

2004



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

NOVEMBER

Matters of Special Importance—2004
Main Points



Office of the Auditor General of Canada

The November 2004 Report of the Auditor General of Canada comprises eight chapters, Matters of Special Importance—2004, and Main Points. The main table of contents is found at the end of this publication.

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For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: (613) 952-0213, ext. 5000, or 1-888-761-5953
Fax: (613) 954-0696
E-mail: distribution@oag-bvg.gc.ca

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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 annual Report of 2004 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

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

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 23 November 2004



**Matters of Special
Importance—2004**

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Sheila Fraser, FCA
Auditor General of Canada

Introduction

1. This is my fourth annual report to the House of Commons. As I approach the midpoint of my term as Auditor General, I look back with pride at the accomplishments of my Office and I look forward to our future challenges. In particular, I appreciate the devotion to duty my staff has shown during what has been a year of intensive work.

2. I am deeply touched by Canadians' continued response to our work over the past year. Their messages have reinforced my belief that Canadians expect their government to manage its programs and services well; give them value for their tax dollars; and be honest, forthcoming, and accountable for its actions.

3. Typically, my annual chapter on matters of special importance highlights the work of my Office over the previous year. However, with the increased attention being given to governance issues and the start of a new Parliament, I would like to suggest some issues, based on my perspective as Parliament's auditor, that members of Parliament may want to consider:

- the need to clarify the accountabilities of ministers and senior public servants;
- the need for greater parliamentary scrutiny of government spending to ensure that the government is accountable for its operations; and
- the need to follow closely the government's ambitious efforts to transform and strengthen public sector management, including monitoring these efforts to ensure that changes are fully implemented.

4. In this chapter I would also like to explain briefly the role of the Office of the Auditor General as the auditor for Parliament.

Working together: Parliament, the government, and the public service

5. The past year marked a period of substantial change: the recent federal election; the reorganization of the federal government, which started a year ago; and the introduction of measures to strengthen management in the public service. Underlying these changes is the need for Parliament, the government, and the public service to work together in ways that serve Canadians well. While each is without doubt committed to working for the common good of the country, to truly achieve this objective all three must work together constructively—each fulfilling its own responsibilities and respecting the roles of the others.

Parliament holds government accountable to Canadians

6. Parliament is one of our deepest and most fundamental expressions of democracy, an institution that helps to define our nation and its character. In addition to passing laws, one of Parliament's primary duties is to maintain responsible government by holding the Prime Minister and Cabinet accountable to it and, ultimately, to Canadians. Canadians elect their members of Parliament to play this crucial role, with a mandate to speak and act on their behalf.

7. Parliamentarians work hard to fulfill the many responsibilities they assume. Theirs is a difficult job: holding public office requires a high level of personal and professional sacrifice—something that veteran members of Parliament will no doubt tell their colleagues in the 38th Parliament who are sitting in the House for the first time. As well as acting on behalf of their own constituents, they work for all Canadians through their activities related to passing legislation and their oversight of government.

The government of the day provides the public service with direction

8. The government of the day puts forward a policy and management agenda to serve the diverse needs and interests of Canadians, and it reports back to Parliament on its actions and accomplishments. The government proposes new laws in Parliament, and its ministers give the public service the direction it needs to deliver programs and policies. In turn, the public service supports the government and ministers by providing professional, non-partisan advice, and it serves Canadians by delivering programs under present laws and policies.

9. Parliament, the government, and the public service each have key roles and responsibilities in the parliamentary system. While there may be natural tensions between them, only by working together can they achieve the desired results for Canadians. One issue of particular concern to me, one I have mentioned in previous reports, is the need for accountabilities of ministers and senior public servants to be clear and to be respected.

Accountabilities of ministers and senior public servants need to be clarified

Accountability—The obligation to render an account of, and accept responsibility for, one's actions, both... the results obtained and the means used.

Report of the Auditor General of Canada, Chapter 7, March 2004

Responsibility—Identifies the field within which a public office holder (whether elected or unelected) can act; it is defined by the specific authority given to an office holder (by law or delegation).

