

Chapter 26

National Defence

The Proper Conduct of
Public Business

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National Defence

The Proper Conduct of Public Business

Main Points

26.1 National Defence has taken positive steps in each of the areas we reviewed in this audit: active support of ethical conduct, internal control and audit, and follow-up on complaints. However, each of these areas requires further improvement.

26.2 The Defence Ethics Program, initiated by the Department in 1994 as a key response to ethical problems that had surfaced in recent years, has not yet been fully implemented throughout the Department and the Canadian Forces. The central design of the program has been completed, ethics components have been added to some training courses and ethics training for new recruits is progressing at a satisfactory pace, but other key elements are still not in place. In the military services there is a lack of commitment to the program, and its integration into personnel systems varies widely. The Department needs to move forward and make the program fully operational as soon as possible. To do so, it needs to develop an action plan with clear dates and deliverables.

26.3 We also found weaknesses in the departmental control systems, including internal controls, internal audit and the military police. There is evidence that in some areas, controls over financial and materiel resources have weakened. While the central internal audit group has recently completed several studies of risks associated with delegated resource management, we are concerned that internal audit resources have fallen below prudent levels and that decisions about the level of compliance audit work necessary to detect and deter fraud and abuse are not based on adequate risk analysis. A few local commanders do not fully understand the new role of the Canadian Forces Provost Marshal in setting policy and standards for the military police. This has resulted in instances of interference.

26.4 We examined how the Department responded to complaints directed to senior departmental management in National Defence headquarters. Allegations of such abuses of resources as unauthorized upgrading of official residences and misappropriation of government property have not always been dealt with adequately. Corrective action has been inconsistent and remedial action is slow. We have recommended that the Department track all complaint cases and ensure that they are resolved expeditiously.

Background and other observations

26.5 In recent years, National Defence has suffered from several highly publicized breakdowns in management and leadership conduct, most notably the subject of the Somalia Inquiry, and others related to misuse of resources. Over the past five years, the Department has also undergone extensive change: its budget has been reduced by almost 25 percent, an entire level of management has disappeared, and management has been substantially decentralized. This has posed significant challenges to the maintenance of management controls and the reform of the Department.

26.6 In response to identified problems, senior officials in the Department directed the development of the Defence Ethics Program in February 1994. The program that was developed was approved in December 1997. It is based on the *Statement of Defence Ethics*, which consists of principles (respect, service and obedience to lawful authority) and obligations (integrity, loyalty, honesty, courage, responsibility and fairness). The program is intended to be implemented from the top down by group principals at headquarters and by the navy, army and air force chiefs of staff.

26.7 The Department's strategy for implementing the Defence Ethics Program includes raising awareness, providing ethics training for military members and civilian employees, encouraging discussion and open dialogue and finding means to deal with ethical issues. It also includes assessing areas of risk to identify specific ethical problems. One of our objectives in this audit was to determine the extent to which the Defence Ethics Program has addressed the problems identified so far.

26.8 In addition to the Defence Ethics Program, the Department continues to rely on controls such as internal audit, military police and management checks on compliance. We examined these areas as well. We also assessed whether National Defence responds appropriately to complaints about misuse of resources or misconduct.

The Department responded positively to our recommendations and agreed to make several improvements. It said it would re-emphasize the responsibilities of managers for implementing the Defence Ethics Program and would assist them in making plans. The Department agreed to strengthen the risk analysis required to guide audits in the individual military services. It hopes to use automated data analysis to analyze transactions in order to identify irregularities. Finally, the Department said it is now tracking responses to complaints of abuse and is confident that most assessments will be complete within one year.

Introduction

What is “the proper conduct of public business”?

26.9 The proper conduct of public business has been a long-standing concern of the federal public service, including the Canadian Forces. “Proper conduct” means not only that management acts in compliance with laws and policies but also that resources are used to benefit the public, not the individual public servants to whom public funds are entrusted. Management policies and practices must pass the test of stewardship: guarding and using public funds and resources as if they were one’s own. Lapses in proper conduct can therefore range from criminal acts to merely poor business judgment. Exhibit 26.1 depicts the types of lapses that can occur.

26.10 In order to reduce the risk that improper conduct will occur, management must control risk. Our September 1998 Report Chapter 15, Promoting Integrity in

Revenue Canada, summarized what this entails. First, management must ensure that appropriate values are communicated to staff and accepted by them. At National Defence, the Defence Ethics Program is the main vehicle for communicating ethical values (see Exhibit 26.2).

26.11 Second, reducing risk requires effective internal controls and internal audit. Internal controls are the traditional methods and measures put into place by management to prevent and detect both error and misconduct. Internal audit provides management with an independent evaluation of how well those controls are working.

26.12 Third, appropriate corrective action must be taken when employee misconduct is suspected. It is important that such behaviour be investigated and discipline applied. Feedback from the monitoring and analysis of incidents of misconduct can be used by the responsible managers to improve controls and encourage conformance with corporate values.

Type	Definition	Example
Dishonesty	Laws or policies are intentionally broken, resulting in benefit to the individual committing the act.	Officials claimed and received allowances by making false statements.
Abuse	Public resources are used in a way that benefits the individual making the decision, but where there is little or no increase in public well-being. Regulations or policies may not actually be broken.	Extravagant improvements to official residences.
Claimed Misunderstanding	Individuals claim or accept benefits that are outside the intent of policy, but can plausibly claim that they misunderstood what the policy was.	Officials used a loophole in regulations to make a claim for reimbursement for expenses already paid for by a vendor corporation. The intent of travel policy is to reimburse employees for legitimate expenses.
Waste	A departmental program benefits employees, but does not have demonstrable value to departmental objectives.	An official residence maintained for representational purposes, but where few representational events take place.

Exhibit 26.1

Types of Lapses in the Proper Conduct of Public Business

Ethical conduct is a long-standing concern of the federal government

26.13 Ethical conduct has been given renewed attention in the federal public service in recent years. The Clerk of the Privy Council identified public service values as an important issue and set up a task force on Public Service Values and Ethics. The resulting report in 1996 — *A Strong Foundation* — recommended the establishment of an office to advise public service managers on ethics and values. The report emphasized the importance of values such as integrity, honesty, probity, and careful stewardship of public resources. In 1999, the Treasury Board Secretariat set up an Office for Public Service Values and Ethics, which was to report to the Secretariat by September 1999. That Office complements the role of the Prime Minister’s Ethics Counsellor to Cabinet.

Military ethics are unique

26.14 National Defence is different from other federal departments. The Department exists, in part, to support the Canadian Forces — whose members

perceive themselves as distinct from the rest of society. In this perception, the Canadian military is no different from armed forces in other democratic countries. In 1869, William Windham described armed forces as “a class of men set apart from the general mass of the community, trained to particular uses, formed to peculiar notions, governed by peculiar laws, marked by peculiar distinctions.” The Canadian Forces constitute a proud and distinctive community within Canadian society, prepared if necessary to make the ultimate sacrifice on its behalf and committed to common Canadian values in matters of public trust.

26.15 As a result of their mandate, most military organizations develop a unique culture, such as the regimental system in the Army. The regiment becomes the family that influences all facets of military life. According to a 1996 departmental Board of Inquiry in its report *Command Control and Leadership in Canbat 2*:

It is a well accepted axiom that a soldier’s regiment is his family. Many studies of battlefield stress and why

Exhibit 26.2

Responsibilities for Managing the Risk of Abuse of Resources at National Defence

All managers are responsible for insuring that adequate controls are in place to protect resources and ensure compliance with regulations.

The Chief Review Services plays several roles. This headquarters group:

- is the program authority for the Defence Ethics Program;
- performs review services on behalf of the Deputy Minister and the Chief of the Defence Staff;
- contains the *Directorate of Special Examinations and Enquiries* that investigate allegations or instances of impropriety, mismanagement and other irregularities.

The military chiefs of staff are responsible for:

- the implementation of the Defence Ethics Program in their service;
- audit and review in their service.

The Canadian Forces Provost Marshal develops police policy and plans and provides specialized and investigative services including the *National Investigation Service*, which investigates matters of a “serious or sensitive” nature.

The Military Police perform routine investigations at the unit level.

The Ombudsman acts as an independent, neutral and objective sounding board, mediator and reporter to help individuals access existing channels of assistance and redress. He also reviews internal processes to ensure that individuals are treated fairly and equitably.

soldiers fight have reinforced the notion that a soldier will risk his life for his comrades and for the honour and survival of his regiment. This issue is fraught with emotion. Many officers and soldiers spend their entire lives in a single regiment and they naturally become blind to many of its faults.

26.16 Information that could tarnish the reputation of the regiment may be deliberately hidden and whistleblowers perceived as outside the military culture. The Board continued:

It is understandable that a soldier would want to keep any news of wrongdoing within his regiment ... in the military this concept of washing dirty linen *entre nous* can actually work against the chain of command if it is applied with too much rigour.

