Secretary Lord John Russell (1792-1878) concurred

⁵Lord Durham's Report on the affairs of British North America. Ed. C.P. Lucas, Vol. 2, (Oxford: Clarendon Press, 1912), pp.227,228.

⁶PAC, Durham Papers, MG 24 A 27, Vol. 33, Robert Baldwin to Durham, August 23, 1838. Governor General's Office, Despatches From the Lieutenant Governor to the Governor of Upper Canada, Sydenham to Arthur, October 30, 1839 and J.M.S. Careless, The Union of the Canadas. (Toronto: Mc Clelland and Stewart, 1967), pp.11,14.

Mackenzie and John Rolph (1793-1870), termed as "Radical Reformers" by Bond Head and the Family Compact, advocated an "American Republicanism" with an elected legislative council. However, Hincks and other "Moderate Reformers" like the Baldwins disagreed vehemently with Mackenzie and proposed to work within the British constitution building a "liberal party on the basis of the large number of moderate reformers".

with Durham that responsible government was not out of order for relations between the mother country and a colony. Nevertheless Russell had little theoretical faith in Durham's idea of "responsible government", by that name, because English precedents could not be applied to Canadian conditions.⁷ Yet there was no apparent reason why the government could not agree to adopt measures approved of by a majority of the colonists as long as they did not contravene British colonial policy. Government was to operate in conjunction with the full system of British cabinet government in which a ministry was controlled by parliament and every official act of the lieutenant governor had to be countersigned by a "responsible minister".⁸ Above all else Russell wanted to maintain "harmony" in the colonies.⁹ Durham thought that this would be possible by introducing a system based upon competent and responsible department heads. The heads were to replace the executive council and the Quarter Sessions, under which the Family Compact wielded all powers and maintained influence in the legislature.¹⁰

Durham proposed that municipal institutions, counties,

⁷W.P.Morrell, British Colonial Policy in the Age of Peel and Russell. (London: Frank Case and Company Limited, 1966), pp.17-18, PAC, Papers of Lord John Russell, MG 24 A 28, Russell to Sydenham, January 2, 1839.

⁸New, p.502.

⁹Morrell, p.18.

¹⁰Lord Durham's Report, Ed. Lucas, Vol. 2, p.148.

cities, towns, parishes, and townships be established. This would put a stop to the practice of "jobbing" by the ruling party by giving local residents control of their own improvements and over matters and affairs of a local nature. Municipal institutions, district councils, would provide the local machinery to carry out works and provide a training ground for democracy.¹¹

Under Durham's proposal three councillors were to be elected from each of the nine electoral districts. Qualifications for voters were to be the same as for regular elections. Each councillor was to post a bond of 25 pounds and each year nine new members would replace the outgoing councillors. The council was to meet at least quarterly and was to elect certain officers. The duties of the council were extensive. It was empowered to maintain and improve roads, streets, and canals. It was also given power to raise revenue by levying tolls and collecting taxes on real and personal property, and to apply these to public works. In addition the council was to control revenue derived from "local rates and assessments." Durham believed that the revenue raised in a particular district should remain in that district, being entrusted to local management for general and local purposes. The control over local funds would prevent the misuse of these resources by the assembly because these funds would be managed by the municipalities.¹²

¹¹Ibid., p.149.

¹²Ibid., pp.149-151.

A consolidated revenue fund was intended further to control public moneys. The system was patterned on that of England with the first charge on the fund to be the Civil List. The remaining funds would be at the disposal of the assembly, which could not originate any vote for the appropriation of money for purposes not first recommended by the governor.¹³ Durham believed that these measures would end corruption because in the past members came to the legislature ignorant of their role as guardians of the public revenue but more intent upon obtaining as large a proportion as possible of any funds which the legislature might have had at its disposal.¹⁴

The British government viewed Durham's report as much too radical largely because responsible government might sever the imperial connection. The report highlighted some of the province's problems but Sydenham was sent with his own directives from Russell. Above all else Sydenham was to conduct government in a more responsive and harmonious fashion while at the same time maintaining the imperial connection and without granting responsible government. From a financial perspective Sydenham was influenced by the 1839 report of the Public Service Commission appointed by Lieutenant Governor Sir George Arthur discussed

¹³"An Examination of the Proposed Measure for the Future Government of Canada, 1840", pp.84-86, in Canadian Pamphlets, 1835-1840. (Toronto: Stanton, 1840) and Lord Durham's Report, Ed. Lucas, Vol.2, p.287. The Consolidated Revenue Fund, 9 Vic., c.115, was not created until 1846.

¹⁴Lord Durham's Report, Lucas, Vol.2, pp.151-152.

primarily the double-entry book-keeping system. More specifically this committee provided him with an account of the province's poorly functioning inspector and receiver generals' offices. This problem contributed significantly to the province's appalling state of financial affairs and lack of financial control and accountability. To rectify it, Sydenham wanted to reorganize the province's finances and introduce a board of audit.

From the early-1820's to the early-1830's British politicians devoted considerable attention to the subject of financial accountability and to double-entry book-keeping. In particular Hume directed attention to the issue of public expenditure. He persistently questioned the "government's estimates and anomalous accounting".¹⁵ In 1828 Sir Robert Peel delivered a speech in the British House of Commons regarding the mercantile system of keeping accounts. He saw no reason "why we should not follow the example set us, in this respect by France and the United States of America." He advocated the adoption of the double-entry system, requiring all public revenues to be paid into the exchequer, and requiring written governmental authorization for all expenditures.¹⁶

¹⁵Henry Roseveare, The Treasury, 1660-1870 The Foundation of Control. (London: George Allen and Urwin Ltd., 1973), p.67.

¹⁶"Finance Committee", February 15, 1828, The Speeches of the late Right Honourable Sir Robert Peel, Bart, Vol.1, (London: George Routledge and Co., 1853), p.544.

Russell and Sydenham had served on the seven-member Parnell Commission in 1832 which elaborated on Peel's position. The commission recommended the adoption of the double-entry system, as "the efficacy of this system the trading world, in its infinite variety of commerce and concerns, gives unanimous evidence ...[and]... it is the system adopted by the East India Company." In addition the commission discussed a September 14, 1832 French regulation in which Count Charbrol, a past French minister of finance, declared that "simplicity, rapidity, clearness, regularity, and completeness" now accompanied the accounts since the new regulation was imposed. The system had afforded "perfect security against default and dilapidation" and brought with it "savings of expense to the amount of several thousand sterling per annum."¹⁷ Peel's speech and the Parnell Commission's recommendations were endorsed by Canadian Reformers such as Mackenzie, and also provided a point of departure for the 1839 report of the Public Service Commission as well as the four subsequent committees in the 1850's.

On May 9, 1839, the joint legislature of Upper Canada asked Lieutenant Governor Sir George Arthur to appoint a royal commission to inquire into the state of the public departments.

¹⁷Journals, 1854, App. JJ, "The Parnell Commission, October 8, 1831, On the Management of the Public Revenue". In 1856 The Canadian Committee on Public Accounts recommended Canada adopt the French regulation as it put a stop to the practice of the French King exercising his Royal prerogative and expending funds without treasury approval. Journals, 1856, App.30, "Fourth Report of the Standing Committee on Public Accounts".

On October 22 the commission was established, with eight sub-committees to examine the militia, courts, sheriffs, education, Indian affairs, executive council, and more importantly the inspector and receiver generals' offices. On December 9 its chairman, the "Family Compact" member William Allan (1770-1853), submitted its report. The committee concluded that much improvement in both the system and the operation were required in both the inspector and receiver generals' offices.

The inspector general's office was established on July 1, 1801. It was to check and control the accounts and returns of others to whom such funds were entrusted and to see that punctuality and correctness were observed. The inspector was not responsible for the custody of public funds but rather the operation of the system, the management of the public revenue, and the detection of errors. However, the office no longer satisfactorily filled its role. The committee suggested certain alterations which would render the office more in line with its original design as the means of checking and controlling the public accounts, detecting error, neglect, or default, and ensuring method and punctuality. For instance, the committee believed that the system as it stood was too cumbersome to be effective. There were no fewer than ten accounts of payment and the most important class of accounts did not seem on any occasion to have been submitted to the inspector general. That class comprised the accounts of the various boards of commissioners appointed by the assembly for the expenditure of grants of public

money for public works. These accounts were required by law to be laid before the legislature for examination but not to pass through the inspector's office. This failure, the committee believed, should be remedied.¹⁸

The simplification and consolidation of accounts was espoused as another solution. Once the proposed surrender of the Crown funds to the legislature occurred with the formation of a new Civil List, the Provincial Fund, Canada Company payments, certain Crown Land sales, and King's Rights could be consolidated into the General or Provincial Fund. The remaining funds would be the Clergy Rents Fund, the Grammar School Fund and occasionally a Special Fund of a temporary nature. In conjunction with the consolidation of accounts subsidiary books could be established to supplement the books now employed, to be opened for each advance of public money as appropriations or loans which were to be paid back to the treasury. Similarly it was proposed to introduce a set of books for each debenture issue so that at any time the full particulars, such as the amount outstanding, rate of interest, date of maturity and interest payments could be known.¹⁹

Consolidation of debenture payments and of warrants was also

¹⁸"Public Service Commission on the Several Departments of the Province of Canada, 1840," Canadian Pamphlets, 1835-1840. (Toronto: Stanton, 1840), pp.85,92, and Olga Bishop, Ed. Publications of the Province of Upper Canada and of Great Britain Relating to Upper Canada, 1791-1840. (Toronto: Queen's Printer for Ontario, 1984), p.103.

¹⁹"Public Service Commission", pp.92-96.

recommended. Interest payments on debentures should be made quarterly rather than on the anniversary date, which created an unnecessary amount of work. Debentures issued during the first three months would have the interest paid on March 31 and the next payment on June 30, and so forth. The system of preparing warrants was criticized as too labour-intensive and detailed. The system in operation had separate warrants issued in duplicate for each work or service provided for the government. The body of the warrants had to be transcribed no less than thirteen times in the different offices. The inspector general proposed a plan which would make the system much less time-consuming. At the end of each pay period the head of each department would transmit to the inspector general a departmental pay list specifying the amounts owed to individuals. A general abstract would be compiled from departmental returns in duplicate and transmitted by the inspector general to the provincial secretary. It would contain the pay owed to individuals for their services. The secretary would pay the individuals who would sign in the general abstract that they had received their pay. After all payments had been made the abstract would be sent to the executive who would authorize the receiver general to issue one warrant for the consolidated payment. Under this system one warrant would answer the purpose of the thirty required earlier. The "batch warrant" system could also be applied to departmental contingencies in the

same manner.²⁰ However the executive authorized the payment after it had occurred which did not contribute to a more financially accountable system.

The recommendations of simplification and consolidation for the inspector general's office also applied to the receiver general's office. The office was first created on December 21, 1791. Its duties were to receive all public funds, account for the same under the respective heads of the different accounts, to make and account for all public payments, duly authorized by the lieutenant governor, negotiate the sale of all public debentures and exchanges, and generally to manage all money transactions of the province appertaining to the departments.²¹ These duties were quite extensive and greater importance was placed on the receiver's office because it was the only financial department in Canada for ten and one-half years and was required to handle the inspector general's duties until that office was established in 1801. In 1823 a committee on public accounts resolved that it was unable to make a satisfactory report owing to the complex manner in which accounts were maintained. According to the Speaker in the legislature in March 1823,

Much trouble and confusion arises from the perplexed manner in which the Public Accounts are made up from the different charges in the Receiver General's Account

²⁰Ibid,. pp.97-99. It is unclear how making debenture payments quarterly rather than on the anniversary date would be more efficient.

²¹"Report on Public Departments, 1839", p.67.

of Warrants paid by him for various services not being extracted and classed under distinct heads, and from these Warrants being issued at broken periods and no account rendered of the outstanding claims to complete the year.²²

The 1823 committee requested that the public accounts be organized in such a manner that all information was present and easily understood. These recommendations were not implemented, and Lieutenant Governor Arthur wrote to Sydenham in November 1839 that the public accounts were still in confusion because much information was lacking.²³

The examination of the receiver general's office started with the chief clerk, B. Turquand, whose duties were extensive. He was to receive and pay all expenditures, negotiate debentures and exchange, monitor public works, make militia and Church of England drafts, prepare the auxiliary books, collect land fees, and attend to the accounts. Consequently the 1839 committee recommended that a book-keeper be added to assist him.²⁴ Committee member T.C. Patrick concurred with Turquand and stated that "Under the present system, in this office too great a portion of the business rests upon the first clerk. In fact he practically runs the department." The book-keeper was to be entrusted with the care and preparation of the journal, the ledger, and the various books concerning the individual funds. He

²²Bishop, p.117.

²³Ibid.

²⁴"Report on Public Departments, 1839", p.67.

was to prepare the yearly and half-yearly statements as well.²⁵

With the introduction of a book-keeper, Patrick felt, a system of double-entry book-keeping could also be introduced. Currently payments were taken at the post office or by the receiver general's department and were entered into the private cash book and the ledger without being entered into any intermediate books. In addition the department could not ascertain the balance of each fund except on June 30 or December 31, when payments were entered into the ledger and a balance sheet drawn up. For example, Turquand stated that payments were received without any accompanying documentation. It was "not considered any part of the duty of the Receiver General to inquire into the particulars of such payments."²⁶ Patrick recommended that cash transactions be entered into a cash book and that all transactions be entered into a day book. Both books were to be established on the double-entry principle and all entries were to be accompanied by particulars. From there the transactions would be posted to the ledger from which a trial balance sheet could be drawn to detect error at its earliest stage. To streamline the system further, two sets of rotating cash and day books were to be employed, as was the practice in English banking houses. While one set was being used for entries the set from the previous day would be checked and totalled, thereby providing a current balance. When the business from this

²⁵Ibid., pp.83-84.

²⁶Ibid., pp.64,69.

day was completed the roles of the books would be reversed.²⁷

The committee believed that public accounting would become much more efficient under the double-entry system. Bureaucracy would be lessened by requiring the receiver general to receive all payments from the Crown Lands, Clergy Reserves and Rents, and Timber payments rather than paying the commissioner of Crown Lands who would then transmit them to the receiver. In addition all particulars were to accompany transactions in order to ensure entry into the proper account. The receiver general was then to make regular deposits to one financial institution, which he was to specify to the government, rather than to both the Bank of Upper Canada and the Commercial Bank of the Midland District. In conjunction with the double-entry system the committee recommended that the receiver general keep his personal account separate from that of the province.²⁸

It had been the practice of Receiver General John Dunn since 1820 to combine the government account with his personal funds in one account. The committee demanded on several occasions that he produce his memorandum book but he emphatically refused, stating that

this book is more for my private use than for the public; that the public books of the office contain all my public transactions, and which books I am ready to submit to any investigation you may please to direct.²⁹

²⁷Ibid., pp.82-83.

²⁸Ibid., pp.66,68-69.

²⁹Dunn to Allan, November 12, 1839, Ibid., pp.74-75.