Guidance for Deputy Ministers, 2003

10. On the surface, the **accountabilities** and **responsibilities** of ministers and senior public servants are unambiguous. Canadians elect the government, and it is to be held to account in Parliament for the way it uses public authority. Ministers are individually accountable to Parliament for their own actions and for all aspects of their departments' and agencies' activities. Deputy ministers and public servants are accountable to ministers, not to Parliament directly.

11. These key aspects of accountability in Canada rest on traditional principles of Westminster-style government, but they are applied in an environment quite different from the one that existed when they were established in the 18th century. Increasingly, questions have arisen about whether these principles are still appropriate in today's environment, whether they are well-defined, and whether they are observed consistently.

12. Calls to clarify accountability have come from many directions. Canadians are demanding greater accountability for the way the government spends their tax dollars and uses its authority. Academics question the relevance of stated tenets of accountability in today's complex and rapidly

changing environment. Public institutions and parliamentary committees debate the concept, search for more definition, and seek alternatives.

13. My Office has a long-standing interest in accountability. Many of our audits have examined it in practice, and we have urged that action be taken to ensure that it is respected, to clarify it where necessary, and to translate those clarifications into consistent practice. It is clear by now that accountability is an important contributor to good governance. Events have shown that it is time to clarify the principle and how it will be practised.

14. One concrete example that needs to be addressed is that senior public servants are sometimes asked at parliamentary committee hearings to defend policies promulgated by their ministers. Ministers, who in fact are accountable for policy issues, do not always attend committee hearings. This points to the need for clarifying and respecting the roles and responsibilities of senior public servants when they appear before committees. Committees may want to consider developing formal guidance that would set the parameters for the types of questions that committee members may ask of senior public servants. At the same time, committees may also want to set out their expectations of ministers when they do appear before them to discuss legislation or the Estimates.

15. The government recently issued several documents to explain accountability and responsibility, including its Guide for Ministers and Secretaries of State; Guidance for Deputy Ministers; the Management Accountability Framework; and the Values and Ethics Code for the Public Service. I have expressed concern in previous audits about the clarity of the documents and have recommended that the government describe more fully how it intends to turn into action the principles they set out.

16. In its current efforts to transform and strengthen public sector management, the government has recognized that the accountabilities and responsibilities of ministers and senior public servants need to be defined more completely. Earlier this year, it undertook a review to determine whether the doctrine of ministerial responsibility and accountability is fully understood and whether it needs to be adjusted. This represents an important step, as there are significant issues related to this concept that warrant further study and explanation.

Parliamentarians' attention may help the government clarify roles and responsibilities

17. I believe that the clarification of the government's existing accountability documents and its current review of the issue offer an opportunity to examine the appropriateness and effectiveness of ways of holding ministers and senior public servants to account for their decisions and performance. It has been argued that another dimension that needs to be added to this discussion could be termed "duty"—the obligation of all participants to act in the public interest—a concept that transcends legal responsibility. I would agree that this is an important dimension of the discussion.

18. Parliamentary opportunities to debate these fundamental issues do not come along every day; I would encourage members of Parliament to give particular attention to these issues when they are brought before them. Indeed, parliamentarians have an essential role to play in this process, as they may be in the best position to facilitate the next step by encouraging the government to move quickly to resolve these issues.

Greater parliamentary scrutiny of government spending will aid accountability

19. Parliament authorizes both the government's raising of revenues and its expenditures. One important aspect of parliamentarians' work is their role in ensuring, through their review of the government's spending and revenue plans and its performance reports, that the government is accountable for its operations.

The Estimates process provides parliamentarians with an opportunity to challenge the government's plans and review the results

20. Parliamentarians scrutinize the performance expectations set out in the government's plans and priorities documents, and they review its subsequent reports on actual performance. Each spring, the government's Main Estimates set out its planned spending and expected results in the reports on plans and priorities tabled for each department and agency (including plans for the use of human resources, assets, tax expenditures, and revenues). Each fall, departmental performance reports by each department and agency outline the results achieved in relation to the plans.

21. These Estimates documents are fundamental to an effective accountability relationship between Parliament and the government. Standing committees of the House of Commons are the primary vehicle for parliamentarians' review of the Estimates documents. Recent changes, such as the creation of the Standing Committee on Government Operations and Estimates in 2002, are intended to improve the Estimates review process.

