

2003



Report of the
**Auditor General
of Canada**
to the House of Commons

APRIL

A Message from the Auditor General

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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 2003 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

A handwritten signature in black ink that reads 'Sheila Fraser'.

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 8 April 2003



A message from
the Auditor General

A message from the Auditor General



Sheila Fraser, FCA
Auditor General of Canada

Managing well in the face of uncertainty

Risk—and the need to manage it—are facts of life

We all manage risk intuitively when we make day-to-day decisions in the face of uncertainty about the future. The federal government must also make choices in its daily operations, despite uncertainty. The government's decisions have consequences—both positive and negative—for the public servants and the departments that make them, and they also have a significant impact on the citizens of this country. When making choices, the government's challenge is to strike the right balance in order to maximize potential benefits and minimize negative consequences.

Good risk management in government does not mean avoiding all risk; doing so would paralyze efforts to improve programs or make them more efficient. What we should be working toward in the public service is a “risk-smart” workforce. The goal should be to move away from both overcautious avoidance of all risk at one end of the spectrum and irresponsible chance-taking at the other. Instead, we should seek to encourage a workforce that advances innovation by accepting reasonable risks while protecting the public interest and maintaining public confidence.

Managing risk well improves government's effectiveness

A system or process for responding to risks and mitigating them is one of the distinguishing features of effective management. The Government of Canada recognized the desirability and importance of managing risk when it developed its Integrated Risk Management Framework.

The first chapter of this report, Integrated Risk Management, assesses what six departments have done under the Framework published by Treasury Board Secretariat in April 2001 to integrate risk management practices into the management of their operations. While we found evidence that the initial steps have been taken, the visible and sustained commitment and leadership of senior management will be needed to see it through to full implementation. None of the six departments we audited had an action plan that addressed all the elements that the Treasury Board Secretariat has suggested. Nor did they have a fully developed departmental risk profile indicating the level of risk that senior management was willing to tolerate or accept. The Treasury Board Secretariat will need to broaden the scope of its monitoring in order to sustain momentum.

The other chapters in this Report do not specifically assess the risk management strategies of the departments we discuss. Still, many of the key issues we raise indicate how well the departments have been able to assess and manage the environmental, strategic, operational, and financial risks within their control and respond to risks outside their control.

In that respect, this Report is about risk management: it provides examples of how good risk management practices can make the public service more effective and, in general, give Canadians better value for money by improving program management and service delivery.

Government has a special role in ensuring public safety and security

Government faces many of the same risks as the private sector and a range of other risks that stem from its role in assuring public safety and security. These days, people are more aware of grave risks such as terrorism. But managing risk means more than preparing for the worst; it also means taking advantage of opportunities—to improve services, increase benefits, or lower costs, for example.

To manage risk well, government departments need reliable information about the hazards and opportunities at stake, good tools for assessing risk, and competent people trained to use them. They also need to determine their tolerance for risk, integrate risk-related factors and the development of mitigation strategies into their overall decision-making processes, and establish good performance indicators so that management can measure progress and make adjustments when necessary.

The dual mandate of Citizenship and Immigration Canada—welcoming legitimate travellers to Canada and preventing the entry of those deemed inadmissible—represents an enormous challenge for risk management. This is explored in Chapter 5, Citizenship and Immigration—Control and Enforcement.

The negative consequences of a system that either overestimates or underestimates the risks presented by travellers to this country are great: overly intrusive screening could damage tourism or interfere with legitimate commercial traffic while inadequate screening could compromise public security.

In addition, the sheer number of visitors to Canada—100 million arrivals every year at our ports of entry—rules out an in-depth, time-consuming assessment of every single visitor. Doing a thorough assessment of the risks at each port of entry would give the Department a basis for determining how many travellers, and which ones, require more intensive scrutiny. However, it has not carried out a comprehensive risk assessment at ports of entry that would help it identify those with the greatest risks in order to focus greater attention there.

When visitors admitted to Canada are later found to be inadmissible, it is up to Citizenship and Immigration to enforce their removal. However, our audit found that high workloads, insufficient resources, and inadequate information systems hinder the Department's ability to investigate, detain, and remove people who should not remain in the country. One result is a growing gap between the number of removals ordered and the number confirmed. In the past six years, this gap has grown by about 36,000.

Although this does not necessarily mean that all these people are still in Canada illegally, it does indicate that the Department is falling behind in carrying out removal orders.

Given the high cost of removing someone already admitted to Canada, it makes sense to prevent inadmissible travellers from entering the country in the first place. In the past three years, the Department's Immigration Control officers have worked with airlines overseas to prevent some 20,000 people with fraudulent travel documents from boarding flights to Canada. This effort represents a good example of allocating resources according to risk.