26.17 The Department has experienced a moral crisis during the last few years. The turmoil originated primarily from the incidents in Somalia involving the killing of civilians and subsequent allegations of cover-up, but public complaints and departmental investigations into misuse of public funds have added to the problem. Alleged abuses of resources — in, for example, renovation of official residences, hospitality and entertainment, use of aircraft, travel claims, environmental allowances — have involved both senior officials and personnel at lower ranks. In response, the government and the Department launched several initiatives that affected all departmental and Canadian Forces activities and personnel. These resulted in:

- a review of the Canadian Forces and a report to the Prime Minister on how to address problems of leadership, discipline, command and management and honour (*Report to the Prime Minister on Leadership and Management in the Canadian Forces*, March 1997);

- an assessment of the Code of Service Discipline and the roles and functions of the military police, including the independence and integrity of the investigative process (*Report of the Special Advisory Group on Military Justice and the Military Police Investigation Services*, March 1997);

- a review of the quasi-judicial role of the Minister as set out in the *National Defence Act* to ensure that the Minister of National Defence has maximum flexibility in conducting the affairs of the Department and the Canadian Forces and enhancing the impartiality of the military justice process (*Report on Quasi-Judicial Role of the Minister of National Defence*, July 1997); and

- an inquiry into the Somalia operation, including the chain of command, leadership, and discipline (*Report of the Commission of Inquiry into the Deployment of Canadian Forces to Somalia*, June 1997).

Military organizations may develop cultures that can both reinforce and conflict with ethical values.



National Defence Headquarters in Ottawa. Several initiatives were launched in response to the turmoil experienced by the Department and the Canadian Forces over the last few years (see paragraph 26.17).

26.18 On 14 October 1997, the Minister of National Defence established a Monitoring Committee on Change in the Department of National Defence and the Canadian Forces to ensure the implementation of some 279 accepted recommendations arising from these reviews. The Committee is to submit its final report to the Minister in the fall of 1999.

26.19 Part of the departmental response has been the establishment of the office of the Ombudsman. The Ombudsman was appointed in June 1998 after a period of extensive consultations and negotiations, a working mandate put in place a year later, June 1999. The mandate will be reviewed after six months of operations.

26.20 The Ombudsman's mandate defines his role as "an independent, neutral and objective sounding board, mediator and reporter acting as a direct source of information, referral and education to help individuals access existing channels of assistance and redress within the Department and the Canadian Forces." The Ombudsman also reviews internal processes to ensure that individuals are treated fairly and equitably. The mandate provides the Ombudsman with the authority to conduct investigations where necessary.

26.21 The Office of the Auditor General has long taken an active interest in issues of ethical conduct in the public service. Our May 1995 Report Chapter 1, Ethics and Fraud Awareness in Government, proposed an ethical framework for government. The chapter identified the need for a continuous process that highlights ethics in decision-making, a multi-faceted approach to strengthen the government's ethical climate and a heightened awareness among senior managers. Our September 1998 Report Chapter 15, Promoting Integrity in Revenue Canada, considered

the various means Revenue Canada uses to promote integrity among its employees.

26.22 Earlier audits also reflected our interest in the proper conduct of public business. Our May 1995 Report Chapter 7, Travel and Hospitality, identified government travel as a visible indicator of prudence and probity in the management of public funds; and Chapter 8, Travel Under Foreign Service Directives, reviewed action taken by Foreign Affairs and International Trade in response to irregularities in travel claims submitted by employees. Together, those audits looked at ethical awareness and stewardship of resources in travel by public servants.

Focus of the audit

26.23 Military police statistics indicate that cases of fraud and theft are relatively rare in the Department (Exhibit 26.3). We undertook this audit because our Office had received a number of serious complaints of abuse of resources at National Defence. At the start of our audit, departmental officials lacked the information to assure us that these complaints represented isolated incidents and not a general trend.

26.24 The focus of our audit was on the three steps that management must take to control the risk of fraud and abuse: the active support of ethical conduct, the maintenance of effective internal controls and internal audit, and effective follow-up on complaints. Our audit examined the implementation of the Defence Ethics Program, the key means by which National Defence supports ethical values and conduct. We also reviewed the adequacy of internal financial controls and internal audit at selected locations. Finally, we examined how the central special examination and inquiry unit of the Department has investigated complaints, and what corrective action has been taken. Additional details can be found at the end of the chapter in **About the Audit**.

Observations and Recommendations

Defence Ethics Program

Intended as a key response to ethical problems

26.25 In response to the growing need to re-emphasize ethical decision making and integrity in the Department, senior officials decided in February 1994 to develop an ethics program; they approved the result in December 1997. The philosophical foundation of the program is a “values-based” approach, which places priority on core values and principles of ethical culture as guides to professional conduct. The “values-based” approach to ethics was chosen for the Defence Ethics Program with the clear intent that it would be a comprehensive program implemented from the top down throughout the Department and the Canadian Forces.

26.26 The essence of the Department’s strategy is an organization-wide ethics statement, a centrally designed program and delegated responsibility for its implementation. The Chief Review Services, who heads the Department’s internal audit function, acts as the program authority in the Department. Headquarters group principals and navy, army and air force chiefs of staff are responsible for implementing the program in their respective services. An Ethics Advisory Board establishes a network of ethics co-ordinators appointed from each headquarters group and military service. Subordinate co-ordinators, or other implementation structures, are to be set up throughout the chain of command. The program’s challenge is to ensure that all departmental activities with an ethical dimension are consistent with the fundamental expression of defence values in the *Statement of Defence Ethics*.

26.27 The Department has chosen an approach intended to nurture

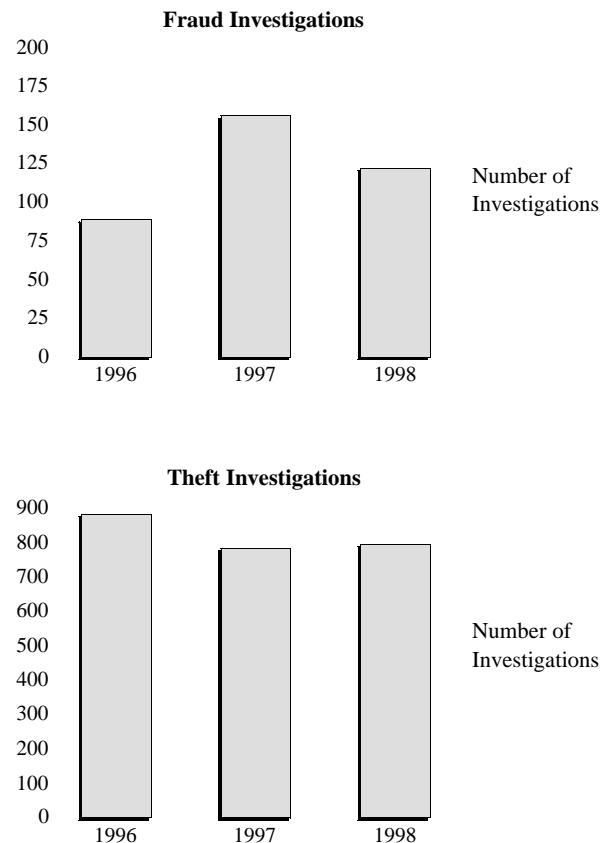
understanding and fundamental changes in behaviour, rather than a more mechanistic approach aimed at cycling large numbers of people through short training sessions.

26.28 The keystone document that serves as the program’s foundation is the *Statement of Defence Ethics* (Exhibit 26.4). This consists of two main parts: three ethical principles related to respect, service and obedience to lawful authority; and a core of six ethical obligations. The principles are intended to be universally valid aids for establishing priorities when ethical obligations conflict or when circumstances do not present

The Defence Ethics Program is intended to be a comprehensive program, implemented from the top down throughout the Department and the Canadian Forces.

Exhibit 26.3

Theft and Fraud Investigations Reported by the Canadian Forces Provost Marshal



Source: Department of National Defence

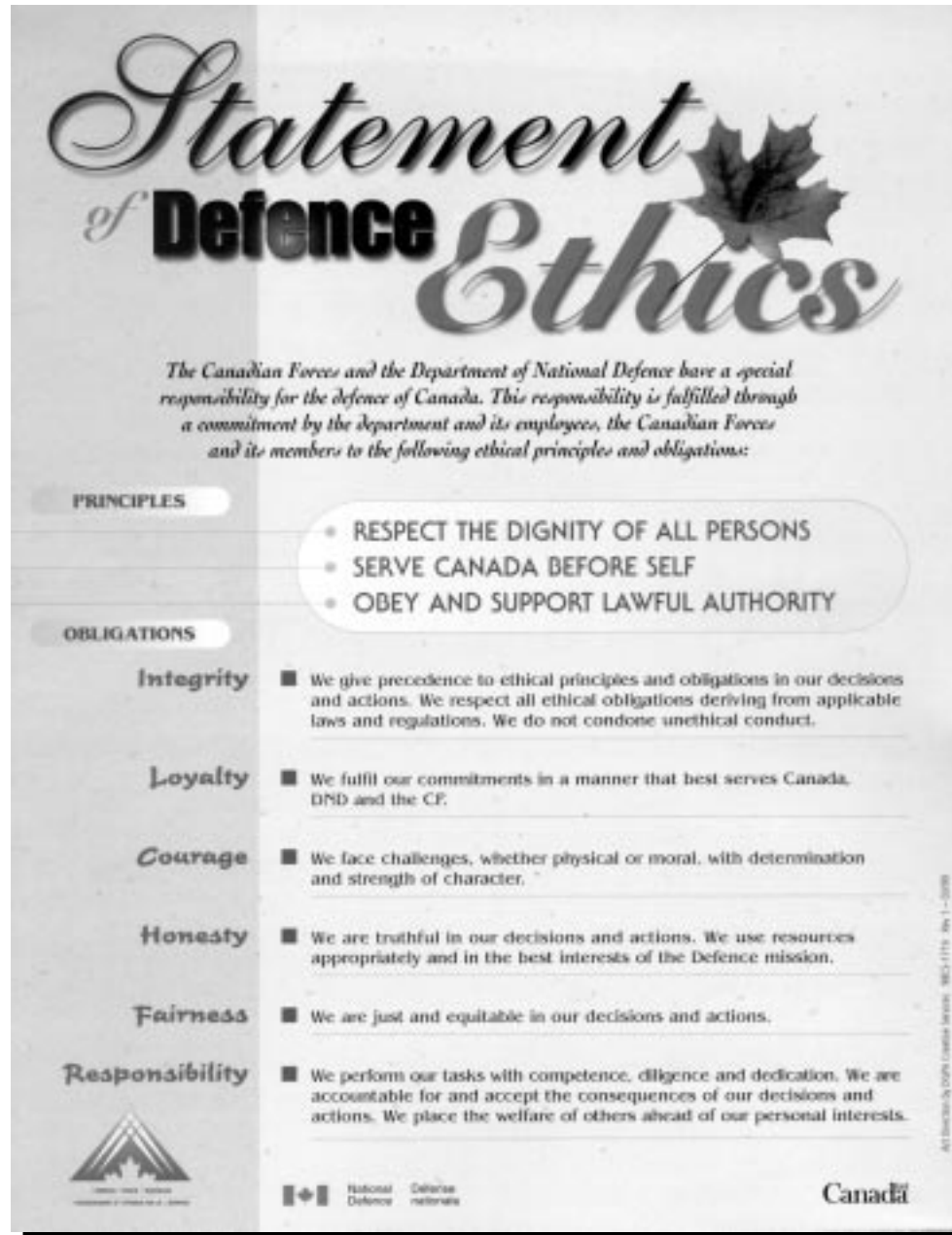
choices that are clear and ethically unambiguous. Ethical obligations are intended to be standards of conduct with equal weight that members of the Department should strive to meet in performing their professional roles and duties.