Committee chairman Allan wrote to Dunn that Turquand found it impossible to know where a certain sum of 41,496 pounds was deposited without Dunn's memorandum book. Dunn replied that he had experienced no inconvenience from the usual system of keeping accounts and that he had never encountered complaints from persons making payments. Dunn relinquished his memorandum book but his practice of combining private and personal accounts did not cease until 1843 when Inspector General Francis Hincks saw to it that the funds were deposited in a government account.³⁰

The final recommendation made by the committee concerned the great deal of time required in the preparation of warrants and vouchers. Each warrant was copied eleven times every half year. As a result the committee proposed that a "batch system" be implemented. Turquand elaborated by stating that "All acts relating to grants of moneys and other matters connected with this office, are continually under investigation, and make further inroad upon time." He suggested that copies of all money acts be supplied to the office as soon as they became law. George Boulton (1797-1869), lawyer and Conservative legislative councillor, expressed concern to the committee that the system should provide funds required for public works. He recalled a grant of 16,000 pounds which made for the improvement of the navigation of the inland water system of the District of Newcastle, to be paid out of funds in the hands of the receiver general. Great difficulty in obtaining funds had been experienced

³⁰Dunn to Allan, November 22, 1839, Ibid., p.85.

by the commissioners appointed to superintend this work. They were told that no more money was available and Boulton believed it was because the grant was not included in the estimate of the previous year. The legislature had simply not been called upon to provide the sum.³¹

The committee agreed with the Parnell Commission that all funds should be paid directly to the receiver general, that the receiver should disburse funds only by warrant authorized by the lieutenant governor, and the double-entry system should be adopted. In addition financial control would be facilitated by eliminating time consuming practices, enforcing existing rules, and introducing new ones. The committee proposed that the receiver make weekly deposits to one bank specified by the executive, sub-accountants were to note which account deposits were to be credited when making deposits to the receiver, the executive was to control all funds, and lastly a book-keeper was to be added to the under-staffed receiver and inspector generals' offices.³² These recommendations were given careful consideration by Governor General Lord Sydenham but in addition he followed closely the directives given to him by Russell when Sydenham left for Canada.

³¹Ibid., 1839", pp.68,73.

³²"Public Service Commission", pp.40-41.

Charles Edward Poulett Thompson, Lord Sydenham, was born on September 13, 1799 at Waverly Abbey, England to John Thompson. He received his education from Reverends Harrington, Wolley, and Church. At the age of sixteen he left for St. Petersburg to work in his father's business J. Thomson, T. Bonar, and Company, a merchant house, for a year where he acquired his business training which he later applied in Canada. In 1826 with the help of Hume and Jeremy Bentham (1748-1832) he was elected as a Whig for Dover.³³

In November 1830 he accepted office in Lord Grey's ministry as Vice President of the Board of Trade, and President in 1834, and Treasurer of the Navy. In April 1835 he took his seat in the cabinet in Melbourne's government.³⁴ In August 1839 Lord Spencer (1782-1845), Reform Bill supporter, recommended Thomson to Melbourne for the governorship of Canada. Thompson accepted the position as he believed it was an opportunity to obtain a peerage. On August 19, 1839 he was chosen governor general of British North America and was awarded his peerage. Thompson, now Lord Sydenham, landed at Quebec on October 19, 1839 with the duty of implementing some of Durham's proposals, primarily the union of the Canadas and the introduction of municipal government, but he was not to concede the full measure of responsible government. Sydenham, like Melbourne and Russell, dismissed responsible

³³Phillip Buckner, DCB, Vol.7, p.855 and G. Poulett Scrope, Ed. Memoir of the Life of the Right Honourable Charles Lord Sydenham. (London: John Murray, 1843), pp.1-14.

³⁴Ibid., pp.855-856 and Ibid., pp.14-73.

government, by that name, as quite unsuitable for the colonies as it would sever the "connection with the Mother country" and terminate colonial dependence.³⁵

Sydenham believed that a new political system was required to correct the evils of patronage, bureaucracy, life-long appointments, and "jobbing". Through the union of the provinces, the imperial loan guarantee, and the introduction of district councils, the board of works, and the Crown lands department Sydenham laid the foundations of the modern departmental system which led to responsible and later self-government. The Act of Union reorganized the system of government, settled the question of the Civil List, placed the audit within the sphere of parliament, and provided the financial framework which would enable the colonial government to emulate as closely as possible the British system of government.³⁶

Under the Act of Union Sydenham and Russell reorganized the system of government and both sought strong executive leadership. Indeed, Russell's three rules of administration closely followed this principle. First, the executive was to be composed of the leading members of the assembly and was to control the revenue with the assembly checking and controlling

³⁵PAC, Sydenham Papers, MG 24 A 30, Sydenham to Russell, September 9, 1841, Poulett Scrope, Memoir of the Life of the Right Honourable Charles Lord Sydenham. (London: John Murray, 1843), pp.72,97,104,132, and Careless, p.4.

³⁶Hodgetts, pp.11,13,28 and New, pp.544,547.

abuses. The executive was to be responsible to the governor who was in turn responsible to the imperial government. Lastly, departmental heads were to be directly responsible to the governor.³⁷ Russell believed his policy of conciliation and "harmony" would place government on a more solid foundation by having colonists take a more active role in their own affairs.

Sydenham viewed the executive as causing the most friction as it operated very inefficiently:

The most serious defect in Government, is the utter absence of power in the Executive, and its total want of energy to attempt to occupy, the attention of the country upon real improvements, or to lead the Legislature in the preparation and adoption of measures for the benefit of the Colony.³⁸

Over time executive councillors had acquired "influences" from various lieutenant governors which they never relinquished. Councillors were to remain in office on the condition of "good behavior" but this English practice was quickly abandoned.³⁹ In a letter to an unidentified friend, dated December 12, 1839, Sydenham wrote that everything in the past had been done differently, and what was required was consistency.⁴⁰ The

³⁷Governor General's Office, Letter Books, Russell to Sydenham, October 14, 1839.

³⁸Lord Grey to Sir John Harvey, March 31, 1847, The Elgin-Grey Papers, Vol. 4, Ed. Arthur Doughty (Ottawa: J.O. Patenaude, 1937), p.1360. Harvey (1772-1837) was an admiral in the British navy.

³⁹Duncan Mc Arthur, "History of Public Finance 1840-1867," Canada and Its Provinces, Vol. 5, Eds. Adam Shortt and Arthur Doughty (Toronto: Glasgow, Book, and Company, 1914), p.166.

⁴⁰Scrope, pp.142-143,150.

governor had played upon this inconsistency and had inferred that every act of his own went "forth to the public on the responsibility of the executive." Consequently it was no surprise that responsible government was viewed as the panacea.⁴¹

To make the executive more significant, Sydenham thought, it was necessary to reorganize the colonial government so that the executive was given more effective control over the assembly.⁴² Only by making the executive more active in government and requiring executive members to be either leading servants of the government or members of the legislature, preferably from the assembly, would the system operate efficiently. In addition members would no longer permanently hold office but were expected to resign if they voted against government policy. Sydenham hoped this "mixed ministry" would outflank the movement for responsible government.⁴³ With members of the assembly sitting on the executive, the executive's sole right to initiate supply bills, sec. 57 of the Act of Union, would now also take into consideration the sentiments of the assembly. This when combined with municipal government would help to prevent "local jobbing" by putting a stop to the dispute over funds between the executive and the assembly by giving municipalities control over their own

⁴¹PAC, Lord John Russell Papers, MG 24 A 28, Russell to Sydenham, January 2, 1838 and Sydenham Papers, Sydenham to Russell, September 9, 1841.

⁴²Sydenham Papers, Sydenham to Russell, September 9, 1841.

⁴³Governor General's Office, Despatches From the Lieutenant Governor to the Governor, Sydenham to Arthur, October 30, 1839. Careless, pp.37-38,48.

affairs. With these changes Sydenham felt certain that the executive would acquire the necessary strength and direction to become a strong advisory tool in the hands of the lieutenant governor.⁴⁴

The formation of the Civil List had been a contentious issue from 1791 on but some progress had been made since then. The Civil List purported to mean the provision made out of the hereditary revenues of the Crown, supplemented by the proceeds of certain taxes, which were placed at the disposal of the Crown. In Canada's case it was for the maintenance and support of public officers and to cover the ordinary civil expenses of the state including the expenses of the Court and the lieutenant governor. Before 1831 government expenses were funded through imperial aid and the funds controlled by the executive branch of government. In 1831 the legislature granted a Civil List of 6,500 pounds to come into effect once the revenues raised under the Quebec Revenue Act of 1774 were placed under the control of the provincial legislature. This goal was achieved later that same year.

The Civil List was finally formalized by Sydenham under the Act of Union. At this time 75,000 pounds was allocated to the salaries and pensions for the governor, lieutenant governor, and judges. Schedule B allocated 30,000 pounds for the civil secretary, provincial secretary, receiver general, inspector

⁴⁴Scrope, pp.120,183-185.

general and the expenses of the board of works and the executive. The Civil List did not cover all the expenses of civil government. Money for other expenses was to be provided out of the Territorial and Hereditary revenues of the Crown which, by the Act of Union sec. 54, were now transferred to the legislature. In principle the representative of the Crown was left dependent on the assembly and the assembly had a means of holding the executive branch of government accountable.⁴⁵

The introduction of the imperial loan guarantee and the reorganization of the audit within the sphere of parliament was Sydenham's next objective. In his Speech from the Throne on December 3, 1839, Sydenham stated that he was immediately struck by the province's dreadful financial state of affairs as the province was practically bankrupt. In fact he was quite perplexed: "the revenue is nearly double the ordinary civil expenditure. It is very provoking!" The province's annual revenue was 78,000 pounds, the interest on the debt was 65,000 pounds, and fixed government expenses were 55,000 pounds which left an annual deficiency of 42,000 pounds. Nearly all the Canadian debt had been contracted for public works which were not yet completed and the Welland Canal had been "improvidently and unwisely expanded owing to the wretched system heretofore followed with regard to money grants. The canal is but one instance, other

⁴⁵Ibid., pp.151-152, Statutes, 4 and 5 Vic., Lucas, Vol. 1, p.141, and John Hodgetts, Pioneer Public Service. (Toronto: University of Toronto Press, 1955), pp.9,109-111.

works are in a similar condition."⁴⁶

Sydenham was very concerned with the policies of past Lieutenant Governor Sir John Colborne (1828-1836), as in his view Colborne had thrown away money upon the most absurd undertakings and entered into engagements with little consideration. These past activities had forced Sydenham to legalize expenditures from over ten years past, taken without any authority, to the extent of 50,000 pounds.⁴⁷ Owing to these past practices the province's financial position was under great "embarrassment" and immediate relief was needed to meet the interest payments on the public debt and to assist the province in completing many unfinished projects. A 1,500,000 pound loan guarantee from England was to be used for this purpose.⁴⁸ In addition a system to control expenditures was required. In a letter to Arthur, Sydenham stated that:

A great intricacy exists, and a want of system in the manner in which the public accounts have been kept, some of the Departments have worked most inconveniently to the public, and there are, as it seems to me, no adequate checks over the disbursements of public money.⁴⁹

He envisioned an audit system that would function along the lines

⁴⁶Sydenham to Russell, May 5, 1840 and February 22, 1841, in Paul Knaplund, Ed. Letters From Lord Sydenham, Governor General of Canada, 1839-1841 to Lord John Russell. (London: Augustus M. Kelley Publishers, 1931), pp.62,113-115.

⁴⁷Sydenham to Russell, May 5, 1840, Ibid., p.62.

⁴⁸Governor General's Office, Despatches From the Lieutenant Governor to the Governor, Sydenham to Arthur, October 26 and 30, 1839.

⁴⁹Sydenham to Arthur, October 30, 1839, Ibid.

of the British Treasury, with a department of finance working closely with the inspector general's office. In Britain this department was responsible for the sufficiency of the authority of expenditures and the correctness of calculations. The department would operate as a "pre-audit" and "post-audit" of expenditures.⁵⁰ The inspector general would also be responsible for presenting and defending the financial policy of the administration.⁵¹

The introduction of municipal government was another result of the Act of Union that would help to remedy the province's financial problems.⁵² Sydenham believed that capital mismanagement was a direct result of the lack of local government. Only under local government would the practice of "jobbing" be put to an end. A state of riot and confusion existed in Canada which no one in England could imagine: "Every man proposes a vote for his own job; and bills are introduced without notice and carried through all their stages in a quarter of an hour!"⁵³ Because of these abuses Sydenham felt that the introduction of money votes should be restricted to the executive and that municipalities should be given the authority

⁵⁰"Public Service Commission on the Several Departments of the Province of Canada, 1840", p.132, in Canadian Pamphlets, 1835-1840. (Toronto: Stanton, 1840).

⁵¹Mc Arthur, p.166.

⁵²Careless, p.15.

⁵³Ibid., p.172.

to raise their own revenue. In this way local governments could concentrate on local matters and the provincial government would be free to concentrate, as Hodgetts writes, on matters of a more "national" nature.⁵⁴

Reform was difficult to implement and the municipal bill, which was based on Durham's proposal, was not passed in Canada. The Tories opposed the measure because it gave too much power to individuals, as the councillors were to be elected, and because the bill would greatly increase property taxes. The Radicals opposed the bill because it imposed checks on that power, and other individuals opposed the bill because it dealt a "death-blow" to their own practice of "jobbing" for local purposes. Fortunately Sydenham was able to substitute a similar measure, the District Councils Act which differed from Durham's proposal in one significant way. The District Councils Act specified that the warden and the treasurer would be appointed by the governor. This would ensure that the executive branch of government would continue to maintain the majority of control in relation to the assembly. The act was identical to the Special Councils Act operating in Lower Canada and, owing to its successful operation there, it was accepted in the upper part of the province. Upper Canadian government officials were skeptical of any new measures which might adversely affect their positions of power but were

⁵⁴Hodgetts, p.33.

more willing to accept ideas which were familiar and proven.⁵⁵

Under the Act the province was divided into incorporated municipal districts, each to be administrated by a warden appointed by the governor, and a body of councilors elected by the rate payers of the township. A clerk would be selected by the council and the treasurer by the lieutenant governor. A system of assessment and taxation was also provided for. Public works were to come under the supervision of a surveyor, doing away with the old Courts of Quarter Session which had met with much criticism from the Reformers. The system was based on unity of command, co-ordination, and administrative rationalization. Sydenham felt that all members of government and department heads, like the newly created board of works, should answer to the governor for their actions. In theory the act was sound but in practice it was anything but successful as colonists continued to lobby the colonial government for improvements rather than working through their local governments.⁵⁶

In the Speech from the Throne on December 3, 1839, Sydenham stated that the condition of the public departments in the province would require a great deal of attention. There was no machinery of government or department heads on whom one could depend. Sydenham was successful in creating two new departments

⁵⁵Sydenham to Russell, August 28, 1841, Scrope, p.252 and Beer, p.172.

⁵⁶Ibid., p.252, Hodgetts, pp.33-34, and Shortt, p.324.

deparcments in 1841, the Crown lands department and the board of works which established the basis for all future departments.⁵⁷

The Board of Works Act, (4 and 5 Vict., Chap.38), appeared to establish the foundation for a strong centrally co-ordinated department and was part of a general reform intended to end local patronage and "jobbing". However the Act went too far by creating a board devoid of any outside criticism. The board achieved a great deal of independence, autonomy, and became a closed fraternity. In 1846 it was replaced by a much more restrictive Act.⁵⁸

The original board was comprised of five members chosen by the governor. Each project area was under the supervision of a regional engineer who was given a large degree of autonomy. All expenses were to be authorized and approved by the governor and section fifteen of the Act stipulated that no public work was to be commenced unless it could be completed for the sum appropriated. The chairman, Hamilton Hartley Killaly (1800-1874), also held the position of chief engineer which further concentrated power. Thomas Begley was appointed secretary and was responsible to the board and to the executive council. He was to keep separate accounts for all funds allocated and spent on each contract, as well as all plans, estimates, documents, and models, and keep regular accounts with each contractor. The

⁵⁷Scrope, pp.152,172-176.

⁵⁸Statutes, 4 and 5 Vic., c. 38 and Doug Owrap, "Management by Enthusiasm, First Board of Works," Ontario History, Vol. 70, (1978), p.171.

accounts were to be composed of all funds advanced to each contractor, or paid on certificate, showing the sums appropriated and the balances remaining. Each account was to be accompanied by vouchers corresponding with the number of each item and work and was to be presented to the government twice a year, on January and July 1. Lastly, warrants were to be issued by the secretary only upon certificate of the chairman.⁵⁹ To enable the board to exercise its duties, the imperial loan fund was created. The Act (4 and 5 Vic., Cap.33) was passed on September 18, 1841 which "facilitated the negotiation of a loan in England" for 1,500,000 pounds sterling.⁶⁰

The board was shaped by Killaly who occupied its two most influential positions. Consequently there was no clear separation of executive and managerial responsibilities. Killaly was a "colourful Irishman" who cared little for politics except when it concerned public works.⁶¹ On the belief that the board was above the petty and partisan world of politics, and that it was operating in the interest of the public good, he was able to achieve a great degree of independence from the government and in practice was not responsible to the governor. The board quickly degenerated into a close knit engineering fraternity that was

⁵⁹Owram, p.170.