Correctional Service Canada is another department whose core mandate as expressed in its dual role—incarcerating offenders and safely reintegrating them into the community—requires that it manage risks effectively. Correctional Service initially must assess the risk offenders pose to institutional security and the risk that they will escape; later, it must manage the risk that offenders present to the community once they are released on parole.

Chapter 4, Correctional Service Canada—Reintegration of Women Offenders, looks at how well the Service is managing the reintegration process from the initial assessment of offenders to their supervision in the community while on parole.

While the Service has achieved a great deal in improving how women offenders are incarcerated and rehabilitated, it has not tested the reliability of the tools it uses to assess the risks they present. It also needs to do a better job of providing enough timely rehabilitation programs tailored to the particular needs of women offenders. Such programs help prepare women for their release on parole, where the consequences of failed rehabilitation can be serious for the offender and for the community.

Military testing and training pose environmental risks

The Department of National Defence must manage some serious environmental risks, as we report in Chapter 7, National Defence—Environmental Stewardship of Military Training and Test Areas. Our audit found cases where the Department did not exercise due diligence to protect the environment in its everyday training activities.

In some cases, the Department did not comply with federal legislation for the protection of the environment. One case we looked at involved clearing trees from 7,250 hectares of land at the Combat Training Centre in Gagetown, New Brunswick between 1995 and 1997, which resulted in the silting of a salmon spawning stream, contrary to the *Fisheries Act*.

The Department also needs to finish identifying whether its training and test sites have been contaminated by the firing of munitions and to develop an action plan for cleaning up the contaminated sites it already knows about.

Good information is essential

Risks cannot be managed well without good information. Managers must have complete and reliable information about full costs (including overhead), about performance, about outcomes, and about risks and their consequences if they are to make good decisions when weighing risks and benefits.

However, as we report in Chapter 2, *Managing the Quality of Financial Information*, our audit found that despite some improvements there are still weaknesses in the quality of financial information available to managers in the federal government. Even after an investment of more than \$600 million in new systems, some managers still rely on their own “black books” to keep track of cash expenditures so they do not overspend their discretionary funds. The Treasury Board Secretariat currently provides departments with only limited guidance on the quality of financial information. Departments need more guidance to help ensure that their financial information is consistent, of high quality, and reliable—not only for their own decision making, but for the quality of government-wide reporting.

The need for improved information is a key theme repeated in Chapter 6, *Federal Government Support to First Nations—Housing on Reserves*.

Our audit found, among other things, that Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and First Nations themselves need better information about the costs, performance, and results of on-reserve housing programs. Better information can help them make better decisions on how to allocate scarce resources and strengthen their accountability for the money spent and the results achieved. At present, Parliament does not receive complete information about the housing situation on reserves and the difference that federal assistance is making to the critical housing shortage.

Efforts to combat money laundering must weigh risks and priorities

Chapter 3, *Canada’s Strategy to Combat Money Laundering*, provides an example of the kinds of risks and challenges that the government faces when developing policies and programs that must balance competing priorities.

The chapter discusses the results of a study we carried out to prepare for an audit scheduled for 2003–04. The study looked at some of the competing objectives that the federal government must reconcile in its efforts to meet the international commitments it has made to combat money laundering; each of those commitments has a set of risks that must be managed.

Here again, we see the critical importance to the government of having accurate and complete information—in this case, information on which it can base a strategy to fight money laundering and assess the effectiveness of that strategy. The government needs reliable estimates of the size of the problem. But as we note in the chapter, there are no reliable or generally agreed-on figures.

Acquiring good information on money laundering necessarily intrudes on the privacy of information about financial transactions—an intrusion that governments and law enforcement agencies justify as essential to combatting crime and terrorism. The government must balance the privacy rights of individuals against the information needs of law enforcement.

In addition, the costs of the reporting required in the effort to combat money laundering must be considered. The costs borne by taxpayers and financial institutions to fight money laundering must be weighed against the financial risk of doing nothing.

Conclusion

Risk management in the federal government is vital to managing resources more efficiently, making better decisions, and ultimately making the public service more effective. It will help departments make wiser decisions about the environmental, strategic, operational, political, and financial risks within their control and to respond better to the risks beyond their control.

Good information, good risk assessment tools, and people trained to use both; adequate performance measures; and management practices that integrate these elements into the decision-making process—these are the ingredients for managing risk well. In the end, they will take much of the guesswork out of managing risk and help to create a culture in which reasonable risks can be taken—an environment that encourages innovation and achieves beneficial results for Canadians.