26.29 The Department's ethics strategy requires that the policy, expectations and

guidance be clearly communicated and leadership commitment be clearly seen. The strategy involves raising awareness, providing ethics training, promoting individual self-learning, and providing opportunities for discussion and open dialogue on ethics issues. Risk assessment is to be used to identify potential ethical problems.

Exhibit 26.4

The Department Has a Formal Statement of Ethics



26.30 All members of the Canadian Forces are to be exposed to a graduated program of ethics training, taking every advantage of existing programs and opportunities. At a minimum, the Department aims to provide basic, intermediate and advanced courses at appropriate career points. Training courses are to be linked with specifications of knowledge and skills required of officers and non-commissioned members. Communication activities at the workplace are to supplement formal training courses. Training in ethics is to be developed for civilian employees and the Department plans to introduce ethics training for them in core courses.

26.31 According to guidance provided in the Defence Ethics Program Implementation Handbook, ethics co-ordinators at the rank of colonel or the civilian equivalent are to be appointed within headquarters groups and military services to implement the Defence Ethics Program in their areas of responsibility. Ethics co-ordinators are responsible for providing guidance, advice and assistance in the program's implementation, providing referrals for advice on ethics issues, and participating as members of the Ethics Advisory Board.

26.32 Ethics co-ordinators are also responsible for monitoring and reporting on the accomplishment of the program's objectives in their own organizations. With the 1999–2000 business planning exercise, reporting responsibilities have been removed from the various headquarters groups and the military services and only the Chief Review Services now reports on the progress of the Defence Ethics Program.

The Defence Ethics Program has not yet been fully implemented

26.33 More than five years after the development of an ethics program was directed by the Defence Management Committee, key elements of the Defence

Ethics Program have still not been implemented in the Department. Although the program's development began in February 1994, the *Statement of Defence Ethics* was not completed until almost three years later. Establishing terms of reference and completing preliminary drafts of the *Implementation Handbook* took until late 1997. Eighteen months after its publication, the *Handbook* has not yet become departmental policy. Although a French-language version was completed in February 1998, the units we visited who work in French were unaware of the *Handbook*.

26.34 Moreover, the *Handbook* has been issued only informally to departmental staff. Of the 10 headquarters groups and military service headquarters with an ethics co-ordinator, two had not received a copy of the *Implementation Handbook*. Seven had copies that were outdated.

26.35 The terms of reference for the Defence Ethics Program do not include the clear reporting mechanisms that are provided for in the Department's other mandated programs such as the Standards for Harassment and Racism Prevention (SHARP) program. Although the Chief Review Services has been responsible since April 1999 for reporting on the Defence Ethics Program in departmental business plans, he has sent no reporting instructions to headquarters groups and the military services. Consequently, business plans do not report on the Defence Ethics Program. Officials told us that in their view the program is at a highly developmental stage, making it difficult to plan precisely or develop monitoring tools. We agree that at the program's inception there were few models to guide the Department. At this juncture, however, plans with clear goals and a monitoring system similar to other change programs appear both feasible and appropriate.

26.36 We found, moreover, that the lack of a departmental plan with specific

Senior military officials told us that — in spite of approved terms of reference — they had never been ordered to implement the ethics program.

goals has led to uneven levels of commitment in the three military services. We were told by senior military officials from all three services that they did not believe they had ever been ordered to implement the Defence Ethics Program. This is in spite of the approval of terms of reference for the program by the Defence Management Committee — of which the Environmental Chiefs of Staff are members. Officials told us that they believed their services had always subscribed to appropriate ethical values and that their unique approaches were sufficient means to achieve departmental objectives. It is not surprising in these circumstances that implementation is slow. Moreover, a host of local value statements continue to form the basis of ethics instruction.

26.37 During the course of our audit, the Chief Review Services took a number of steps to improve program management. The *Defence Ethics Program 1999 Program Report*, published in August 1999, provides a comprehensive statement

of the central component of the ethics program. It contains concrete goals and objectives for some program elements. Officials told us a similar plan had been developed for the army. In addition, the Chief Review Services was conducting a baseline survey of employee attitudes and beliefs, although it had not yet been completed. What remains is to complete goals and objectives for the rest of the program and to incorporate the parts of program delegated to the military services and headquarters groups into departmental reporting.

The *Statement of Defence Ethics* competes with a plethora of statements and values

26.38 The *Statement of Defence Ethics* is not the Department’s only statement on ethics issues. In the March 1997 *Report to the Prime Minister*, the Minister of National Defence recommended that a formal statement of values and beliefs be integrated into departmental activities by June of that year. The *Canadian Forces Ethos Statement* was subsequently



Senior officials from the navy, the army and the air force have always subscribed to the ethical values of their own service. They do not believe that they were ordered to implement the Defence Ethics Program (see paragraph 26.36).

approved by the Armed Forces Council in July 1997. The *Ethos Statement* was aimed at the Canadian Forces rather than the Department as a whole. It is intended to be a second “keystone” document addressing the Somalia Inquiry’s recommendations that the core qualities of military leadership, other necessary attributes and performance factors be the basis for leadership in the Canadian Forces.

26.39 Departmental officials acknowledge that the existence of two similar statements has been problematic and that their discussion inside the Department has been unclear at times. However, they believe that both statements are authoritative and do not conflict.

26.40 The Minister’s Monitoring Committee on Change in the Department of National Defence and the Canadian Forces noted in its 1999 *Interim Report* that it was difficult to gauge progress in the development and application of leadership standards because there appeared to be no master implementation plan. Similarly, we found that the choice by staff between the ethics and ethos statements as a basis for implementing the program has followed no consistent pattern. For example, nearly 90 percent of the courses we reviewed had ethics content of some sort but it was based on the *Statement of Defence Ethics* in only about 60 percent of them.

26.41 We also identified a plethora of statements and values used in addition to the *Statement of Defence Ethics*. In more than 30 different source documents we identified around 100 different values intended to guide the conduct of operations and activities in the Department and the Canadian Forces (Exhibit 26.5). The source documents ranged from the officer’s commission to army doctrine and referred to values such as a sense of humour, veracity and willingness to admit mistakes. According

to departmental officials, this is a sign that the individual services and branches are implementing the overall program. Nevertheless, the range of the various statements means their focus is inconsistent, even if they do not actually conflict with each other.

The Defence Ethics Program has not been fully integrated into formal human resource management systems

26.42 The Defence Planning Guidance for 1997, 1998 and 1999 provided specific directions for implementing the “mandated” Defence Ethics Program. We therefore expected to find the *Statement of Defence Ethics* or other elements of the program reflected concretely in training courses and in formal elements of human resource management such as performance appraisals. This requirement was in the Minister’s military *Ethos Statement*. Due to the confusion in the Department over the two statements, departmental reporting tends to mix the two initiatives.

26.43 The appraisal process. We found that criteria for promotions vary from one promotion board to another. It was not possible, therefore, to assess the impact of the Defence Ethics Program on the promotion process. However, we were able to assess the place of ethics in the performance appraisal process. New systems are still in draft form, but we note that the new system for appraisal of non-commissioned members and officers up to lieutenant-colonel does not include ethics as a specific element. The old system had such provisions for officers up to the rank of brigadier-general. Moreover, guidance issued by the Chief of the Defence Staff for senior officer appraisals refers to ethical factors taken from *La Relève* (published by the Privy Council Office) instead of from the *Statement of Defence Ethics*. There are no ethics provisions in the civilian appraisal system which is a public-service wide system and not specific to National Defence.

During the audit we identified more than 30 statements used in addition to the *Statement of Defence Ethics*.