⁶⁰Statutes, 4 and 5 Vic., c. 38.

⁶¹For a humorous description of Killaly see Dr. W.A. Adamson, "The Commissioner," Salmon Fishing In Canada, Ed. J.E. Alexander, (London: Longman, Green, Longman, and Roberts, 1860), pp.152-153.

devoid of any qualified dissent.⁶² Lieutenant Governor Arthur wrote to Colonel George Phillpotts that "Mr. Killaly however admirable the plans are you suggest, he will be far more wedded to his own. I have never knew it otherwise with engineers."⁶³

The alliance of the board was a connection of similar spirits as well of interests. Killaly seemed obsessed with the Welland Canal and consequently Merritt was central to the clique. Other leading figures included the first president of the Welland Canal, George Keefer (1773-1858); his son Samuel Keefer (1811-1890), chief engineer of public works; Samuel's younger brother and schoolmate of Merritt's son Thomas (1821-1915); and civil engineer Casimir Stanislas Gzowski (1813-1898), a Polish emigrant who later became the primary engineer of the Grand Trunk Railroad. Over time the board became involved in too many important projects for it to remain immune from public and political criticism. In 1843 the board's autonomous position was questioned by both the executive council and the assembly, and in June 1844 the board experienced financial difficulties. Work on the Welland Canal was behind schedule so the board decided to pay bonuses it could not afford to contractors, which precipitated payment by need rather than by contract.⁶⁴ Thirteen months later

⁶²Ibid., pp.174-175,180, and Peter Baskerville, "Americans in Britain's Backyard: The Railway Era in Upper Canada, 1850-1864," Business History Review, Vol. XL, (1981), p.326.

⁶³Lieutenant Governor Arthur to Colonel George Phillpotts, October 12, 1841, Arthur Papers, Vol.3, p.472.

⁶⁴Owram, pp.174-175,181.

the board faced serious financial problems as the Bank of Montreal, the board's financial agent, was preparing to withhold funds.

The financial system in operation was based on trust and confidence. However, in the summer of 1845 the bank was no longer satisfied that the board could meet its financial obligations. If the board was highly centralized its financial system was highly decentralized. Contractors were required to finance operations through their own resources or by obtaining bank loans or advances on the security of progress vouchers issued by the engineer in charge. The system was designed to protect the provincial revenue from fraud and theft but it involved far too much red tape. The chairman and chief engineer were responsible for incurring any and all expenditures deemed necessary as long as the secretary would certify them under oath. But the system broke down because the chairman and chief engineer were the same person, Hamilton Killaly. Each position was to be a check upon the other but this did not occur. The board's financial problems became apparent to outsiders in the summer of 1845 only when the provincial treasury was exhausted and when individual branch managers began communicating with one another. Not until this point did the system of trust begin to break down.⁶⁵

In July 1845 Hugh Baker (1818-1859), manager of the Hamilton

⁶⁵Merrill Denison, A History of the Bank of Montreal, Canada's First Bank, Vol.2, (New York: Dodd, Mead and Company, 1966), pp.12-13.

branch, wrote to Benjamin Holmes (1794-1865), cashier of the bank, that collection of contractor's notes held under discount was proceeding slowly. The same situation applied to the branches at Cobourg and Brockville. Holmes contacted Begley, the board's secretary, for an explanation. Begley was "curiously reticent". Holmes and William Gunn, the bank's inspector, visited Killaly and Begley and met with little response. Later in the month Holmes wrote to Baker:

My own impression is that there is a deficiency in the appropriations; therefore whatever the consequences in regard to suspension of the Public Works I cannot depart from the instruction given to me but must repeat that until you hear the contrary from me no moneys are to be advanced upon the estimates or orders of the Board of Works.⁶⁶

The executive was not pleased with the actions taken by Holmes and immediately set out to ruin him. In retaliation the government withdrew its account from the bank on November 19, 1845, and on February 21, 1846, Holmes resigned. The government gave as its reason for withdrawing the account, "that the policy of refusing credit was inconsistent with the relations which were supposed to exist between the government and its financial agent". The event created sufficient attention that the government appointed a commission of inquiry to examine the affairs of the board of works.⁶⁷

Six and one half months after the commission had been established "The First Report of the Commission of Enquiry into

⁶⁶Ibid., p.24

⁶⁷Ibid., pp.26-29.

the Board of Works" was released. The nine-page report of March 28, 1846, was highly critical of the board, noting that "all the Public Works that have been completed and laid before the Commissioners, have, with few exceptions, exceeded their appropriations." Killaly had "pushed on with great energy" and because of his exuberance the committee reported against the board's retention.⁶⁸ The Report of the Board of Works for 1846 confirmed the extravagances. The Welland Canal was 50,000 pounds over budget, the Beauharnois canal 10,000 pounds, and the slides and booms on the Ottawa River had exceeded the appropriations by 60,000 pounds. It was evident that the board failed to follow section fifteen of the Act of 1841 that no public work was to be commenced unless it could be completed for the sum appropriated.⁶⁹

The committee concluded by attacking the structure and management of the board. The board had been armed with immense power and acted irresponsibly by plunging into heavy engagements with contractors without regard to the checks imposed on it by the Act. The concentration of power in the hands of one individual, Killaly, was questioned. He was both chief engineer and chairman and often acted on his own intuitions without consulting others. The result of the concentration of power was that proper checks of the board's Act were not imposed through

⁶⁸Owram, p.183.

⁶⁹Report of the Board of Works. (Montreal: Desbarats and Derbishire, 1846), p.14.

the give and take between the two posts which he occupied. A total overhaul of the board's structure and the introduction of a board of audit to keep a running check on its expenditures were recommended. An Act of June 9, 1846, (9 Vic., cap. 37) amended the constitution of the board and changed its name from board of works to public works. It decentralized its power structure and ended its independence. However the commission's other recommendation, the establishment of the board of audit, was not adopted.⁷⁰

Lord Durham had been sent to Canada with the task of "adjusting certain affairs". He diagnosed many problems but the implementation of solutions was left to Sydenham. Sydenham followed Russell's three rules of administration and created a "mixed ministry" which created a more active executive. He introduced a more responsive system of government. A policy of conciliation and of "harmony" was followed by making concessions to the Reformers' demand for responsible government, while at the same time maintaining the imperial connection.

Sydenham recognized that Canada possessed many of the problems that Mackenzie had identified. A great deal of money had been wasted on public works which had been expanded far too quickly. The government was laden with patronage or "jobbing", and financial accountability was almost non-existent. To correct these problems Sydenham introduced municipal government, the

⁷⁰Owram, pp.183-184.

board of works, and the department of Crown Lands. Even though the board of works failed it established the foundation for a centrally co-ordinated board which was the model for other government departments. But, more importantly the failure of the board of works clearly demonstrated that governmental regulations were easily circumvented or in most cases were not enforced. To enforce these regulations Sydenham agreed with the report of the Public Service Commission that an outside non-partisan party was needed, such as the board of audit.

CHAPTER TWO

Consolidation Under Hincks

After Sydenham's death in 1841, Inspector General Francis Hincks closely followed the proposals put forth by the Committee on Public Departments (1839), notably the adoption of the double-entry system of book-keeping. In the late-1820's and early-1830's British politicians had devoted considerable attention to the implementation of the double-entry system into the French public accounts. The examples of Britain and France in turn made Canadians aware of the applicability of business methods to government. In Canada one of the first known works on book-keeping was Scott Burn's The Principles of Book-Keeping, (1844) and The Principles of Book-Keeping by Double Entry, (1845) but it was not until 1849 that the inspector and receiver generals' offices were required by law to keep their books in the double-entry system. However even when implemented the system was not enforced as the Committee on Banking and Currency (1854) demonstrated. In addition the Committee on Public Accounts (1850) and the Select Committee on Income and Expenditure (1850) both revealed that these regulations were not enforced. Mackenzie's Second Committee on Public Accounts (1854) stressed "uniformity" and directly brought about the board of audit.

Before proceeding to Hincks and the committees of inquiry, a brief discussion of the origins, development, and introduction of accounting into the government is required. It is necessary to

understand the role of accounting in bringing about financial control. Accounting had its origin in three sources: religion, government, and business. The earliest recording of transactions dates back to ancient Babylonia and was necessitated by the collection of taxes and tithes for the Pharaohs.¹ The use of record-keeping in government had been present in England since 1130 when the exchequer and 1299 when the office of the auditor were established. The audit was introduced owing to the "persistent carelessness of those entrusted with public funds" and as the scale of business outstripped a ruler's ability to protect his revenue.² During the later part of the Middle Ages Genoan global trade expanded rapidly and owing to this the modern system of book-keeping developed. The Genoan Franciscan monk, Luca Paciolo, published the first book on the double-entry system in 1494. He explained and expanded on the Venetian method. Paciolo's work established the basis for the modern system of book-keeping which appeared in the rest of Europe by the mid-1500's.³

In Canada the adoption of a sophisticated book-keeping system was slow. Accounting was in its infancy and was just

¹L. Goldberg, "The Development of Accounting", in Accounting Concepts. Eds. C.J. Gibson et. al. (Melbourne: The Dominion Press, 1971), p.5.

²Great Britain: Public Record Office ,Audit Office Finding Aid, p.1.

³M.A. Faul, C.W. Pistorius, and L.M. Van Vuuren, Accounting: An Introduction. (Durban, South Africa: Butterworths, 1975), p.16.

beginning to be appreciated. The Principles of Book-Keeping, (1844) and The Principles of Book-Keeping by Double Entry, (1845) were two Canadian text books which their author Scott Burn, (1797-1851) stated were much needed and revealed the relevancy of the double-entry system to Canadians. Burn studied accounting at the University of Edinburgh, a leading center for that profession. In 1833 he immigrated to Canada and established an accounting house in Toronto. However, owing to a lack of work, he declared bankruptcy in 1844 and sold his farm and house. Later in the year he accepted a position at Upper Canada College teaching accounting. He was more important as a popularizer than as a theorist and in 1846 the Cobourg Star praised his work as "the best and most lucid work on the subject."⁴

Burn espoused a method of book-keeping based on the adaption of debtor-creditor and double-entry principles. He viewed the system as a science and, like other Victorian accountants, held the conviction that business and commerce formed the foundation upon which rested all the wonders of 19th-century British civilization. The single-entry system then in use was based on only one side of the accounting equation, the debit side. The double-entry system represented a business in "every transaction both as the debtor and creditor." The primary advantage of this system is that debit and credit entries are recorded together and

⁴Even in light of Burn's financial difficulties the Cobourg Star was very impressed with Burn's work as it stated "Mr. Burn is evidently not only an experienced, practical merchant, but a man of no ordinary philosophical depth." Philip Creighton, DCB, Vol. 8, pp.113-115.

debits must equal credits when a balance is drawn up, if not, an error is present. In this way the detection of errors is made easier. For example if a contractor spent funds he was required to debit the corresponding supply account and credit the account from which the payment came. The entry in the journal would appear as follows:

nails		\$100.00	
	cash		\$100.00

From here the transaction would be posted to the ledger. The single-entry system ignored journalizing and recorded transactions directly into memorandum books, one for each account. The weakness in this system was that both entries, debit and credit, of the transaction were not kept together which made the detection of errors difficult.⁵

The double-entry system employed four books which enabled the accountant easily to monitor the accounts. The first was the cash book, which contained a daily record of every transaction which involved cash and was kept in the double-entry format with the receiving of cash being a debit and the paying of cash being a credit. At an interval both sides were summed and this amount was to be equal to the cash on hand. If not an error was present. The second was the day book, also kept on the double-entry system, which contained a record of every transaction except the

⁵Scott Burn, The Principles of Book-Keeping. (Toronto: H. and H. Rowsell, 1844), pp.1-5.

paying and receiving of cash. It was organized chronologically with all the particulars such as invoice number and date, so that transactions could be easily traced. The entries from the cash and day books were then posted, or copied, to the third book, the journal. It too was kept by double-entry and was a daily record of all business, yet a "record of a higher kind". The journal facilitated posting to the final book, the ledger, a separate day by day record for each account. After every transaction had been posted to the ledger, it was totalled and an income statement and trial balance were drawn at the closing of the books to determine the profit or loss and the business's financial position. The system was viewed as the most efficient and best method at detecting errors and could be adapted to any endeavour which required book-keeping. As a business grew more subsidiary books could be introduced to make the system more functional.⁶ Turquand, chief clerk in the inspector general's office, and Patrick strongly supported the system and recommended that Canada adopt the book-keeping system employed by the rest of the commercial world.⁷

From 1841 to 1854 very little was accomplished in Canada in the way of financial accountability. The most important political event of the period was the winning of responsible government in

⁶Ibid., pp.5-30.

⁷"Report on the Public Departments, Appendix to the Report of Committee No. 2, 1839," p.67, in Canadian Pamphlets, 1835-1840. (Toronto: Stanton, 1840).

1848 under Governor Lord Elgin (1811-1863) with the passing of the Rebellion Losses Bill. However, even with the granting of responsible government financial control and accountability did not immediately follow. John Hodgetts argues that true responsible government remained imperfectly realized as long as the province lacked complete control over its administrative services. Norman Ward continues by writing that "departments must be so organized that the ministers can exercise a control for which they can be held responsible."⁸ Consequently administrative reforms such as the effective functioning of the cabinet as a co-ordinating body were necessary.⁹ Some of this was accomplished by Inspector General Francis Hincks. He was not the only inspector general in office during this period but he contributed significantly to financial responsibility by continuing Sydenham's past policies. In general the period can best be described as one of consolidation, as the principles of financial accountability became further entrenched through Hincks's efforts. In addition a slowly emerging awareness to government's role in financial accountability occurred.

Francis Hincks was born in Cork, Ireland, in 1807 to Reverend Thomas Dix Hincks, an Irish Presbyterian minister, and Anne Boult. He grew up in a liberal academic environment and it was assumed that he would enter the church or the academic world

⁸Norman Ward, The Public Purse, A study In Canadian Democracy. (Toronto: University of Toronto Press, 1962), p.22.

⁹John Hodgetts, Pioneer Public Service. (Toronto: University of Toronto Press, 1955), p.272.

but instead he showed an interest in commerce. At the age of seventeen he entered the counting house of John Martin of Belfast where he acquired a thorough business training in domestic and foreign trade. In August 1832 he and his wife of two weeks immigrated to Canada and quickly became friends with William and Robert Baldwin. After one year in Canada he had gained a reputation as a leader in economic reform by operating a leading wholesale business at York. As a result and owing to Mackenzie's scathing attack on the Welland Canal Company, he was appointed an auditor of the company in an attempt to clear the company's managers of any wrong doing.

Hincks became associated with the Agricultural and afterwards the Farmer's Banks. He organized the Mutual Fire Insurance Company of Upper Canada and became its first secretary. During this time he founded the Bank of the People and successfully guided it through the financial crisis of 1837. Gradually he became involved in constitutional reform and founded the Examiner (1839) and the Pilot (1841), Toronto and Montreal newspapers respectively. The papers supported Durham and espoused the merits of a responsible system of government within the imperial connection. Upon union Sydenham began searching for an inspector general and decided that Hincks was best qualified for the position. He assumed office in June 1842 but was forced out in December 1843 upon the government's defeat. However four years later in March 1848 he resumed office for six and one half

years.¹⁰

Hincks accepted office on June 9, 1842 under Sydenham's successor, Sir Charles Bagot (1781-1843), and followed the recommendations put forth by the 1839 committee on public departments and Sydenham's policies.¹¹ One of his first goals was to introduce the double-entry system of book-keeping into the receiver and inspector generals' offices but it was not until 1849 (12 Vic., Cap.5) that it became law. An annual statement was to be prepared after each fiscal year, exhibiting the state of the public debt, the consolidated revenue fund, and all other accounts. An account entitled "Losses by Public Works or otherwise" was to be opened to monitor losses. Further improvement was made with the introduction of a sub-accountant's ledger for the revenue collecting offices where all payments were recorded. This was a significant improvement on the "pigeon hole" system which had all receipts filed away never to be seen again. However the ledger was not introduced into the departments which expended public funds.¹²

¹⁰William Ormsby, "Sir Francis Hincks," The Pre-Confederation Premiers. Ed. J.M.S. Careless (Toronto: University of Toronto Press, 1985), pp.148-153, and Adam Shortt, "Sir Francis Hincks, Most Notable of Canadian Ministers of Finance," Adam Shortt's History of Canadian Currency and Banking 1600-1880. Ed. Nancy J. Leaman. (Don Mills: T.H. Best Printing Company, 1986), pp.883-892.

¹¹Michael Piva, "Continuity and Crisis: Francis Hincks and Canadian Economic Policy," Canadian Historical Review. Vol. 66, (1985), p.187.

¹²PAO, Langton Papers, Mu 1690, John Langton to William Langton, December 30, 1855.

A book-keeper was added and Hincks insisted that the cash book be balanced daily and that regular and accurate statements of accounts be published. With the support of Bagot, Hincks was able to force Receiver General Dunn to deposit all public funds into a separate government account. New reforms in the customs service, such as requiring statements to be rendered more frequently in an attempt to ensure that all duties were collected and deposited directly to the receiver general were introduced.¹³

One of Hincks's most important achievements was the completion of the negotiations of Sydenham's 1,500,000 pound loan guarantee intended for public works. After Sydenham's death in 1841 Hincks became the key individual in securing the loan guarantee. He designed and introduced a system of duplicate accounts which enabled the board of works to draw upon the loan efficiently. Upon completion of work a contractor submitted two copies of his expenses, one sent to the board of works where it was approved or revised and the other to the inspector general. The board certified the former bill and sent it to the receiver general who issued warrants to the contractors to be cashed at a bank. The cashed warrants were then sent to the office of the inspector general where an audit of the accounts would in turn be conducted.¹⁴ This efficient system lacked one important element:

¹³R.S. Longley, "Francis Hincks and Canadian Public Finance," Canadian Historical Association Annual Report, (1934), pp. 33-34, and R.S. Longley, Sir Francis Hincks. (New York: Arno Press, 1981), pp. 115-117.

¹⁴Longley, p. 120.

that of accountability. The inspector general did not have knowledge of expenditures until after the work had been completed. The post-audit function was present but the pre-audit function was absent.

In November 1843 Hincks resigned with his administration because of a quarrel between Bagot and his councillors. W.B. Robinson replaced Hincks for six months before William Cayley (1807-1890) assumed the office for approximately two and one half years. However these two "conservative" individuals were not as enthusiastic or as well prepared for the office, as Hincks and consequently little progress was made in the way of financial reform. But on March 11, 1848 Hincks reassumed office in the Lafontaine-Baldwin ministry.¹⁵ For the next six and one half years he concentrated on improving the province's financial position by utilizing funds more effectively and efficiently. Owing to the financial crisis of 1848-1849 it became apparent that financial reorganization was necessary. In 1849 an Act for the Better Management of the Public Debt (12 Vic., c.5) was passed to restore faith in Canada's credit abroad and allow public works to continue. The act authorized the granting of loans for public works provided they did not exceed the balance in the consolidated revenue fund. It allowed the government, by order-in-council, to issue new debentures in order to redeem maturing securities. These debentures were to be authorized by

¹⁵William Ormsby, "Francis Hincks," DCB, Vol. 11, pp.410-413. Louis Lafontaine(1807-1864) was Attorney General for Lower Canada in the Baldwin-Lafontaine Reform ministry.

the receiver general, adding some degree of accountability. In addition the act transferred some provincially owned public works to municipal jurisdiction.¹⁶

The final aspect of the act was the enforcement of Sydenham's District Council Act of 1841. This act created municipal government and gave municipalities the power to tax, but it had not been effective. In 1844 John Langton wrote to his brother William that public works in the Newcastle District were at a standstill from a want of funds and creditors had taken action against the Newcastle District Council to recover their funds.¹⁷ Hincks realized that localities continued to demand provincial assistance for local projects rather than working through their respective councils, and that "jobbing" still occurred. The practice persisted because the provincial government was viewed as the one best able financially to meet their demands. In order to aid municipal governments in raising revenue, Hincks introduced the Municipal Corporations Act (12 Vic., c.81) in 1849 and the Consolidated Municipal Loan Fund for Upper Canada (16 Vic., c. 22) in 1853. The two acts were to complement the Act for the Better Management of the Public Debt by allowing municipalities to market their debentures through the intermediary of the provincial government and all three were "products of the financial crisis of 1848-9". The plan proved

¹⁶Consolidated Statutes, 12 Vic., c.5.

¹⁷Langton Papers, John Langton to William Langton, February 20 and October 21, 1844.

successful in raising funds but by "early 1855 most municipalities were in arrears" on their interest payments.¹⁸

Hincks's financial reorganization moved the government toward financial accountability by introducing and enforcing past measures. Hincks concentrated on known weaknesses in the system and for this reason can be viewed as the prime mover toward establishing financial accountability. He was instrumental in establishing a point of departure for the committees on public accounts of the 1850's which revealed further problems, improved upon Hinks's measures, and were directly responsible for establishing the board of audit.

In 1850 the assembly formed a Committee on Public Accounts, its title and function borrowed from Britain, to examine the method of payment used by the department of public works. Robert Christie (1812-1856) chaired the ten-member committee which uncovered inconsistencies, irregularities, and questionable practices which had become endemic over the past nine years. Also many of these problems still continued even after the department was reorganized in 1846. For example Thomas Begley held the dual position as both secretary for the department and paymaster which was identical to Killaly's situation between 1841 and 1846. Begley's appointment to the latter position created a problem because he was "not under security" and any government official

¹⁸Piva, pp.198-199, and Consolidated Statutes, 12 Vic., c.81 and 16 Vic., c. 81.

handling funds was to post a bond. In addition the practice of paying contractors through the secretary rather than directly through the bank had emerged. Deputy Receiver General Joseph Cary did not believe that it was expedient for Begley, whether under security or not, to act as power of attorney, as an agent for contractors. Cary stated that the system of going through the treasury and paying contractors directly by warrants was more appropriate and lessened unnecessary and prohibited transactions.¹⁹

Lastly, the committee addressed the problem of delays in contractors receiving payment. William Merritt declared that inconveniences in receiving payment were numerous. He attributed it to "the state of the finances" but occasionally it was owing to delays bringing returns and estimates before the commissioners. Such delays were being met by obtaining "unauthorized advances" from the government's financial agent, the Bank of Upper Canada. To remedy the problem Killaly proposed that Begley relinquish the duties of paymaster and that another paymaster "under security" be entrusted with a "small sum" to meet these emergencies. The above solution would alleviate the problem but would create unnecessary work in accounting for the "small sum".²⁰

¹⁹Journals, 1850. App NN, "First Report of the Committee on Public Accounts".

²⁰Ibid.

The June 26, 1850 twenty-one member Select Committee on Income and Expenditure was "demanded by the exigencies of the Province and the wishes of its people."²¹ The province received petitions from the counties of Halton and Lincoln which drew attention to the dearth of financial planning. More specifically it was formed because the Public Accounts Committee of 1850 had neglected its intended duty of monitoring the public accounts as it had concentrated on the "critical extravagance in the public service." To supplement the Accounts Committee of 1850, the Select Committee on Income and Expenditure was established in response to "current cries for retrenchment in all branches of the administration."²² The committee based its report primarily on the testimony of Hamilton Merritt, Chief Commissioner of Public Works and president of the Welland Canal. Merritt stated that difficulties did not emerge when contracts were entered into but rather when works were in progress and he felt that Canada should adopt the system employed by the Erie Canal. Expenditures were to be restricted by prior legislation to prevent excessive expenditures and to make the system more accountable. Reports on each new and existing project were to be tabled yearly to explain revenue received, expenditures, and the state of construction if applicable. Such information was required under the Public Works Act but had not been enforced. Merritt believed there was no

²¹Journals, 1850. App BB, "First and Second Report of the Select Committee of the Legislative Assembly on Public Income and Expenditure of the Province".

²²Ward, p.26.

reason why they should not be enforced.²³

Merritt felt that the system could be further improved by introducing new procedures. Certain sources of revenue and projects could be transferred to municipalities which would enable the provincial government to concentrate on projects of national interest. To lessen the workload of the department heads Merritt proposed that deputy heads be instituted. For example, from February 1841 to June 1846 Killaly had 21,383 directives cross his desk and the number of warrants had increased from 664 in 1841 to 3,713 in 1848. The number of warrants could be reduced by introducing the batch warrant system which was proposed in 1839. The adoption of these measures would enable Killaly to give due attention to the projects under construction and report back to the legislature on their status. Merritt concluded his recommendations by stating that a more effective, efficient, and economical system was required if the province's public works were to proceed.²⁴

Even though Governor General Lord Elgin held a low opinion of the Select Committee on Income and Expenditure because of its "retrenchment" stance, the committee was of great importance.²⁵ The committee gave "new impetus" to the Public Accounts Committee

²³Ibid. Some of the committee's more prominent members were; Hincks, Merritt, Cayley, Boulton, John A. Macdonald, George Sherwood, Louis-Michel Viger, Etienne Cartier, and Joseph Cauchon.

²⁴Ibid.

²⁵Lord Elgin to Earl Grey, December 11, 1850, Elgin-Grey Papers, Vol.2, pp.762-763.

which, in the 1852-53 session was officially named as a Standing Committee. As a Standing Committee it had broader powers to examine and to enquire into all matters referred to it by the House of Assembly.²⁶

In 1854 William Cayley, Joseph Cauchon (1816-1885), and future ministers of finance Alexander Galt (1817-1893) and Luther Holton (1817-1880) were appointed to Hincks' committee on the State of Banking and Currency to comment on the relationship between the department of public works and the Bank of Upper Canada. They discovered a payment system that was beyond comprehension. Thomas Ridout (1792-1861), the bank's cashier, instituted the practice of advancing funds through the use of the Imprest Account. "Prest", a French term meaning loan, was an account used for advancing money to the state for its business either in the form of payment in advance or as a credit given before the work was initiated.²⁷ The bank advanced funds upon the signature of the department of public works's secretary, commissioner, engineer's certificates, or architect's estimates on the responsibility of the government without its authorization. The advances were charged to the Imprest Account which was kept by the bank and not the receiver general. Ridout then sent the certificates to the receiver general who, through

²⁶Ward, pp.26,28-29.

²⁷Great Britain: Public Record Office, Audit Office p.8.

an order-in-council, issued a warrant for repayment.²⁸ Not until this time did the government, inspector and receiver generals know anything about the advance. The advance was then struck from the Imprest Account and entered in the books of the department obtaining the advance and the receiver's book of transactions. Baskerville states that the bank played the very risky role of a "go-between" and it ran the risk of not being reimbursed by the government because the advances were unauthorized. These advances were usually not listed in the receiver general's books for upwards of a month and created much difficulty for financial planning.²⁹ Deputy Receiver General Charles Anderson stated that the bank had "shewn a spirit of liberality in conducting the government account, in advancing monies in anticipation of Warrants, Board of Works Certificates."³⁰

The bank's practice did alleviate the delay contractors experienced in receiving payment and without the Imprest Account many public works would have remained unfinished while waiting for the government to vote additional supplies. However the use of the Account, even though a much practised and integral part of public finance, contravened the department of public works'

²⁸Journals, 1854. App EE, "Report on Banking and Currency".

²⁹Peter Baskerville, "The Pet Bank, the Local State and the Imperial Center, 1850-1864," Journal of Canadian Studies Vol. 20, No.3, (1985), p.25,30.

³⁰Journals, 1854. App EE. In 1845 the Bank of Montreal dropped the government account because it did not believe in these practices. The spirit of liberality was enhanced through the extensive use of the "Imprest Account". Langton abolished it in 1858.

charter. The department was not authorized to expend funds for projects in excess of estimates without receiving prior legislative authorization. The Imprest Account was the most glaring example of a prohibited practice that had been permitted to continue because it had been extensively practised and had become a "necessary" part of public finance. The Account caused a multitude of problems concerning financial control. Estimates were irrelevant, tracing advances was imposible, and it created an executive which was not held financially accountable.

With the achievement of responsible government Mackenzie turned his attention to the issue of financial accountability. In 1854 he chaired the nine-member Second Committee on Public Accounts of which Young and Holton were members. Having inspired the financial reform movement of the 1830's he roused the legislature to a sense of its duties as guardian of the public purse. Hodgetts states that the "interdependence of responsible government and financial control warrants closer attention."³¹ For Mackenzie this statement aptly applied. To him responsible government was meaningless if the government were not responsible for its financial transactions. Since 1840 some improvements in "internal control" had been made with the centralization of spending, more intelligible accounts being published, and on occasion departments providing estimates for their expenditures in advance. In addition some progress had been made with

³¹Hodgetts, p. 274.

"external controls" through the formation of the Civil List, some departments returning gross revenues to the receiver general, and the provision of more accurate accounts through the use of the double-entry system. However, little progress had been made in the audit. The committee made a scathing attack regarding this deficiency. In addition irregular practices were highlighted and the committee doubted whether the assembly had control over its own funds.³²

The committee opened its report by saying

It is scarcely possible to imagine a more imperfect financial system than we are describing, especially if the danger from fire; and the relative position of the Public Offices, be taken into view.³³

The executive council, working in conjunction with the receivers and inspectors general, were responsible for the issue and audit phases. A department would apply to the executive for funds and if authorized the receiver general would issue a warrant. This was simple enough but the pre-audit phase was non-existent because estimates were poorly conducted or not followed and the expenditures were rubber stamped. The post-audit was conducted by the receiver and inspector generals however the books of the two offices "had never assimilated" and consequently the audit function was non-existent. Both offices kept their books by double-entry, since 1849, but Receiver General Charles Dufort "had never once balanced nor been required to balance, his books

³²Ibid., pp. 67,96-97,273, and Journals, 1854. App. JJ.

³³Journals, 1854, APP JJ.

of account, from January, 1849 down to October, 1854." There were many reasons for the discrepancies but he stated it was owing primarily to the poor mechanics of book-keeping and recording warrants. Warrants were frequently charged to one account in one office and to another account in the other office and were sometimes altered enroute. In addition, warrants did not contain the particulars on their face or were erroneously marked. The inspector's office considered their books the true standard and thought the receiver general should make their books compatible with the inspector's books. In any case this would render the books useless as independent records. Henceforth warrants were to contain all the particulars or were to be withheld until so done. The issue phase was further complicated by departmental spending agents who borrowed from the banks in anticipation of future appropriations. This was but a start and the committee recommended that a "uniform system" in book-keeping and all other matters be adopted.³⁴

To establish a uniform system the committee proposed that the "commercial mode", the double-entry system be introduced into all departments and enforced, something that had not been done. William Dickinson, Senior Book-keeper in the inspector general's office, believed it would be expedient to abandon the accountant's ledger as it involved much labour, did not indicate the balance in the sub-accounts, nor show the net revenue or

³⁴Ibid., and Langton Papers, John Langton to William Langton, December 30, 1855.

expenditure and how they were incurred. To take the place of the payment and cash receipt books in the accountant's ledger, one cash book was to be instituted. Further consolidation of the accounts was to be accompanied by closing twenty odd public works accounts, in the Consolidated Revenue Fund, into one account called "Public Works" as the system was much too cumbersome.³⁵

Difficulties in recording transactions were exposed by the committee. Seven pages of the accounts were occupied with minute recordings of every small transaction but the next pages were filled with items between 50,000 pounds and 60,000 pounds which were comprised of small amounts. The committee was critical of this irregularity and noted that many important and probably unauthorized expenditures were concealed through this practice and insisted upon uniformity in keeping accounts.³⁶

The method of collecting and administering the public revenue was in need of reform. Efficient control was pronounced impossible unless the entire revenue was paid into the receiver general and placed at the disposal of the assembly. The practice of the governor and his council of arresting the public revenue on its way to the treasury and expending it on unauthorized works was still continuing. Any mechanisms of financial control which were in place were frustrated by this irregular practice. For example, in one year a total of 125,424 pounds was diverted from

³⁵Journals, 1854, App. JJ.