Exhibit 26.5

Ethics Statements and Values Listed in Various National Defence Documents

Sources			
Report to the Prime Minister: Ethos and Values in the Canadian Forces	Canada's Army – We Stand on Guard for Thee (CFP 300)		
Report on the Recommendations of the Somalia Commission of Inquiry – A Commitment to Change	Land Force Strategic Direction and Guidance 1998 – Parts I & II		
Officer's Commission	Canadian Forces Base Petawawa – The Principles of Leadership		
Royal Military College's interpretation of Officer's Commission	2 Canadian Mechanized Brigade Group (2CMBG) – Commander's Operating Plan 1999/2002		
Royal Military College (RMC) Values	Strategic Operations and Resource Plan 1998/1999 and 1999/2000		
Statement of Defence Ethics (SDE)	Combat Training Centre (CTC) Gagetown – Tactics Course		
Revised Statement of Defence Ethics (SDE)	Combat Training Centre (CTC) Gagetown – Armour Course		
Chief Review Services (CRS) Business Plan 1999/2000	Combat Training Centre (CTC) Gagetown – Leadership Development		
Judge Advocate General (JAG) Business Plan 1999/2000	Land Force Central Area (LFCA) – Canadian Military Ethos		
1997 Defence Planning Guidance (DPG)	Armed Forces Council – The Ethos of the Canadian Forces		
Canadian Forces Provost Marshal (CFPM) Annual Report – 1998	LFCA Business Plan 1998/1999 and LFCA 1999/2000 Operating Plan		
Evaluation Reports for Senior Officers	LFCA Commander's Guidance 1998		
Adjusting Course – A Naval Strategy for Canada	Chief of the Air Staff (CAS) – Basic Aerospace Operations Course		
Maritime Command – Guide to the Divisional System	1 Canadian Air Division (1 CAD) Business Plan 1998		
Navy videos	8 Wing (Trenton) – Officer General Specifications (OGS – 6/98)		
Base Halifax Leadership Seminar 1998	8 Wing (Trenton) – Interview with Officials		

Values			
Accountability	Ethics	Make sure that your followers know your meaning and intent, then lead them to the accomplishment of the mission	Respect the dignity of all persons
Achieve professional competence	Excellence	Maintain political & interpersonal neutrality	Respect for rule of law
Act in public interest	Fairness	Medical code of ethics	Responsibility
Adhere to laws of war and regulations of the CF	Faithful to subordinates	Military is subordinate to civilian authority	Seek and accept responsibility
Allow no discrimination, ill treatment, or cruelty	Fitness	Moral conviction	Self-discipline
Appreciate your own strengths and limitations and pursue self-improvement	Generosity	Mutual respect	Selfless service
Avoid conflicts of interest	Good conduct	Obedience	Selflessness
Awareness	Good judgment	Obey and support lawful authority	Sense of humour
Believe in Canada	Honesty	Openness	Serve Canada before self
Care for our people	Honour	Padre/Chaplain's code of ethics	Service
Carefully discharge duty	Honour commitments	Patience	Service to Canada
Commitment	Honour memory of those who died in service of Canada & those who fought and survived	Patriotism	Team before individual
Compassion	Human Resources code of ethics	Perseverance	Teamwork
Competence	Humanitarianism	Physical robustness	Technical knowledge
Courage	Initiative	Preciseness and conciseness	Timeliness
Decisiveness	Integrity	Pride	Tolerance
Dedication	Intellect	Professional knowledge	Train your soldiers as a team and employ them up to their capabilities
Defend legal Constitution	Justice	Professionalism	Trust
Desire for peace	Keep your followers informed of the mission, the changing situation and the overall picture	Prudence	Truth
Determination	Know your soldiers and promote their welfare	Recognition	Unlimited liability
Develop the leadership potential of your followers	Knowledge of others	Representativeness	Uphold personal, social and ethical norms
Dignity	Knowledge of self	Respect & uphold the customs & traditions of the CF & of own and other services	Valour
Diligence	Lawyers' code of ethics	Respect for others	Veracity
Discipline	Lead by example		Visits
Duty	Loyalty		Welcome strength that diversity brings
	Make sound and timely decisions		Willingness to admit mistakes

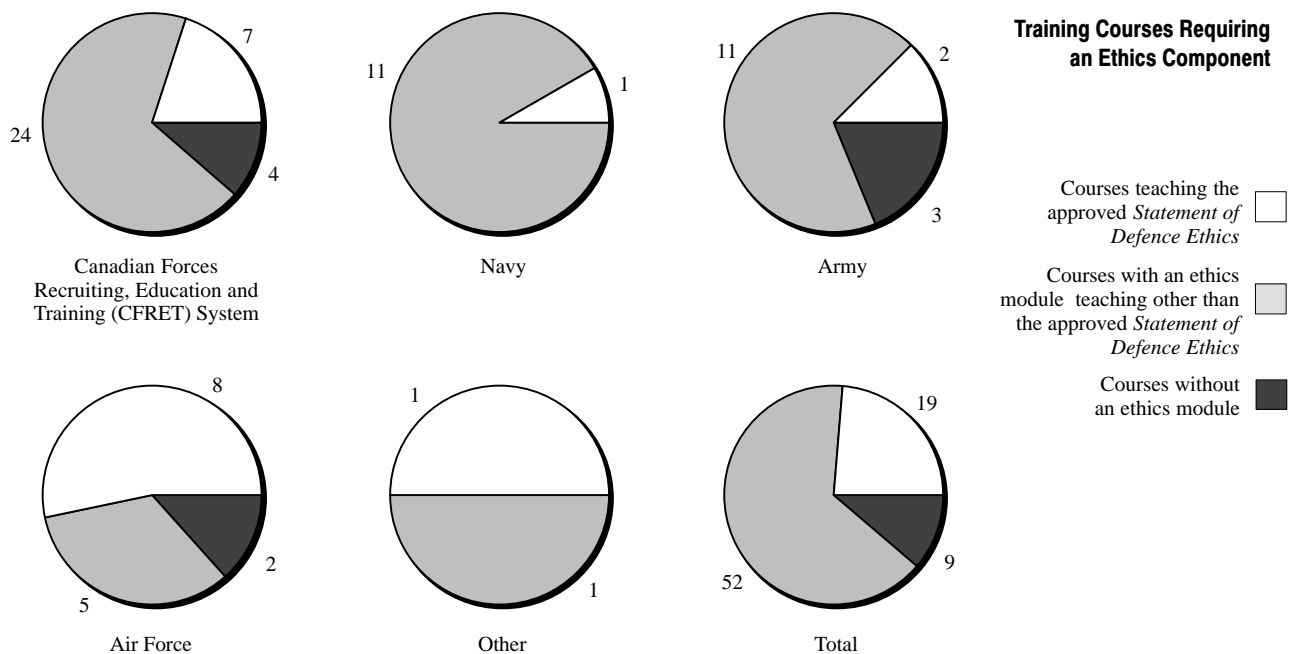
26.44 Training. Training is the major formal vehicle for communicating values and developing judgment. We looked at the content of 80 career courses identified by the Department as requiring an ethics module under the Defence Ethics Program (see Exhibit 26.6). Only 24 percent of the courses contained an ethics module detailing the full training standards and plans required by the Canadian Forces Training System or equivalent standards for professional development courses. Another 18 percent had ethics modules that met standards in part. This situation could be explained by the fact, as noted in paragraph 26.36, that the military services do not feel obliged to implement the program.

26.45 Ethics training is now focussed on entry-level military members and officers and is making some progress. Of 5,700 officer and non-commissioned member recruits, about 3,900 were taught the *Statement of Defence Ethics* in their entry course. In the Canadian Forces as a whole, about 13,000 members have

attended a course with an ethics component since 1997, but only about 8,600 of these have attended a course whose ethics component was based on the approved *Statement of Defence Ethics*. The Department has not identified the number of military members who still require formal ethics training or how long it will be before they are all trained.

26.46 General Officer Ethics Focus Group Sessions. Executive leadership is considered an area of particular importance in the Defence Ethics Program. The Department has therefore held General Officer Ethics Focus Group Sessions to promote discussion of the ethical dimension of generalship, continue enhancing ethics dialogue, and further contribute to ethics awareness at the strategic level. All general officers were invited to participate in the three sessions held between June 1998 and May 1999 and to submit short examples of ethical dilemmas. We found that only about 25 percent of individuals appointed during this period to rank of general or flag

The Department is making good progress in entry-level ethics training. However, training needs to give more priority to older and more senior members who act as role models.



officer had attended a focus group session. However, the Chief Review Services staff have included all general officers by sending them preliminary questionnaires and informing them about the results of the sessions.

The ethics co-ordinator network has not been adequately implemented

26.47 As we have noted, the Defence Ethics Program is to be managed through a network of ethics co-ordinators; the Chief Review Services recommended that they be colonels or the civilian equivalent. Where ethics co-ordinators have been appointed, we found that they are often at more junior levels, reporting to middle rather than senior management. They have been given no specific training, although it is planned for 1999–2000. The ethics co-ordinator in the Vice Chief of the Defence Staff Group was unaware that his role extends to the office of the Chief of the Defence Staff.

26.48 Of the 10 headquarters groups, four have developed an implementation strategy for the program in at least draft form. However, there has been no significant progress in developing implementation plans.

Status of the program

26.49 Overall, we found that implementation of the Defence Ethics Program has been slow; the *Implementation Handbook* is still in draft form and various editions are being used; no reporting mechanisms are in place; co-ordinators are at lower ranks than recommended; and most implementation strategies exist only in draft form or not at all. (An overview is provided in Exhibit 26.7.) Leadership in implementing the Defence Ethics Program is not being adequately demonstrated by the military chiefs of staff. Progress has been made in the training of new entrants to the Canadian Forces, but higher priority needs to be given to ethics training of mid-level and senior officials who act as role

models. As yet, no specific goals or targets have been established to implement the program. The apparent low level of commitment within the three services creates the risk that the program will not advance as quickly as it should and that, as a result, the status quo will continue. Certainly, unless more leadership is shown at the top it is very unlikely that a uniform approach will be created and put in place consistently throughout the Department and the Canadian Forces.