³⁶Ibid.

the treasury and expended on unauthorized projects with "block-sum" appropriations for unauthorized contingencies comprising the bulk of these expenditures. The committee reported that if the governor and his council could arrest public funds on the way to the treasury, and expend it, all aids and supplies from the house became a mere nullity. Consequently expenditures were to be drawn by warrants which had been "sanctioned by previous votes of Parliament".³⁷

Regarding the collection of revenue, the committee recommended that a more conscious effort be made to monitor collectors who were in arrears, usually caused by redirecting funds, and to ensure that revenue was deposited in the proper accounts rather than placing it to the credit of the general fund. In addition it was recommended that all revenue be deposited to the credit of the receiver general. Expenses for collection were to be paid by warrant rather than making deductions before the deposit. This was all the more important when projects were based on the self-sustaining principle, especially the department of public works and the customs houses. It was reported that payments were made in various places at various times causing the public to never fully know what was sold or collected for how much, when or to whom or what was paid on leases, or by whom.³⁸ These recommendations closely resembled those advanced by the 1839 Committee on Public departments.

³⁷Ibid.

³⁸Ibid.

The department of public works was further chastised for being slow in forwarding its estimates and then not adhering to them. It was Killaly's duty to guard the public from unwise contracts and improvident heedless expenditures, by submitting accurate statements in advance, visiting work sites, and reporting back to the legislature. Up to October 1, 1854, 69,713 pounds had been expended without legislative authority and in 1854 an order-in-council, without authority, was passed for 12,000 pounds making a total of 90,266 pounds of unauthorized expenditures for the year. When estimates were provided they were generally incorrect. The original estimates for construction of piers and lights below Quebec was 35,000 pounds but a total of 119,611 pounds was required to complete the project. Mackenzie wondered why contractors who had exceeded their budget or who had defaulted on projects were allowed to continue and keep the security that they had posted.³⁹

Mackenzie's committee revealed "Numerous instances of simple violations of the law and of executive decrees; of books that had not been balanced; of large expenditures made without covering vouchers and without legislative authority."⁴⁰ Mackenzie concluded the report by stressing "uniformity" and by posing the question, "Have we under "Responsible Government," the substantial control over own Revenue? It may be doubted."⁴¹

³⁹Ibid.

⁴⁰Ward, p.31.

⁴¹Ibid.

Mackenzie proposed the same solutions to the same problems that he and others had uncovered approximately twenty five years earlier. Financial reform and solutions were recognized but even with responsible government implementation was next to impossible. Of more significance was a change in attitudes toward financial accountability and Mackenzie was instrumental in bringing this about.

The period from 1841 to 1854 witnessed many important changes. It was a period of consolidation leading up to Mackenzie's Second Committee on Public Accounts (1854). Hincks was successful in enforcing past measures and in introducing business methods into the public accounts such as consolidating the public accounts and introducing the double-entry system into the inspector and receiver generals' offices. In addition he continued Sydenham's administrative reforms, negotiated a 1,500,000 pound loan guarantee, and reorganized the province's finances.

The technical aspect of financial accountability found its success in France in the 1820's but was slow to be adopted in Canada as government officers were content with the current system. In 1844-45 Burn was one of the first Canadian writers on the subject of double-entry book-keeping. The introduction of this system into the Canadian public accounts was important because it was the mechanism whereby rule violations could be detected and financial control and accountability be enforced.

However the four committees revealed that many past measures were not being enforced and consequently the double-entry system was not functioning as it should, as a means to check government officers. Mackenzie's Second Committee on Public accounts (1854) reiterated the problems Canada was experiencing. The committee was most significant for changing attitudes and perceptions toward financial accountability and was directly responsible for bringing about the board of audit. His "lone voice in 1835 had in the intervening years become a strong well-balanced chorus."⁴²

⁴²Ibid., p.32.

CHAPTER THREE

John Langton and the Board of Audit

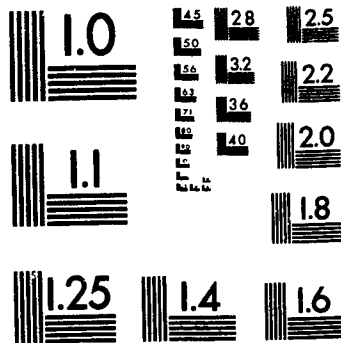
On May 19, 1855 John Langton became the province's first auditor general. He ushered in the most aggressive and successful campaign to introduce business methods into Canadian government and to systematize the management of Canada's public accounts. Langton brought with him few ideas which Mackenzie, Hincks, and the various public committees had not already espoused but he did bring with him much determination and dedication. During the 1850's a new political attitude was emerging in which government recognized its duty to financial accountability. But also for the first time political parties began to emerge. This enabled government to act more effectively by directing its energies toward such objectives as economic growth and development which required financial control if it was to occur. Economic growth and development was an ideal which transcended party lines.

Langton too encountered difficulty in implementing his reforms and turned to his friend John Young, chairman of the Select Committee on Public Accounts (1856) for assistance. With Young's help Langton was able to expose many practices that were occurring in the departments of education and Crown lands which were questionable, contravened their mandates, or were even illegal. Langton also directed harsh criticism toward the board of works and its dearth of procedural adherence. At this time Langton was formulating a theoretical basis for auditing which

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can be classified as the discretionary and obligatory audits. Through this theoretical basis Langton established the basis for the modern audit department of Canada and convinced government officers that they were not beyond reproach and were accountable for their actions.

John Langton was born at Blyth Hall, Lancashire, on April 6, 1808. The family moved to Europe for a few years before returning to England in 1820. He graduated from Trinity College, Cambridge, with a Master of Arts degree. In 1833, probably on the advice of his father, John emigrated to Canada and settled in the Newcastle district near Peterborough because it was said to be the most English of all the districts with a society of a "superior caste" and a pleasing environment. He immediately took an interest in politics and supported the Tories and Bond Head in the 1836 election. Public works projects and the Clergy Reserves question were of particular interest to Langton. In 1851 he entered politics and represented Peterborough in the assembly for four years before being appointed auditor general in 1855. Langton's task was to apply business methods into government accounts and translate them into laymen's terms.¹

On February 6, 1855, Attorney General John A. Macdonald offered Langton the position of auditor general. Although Langton

¹William Langton, Letters of John Langton. pp. xii and Stuart Wallace, Ed., "John Langton," The Encyclopedia of Canada, Vol.3, (Toronto: University Associates of Canada, 1936), pp.383-384.

had already been appointed to the Indian Department, Macdonald thought him "worthy of a better office than settling the quarrels of demoralized Redmen, with still more demoralized Whites." Macdonald stated it was fortunate for Inspector General William Cayley that Mackenzie was investigating the management and accounts of all the bureaux, and the results revealed the need for an audit department. Before the board was established the Constitutional Act placed financial control and the audit of accounts with the executive council.² Macdonald suggested that Cayley reinstate the audit department, and this time as a distinct board. Cayley at once approved the suggestion and he and Macdonald agreed that Langton was "the man to command the ship."³

Thomas D' Arcy McGee in his Report on the Public Departments (1863) wrote that the "Audit Department arose out of an unforeseen Parliamentary incident and was very hastily framed and adopted."⁴ McGee was referring to Mackenzie's highly critical committee of 1854 and Ward states that the "first modern piece of financial legislation in Canadian affairs nevertheless proceeded directly from its hearings."⁵ However this was not the only reason for the board's introduction. In September 1854 the Reform ministry

²PAC, Audit Office, Memoranda Book, 1856-1864, RG 58 B, Vol. 7, "Miscellaneous Memo", no date.

³Langton Papers, Macdonald to Langton, February 6, 1855.

⁴PAC, Report of Thomas D' Arcy McGee on the Origin and Organization of the Public Departments, 1863 RG 1 E 7, Vol. 59, A.

⁵Ward, p.31.

of Hincks and A.N. Morin was replaced by the liberal-conservative MacNab-Morin coalition, which J.M.S. Careless describes as "more than a political converging on the center, a middle-ground compromise between liberal, conservative and tory factions. It emphasized a widespread concern for economic development, something that transcended sectionalism." All sides saw the political expediency of putting their differences aside. Conservatives endorsed the Sydenham tradition of linking government and business interests, Hincksite Reformers agreed with Conservatives as the former ushered in the railway era, and commercial Tories like George Etienne Cartier (1814-1873) and Allan MacNab who stated "my politics are now railroads" believed that much could be accomplished by working together.⁶ Radical Reformers like Mackenzie and Bidwell had given way to more moderate Reformers such as Hincks, and "compact tories" like George Sherwood (1811-1883), Henry Sherwood (1807-1855), and W.B. Robinson were replaced by "progressive conservatives" such as Macdonald and Cartier.⁷

The new liberal-conservative tradition placed considerable emphasis on business interests. However, the coalition rested upon the idea of "practical government." It was also concerned with social and cultural questions like the clergy reserves and

⁶J.M.S. Careless, The Union of The Canadas. (Toronto: Mc Clelland and Stewart, 1967), pp.192-195.

⁷Paul Cornell, "The Genesis of Ontario Politics in the Province of Canada, (1838-1871)," Profiles of a Province, Studies in the History of Ontario. (Toronto: Ontario Historical Society, 1967), pp.63-68.

the seigneurial system.⁸ A broadening of interests occurred in which government officers were concerned with developing the province economically. This was to be done by abandoning free trade and adopting higher tariffs. Tariffs would increase revenue and stimulate Canada's infant manufacturing sector.⁹ Politicians realized that if development were to proceed efficiently then the extra revenue raised through the tariff must be used efficiently and the management of public accounts must come under closer scrutiny. Out of this new economic policy the board of audit emerged.

Macdonald wondered whether under a responsible system of government the auditor should be a member of parliament. Cayley believed it was not necessary, but Macdonald believed that the British practice of having the Secretary of the Treasury and the Chancellor of the Exchequer in parliament to answer all questions and debate all matters relative to the public accounts should be followed.¹⁰ This was the same system which Sydenham had proposed fifteen years before.

The board of audit, Macdonald recommended, should be created by an act of parliament specifying its duties, salaries,

⁸Ibid., p.168 and Careless, p.192.

⁹Ben Forster, A Conjunction of Interests Business, Politics, and Tariffs 1825-1879. (Toronto: University of Toronto Press, 1986), pp.33-34.

¹⁰Langton Papers, Macdonald to Langton, February 6, 1855. Upon becoming auditor general Langton gave up his seat in the assembly thus becoming a servant and not a member of the ministry.

and other particulars, rather than by an order-in-council. The former method would give the board more weight in the country and more power over officers of the government.¹¹ It was imperative that the board be established in this manner because past recommendations of various committees and government officials had not been carried out. On May 19, 1855, assent was given to "An Act to secure the more efficient Auditing of the Public Accounts", (18 Vic., cap. 78). The Act closely followed the recommendations of Mackenzie's Committee on Public Accounts of 1854.

Sections one through eight of the Act dealt with the organization of a board consisting of three individuals functioning under the chairmanship of the inspector general. He controlled the issue from the treasury, the keeping of public accounts, and the audit of expenditures related to the administration of the judiciary and customs and excise officers. The commissioner of customs was to check and examine the customs and excise returns. The auditor was to audit all sixteen accounts after they had been audited in their own respective departments, to revise the accounts, to make statements of all funds received and expended under their proper heads, and to render clear, accurate, and regular statements. Under this system the audit department was subordinated to the inspector general's department with the audit remaining an "executive function with no provision

¹¹ibid.

for regular reports from the auditor to the legislature."¹² This meant that the auditor was required to work through the inspector general and had no authority over any government officers except his own clerks.

Section (9) of the act required that all derived funds, except those of the post office, were to be paid to the receiver general in an appointed bank, with a certificate of deposit forwarded to both the receiver general and the department making the payment. Problems still existed however, because the post office was able to make deductions before transmitting its revenue to the receiver general. Section (10) concerned customs and excise houses, which were to make regular deposits to a specified bank, with funds to be withdrawn only to the credit of the receiver general. Section (11) permitted the expenditure of funds by cheque drawn on a bank only upon warrants authorized by the governor-in-council and signed and countersigned by both the inspector and receiver generals respectively. Under section (12) the inspector general could suspend further advances to departments which did not transmit regular statements accompanied by complete and accurate vouchers. An extension of this practice was described in sections (15) and (17). Any officer who refused to transmit upon request any account, return, statement, voucher, or information within thirty days was to forfeit to the Crown twenty-five pounds. Section (16) required all officers who controlled public funds to account for and submit proper vouchers

¹²Statutes, 1855, 18 Vic., c. 78, Ward, p.32.

to the inspector general. Sections (18) and (19) established the method of submitting vouchers and holding officers liable for funds entrusted to them. Section (20) required unapplied public funds to be paid back to the receiver general if they were not used within the specified time. These clauses were intended to serve several purposes. The warrants and vouchers were to show that authorization was given and to ensure that the funds were properly applied to their designated projects. Also the system demanded a vote for every expenditure.¹³ Lastly, sections (21) through (25) authorized the auditor to interview any individual under oath and to issue subpoenas when auditing the accounts.¹⁴

On November 28, 1855 the board of audit met for the first time and discussed the tasks ahead of it. The board was concerned with the number of accounts in arrears and decided this was to receive immediate attention. The board also scrutinized the Audit Act, because it was "hastily framed and adopted", and suggested a few alterations which would make it more effective. All vouchers, it suggested, ought to be required to bear the signature of the officer with immediate authority over its issuance, another officer who supervised the work, and a third officer who certified that the work was completed satisfactorily and that all particulars concerning the charges were listed. This recommendation was a direct response to Begley's dual posts of

¹³Herbert Balls, "John Langton and the Canadian Audit Office," Canadian Historic Review. Vol. 21, (1940), p.153.

¹⁴Consolidated Statutes, 1855, 18 Vic., c. 78.

paymaster and secretary of the department of public works, and was intended to ensure that departmental checks were adhered to. The board held that all accounts ought to be audited in their respective departments before being transmitted to the auditor for a final examination. The statements were to contain the signature of the departmental auditor and his remarks concerning the accounts.¹⁵ These recommendations were transmitted to all departmental accountants on November 30 and Langton closed the despatches by asking for assistance in conducting "a punctual audit". However, two months later Langton complained to Cayley that the Act was not being followed and that "my pleas for punctual returns for all work has gone unheeded."¹⁶

The Audit Act was designed to facilitate a more speedy and effectual audit of the public accounts by entrusting the process entirely to the board. This change freed the executive council to co-ordinate and direct policies, something Sydenham had envisioned. The board formed a separate branch of the inspector general's office with the purpose of providing for the more effective audit of public money. It was to relieve the inspector from having to check the accounts of several departments, and was to work in conjunction with the committees on public accounts. Yet the fact that the auditor was intended to audit the accounts only after the money was spent greatly detracted from

¹⁵Auditor General, Minutes of Board Meetings, November 28, 1855.

¹⁶PAC, Audit Office, Letter Books, 1855-1865, RG 58 B, Vol. 4, November 30, 1855 and February 4, 1856, Langton to Cayley.

his power.¹⁷ Durrell in Parliamentary Grants, states that the duty of the auditor of public accounts was to review accounts once they had been completed, ascertain whether rules regarding receipts and expenditures of public money were observed, and point out any deviation from those rules. In a more important respect he was to scrutinize the various transactions to see that they were not ultra vires.¹⁸

A.J.V. Durrell's "classic" work on the subject of British public affairs Parliamentary Grants (1917) provides a useful framework from which to deal with Langton and the board of audit. Herbert Balls, who has written on the Canadian system, classifies Parliamentary Grants as a "classic" because it was the first work to examine the system of control over public expenditure. Balls points out that Langton developed a similar theoretical basis for the audit nearly sixty years before Durrell.¹⁹

Durrell classifies the auditor's role under two headings, the discretionary review and the obligatory audit. The former was governed by usage and precedent rather than by enactment and was to be influenced by the House of Commons and the committees on

¹⁷Sessional Papers of the Province of Canada, 1863, No.11, "Financial and Departmental Commission".

¹⁸A.J.V. Durrell, The Principles and Practices of the System of Control Over Parliamentary Grants. (London: Gieves Publishing Co. Ltd., 1917), p.170.

¹⁹Herbert Balls, "John Langton and the Canadian Audit Office," Canadian Historical Review, Vol.18, (1952), p.155 and Durrell, p.viii.

public accounts. The auditor was required to follow his instincts on what irregularities in the system he should report without overstepping his authority. In Langton's case this was even more relevant because he was responsible to the inspector general and did not possess the power of independent reporting. The obligatory audit was of three kinds. The accountancy audit dealt with errors in arithmetic and smaller details. The appropriation audit had as its objective to ensure that expenditures were charged to the proper account so as to ensure parliamentary control. Closely allied was the administrative audit, or audit of authority, which ensured that payments were authorized. The auditor was to verify that no improper expenditures had occurred and that all grants received proper authorization.²⁰

The accountancy audit was concerned with the detection of fraud, technical errors, and errors of principle. In order for it to be most effective, a continuous monitoring seemed the best means of preventing work from going astray. To satisfy the auditor that the accounts were in order rigorous test audits were also to be carried out on accounts at unexpected intervals. Second in importance was promptness in transmitting accounts to the auditor to enable him time to audit the accounts and present his findings to parliament. His main tool, apart from the surprise audit, was the random testing of accounts. If he found things in order he continued but if irregularities were discovered he was entitled to examine every voucher and warrant.

²⁰Durrell, pp.169,188,192.

According to Durrell the auditor's ability to discover irregularities through test audits was "the test of the auditor's competency." His ability to detect errors was made all the more difficult without sufficient time to check every transaction, and departments often concealed questionable transactions by not forwarding all the relevant paper work. The testing of revenue accounts was more a question of testing regulations, such as returning the gross revenue to the receiver general before making deductions, than of testing the account as a whole. Revenue accounts were the most difficult to audit because revenue collectors often withheld funds and receipts from the receiver general. Langton discovered this to be true as he thought far too many sub-accounts existed which concealed transactions and took too much time to audit. In addition Crown lands agents were "dilatory in making deposits and rendering accounts."²¹ However departments expending funds always wanted to receive credit for funds expended, and consequently they generally forwarded all paper work.²²

Langton's system of auditing the accounts was very basic. Upon receiving the accounts he looked them over briefly for peculiar features requiring special attention or instructions before submitting them to his clerks to audit. Each clerk entered his remarks in a book of record and upon completion gave his book

²¹Audit office , Board Meetings, August 23 and September 29, 1856.

²²Ibid., pp.170-180.

and the accounts to Langton, who furnished the clerk with another book and additional accounts to be audited. Langton then verified the clerk's remarks before acting upon them. If he trusted his accuracy Langton confined himself to the transactions not yet audited while assuming the others to be correct. But often he was inclined to audit entire accounts, especially if large sums were involved or if there was a fault in the system in a particular account. On the blank side of the clerk's book Langton made his observations. Upon completion of a particular account he wrote to the department concerned with his strictures and asked for explanations. When everything was rectified as far as possible, he forwarded the accounts with his comments to the inspector general. The process then repeated itself, with Langton and his clerks exchanging books.²³

Shortly after assuming his position Langton wrote to his brother William that one of his first duties was to ensure that the accounts were submitted to parliament on time. However, he was experiencing great difficulty as he had been primarily involved with the auditing of arrears. The task was made virtually impossible by departments refusing to transmit vouchers or transmitting them incomplete. In the February 1, 1856 board meeting Langton explained that there existed a "great diversity in those submitting accounts". Accounts were "various in their character" and there "appeared to be a total want of a system".

²³Langton Papers, John Langton to William Langton, February 25, 1856.

For example, the department of public works had not balanced its accounts since 1851, the sub-account for the St. Lawrence and New Brunswick Road had ten vouchers missing or incomplete, and contracts were not forwarded and were not complete or uniform. This was just one sub-account. One proposal he implemented to rectify this problem was the rendering of accounts on a quarterly rather than an annual basis as was the practice in England.²⁴ This kept accounts from falling more than three months in arrears, paperwork from getting lost, and the accounts fresh in Langton's mind.

In conjunction with the quarterly audit the Select Committee on Public Accounts of 1856 recommended that all departments "adopt a uniform period for closing the accounts of all Departments, and... that the fiscal year should, if possible, correspond with the natural year."²⁵ The department of public works closed its accounts on December 31, the customs department on January 7, and the receiver and inspector generals' offices on January 31. This meant that there was no uniform period for monitoring transactions and with the increased volume in transactions it was difficult to prepare and present the accounts to parliament by mid-March. In 1864 the Act 27 and 28 Vic., c. 6 standardized the financial year for all departments, from July 1 to June 30. This period marked the end of one year's harvest and

²⁴John Langton to William Langton, December 30, 1855, Ibid and Audit Office Board Meetings, February 1, 1856.

²⁵Journals, 1856, App. 30.

nearly the whole of the navigation season could be covered, which permitted complete trade statistics to be reported.²⁶

The practice of making deductions and not submitting to the receiver general the gross revenue was still continuing especially in the customs offices. Deputy Receiver General C.E. Anderson testified to the Select Committee on Public Accounts in 1856 that customs collectors were to be paid by warrant quarterly, but in fact they were usually paid out of the collections. He furthermore suggested that collectors be called upon to open accounts in the name of their office with the Bank of Upper Canada, and that all public money coming into their hands be credited to that account rather than their private accounts. The bank concurred with Anderson and was ready to give any assistance to the auditor to enforce that gross revenues be paid to the receiver general before deductions.²⁷ Deputy Inspector General William Dickinson concurred with Anderson regarding revenue collection and returns, and reminded the committee of section (9) of the audit act which stipulated that all revenue except that originating from the post office was to be credited to the receiver general. Langton remarked that this rule had been successfully adopted in England and France.²⁸

In his address to the Standing Committee on Public Accounts

²⁶Sessional Papers, 1865, No.5, "Report of the Committee on Public Works".

²⁷Audit Office, Board Meetings, March 10, 1856.

²⁸Journals, 1856, App. 30.

(1858) Langton was pleased to announce that gross revenue from all sources was now being paid to the receiver general and collection expenses were defrayed by authorized warrants. In addition uniform monthly pay lists for all departments had been instituted. The pay certificates were verified and entered in the books of the inspector general, who notified the receiver general that the bank would be credited for the monthly wages it advanced.²⁹

For Langton the accountancy audit was the easiest of the three obligatory audits to conduct because it was not concerned with the system of the public accounts as the other two were. However with the appropriation audit and the audit of authority he encountered much difficulty owing to the limitations placed upon him by the Audit Act. More specifically, he was not authorized to conduct an independent audit since he was a subordinate in the inspector general's office. In theory prior parliamentary approval was required for every disbursement but in practice advances were frequently made without such approval negating any "pre-audit" that might have existed. According to Durrell, the appropriation audit was the most important task of the auditor. This audit required the auditor to see that grants were spent on the purpose for which they were provided. Little advantage would be present in preventing unauthorized payments to

²⁹Journals, 1858, App. 4, "First Report of the Standing Committee of Public Accounts".

departments if they were misapplied. All grants were to have previous parliamentary approval and be spent within the time allotted. Misappropriation indicated a lack of parliamentary control and the auditor was responsible for preventing them by conducting a detailed rather than a test audit. To enable the auditor to carry out this task it was imperative that all vouchers, warrants, and departmental papers be transmitted to him. This was also necessary for him to carry out the audit of authority, as it entailed the examination of expenditures to verify that the expenditures were supported by the appropriate authority. No public accountant was entitled to make payments or obtain advances without administrative authority.³⁰

On December 30, 1855 Langton wrote to his brother William concerning the appropriation audit and the audit of authority.

As to payments-- was the money paid? Of course a voucher should be produced to show it was-- but was the work done or service rendered which the money is payable for?

This leads me to another question. If there is anything wrong in an account, of course I report; if there is anything bad in the system of keeping accounts I think it is clear I should report also. But when the system of managing the public business is bad, is that any concern of mine? I doubt.³¹

The latter comment also applied to the discretionary review in which waste, extravagance, and financial inconsistencies in the system could be highlighted and recommendations for improvement could be put forth by the auditor. The practice of drawing

³⁰Durrell, pp.181-186.

³¹Langton Papers, John Langton to William Langton, December 30, 1855.

attention to such cases was a good instance of an auditor showing initiative on items which were clearly outside the range of his function. After irregularities were pointed out it was left to the government and the department concerned to take further action.³² Even though Langton stated that the system of managing the public business was none of his concern he still took a keen interest in the system. He told his brother that while it would exceed his jurisdiction if he were to report upon other questions of general finance "yet I long to do so."³³

One area that Langton sought to improve was the system of obtaining funds. Estimating expenditures in advance did not occur and down to 1864 estimates were usually "voted not for the new fiscal year but for the one just completed."³⁴ In addition estimates were regarded more as a method for informing parliament that the executive had spent an amount of money for which no appropriations had been made.³⁵ In 1862 the Minister of Finance, William Howland (1811-1907), stated that more than one-half of the revenue had been spent without prior approval, and that other large amounts were expended on engagements which could not be terminated.³⁶ To remedy the problem Langton in 1858

³²Durrell, pp.195-199.

³³Langton Papers, John Langton to William Langton, December 30, 1855.

³⁴Ward, p.24.

³⁵Hodgetts, p.106.

³⁶Sessional Papers, 1863, No.10. "Report of the Minister of Finance".

proposed that all departments submit to parliament an estimate of probable expenditure under each head for the succeeding quarter, a procedure which necessitated the keeping of accurate records. One warrant could then be issued for the entire amount rather than for each particular project, thus also lessening the paper work.³⁷ In 1864 27 and 28 Vic., c. 6, required all departments to provide estimates and all supplies were to be voted on which greatly improved the issue and audit phases.³⁸

Before the 1864 amendment there were many means of obtaining funds and as a result parliament exercised little control over the public accounts. The easiest means to obtain funds was through the use of the Imprest Account. For example Begley, Secretary of the Department of public works, testified that the expenditures over appropriation for the construction of piers below Quebec in 1854 alone were 108,044 pounds.³⁹ Deputy Inspector General Dickinson did not recall an instance in which such applications had been refused. All these advances were made without reference to the executive council, and consequently contravened the department's constitution.⁴⁰ The bank advances greatly detracted from the government's ability to control expenses and prevented the system from operating effectively

³⁷Journals, 1858, App. 4.

³⁸Sessional Papers, 1865. NO.1. "Report for the Board of Works".

³⁹Journals, 1856, App. 30.

⁴⁰Sessional Papers, 1863, NO.11.

because departments were unaware of what others were doing. In 1856 Langton addressed Cayley on the subject asking for his support in convincing departments to cease the practice of using the Imprest Account.⁴¹ In 1857 Langton was successful as an order-in-council abolished the Imprest Account, and henceforth payment could be made only by warrant.⁴²

In addition parliamentary control was further tightened by the introduction accountable warrants. Currently warrants being issued were not always used for the projects they were drawn for. This occurred because warrants did not contain directives as to what they were to be used for. Often they were not expended and remained idle in some forgotten account, not even collecting interest. Langton recalled a case in which he wished to pay a man for past services but was unable to have the project included in the estimates. Instead of going through proper channels he used an "approved method" of finding an old unused appropriation from prior to the union, on which he contrived to make his friend payable.⁴³

To eliminate this and other questionable practices Langton introduced the system of accountable warrants in 1857. These were

⁴¹Audit Office, Letter Books, Langton to Cayley, March 5, and April 11, 1856 and Audit Office Board Meetings, April 21, 1856.

⁴²Journals, 1858, App. 4.

⁴³Langton Papers, John Langton to William Langton, February 24, 1856. In addition the introduction of the "batch warrant" system in 1858 lessened the number of warrants Langton had to audit.

issued on a quarterly or monthly progress report from a department, such as public works, to the auditor and were official cheques which stated the purpose for which the money was drawn and the date when they lapsed. Upon becoming stale the warrant lapsed and the money reverted back to parliament and a new supply vote had to be taken for another warrant. This system resembled the line of credit which banks employed, with two important advantages. With the funds remaining in the name of the receiver general it was easy for the auditor to ascertain the amount expended, even if departments were dilatory in rendering their quarterly accounts. The system provided Langton with a foolproof method of checking whether funds had been temporarily diverted by comparing the warrants with the vouchers.⁴⁴ The system was further improved in 1864, owing to estimating expenditures in advance and with the line of credit system replacing accountable warrants. Letters of credit were issued annually authorizing banks to pay cheques to a certain amount. A new vote was required annually for each credit.⁴⁵

The introduction of the line of credit system and abolishing the Imprest Account went a long way in lessening the use of block-sum appropriations, charging expenses as miscellaneous, or as unprovided items to the contingency fund. These were all means of charging unauthorized expenses as no control existed over the

⁴⁴Audit Office, Board Meetings, March 19, 1858.

⁴⁵Journals, 1858, App. 4. and Sessional Papers, 1865. No.1, "Report of the Minister of Finance".

outlay of departments, and departmental checks were not adhered to. Langton stated that both the departments of public works and education balanced their accounts by charging expenses to the contingency fund, a neat way to avoid requiring authorization.⁴⁶ Miscellaneous expenses were similar to contingencies as they did not comprise part of the estimates. Dickinson argued that transactions appearing as miscellaneous tended to lessen the utility of accounts, parliament's control over funds. In addition it made forming estimates next to impossible and did not show the correct position of the accounts. Departments classified expenditures as miscellaneous when they were not "considered as annual expenditures on account." For example, these expenditures appeared under the miscellaneous head: "Settlement of vacant lands, opening various roads, and the New Brunswick boundary line Commission." These expenditures could have been charged to a similar account for unprovided items, expenditures without authority, another method used to conceal questionable items. The 1856 Public Accounts Committee believed that these items could comprise part of the expenditure appertaining to deductions from Territorial Revenue, thereby providing a more accurate picture of that account.⁴⁷ These practices ceased in 1864 when all departments were required to estimate in advance and with the

⁴⁶Audit Office, Letter Books, Langton to Cayley, March 8, 1856.

⁴⁷Journals, 1856, App. 30.

introduction of the line of credit system.⁴⁸

Langton was not alone in his endeavours to improve the system of managing the public debt. He was at first satisfied with his superior, Inspector General William Cayley, who had "fulfilled his pledge of leaving me entirely to myself to do what I like."⁴⁹ However three and one half months later he remarked: "I have declared open war against the system and Cayley gives me a lukewarm support, but he is too timid a hand for any efficient reform." He is a good man but is a "Tory of the old family compact."⁵⁰ Cayley may not have shown much interest in Langton's financial reforms but he was certainly interested in economic development, as he and Minister of Finance Alexander Galt introduced the Galt-Cayley tariff in 1858-1859.⁵¹ Protectionism emerged owing to the repeal of the Corn Laws in 1846 and to the economic crisis of 1857. The Montreal business community, notably McGee and Isac Buchanan (1810-1883), the Quebec Board of Trade and the Association for the Promotion of Canadian Industry lobbied extensively for higher tariffs. In 1856 Cayley stated that more revenue was required to prevent the Grand Trunk Railway

⁴⁸Statute, 1864, 27 and 28 Vic., c. 6.