26.50 National Defence should implement the Defence Ethics Program as quickly as possible, clarifying responsibilities, and approving plans with defined goals. It should also monitor the program.

Department's response: This Department is fully committed to the importance of ethics and values. To capitalize on the significant accomplishments made to date, we will continue to progress with timely implementation of the Defence Ethics Program consistent with its vision and strategy. Recognizing the unique nature and implementation requirements of a value-based ethics program, the Department will re-emphasize responsibilities and assist managers to formalize plans. We will continue to assist and work closely with the Treasury Board Secretariat Office of Values and Ethics in the recently announced government-wide initiative.

Internal Controls and Internal Audit

Departmental control systems are needed to support ethical behaviour

26.51 The environment in which National Defence operates is rapidly changing and it is essential that the Department identify, manage and control the risks this presents. Control systems, which are designed to ensure compliance with policies and regulations, can provide an overview of strengths and weaknesses.

To be effective, controls must help managers respond to situations in a consistent way, achieve their established objectives, prevent or detect mistakes and avoid embarrassment.

26.52 Resource reductions, increased financial delegation and the adoption of

operating budgets have significantly affected the extent to which managers at all levels can be involved in the management of defence resources. At the same time, some control mechanisms have been eliminated. Responsibilities and associated resources have been delegated

Exhibit 26.7

Implementation of the Defence Ethics Program in National Defence and the Canadian Forces (April 1999)

	Ethics Co-ordination			Program Implementation			Program Integration Into Departmental Activities	
	Ethics Co-ordinator	Reporting Authority	Ethics Co-ordinators Training	Handbook	Implementation Strategy	Funding	Reporting System	Performance Appraisal
Vice-Chief of the Defence Staff								
Assistant Deputy Minister (Policy)						\$ 3K		
Assistant Deputy Minister (Materiel)						\$ 60K		
Assistant Deputy Minister (Infrastruc. and Env.)						\$ 36K		
Assistant Deputy Minister (Fin. and Corp. Serv.)								
Assistant Deputy Minister (HR–Civilian)								
Deputy Chief of the Defence Staff								
Assistant Deputy Minister (HR–Military)								
Chief of the Maritime Staff								
Maritime Forces Atlantic								
Maritime Forces Pacific								
Canadian Forces Base Esquimalt								
Chief of the Land Staff								
Secteur du Québec de la Force terrestre								
5e Groupe de support de Secteur Valcartier								
5e Groupe-brigade mécanisé du Canada						\$ 100		
Land Force Central Area								
Canadian Forces Base Petawawa								
2 Canadian Mechanized Brigade Group								
Chief of the Air Staff								
1 Canadian Air Division						\$ 5K		
17 Wing								
8 Wing						\$ 3K		

- Completely meets the program requirement
- Partially meets the program requirement
- Does not meet the program requirement

Reductions in resources have meant increased managerial delegation while fewer resources are available for control.

to the managers who directly control specific activities. This decentralization has meant that more people have financial responsibilities, and this increases the need for new tools and support to assess internal controls.

26.53 While the timing, nature and location of controls can change, they will continue to be important and necessary. Our audit looked at key departmental control systems, including management of internal controls and military police services.

Internal audit resources have declined

26.54 Like all functions in the Department, the audit function has been affected by downsizing in recent years. According to the Chief Review Services Business Plan, the departmental “audit community” numbered about 133 in 1998–99, down from approximately 330 in the early 1990s. This is a 60 percent decline, compared with a 35 percent decline in full-time employees overall. However, the staff of the critical Chief Review Services group was reduced only by about 30 percent and the branch retained most of its previous budget.

26.55 Each military service is responsible for its own review staff. Except for the Chief Review Services, who has not yet had to do major staffing, all units/bases/formations in our sample had been unable to fill vacant audit positions. Because these are now classified as junior to mid-level civilian positions, the Department seems unable to attract and keep good candidates.

26.56 In response to the increasing and changing demands for review services, the Department has decided to modify its audit approach and focus more on broad-based audits than on audits of compliance. While compliance issues continue to be covered in every audit, they are now just one component of a comprehensive review process. This represents a move from relying solely on

compliance auditing to reviewing management systems and measuring performance. Officials told us that they believe that traditional, compliance-based approaches are unaffordable and that new methods can do a better job.

26.57 While corporate review is still considered important, review services have had to reallocate resources in response to the significantly increased responsibilities of line commanders and managers. Resources have been transferred from audit teams to provide “review assistance” to managers and leaders. This type of support activity represents roughly 20 percent of auditors’ work. Although it is not unusual for internal audit to devote this much time to support, it leaves a smaller portion of already scarce audit resources for independent audit work based on assessed risks.

26.58 In the case of the Chief Review Services, the proportion of resources allocated to assistance is forecast to decline to 6 percent in 1999–2000, making a greater proportion available for audit. In addition, 4 of 16 assistance projects undertaken by the Chief Review Services since 1997–98 were in response to complaints of abuse of resources.

26.59 These changes mean that internal audit units at the military service level are conducting fewer audits. However, control self-assessment sessions have been initiated to complement traditional approaches to review and audit. Control self-assessment is a process that assists managers in identifying their areas of potential risk and assessing the strengths and weaknesses of their controls.

26.60 The Chief Review Services, who co-ordinates and monitors the control self-assessment process, informed us that 59 sessions were held from September 1997 to May 1999, with 10 to 15 participants at each session. This means that the process has covered only a very small percentage of the Department’s responsibility centres. This first

assessment of risks is very important, but it is only a preliminary step in the audit cycle and no substitute for independent audit. The Chief Review Services Branch told us it hopes to use the results of these assessments along with audit work to develop a control assessment of the entire Department. However, it did not provide us with a date for its expected completion or any other targets for this undertaking.

26.61 The Department has made some initial efforts to address the risk of fraud and abuse directly. The Chief Review Services, in partnership with the Canadian Forces Provost Marshal and other Headquarters staff, held a one-day conference in May 1999 to discuss developing a strategy for protecting resources. The Land Force Central Area has also developed a fraud prevention policy and handbook. The development of a national fraud and abuse policy is now under way.

Most local audit groups do not assess risk systematically in preparing audit plans

26.62 Each year, the Chief Review Services prepares a risk assessment to identify priority areas for audit and review. In addition, several of the audits it undertakes provide extensive risk assessments of such major functions as local procurement and supply, base-level support services and operating budgets. Overall, the assessments have identified many areas of risk but the Chief Review Services has not been able to follow up on most. Indeed, at the end of 1998–99 there were still 36 audit projects under way and over 30 areas identified for future audit planning.

26.63 We found that audit units belonging to the military services themselves did not use adequate risk assessment techniques. Very few audit units at the sites we visited could provide us with risk assessments and annual audit plans, although most were in the process

of preparing their annual plan for 1999–2000. Apart from one completed by Maritime Command Pacific, risk assessments were essentially based on personal experience or on a “gut feeling”. Only one of the units we visited used formal risk assessment in its audit planning.

Managers believe that risk is increasing

26.64 While organizational change is taking place and the new management framework (business planning, devolution of responsibilities, resource allocation and accountability system) is being implemented, managers have to assume an increased amount of risk. From 1995 to 1998, the Vice Chief of the Defence Staff and the Assistant Deputy Minister (Finance and Corporate Services) conducted Comptrollership Reviews in the three armed services to verify the effectiveness of the comptrollership framework and practices throughout the Department. Information about comptrollership practices was gathered through interviews with senior leaders, comptroller staff and resource managers. Their reports gave a good indication of the concerns that commanders and managers have about their increasing vulnerability to risk as a by-product of the new management culture. Their perception is that devolution of authority and responsibility to lower levels increases the risk. The fact that the Department’s ethics and values program has not been fully implemented and accepted by employees also acts to increase risk. Given that organization-wide risk assessment is performed infrequently, internal audit is not a position to inform senior management of the nature and extent of risk. In particular, it is unable to assess risks in areas that are not covered by internal audit.

26.65 Most managers identified the lack of dedicated local audit capability as a major impediment to their willingness to assume more risk. Managers are generally uncomfortable with the low level of

We found few completed risk assessments at command and unit sites included in our audit. Most assessments we reviewed were based on experience and a “gut feeling”.

The Department’s Comptrollership Reviews have identified the lack of local internal audit as a major impediment to managers’ willingness to assume more risk.

assurance now provided by local review services, and several indicated that they would prefer to see more audits of their financial transactions.

26.66 The air force has carried out very few audits in the last five years. There was no audit function in most wings while 1 Canadian Air Division's audit capability was in an embryonic phase. The capability of the air force to conduct reviews, audits and examinations has been weakened to an unprecedented degree. In the opinion of the Commander of 1 Canadian Air Division, the air force is no longer meeting the intent of Treasury Board policy or the expectations of the Deputy Minister. The air force has recognized this deficiency and is now hiring auditors.

Local audit work could be improved

26.67 With management practices and controls now decentralized, a corporate internal audit function is more relevant than ever before. However, internal audit in the three services is not co-ordinated with internal audit at National Defence headquarters. The army has a liaison person who essentially serves as a channel of communication between the Chief Review Services and the army areas and who provides guidance on internal audit policy. The navy has a small group working on internal audit guidance and also ensuring communication with the Chief Review Services. Apart from annual meetings of internal auditors, there are no real mechanisms in place to ensure good communication on a regular basis among the various internal audit units. Local internal audit units do not report their results to headquarters, nor are they required to consider national audit findings in their own audit planning. Due to lack of staff, the air force review services group in Ottawa is more involved in the management and investigation of complaints than in auditing.