⁴⁹Langton Papers, John Langton to William Langton, December 30, 1855.

⁵⁰John Langton to William Langton, April 17, 1856, Ibid.

⁵¹Oscar Skelton, The Life and Times of Alexander Tilloch Galt. Ed. Guy Mac Lean, (Toronto: McClelland and Stewart Limited, 1966), pp.115-122. In 1857 the inspector general's office was changed to the minister of finance.

from collapsing and the insistence for higher tariffs also came from Toronto and Hamilton manufacturers.⁵² In 1859 Galt increased the tariff levels to obtain additional revenue and was the first serious move toward industrial rather than agricultural protection. Galt devised an economic policy that led to Canadian financial autonomy which centered on protectionism and retrenched financial and economic policy by seeking more revenue and by protecting industry.⁵³

Owing to Cayley's apparent lack of support in the arena of financial accountability, Langton and John Young, previous commissioner of public works in the Hincks-Morin government from October 1851 to September 1852, agreed to work together to set the accounts straight. This would seem to be an ambiguity because the practices which Langton and Young were attempting to change were the same practices which Young introduced and followed as commissioner. But, Young had first hand experience of the department's weaknesses. Owing to Langton's subordinate position he had to act with great care when it came to matters concerning the discretionary review and criticizing the management of the

⁵²Forster, pp.39-40 and D.F. Barnett, "The Galt Tariff: Incidental or effective protection?" Canadian Journal of Economics, Vol. 9, (1976), p.390.

⁵³Alexander Galt, Canada: 1849 to 1859. (Quebec: Canada Gazette Office, 1860), pp.33-35 and Forster, pp. 42-50. An interesting debate has emerged concerning the Galt-Cayley tariff. Galt claimed his intent was solely to raise revenue but some historians and economists challenge that view and belief that Galt's primary motive was protection. Barnett, "The Galt Tariff", pp.389-407 and A.A. Den Otter, "Alexander Galt, the 1859 Tariff, and Canadian Economic Nationalism," Canadian Historic Review, Vol. 63, (1982), pp.151-178.

public accounts. He did not favour anything that could be construed as treachery to those in office but he could not conceal anything he felt to be so grievously wrong. Consequently Young, who held similar views to Langton, promised that he would put to Langton such questions that would reveal problems which Langton knew existed. And, it would appear that Langton was volunteering information.⁵⁴ Ward explains that Langton was unsuccessful in persuading the ministry to make the desired reforms, and thus turned to the Public Accounts Committee as a forum in which to "publicize his views with at least an air of discretion."⁵⁵

Through the aid of Young, chairman of the Select Committee on Public Accounts, Langton directed his attention primarily to Egerton Ryerson (1803-1882) Chief Superintendent of Education and to Joseph Cauchon Commissioner of Crown Lands. Langton approached Ryerson with much trepidation. He described Ryerson as "a very clever fellow and a very deep one." For years past he had "worked the schools till he has centered all power in himself... and last not least he is the Pope of Methodism." Cayley was "terribly afraid " of him and left Langton to fight him alone while Thomas Ridout, cashier of the Bank of Upper Canada, was in "mortal terror least his revelations should get him into trouble." Langton concluded his description by writing that

⁵⁴Langton papers, John Langton to William Langton, April 17, 1856.

⁵⁵Ward, pp.34-35.

Ryerson was surrounded by an atmosphere of respectability and met all opposition with an air of such superiority that "I will not deny that I am half afraid of him."⁵⁶

Upon examining the accounts of the department of education for 1855 Langton became aware of large unspent balances remaining in the accounts. The Accounts Committee of 1858 asked Langton whether the large balances were anomalous. He replied that they "are permanent features of the account, large balances always lying idle for long periods." Out of ten accounts only in two, the normal and model school building account and the Journal of Education account, did the yearly expenditure exceed receipts. In January 1855, the balance of the school account was 8,836 pounds but in December it had increased to 23,249 pounds. The rationale put forth by the superintendent was that he could always depend on funds being present and it facilitated the monitoring of transactions and accounts. Langton stated that Ryerson admirably kept the accounts but complicated matters by introducing too many branches of expenditure. He recommended the consolidation of the accounts, opening a ledger to keep track of the various sub-accounts, and if required opening temporary special funds accounts.⁵⁷

Langton then became aware that Ryerson, like Dunn and most

⁵⁶John Langton to William Langton, April 17, 1856, Ibid.

⁵⁷Audit Office, Board Meetings, January 29, 1857 and Journals, 1858, App. 4.

public officials, deposited public funds over which they had control in the Bank of Upper Canada in his own personal name. But of greater importance was the fact that Ryerson received three per cent interest, 1,375 pounds on the deposits which he kept for himself. Langton believed that this practice went a long way in explaining the large balances which remained idle for extended periods of time. When Ridout was questioned he was unaware that the "interest was to go into the private pocket of Dr. Ryerson," as he believed it was for the benefit of the two public accounts in his name.⁵⁸ The entire episode was questionable and Ryerson pleaded ignorance to any apparent wrong-doing.

Ryerson advanced two reasons against his liability for the interest. Firstly, he believed that since he had accounted for it that he had a right to derive such an advantage and was entitled to any incidental advantage. As he was "responsible for the money, and had given security for it, he had a right to place the deposit of those funds as he pleased, and that any advantage accruing from the deposits therefore belonged to him" and the advantage he derived he believed was "customary under the former system." Writing to Galt, chairman of the committee, Ryerson explained his actions.

I have felt myself impelled to claim remuneration for what I should never have otherwise mentioned, but which has been liberally granted, in every other civilized country, and never refused in Upper Canada, in similar

⁵⁸Audit Office, Letter Books, Langton to Cayley, April 4 and 11, 1856.

cases.⁵⁹

However the committee heard testimony to the contrary. Mr. Fiset, a clerk with the department of public works, was dismissed for the same practice of receiving interest on public funds.⁶⁰ Undoubtedly Ryerson's influential position had a substantial effect on the treatment he received in comparison to Mr. Fiset.

Ryerson further justified his position by saying that he had received no other remuneration for exceeding his duties. He had made trips to Europe and the United States, and had founded a journal to improve the educational system of Canada. Down to the end of 1856 he had been responsible for the custody, which was not his duty, and the payment of all school funds. The whole amount for which he was responsible and authorized to pay according to the school act of 1850 was 20,284 pounds but the whole amount that he received to 1856 was 304,159 pounds. In

⁵⁹Ryerson to Galt, June 1858, Journals, 1858, App. 4. Dr. Ryerson followed an abolished English Practice of treating the public balances under his care as his personal property. In 1746 Pitt became paymaster-general and was the first to break with the practice of investing idle public funds entrusted to him for his own reward. However the "abuses lasted until 1782, when Rigby's balances were the subject of a series of debates." He defended the practice & the house resolved that "from henceforward the Paymaster-General...shall not apply any sum or sums of money imprested to them...to any purpose of advantage or interest to themselves either directly or indirectly." William Basil, The Life of William Pitt Earl of Chatham. Vol. 1, (London: Longmans, Green, And Co., 1915), pp.153-154.

⁶⁰Journals, 1858, App. 4. In Mr. Fiset's case this was not the entire story. He was asked to make a list of missing vouchers for Begley and give it to him which he did. However the list was mixed-up in papers that were sent to Langton, making Begley appear incompetent. Fiset was blamed and released being told by Begley that he had "taken upon (himself) to send that list to the Auditor."

addition he had provided safe-keeping, payment, and administrative services for which he was not required to do.⁶¹ The situation was exacerbated by the fact that he was not under sufficient security to deal with that sum of money, as his security was only 2,000 pounds.⁶²

The matter also demonstrated the existence of a large, disorganized, entrenched bureaucracy. The executive council was unaware that Ryerson was receiving interest. Past Receiver General J.C. Morrison said that Ryerson used Hincks's name in proof that Hincks's opinion was the same as his.⁶³ The Attorney General, John A. Macdonald, testified that Ryerson "appropriated the interest with the sanction of Mr. Hincks" but told him that "by law the interest must accompany the principal, and as the principal belonged to the Crown, the interest must also belong to the Crown."⁶⁴ After much discussion Ryerson refunded the interest but he would not concede the point and through this Ryerson was not reprimanded for this questionable practice.

In 1856 Ryerson wrote to the Secretary of the Province, Timothy Lee Terrill (1815-1876), applying to be reimbursed for "promoting the great work in which I am engaged and for money due me as salary." He stated that he never "intended to present these

⁶¹Journals, 1858, App. 4. Being both paymaster and guardian of school funds was like the dual position held by Begley and contravened the department's mandate.

⁶²Audit Office, Letter Books, Langton to Cayley, April 18, 1856.

⁶³Journals, 1858, App. 4.

⁶⁴Ibid.

claims" but undoubtedly it was in direct consequence of him being required to refund the interest. In regards to salary he pointed to the School Act, (9 Vic., c. 27), which fixed the salaries of the two superintendents for Canada East and Canada West at 500 pounds per annum. But from April 1846, to July 1850, he received only 420 pounds. For this he was compensated 340 pounds.⁶⁵ In addition his salary was increased by a May 22, 1855, order-in-council to 750 pounds and on March 24, 1858, to 1,000 pounds. The second increase in the salaries of the superintendents was a result of a May 5, 1857, letter in which Ryerson and Pierre Chauveau, (1820-1890) Superintendent of Education of Canada East, outlined the difficulties they faced in supporting their families in large expensive cities.⁶⁶ On December 27, 1856, Ryerson claimed and received 50 pounds for office rent, and on January 27, 1859, an order-in-council paid him 930 pounds in full settlement of an 1856 claim. These events demonstrated that the executive continued to act irresponsibly and unauthorized Orders-in-Council still predominated. The 1859 Committee on Public Accounts reported that they could not

but condemn the practice which has of late grown up on the part of the Executive Government of over-riding the law, by granting to individuals, on various pretences, sums of money not only unauthorized by, but in direct contravention of the Statutes of Parliament, a practice which, in the case now reported on, has, in the opinion of your Committee, been exercised in

⁶⁵Egerton Ryerson to T. Lee Terril, December 27, 1856, Journals, 1859. App. 5.

⁶⁶Ryerson and Chauveau to Governor General Sir Edmund Walker Head, May 5, 1857, Journals, 1859, App. 5.

violation of right and justice.⁶⁷

Langton was correct when he stated that he was "half afraid" of Ryerson. Since he was a highly respected member of Canadian society he was quite influential but it was Joseph Cauchon, Commissioner of Crown Lands, who was more burdensome and gave Langton much more trouble.⁶⁸

Langton's examination of the Crown Lands accounts was aided by Young who again asked him pre-planned questions. Langton, through his random test audit, discovered many irregularities in the accounts and in the system employed. However he encountered a much more serious problem, a lack of support from his superior Cayley. In a letter to Cauchon, Langton stated that he had "not fully examined the accounts" but wished to make some preliminary remarks, twenty five in all, regarding the accounts.⁶⁹ Cauchon took offence at some of the remarks but especially at the publication of a letter in the May 15, 1856, edition of the

⁶⁷Journals, 1859, App. 5, "First Report of the Standing Committee on Public Accounts".

⁶⁸Joseph Cauchon was born December 31, 1816 at Quebec into one of the oldest families in the colony. He received a classical education and a law degree. He supported the Reform policy of La Fontaine and Baldwin and in the 1850's was an advocate of secularizing the clergy reserves and abolishing the seigneurial regime. In 1855 he was appointed Commissioner of Crown Lands a position he held until he resigned in April 1857 over the North Shore Railway.

Andree Desilets, DCB, Vol. 11, pp.159-165.

⁶⁹Audit Office, Letter Books, Langton to Cauchon, February 28, 1856.

Globe. Langton denied having anything to do with publishing the letter but the impression had been left on parliament and the country that he had. Cauchon defended himself in parliament and in the May 19, 1856, edition of the Globe where he stated that "Mr. Langton had not audited the accounts" and had not "done his duty to the best of his ability."⁷⁰

The exact details of the affair were not as significant as the lack of support which Langton received from Cayley. On February 28, 1856, Langton wrote Cauchon with his remarks on the accounts and asked for further explanation on some items. One month later no satisfactory action had been taken when Langton asked for Cayley's support.⁷¹ Langton, writing to Cayley, believed that it was his duty to examine all accounts sent to him and apply for those not supplied within a reasonable time and to conduct the audit in his office. But in the case of departments under the control of members of the executive, such as the Crown Lands Department, Cayley's "own power is limited, and it must rest with the Minister himself, who is responsible to Parliament, whether he gives or withholds the information... I, (Langton), have no power to enforce its being sent to me."⁷²

⁷⁰Globe, May 15, 1856.

⁷¹Audit Office, Letter Books, Langton to Cauchon, February 28, 1856. Cayley did not follow section twelve of the Audit Act which gave the inspector general the authority to suspend all future advances until the auditor was furnished with all the information he had requested.

⁷²Langton to Cayley, May 19, 1856, Journals, 1856, App. 68, "Return to an Address of the Legislative Assembly relative to the charge made by the Commissioner of Crown Lands against the

Two days later Langton again wrote to Cayley. Since the last letter two days had been occupied in the House in debate. Cauchon accused Langton of "gross neglect of duty, and of having given in evidence statements entirely untrue." Langton asked Cayley to furnish him with instructions on how to conduct the business of his office if he had not conducted himself appropriately but none were given.⁷³ Macdonald spoke of Langton in terms of warm personal friendship and told the House that Langton had accepted office upon the pledge of being unfettered in the matter of auditing but Cayley was curiously silent in the House in defence of Langton.⁷⁴ Langton owed his appointment to Cayley's pledge that he would be supported by him. According to Langton the "most effectual means of preventing it, (the present situation), ... was that the auditor should report to His Excellency direct."⁷⁵ The inspector general was obliged either to disown his own officer for doing his duty or come into collision with his colleagues. Making the auditor independent had not met with Cayley's approbation so the other alternative, posed by Langton, was for the auditor to hold no direct communication with

Auditor of Public Accounts".

⁷³Audit Office, Letter Books, Langton to Cayley, May 21, 1856.

⁷⁴Langton Papers, John Langton to William Langton, May 24, 1856.

⁷⁵Langton to Cayley, May 21, 1856, Journals, 1856, App. 68.

members of the executive except through the inspector general.⁷⁶ This was a last resort as it further limited the power of the auditor. The only acceptable solution was the creation of an independent audit office which would promote objective auditing.

Langton's pleas for help to Cayley went mostly unanswered. Cayley had discussed the situation with Cauchon reminding him that the statements directed at Langton of neglect of duty were uncalled for. Cauchon apologized to Cayley for his actions and promised that he would address Langton to "remove any painful impression which might have been created by the use of them" but one never followed. The only support Langton received from Cayley was having the inspector general becoming the medium of communication between the auditor and other departments of the government. In addition he agreed that the audit of accounts should be conducted in the auditor's office.⁷⁷ Langton's efforts did not go unrewarded as he felt that the Crown Lands department was finally "put on a satisfactory footing".⁷⁸ In November he wrote to his brother that

by degrees the materials became more plentiful and the last batch of accounts were so satisfactory all paper vouchers being there, and almost all my suggestions of improvements in the manner of keeping and rendering being adopted.⁷⁹

⁷⁶Langton Papers, John Langton to William Langton, May 24, 1856.

⁷⁷Cayley to Langton, June 7, 1856, Journals, 1856, App. 68.