26.68 In general, we found that local internal audit resources have declined.

Systematic risk analysis is not being used to apply the remaining resources to the highest priorities. Managers are becoming concerned that the risks they are taking are too high. This key element in the prevention of abuse is therefore weak. Without adequate internal controls and internal audit, management creates an environment in which some employees may be tempted to violate ethical standards.

26.69 The Department should ensure that risk assessments are conducted and that audit resources are assigned commensurate with the risk identified.

Department's response: Chief Review Services, the central review group within the Department, will extend its risk analysis in support of audit planning to include and assist the plans of the audit resources working within the individual military services. This will ensure that total audit activity is appropriately applied in accordance with assessed risk. The central audit group has a strong automated data analysis capability and is developing techniques to periodically analyze transaction trends and patterns in order to identify irregularities. This will be particularly critical as e-commerce progresses. Pertinent training in these techniques, including those aimed at fraud awareness, will also be provided to local audit resources.

26.70 Environmental Chiefs of Staff should ensure that their internal audit activities are co-ordinated with those of the Chief Review Services at headquarters.

Department's response: As indicated, the Chief Review Services will take the lead in co-ordinating audit plans within the Department. This is consistent with the Chief Review Services' responsibility for corporate-level review and for advising the Deputy Minister and Chief of the Defence Staff on all review matters. The DND/CF Intranet will be used as a vehicle for the sharing of audit information, reports and work plans. This, combined

with direct interaction, will increase the degree of co-ordination. Such co-ordination has already been achieved in a principal element of review work at the local level, that being the workshops conducted by audit staff to assist managers in self assessing and remediating their controls.

Management's Control Systems Have Weakened

Local management is concerned about weaknesses in financial management systems

26.71 Management cannot rely solely on internal audit as a control. Audit only validates the effectiveness of other controls. It relies on managers to provide proper accounting and control mechanisms. All managers have a responsibility to manage with prudence and probity the resources allocated to them for their programs. Responsible managers establish inspection mechanisms to provide assurance that directives and guidelines are complied with and that spending is within approved levels and for approved purposes.

26.72 The Deputy Minister of National Defence has stated certain expectations of financial managers in the Department's Financial Management Accountability Framework document. This is a significant step in raising line managers' awareness of financial responsibility. Senior managers are now required to sign an annual letter of Financial Management Attestation. The letter attests that financial management responsibilities have been fully satisfied and that systems and processes in place meet the needs of the command or headquarters group.

26.73 In all locations we visited, officials told us that the shortage of personnel has caused extensive delay — if not abandonment — of most types of compliance inspection schedules. The navy has maintained as a priority the inspection of ships that are considered at

higher risk, but it has postponed or changed the cycle of shore inspections. Neither the army nor the air force has been able to complete its 18-month cycle of financial inspections.

26.74 In addition, the new responsibility framework means that standard checklists are no longer accurate; this hampers the examination process. Directives need to be modified to reflect operational realities. There have been discussions at army headquarters about issuing new directives for service-level inspections, but at June 1999 no changes had yet been made.

26.75 Inspection responsibilities have been delegated in many cases to the unit level, so that individuals are virtually exercising control over themselves. Yet a departmental policy requires that officers who conduct inspections of a function not have direct responsibility for managing the function.

26.76 There is evidence that financial controls have weakened in some areas. Our audit did not establish whether the situation is worsening overall, or exactly how widespread the violation of control

Resources for internal financial compliance checks are inadequate to complete annual inspections, and checklists are out-of-date. Staff carrying out financial inspections are not independent of the areas they have reviewed.



Due to shortage of personnel, the army and the air force have not been able to complete their 18-month cycle of financial inspections at Canadian Forces bases like this one (see paragraph 26.73).

There is evidence that financial controls have weakened.

has been. We did find, however, that some types of breakdown were mentioned frequently in departmental reports and by managers we interviewed. Some examples follow:

- **Cashier operations.** Cashier operations were deemed by comptrollers to be unsatisfactory in many locations. In one formation, a review of cashier operations revealed that the cashier had not balanced his accounts for several months, yet no action was taken. In fact, this situation was allowed to continue, which seems to indicate a lack of proper communication up and down the chain of command. Officials told us that the problems had been caused by the implementation of the new financial management system over the last 18 months and had now been corrected.

- **Ensuring that payments are made correctly.** In conducting compliance audits, a comptroller discovered that staff had not complied with the section of the *Financial Administration Act* that requires the purchasing manager to certify that goods or services have been received before payment is made. The comptroller noted that this certification had either been performed by individuals who lacked

the necessary authority or had been omitted entirely. Because of changes to the financial management information system, some employees did not fully understand their responsibilities.

- **Acquisition cards.** “Acquisition cards” are government credit cards. Through a compliance audit, a comptroller found that in certain areas an appropriate authority (that is, someone other than the cardholder) had not authorized acquisition statements. The acquisition card is a tool that allows greater flexibility in purchasing everyday, low-risk items. As a result, however, many units believe incorrectly that some of the old rules, such as the requirement to report any item over \$1,000 to the unit’s distribution account, have changed or been eliminated.

- **Travel by senior officials.** Internal audits found that contrary to regulations, senior officials were routinely travelling without the approval of their superiors. In spite of the Department’s efforts to stop this practice, we found that it still occurs to a significant extent.

26.77 Audits have revealed important problems that could be a concern to most of the units in the Department. Senior managers sign attestation letters to provide assurance to the Deputy Minister that financial management requirements have been met. However, those letters have often included the qualification that there were limits on the managers’ capacity to assume responsibility for authorities and funds entrusted to the unit. At the wing level in the air force, for instance, commanders have said they have serious concerns about signing their attestation letters when they lack audit resources to provide assurance of compliance.

26.78 Central financial managers told us they believe that the Comptrollership Reviews and the attestation letters are a step forward in creating awareness and in identifying problems. We agree. Nevertheless, the financial control



Financial clerk responsible for cashier operations. Many comptrollers think cash control is unsatisfactory (see paragraph 26.76).

problem appears to be significant and concerted effort is needed to resolve it.

Departmental audits indicate increasing risk of fraud and abuse

26.79 Downsizing and re-engineering of the Department have also affected non-financial functions. The Chief Review Services has conducted several audits and reviews. One audit of local procurement and supply found that roles were no longer clearly defined and that management assistance visits and internal audits had been substantially curtailed or eliminated altogether. In the opinion of the internal auditors, local materiel management was subject to very little monitoring of any kind. The results were an increased opportunity for theft and abuse of public materiel, reduced compliance with government and departmental regulations, less-than-optimal value for money, reduced accuracy of inventory and lack of effective control over high-risk transactions. Inappropriate behaviour was rarely detected by management controls; it was usually reported to the military police by third parties.

26.80 Other Chief Review Services audits of base support and management of operational budgets indicate a probable similar situation in other functions. A draft audit report of base support pointed to the effects of downsizing and reorganization of Canadian Forces bases as leaving managers without the tools and resources to manage risk effectively. It called for a formal risk management process at both the base and national headquarters levels. The draft audit report of the management of operational budgets found that there were few consequences for those who broke rules and guidances unless they crossed the boundary into criminal activity.

Systematic abuses have escaped detection

26.81 The Department has been victimized by at least one widespread,

systematic abuse, with secret commissions and kick-backs involving numerous Canadian Forces and civilian Defence employees. This case is discussed more fully in the Other Audit Observations section of this Report. It should also be noted that the Department was previously informed of this matter but closed its investigation as unsubstantiated. This case is of interest because it demonstrates the need for improved controls and internal audit.

26.82 The Department should reinstate its management checks of compliance, consistent with assessed risk, to reduce the likelihood of fraud and abuse of resources.

Department's response: Departmental internal audits have emphasized particular control risks associated with devolution and affecting the current period of transition to the delivery and full utilization of new technologies. Risk analysis will be undertaken under the leadership of the central internal audit group, in conjunction with the introduction of a DND/CF Fraud Awareness initiative, and will take advantage of automated data retrieval and analysis to guide and assist increased compliance review at the local level.

Reform of the military police is ongoing

26.83 During the last two years, the military police faced major challenges in responding to the report of the Somalia Commission of Inquiry, and the report of the Special Advisory Group on Military Justice and Military Police Investigation Services. Both reports raised concerns about the independence of the military police and the transparency of their investigations.

26.84 In response to these reports, the Director General Security and the military police were restructured to form the Canadian Forces Provost Marshal, who is accountable to the Vice Chief of the Defence Staff for maintaining police

Commanders are signing financial attestation letters — but not without reservations.

Headquarters internal audits confirm that controls have weakened, local internal audit is absent and the risk of fraud and abuse has increased.

standards. The Provost Marshal is responsible for developing policies and plans common to the three services and for providing specialized and investigative services to the Canadian Forces. The National Investigation Service is independent of the operational chain of command and investigates matters of a “serious or sensitive nature”. These may be broadly defined as allegations involving individuals at the rank of major or above, involving \$10,000 or more in losses or indictable offences under a federal statute or the *National Defence Act*.

26.85 The Provost Marshal’s investigative and crime prevention responsibilities are aimed at preventing and detecting abuse and misuse of resources. Complaints about significant misuse or abuse of resources are to be brought to the attention of the National Investigation Service by the complainants or by the local military police. The investigators are to be independent from the normal military chain of command.

26.86 For other than “serious and sensitive” matters, the investigation process is relatively unchanged and investigations are usually performed at the unit level by local military police. Boards of inquiry and summary investigations are commonly used to investigate incidents of an administrative nature. Cases of unusual significance or complexity are brought to a board of inquiry. In both cases, the process is used to determine the facts; and the convening authority evaluates the findings and determines whether administrative or disciplinary action is indicated.

26.87 The National Investigation Service has the authority to lay charges if its investigations show that they are warranted. Commanding officers may decide to proceed or stay those charges. Similarly, commanding officers may choose to take no action on reports of boards of inquiry and summary

investigations. Any party not satisfied with the result has recourse to grievance procedures.

26.88 This process is meant to give the chain of command the ability to use administrative and disciplinary action as necessary in order to maintain good order and discipline within units. It is used at each level of command and can always be moved to higher levels when more independence is required.

26.89 Changes to the *National Defence Act*, in December 1998, created a Military Police Complaints Commission with the power to investigate and report publicly on not only complaints of police abuse but also police complaints of improper interference in their investigations. At the time of our audit, members of the Complaints Commission had been appointed and were establishing their office. The Commission is scheduled to begin work in December 1999.

The new police structure needs refinement

26.90 It is important that the chain of command not be seen to unduly influence the law enforcement duties of the military police. With the creation of the National Investigation Service, commanders lost their jurisdiction over courts martial: “serious and sensitive cases” are now handled by the Provost Marshal. However, it appears that some commanders do not yet understand how the new system is to work. Monitoring by the Canadian Forces Provost Marshal has found the following:

- A commander did not accept direction on police standards issued by the Provost Marshal as a result of an audit of the local military police.
- A base commander issued a policy without authority to do so. The policy directed that the base security officer consult the commanding officer before seeking a search warrant from local authorities to conduct police searches.

This policy interfered with police independence.

- A commanding officer issued a directive indicating that, although not a legal requirement, all persons involved in an incident would be cautioned or informed of their rights. Such action could limit people's willingness to talk to the police by implying that they were about to be charged.

26.91 The Vice Chief of the Defence Staff is responsible for ensuring that everyone in the chain of command understands the role of the military police, and for ensuring the independence of the police. Continuing review by the Canadian Forces Provost Marshal is in place to ensure that police standards are being met. In addition, in order to correct the current situation, the Department planned by November 1999 to train 1,700 officers to preside over summary trials.

26.92 In summary, we believe the Department needs to resolve two emerging problems as it implements improvements to its police forces. First, it needs to ensure that its commanding officers understand how the system is intended to work and their role in it. Second, the Military Police Complaints Commission needs to be brought into operation rapidly to ensure that the system functions as designed.

26.93 To ensure the independence of the military police, the Department should strengthen its training of commanders so that they better understand their role in the military justice system.

Department's response: The Department will reinforce the role of commanders in the military justice system by distributing communication packages on the reforms stemming from Bill C-25 (under way), completing Certification Training for all delegated officers (under way) and

activating the Military Police Complaints Commission (expected December 1999).

Following Up Complaints of Abuse

The Department has specialized staff to investigate abuses

26.94 In June 1992, the Department created the Directorate of Special Examinations and Inquiries to investigate allegations or instances of impropriety, mismanagement and other irregularities in the Department and the Canadian Forces. The Directorate reports to the Chief Review Services. Reports are sent to the Deputy Minister or the Chief of the Defence Staff, the most senior officials of the Department.

26.95 We reviewed complaints that our Office had received and had referred to the Department since 1995, and also complaints that the Deputy Minister and the Chief of the Defence Staff had assigned to the Directorate since its inception. Of the cases we reviewed, 45 had been dealt with by the Directorate of Special Examinations and Inquiries, 17 were complaints made to the Chief Review Services and the remaining 12



Military Police officer exercising some of her duties under the responsibility of the chain of command (see paragraph 26.90).

The Department did not take satisfactory corrective actions in 6 of 26 cases.

were complaints made to the Minister's Office, the Deputy Minister, the Chief of the Defence Staff, the Assistant Deputy Minister (Personnel) or the Assistant Deputy Minister (Finance and Corporate Services). We focussed on the process for assessing the validity of allegations and on the corrective and remedial actions taken by the Department. We expected that any such actions would be timely.

26.96 We identified three general categories of behaviour (other than waste) that diverged from the proper conduct of public business:

- abuse of public funds — public resources were used in a way that produced little or no public benefit;
- abuse of policies and regulations — individuals claimed or accepted benefits contrary to the intent of policy; and
- dishonesty — laws or policies were intentionally circumvented to benefit the individuals involved.

The Department considered more than half the allegations to be valid

26.97 We reviewed a total of 74 cases related to abuse of public funds or to violation of conflict-of-interest or post-employment codes. The Department had completed assessments of 66 of those cases and the 8 remaining were still being assessed at the time of our audit. The Department had concluded that the complaints were valid in 40 of the 66 cases. Examples of complaints that the Department believes were well founded are shown in Exhibit 26.8. Exhibit 26.9 summarizes our findings.

Not all allegations were assessed adequately

26.98 In 12 of the 66 cases completed by the Department, we found that assessments had not been done, not completed or not documented. Six of these cases had been dealt with by the Minister's office or by senior officials

such as the Deputy Minister's office and the Assistant Deputy Minister (Personnel) rather than by the Chief Review Services.

Corrective action has sometimes been incomplete

26.99 We considered the Department's corrective actions to be satisfactory when they were fully implemented and corrected the identified problem. The Department had judged that corrective action was warranted in 26 of the 66 cases we reviewed and that no corrective action was required in 32 cases. In the 26 cases where the Department took corrective action, we consider the action to be satisfactory in 18 cases and to represent significant progress in 2 others. In our view, its action in the remaining 6 cases was not satisfactory.

26.100 On two complaints we had referred to the Department, officials informed us that corrective action had been taken. However, we found that this was not the case.

Remedial action is taken in most cases

26.101 When a problem is confirmed, remedial actions are taken in order to prevent similar problems from occurring elsewhere in the Department. In 28 of the 66 cases we assessed, the Department concluded that remedial actions were required; we believe one additional case warranted remedial action because of the risk of recurrence at other locations. In only 9 cases did the Department take satisfactory action and develop the control system that was needed. In 13 cases its action represented significant progress, while in 4 cases little progress was made. In 3 cases, the Department did not take satisfactory action.

26.102 We noted that in many cases the Department's remedial action consisted of amending its current regulations — most often those pertaining to travel and relocation and to the delegation of travel authority. The Department found in several cases that its regulations or

Examples of Complaints the Department Considered Well Founded

Claim for meals provided free of charge

Incident: Two allegations were made that officials had claimed reimbursement for meals that had already been paid for by other organizations. In both cases, the Department concluded that the claims for meal allowances violated the spirit and intent of the ethics policy.

Corrective action: In one case, departmental legal services advised that no specific regulation was violated and therefore they could not support the recovery of the money from the officials involved. In the other case, the Department reviewed all claims and requested that officials return the payments for unauthorized expenses.

Remedial action: Memoranda were sent throughout the Department on several occasions to clarify departmental regulations on this matter. After two years, amendments to departmental regulations and practices are still being developed.

Renovations to an official residence

Incident: An allegation was made that renovations to an official residence were excessive. After the review, the Department concluded that renovations had been ordered by a senior official without proper authorization and that while most of the work was required, could not conclude whether all of the renovations were necessary.

Corrective and remedial action: No corrective or remedial action was recommended.

Damage to departmental property and harassment of a military police official

Incident: Allegations were made of a cover-up by the chain of command and of interference with a police investigation. This is a case where a senior official had damaged National Defence property. The Chief Review Services reviewed the cover-up allegation and concluded that the decision process that had been followed was in accordance with normal procedures. It is noted that the Chief Review Services was not tasked with assessing the adequacy of corrective action taken. In addition, a professional standards investigation was conducted into the allegation of interference and it concluded that the complainant police official had been the victim of intimidation, abuse of authority and other inappropriate actions by senior officials.

Corrective action: Senior officials involved were briefed on the findings of the investigations. One officer was also provided with guidance and education. The complainant police official was ordered to change work location and to attend training courses. The senior official who damaged the property received a verbal warning.

Remedial action: No remedial action was identified by the Department.

Irregular activities on National Defence property

Incident: An allegation was made that a senior official solicited on National Defence property on behalf of his business and that the chain of command did not act appropriately when made aware of the situation.

Corrective action: The Canadian Forces Provost Marshal believed that charges could have been initiated against the senior official in question. However, a departmental legal advisor concluded that the evidence was insufficient to demonstrate a reasonable prospect of conviction. Nevertheless, the chain of command took administrative measures. The senior officer involved received counselling and probation and his direct superior received a recorded warning.

Remedial action: The scenario was submitted as a case for discussion at future ethics seminars.

Use of public funds for non-public organizations

Incident: An allegation was made that officials used personnel resources to serve non-public organizations. The Department acknowledged the use of these resources in some cases.

Corrective action: No corrective action was identified by the Department.

Remedial action: After three years, actions such as amendments to departmental regulations on this matter are still under way.

policies had been unclear, not understood, or inconsistent with government regulations. In many instances, the Department undertook interim measures to resolve the issue temporarily, but the measures remained in effect for long periods of time. Interim measures included issuing memoranda to either clarify or temporarily amend a regulation. Such methods are ineffective, as staff tend to forget or lose the memoranda.