⁷⁸Audit Office, Board Meeting, October 29, 1856.

⁷⁹Langton Papers, John Langton to William Langton, November 9, 1856.

Langton's primary goal of improving the methods of rendering accounts was accomplished. Also his unofficial pre-audit of encouraging departments to send applications for warrants to him before payment further strengthened the system of preparing departmental estimates.⁸⁰ It was discouraging that departments' mandates established to achieve financial accountability were not enforced and that guilty parties were not reprimanded. Ryerson contravened parliamentary statutes and kept interest that belonged to the province, the executive government continued "over-riding the law" by advancing unauthorized advances, and section twelve of the Audit Act as it pertained to Cauchon was not enforced. As well the ulterior motive of improving the financial system and managing the public debt by introducing an independent audit office was not achieved. However Langton had implemented many important reforms and was attempting to enforce the rules of the Audit Act, something that had not been done in the past. These and many other problems were also endemic to the department of public works' accounts.

Finally, Langton had to deal with the "dirtiest stall in the Augean stable - the Board of Works." Langton classified it as such because the board misplaced, on the removal of government, one case containing vouchers, had never balanced its books in three years, and tried last year to balance them but after a

⁸⁰Balls, p.161.

month's work failed.⁸¹ Some of the irregularities pertaining to the department were highlighted above but the worst was the auditing of contracts and "an utter want of any satisfactory check upon either the quantity, the quality, or the prices of the supplies ordered, is deeply to be deplored."⁸² The majority of mistakes were systemic rather than personal and by conducting an audit of the contracts both sorts of errors could be detected.

The Audit Act required Langton to audit and examine all contracts of the department of public works but it only served to see that there was authority for all payments and that no money was paid without proper certificates. In 1856 he stated that this was of little consequence when no information of any kind was sent to him showing monthly estimates, the work done, and the price and the amount paid on account.⁸³ This was even more so because Begley held the dual posts of secretary and paymaster even though he was not under security for the latter position. The paymaster was to pay out funds and the secretary was to keep the accounts and sign the warrants. Needless to say the internal checks of the department were non-existent and the recommendation put forth by the 1846 Committee of Inquiry into the Board of Works which warned about the concentration of power through

⁸¹Langton Papers, John Langton to William Langton, December 30, 1855 and February 24, 1856.

⁸²Journals, 1862, App. 7, "Third Report of the Committee on Public Accounts".

⁸³Sessional Papers, 1863, No.11. and Audit Office, letter Books, Langton to F. Lemieux, February 18, 1856.

holding dual positions was not heeded. In 1857 Langton explained that Begley had transmitted vouchers, receipts, and balance sheets as instructed in a February 21, 1856 despatch. However contracts had not been forwarded and consequently "I can't properly trace the balances". In addition there existed numerous "special Accounts" which were dormant and should be closed. One account had a balance of 2476 pounds, received from the government, but was not spent. These unused balances demonstrated a lack of planning and if not used should have been refunded to the government.⁸⁴

In 1860 Langton reported formally upon minor alterations in the method of rendering accounts which had been adopted but the general system of book-keeping remained unaltered.⁸⁵ What Langton proposed was to make the ledger exhibit five classes of entries; the appropriations made by the legislature with the specific order-in-council listed beside it, the sub-appropriations made by the commissioner of public works, the amounts engaged by contracts and orders to engineers, the estimates in favour of contractors and others, signed by the engineer, and the amounts paid by the department.⁸⁶ This would enable Langton to follow every step of a project. Since none of these proposals were adopted he suggested that the personal

⁸⁴ Audit Office, Letter Books, Langton to Begley, February 21, 1856 and Audit office, Board Meetings, January 29, 1857.

⁸⁵ Sessional Papers, 1863, NO.11.

⁸⁶ Ibid.

accounts of contractors should be submitted for audit showing the work they were engaged to do and had completed. This would facilitate somewhat the purpose of the ledger system to ensure that contractors were actually paid what the board said it paid them.⁸⁷

The events surrounding the construction of light-houses on Belle Isle from 1854 to 1857 were extremely questionable. Pierre Gauvreau was a government architect and superintendent of public work since 1850 and was responsible for the work on Belle Isle. The Committee on Public Accounts of 1859 put to Gauvreau numerous questions to which they did not receive any satisfactory answers. Gauvreau stated that he was not aware that any person was instructed to keep time of the labourers nor to keep a record of materials. He was unsure whether the work was to be constructed under contract or by time even though he was asked by the department for a list of materials used, the amount of work done, and the number of workers and their hours. When asked to furnish this information he stated that he conducted measurements of the work in his "personal visits which I made two or three times a year" and received the other information from overseers. In addition he was uncertain about the prices the contractors actually paid his workers as Francois Baby (1768-1852), the contractor, stated that wages varied from 8s to 12s 6d per day and one labourer even received 15s. As to the price paid for

⁸⁷Ibid.

materials, Gauvreau "rejected the accounts for cement, bricks, and other materials when I thought, according to my experience, that the quantities were too considerable." But he could not recall the exact price paid for various materials. He ascertained these quantities "by means of a measurement".⁸⁸

The committee then called upon Michel Patry, the overseer for Belle Isle. Patry contradicted Gauvreau's testimony and described a disorganized, uncoordinated, and highly irregular system. Patry was instructed by Killaly to record the quantity and quality of materials as well as the time of the labourers. He testified that he never sent a copy to Gauvreau or the department because one was never requested. Gauvreau asked Patry only the names of the men, and refused a list containing their time and their wages paid to them, stating, "give me the names of the men, that is sufficient." Gauvreau certified that construction began on May 12, but Patry claimed that it commenced between May 23 and 31, for different workers. Gauvreau charged the number of days of work at 2,342 days at 10s giving a sum of 1,421 pounds whereas Patry charged only 1,781 days at 5s, giving approximately 445 pounds. As to the measurements of work conducted by the architect, Patry stated, "No, he never measured it at any time, and I never was absent from Belle Isle." Patry concluded his testimony by saying "I believe that Government was overcharged between 7,000 pounds and 8,000 pounds in the account for Belle

⁸⁸Journals, 1859, App. 5.

Isle."⁸⁹

The contract for Belle Isle, dated November 10, 1853, was for the construction of two light-houses and the workers were to be paid from time to time as work progressed. The contract also stipulated the wage and prices to be paid for materials.⁹⁰ If the department would have forwarded all contracts to Langton for auditing he would have been able to compare the department's quarterly accounts with the contract and could have notified the department and parliament that irregularities were occurring. All parties concerned would have been made aware of the faulty system and early action taken to eliminate these practices and "produce order out of financial anarchy."⁹¹

Langton succeeded where others had failed. Once the board had been established he immediately pointed out weaknesses in its constitution and introduced measures to correct them. He directed an organized attack and with the help of others, like Young, confronted individuals whose questionable practices he exposed. Langton's methods were questioned by Ryerson and Cauchon as they believed he overstepped his bounds as auditor and that he was interfering in matters which did not concern him. The cases of Ryerson retaining interest that belonged to the province and Cauchon not following established accounting procedures

⁸⁹Ibid.

⁹⁰Ibid.

⁹¹Ward, p.25.

demonstrates several things. First it illustrates that it was difficult to implement new practices especially when those practices would restrict the freedom of government members, that regulations and parliamentary statutes were not followed, that penalties were not enforced, and that in theory Langton had support for his reforms but in practice few gave him the backing that he demanded and required. Lastly it demonstrates that without independence the board of audit would not be as effective as Langton hoped.

Through the discretionary and obligatory audits Langton established the means to keep government officials in-check. He recognized that even one weakness in the Act made it ineffective and that "parliamentary control of finance is like any chain of command and is no stronger than its weakest link." Consequently every aspect of the Act had to be enforced. The process of financial control could "break down if the required devices disappeared" and if all rules were not followed there would be a return to the "happy-go-lucky outlook."⁹² He viewed the Act and reform as a whole. He abolished both the Imprest Account, and the practice of charging unauthorized expenses to the contingency fund or as miscellaneous expenses. He introduced the line of credit system, the practice of estimating expenditures in advance, of departments submitting accounts quarterly, and established a uniform year end. Langton however did not achieve his most important goal of gaining financial independence until

⁹²Ibid., pp.6,7.

1870 when the board of audit achieved autonomy from the minister of finance and the auditor was given the power of independent reporting.

CONCLUSION

By 1864 John Langton had introduced measures which greatly increased financial responsibility in the province of Canada. The thirteen clause Audit Act of 1864 (27 and 28 Vic., c. 6) was the culmination of Langton's pre-Confederation efforts and was a direct result of Thomas D'Arcy McGee's 1863 Report on the Origin and Organization of the Public Departments. In 1864 Sandfield Macdonald, the Liberal prime minister, and Luther Holton, his finance minister, agreed with McGee's report which "condemned the inadequate legislative supervision of public spending" and quickly proposed amendments to the Audit Act.¹ The Macdonalds, John A. and Sandfield, McGee, Mackenzie, Hincks, Cayley, Galt, Holton, and Young assisted Langton in achieving financial responsibility. McGee was instrumental in placing the full support of the minister of finance behind the auditor by including members of all the major departments on the board.² The deputy heads from the post office, Crown lands, public works, and customs were now members of the board and audited their respective accounts before submitting them to the auditor, now chairman of the board, for final review and verification. The deputy receiver general kept the books concerning the province's account with Britain and the board was empowered to frame

¹Bruce Hodgins, John Sandfield Macdonald, 1812-1872. (Toronto: University of Toronto Press, 1971), p.69.

²Report of Thomas D'Arcy McGee, "Origin and Organization of the Public Departments, 1863" (RG 1E 7), Vol. 59 A.

regulations concerning the method of book-keeping.³

Through Mackenzie's struggle for responsible government, which was based on his desire for a greater role in government, he and other Reformers initiated the growing awareness and the public's re-education to the duty and role of the government as the guardian of the public purse and the importance and need of financial accountability. Government began to recognize that it was serving the public, that its actions should be monitored, and that government should be run like a business. As Ward has written, "Institutions developed slowly ... because of the inertia displayed in financial matters by successive ministers, a generous proportion of whom found ineffective financial controls entirely satisfactory."⁴ It was the Reformers who initiated the breaking with tradition, the growing awareness, and the re-education which brought about a more financially accountable system.

The emergence of responsible government in 1848 had very little affect on the cause of financial accountability but it would assist in holding government officers accountable for their actions and it was the mechanism to reprimand them by forcing them out of office. The introduction of "uniform" accounting methods, the double-entry system, was important in that it was the means to monitor government officers and to keep

³Statutes, 1864, 27 and 28 Vic., c. 6.

⁴Norman Ward, The Public Purse, A Study In Canadian Democracy. (Toronto: University of Toronto Press, 1962), p.23.

them in check. In addition it was important to stop questionable practices by enforcing parliamentary statutes and regulations established to ensure accountability such as the Board of Works' and Audit Acts. All of this depended upon a re-education to the importance of financial accountability and the institution of new standards for government.

The development of financial accountability in Canada was a slow process because Canada was a pioneer in the realm of financial accountability in the British Empire, and was attempting "to solve problems concurrently with the British House of Commons, rather than simply following the latter's example."⁵ However, Canada was able to look to the successful implementation of financial accountability in France in the 1820's. That it took such a long period to gain a respectable measure of financial accountability is a further testament to the difficulty of successfully changing attitudes and convincing government officials of the importance of financial accountability.

Mackenzie and the Reformers made colonists and British government officials cognizant of problems and possible solutions. Through the Seventh Report on Grievances he proposed that a board of audit be instituted to monitor the government's financial transactions. Though at times overly harsh and critical

⁵Ibid., p.7.

It was not until 1866 with the death of the comptroller general that the audit office in Britain was formed. The comptroller's office was phased out and the financial system was centralized under the auditor which encompassed the duties of both the comptroller and the exchequer. PAC, Great Britain: Public Record Office, MG 14, Audit Office Finding Aid, p.9.

of the ruling Tory elite Mackenzie none the less initiated a movement towards a new standard of government conduct for Canada. As a result of Reform agitation and the rebellion Durham was sent as Governor General Lord High Commissioner of British North America colonies with the task "of adjusting certain important affairs affecting the Province of Upper and Lower Canada." He diagnosed and elaborated upon the province's problems and suggested a union of all the British North American colonies, responsible government, and municipal government. Sydenham, the next Governor General of British North America, believed that a new political system was required. He implemented union, municipal government, the board of works, which established the basis for the modern administrative system, advocated that a board of audit be established, and established the ground work for a 1,500,000 pound loan guarantee. In addition he followed Russell's recommendation and introduced a more responsive system of government without severing the imperial connection. Also he required the executive councillors to be members of the legislature and to resign if they opposed government policy.

Inspector General Hincks continued with Sydenham's policies of municipal government and finalized the negotiations and secured a 1,500,00 pound loan guarantee. The Act for the Better Management of the Public Debt (12 Vic., c.5), the Municipal Corporations Act (12 Vic., c.81), and the Consolidated Municipal Loan Fund (16 Vic., c.22) established the means to draw upon the loan guarantee. He introduced the double-entry book-keeping

system into government, which the Committee on Public Departments (1839) advocated. Hincks's consolidation established the infrastructure which the four public committees of inquiry of the 1850's elaborated upon. During the early-1850's distinct political parties emerged in which a narrowing of the political spectrum occurred. This contributed to a more politically stable system in which all parties recognized and agreed that economic growth and development were important if the province was to prosper. As the government grew in size and took on greater responsibility for the province's growth so too did it take on a more responsible attitude concerning the management of the public accounts. At this time accounting began to be seen as an important aspect in economic development. This transformation was brought about by the more favorable political climate but was also brought about by a change in attitudes toward the role and duty of government.

Government was now recognized as the guardian of the public revenue. If growth was to continue some means of monitoring the public accounts was necessary. Business methods, the double-entry book-keeping system, was seen as being of paramount importance in achieving this as it was the means used to check officers and hold them accountable. Mackenzie initiated the change in attitude by attacking the Constitutional Act of 1791 and in the 1830's he revealed some of the problems plaguing Canada. However others like Durham, Sydenham, and Hincks introduced measures to correct them. They were unsuccessful in solving all the problems and in

introducing a board of audit. In 1854 Mackenzie reemerged and took up the cause of financial accountability. He discovered that even with responsible government that financial accountability had not been realized. Mackenzie chaired the Second Committee on Public Accounts (1854) and through it he was successful in making the government aware of its role as guardian of public funds and "out of [the] unforeseen Parliamentary incident" the board of audit was "very hastily framed and adopted."⁶

But it was Langton who was most successful in convincing government officers like Ryerson and Cauchon of the importance of financial accountability. Langton re-educated government officers, instilled new attitudes in them, and attempted to enforce regulations. Old practices and precedents died hard especially when they were considered to be part of the position. Ryerson and Cauchon believed that Langton over-stepped his duties, encroached upon their rights, and told them how to conduct their offices. In the past these officers were free to conduct their offices as they deemed appropriate. They were answerable to no one except the governor who understood little about financial matters or ignored them completely and in most cases questionable practices were lost in the bureaucracy of the system and never reached the governor. As the system became rationalized, primarily owing to Sydenham, these practices were exposed and Langton confronted the "guilty individuals". Upon

⁶McGee, "Origin and Organization of the Public Departments, 1863".

questioning their practices Langton was successful in changing attitudes towards financial accountability. For Langton the process of re-education was difficult because he was dealing with a long standing entrenched bureaucracy and had to work through his superior, the finance minister. After nine years as auditor general Langton was successful in establishing the basis for the modern board of audit. The Audit Act of 1864 "established the remaining necessary principles for the creation of effective responsible government in public expenditure" except the auditor did not achieve independence.⁷ Finally, in 1870 Langton and the board of audit gained independence which made the board a far more effective department for upholding and enforcing financial accountability.

⁷Ward, p.37.

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