The Department does not follow up on a timely basis

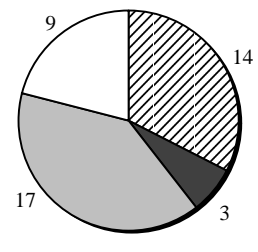
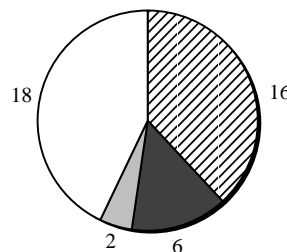
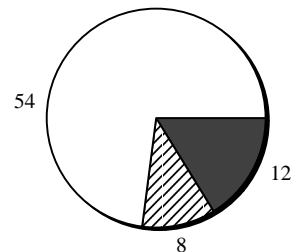
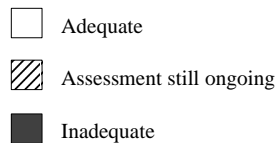
26.103 We found that the time taken by the Department to assess an allegation and fully implement any necessary corrective and remedial actions could involve significant delays. Our population of 74 cases consisted of 39 that were completely followed up by the Department, 19 incomplete cases in which the assessment, corrective action or remedial action was still in progress, and 16 cases in which either no assessment

was done or we could not obtain sufficient data to form an opinion. Twenty-five of the 39 completed cases were finished within a year, but others took over two years and 2 cases took more than 3 years. When incomplete cases are included, 16 have already taken more than a year and 9 of those are three years old or more (Exhibit 26.10). The following cases are examples of our concern:

- In June 1996, the Department determined that parking fees should be charged at one of its locations. When this location closed in May 1998, parking fees had never been introduced.
- In May 1996, the Department determined that the departmental regulation on the use of military personnel in non-public organizations should be amended. Senior officials informed us in April 1999 that the amendments to the regulation were still under way.
- In August 1997, the Department determined that amendments to its

Exhibit 26.9

Following Up on Complaints of Abuse



Note: Of the 74 cases, corrective and remedial actions were not required in 32 and 31 cases respectively.

policies governing military travel were needed. It took an interim measure in February 1999 by communicating through a memorandum that it had concerns about those policies. Additional interim direction has been provided by the Deputy Minister and the Chief of the Defence Staff. A new departmental regulation was to be developed over the next year to provide clear and consistent direction in line with government policy.

26.104 In order to deter fraud and abuse, the Department should ensure that all complaints are followed up promptly.

26.105 The Department should ensure that all complaints are tracked with the objective of completing them within one year of their receipt.

26.106 The Chief Review Services should follow up on corrective and remedial actions to determine whether they have been completed and have resolved the problems, and report his findings to the Deputy Minister.

Department's response: The Department agrees that complaints directed to the highest management levels of the Department should be followed up promptly and assessed in a timely manner. Complaints that warrant criminal investigation will continue to be addressed by the Canadian Forces Provost Marshal. Those complaints not warranting criminal investigation will be referred to the Chief Review Services. Complaints referred to the Chief Review Services are now being tracked and the Department is confident that assessments will generally be completed within one year. The Department will follow up on corrective and remedial actions to determine when they have been completed. These findings will be reported regularly to the Deputy Minister and to the Chief of the Defence Staff. The Auditor General can assist by ensuring that the Chief Review Services is made aware of all complaints that are passed to the Department for resolution.

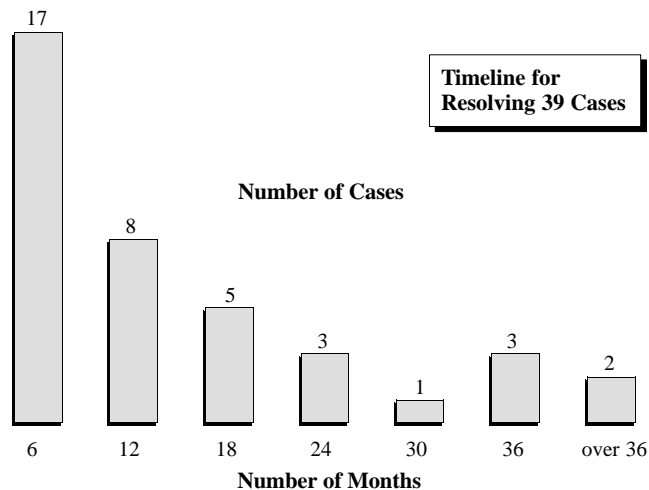
Conclusion

26.107 National Defence has put in place basic measures to ensure the proper conduct of public business in each of the areas we audited — active support of ethical conduct, internal control and internal audit, and follow-up on complaints. However, each of these areas requires further improvement.

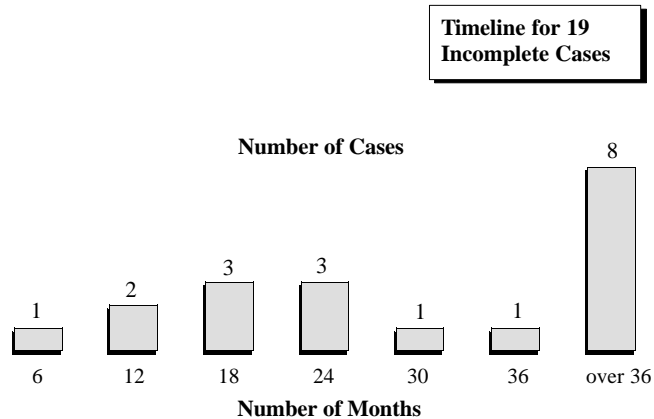
26.108 The Defence Ethics Program is the supportive, proactive element of the Department's measures to support ethical conduct. The design of the program is appropriate for that purpose and the

Exhibit 26.10

Overall Cases Resolved



Timeline for Resolving 39 Cases



Timeline for 19 Incomplete Cases

Department has achieved significant progress in training new entrants into the Canadian Forces at all ranks. However, headquarters groups and the three military commands do not believe that a uniform program is appropriate. Staff have confused the Minister's *Ethos Statement* with the *Statement of Defence Ethics*, and the latter has been formally implemented only sporadically in training and human resource management systems. Nominal budgets, a failure to appoint senior-level ethics co-ordinators and an absence of plans indicate that the level of commitment to a formal ethics program across the organization is low.

26.109 The effectiveness of internal financial controls and internal audit, two standard deterrents and detectors of fraud and abuse, has been severely limited by budget cuts. Reductions have not been planned on the basis of adequate risk assessment, so the Department is unable to say what levels are actually needed. It appears that resources devoted to internal audit are below productive levels. There are troubling signs that financial and other controls have weakened; chief among

them is commanders' reluctance to attest to their effective control of resources.

26.110 Finally, complaints referred to the senior management of the Department have not all been handled adequately. Almost one fifth of the cases we reviewed had not been assessed or were assessed inadequately. In over one fifth of the cases where the Department judged that corrective action was warranted, it did not take satisfactory action. Actions needed to remedy systemic problems were completed in over three quarters of the cases we reviewed. While the cases do not statistically represent all complaints throughout the Department, the fact that they were handled by senior officials at headquarters makes these results disappointing.

26.111 Most of the basic elements the Department needs to move forward are in some stage of development. Senior management now needs to assess risks systematically, develop a plan and exercise strong leadership in implementing it throughout the Department.



About the Audit

Objectives

Our audit objectives were to:

- assess whether National Defence responds appropriately to complaints of abuse of resources or misconduct;
- determine the extent to which the Defence Ethics Program responds to problems brought to light by complaints; and
- assess whether internal audit and other review functions in the Department respond to the risk of fraud and abuse.

Scope

Our audit was based on a general model of what needs to be done to reduce the risk of fraud and abuse in any organization. The model consists of three parts and we conducted audit work in each:

- *Communication of appropriate values.* Rules cannot govern every eventuality or controls be in place in every situation. Management must therefore takes steps to convince employees to comply with the norms of acceptable behaviour.

Our audit examined the extent to which the keystone departmental values program — the Defence Ethics Program — had been implemented throughout the Department.

- *Internal controls and internal audit.* Internal controls are the processes and measures put in place by management to help prevent and detect both error and employee misconduct. Internal audit provides the Department's management with an independent evaluation of certain aspects of its operations.

We examined internal financial controls at selected Canadian Forces bases. We assessed internal audit at headquarters, within the three military services, and at selected Canadian Forces bases. We did not audit other types of internal controls, such as those governing materiel.

- *Appropriate corrective action.* When employee misconduct is identified, appropriate action must be taken to investigate and apply discipline. Subsequently, internal controls may have to be modified to prevent recurrence of the same problem, or other measures such as training may be needed.

Our audit reviewed the assessment and follow-up on 74 cases assigned to the headquarters Directorate of Special Examinations and Inquiries since 1992, and complaints received by us from the public and referred to the Department for action since 1995. We did not audit allegations that complainants had referred to the military police or to management directly.

Our audit was conducted at National Defence headquarters and at major formations in each service: Maritime Forces Atlantic, Maritime Forces Pacific, Secteur du Québec de la Force Terrestre, Land Force Central Area, and 1 Canadian Air Division. At the base level we audited Canadian Forces Bases Halifax, Esquimalt, Valcartier, Petawawa, Winnipeg and Trenton.

Criteria

We expected that:

- departmental plans and policies for the Defence Ethics Program would be consistent and resources would be assigned commensurate with plans;
- all activities with an ethical component, such as training, would be consistent with the Department's fundamental statement of values;
- control systems would be designed to ensure that adequate corrective actions are taken when required;
- internal controls and internal audit would be resourced commensurate with the assessed level of risk;
- complaints of abuse would be assessed for validity on a timely basis;
- where control weaknesses are identified, appropriate remedial actions would be taken on a timely basis; and
- disciplinary actions would be in accordance with Treasury Board regulations and Queen's Regulations and Orders.

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