22. However, as several of our past audits have shown, the government needs to improve the Estimates documents. Their close review by Parliament could serve to help strengthen them. The government needs to be clear and specific about its plans in order to allow for thorough parliamentary review and challenge of the Estimates. In turn, parliamentarians' more in-depth analysis of departments' and agencies' performance reports closes the accountability loop by holding the government to account for its performance against its plans. Parliamentarians may wish to consider in more detail the linkages among the Government Expenditure Plan, the Main Estimates, reports on plans and priorities, and departmental performance reports.

23. I was pleased to note in this year's Budget speech that special examinations of Crown corporations (a form of performance audit) that are conducted by my Office are to be tabled in Parliament and posted on the

corporations' Web sites. Closer parliamentary scrutiny of Crown corporations through the review of special examinations and other Crown corporation documents that are tabled in the House—corporate plan summaries, capital and operating budget summaries, and annual reports—may improve the accountability of these public institutions.

Current efforts to change government need to be managed carefully

The government has launched an ambitious management reform agenda

24. Beginning 12 December 2003 and continuing into 2004, the government made a series of announcements as part of the Strengthening Public Sector Management initiative. It announced a fundamental review of all programs and expenditures to ensure that spending remains under control and closely aligned with the evolving priorities of government. This includes identifying significant savings to the government through reviews of departments, assessing the adequacy of management of horizontal policies and programs, and identifying opportunities for improvements in government operations in areas such as capital asset management as well as procurement and contracting. It also involves reviews of the *Financial Administration Act*, accountabilities and responsibilities of ministers and senior public servants, and Crown corporations.

25. This is an ambitious initiative, a major addition to the government's existing policy and management agenda. Its implementation will doubtless require significant financial resources and commitments of time on the part of the public service. I would raise a note of caution as the government undertakes these reviews and considers actions to modernize its operations: the magnitude of change it is contemplating is considerable, and the public service may not have the capacity to conduct all of these reviews and make all of the changes in a short period of time. The government may wish to consider staggering the reviews and the implementation of changes arising from them.

Parliamentarians' involvement can encourage far-reaching changes

26. These efforts to transform and strengthen public sector management have the potential to lead to far-reaching changes; parliamentarians may wish to assume an active role in overseeing them. The involvement of members of Parliament can encourage the government to fully implement the needed changes. Parliamentarians could consider designating a standing committee responsible for monitoring the initiative's progress.

Our role as auditor for Parliament

27. The role of the Office of the Auditor General is to audit government operations and to provide the information that helps Parliament hold the government to account for its stewardship of public funds. Our responsibility is to Parliament. We assist Parliament in its work related to the authorization and oversight of government spending and operations. We attend hearings before a wide range of parliamentary committees to discuss in more detail our work on the issues they consider.

28. Indeed, the audit function—both internal audit and external audit—has a key role to play in government. The government’s internal auditors provide senior government managers with the assurances they need that departmental systems and controls are working well. As the government’s external auditor, my job is to give Parliament the information and assurance it needs to effectively hold the government to account for its use of public funds.

29. By their nature, audits often signal weaknesses, and in turn provide recommendations for addressing them. Where they are implemented, recommendations help to improve the government’s management of programs and practices in departments and agencies. In some cases, however, audit reports—including our reports—can have unintended consequences.

30. One such consequence could be that in response to audit reports, the government might impose more rules and controls on government operations instead of considering other options to correct deficiencies. While management is always a balance between exercising flexibility and imposing control, adding more controls might not address identified problems. I have said that more controls are not necessarily the solution; existing controls should be made clear and meaningful and should be applied consistently.

31. It is important that departments have some flexibility to decide how they will deliver their programs and services. There has to be an environment in which departments and public servants can learn without fearing that mistakes will be viewed out of context. Public servants need to be supported by senior management as they work to implement the government’s agenda, and have confidence in the support of their minister and deputy minister if problems should arise. Public servants need the space to do their jobs—and to take reasonable, well-considered risks and to be creative—or they will become risk-averse and their creativity will be stifled, to the detriment of Canadians. Innovation and continuous learning need to be fostered.

32. Indeed, in a large and complex organization like the federal government there are bound to be mistakes, despite the best efforts of those involved. While certain actions and behaviours should not be tolerated, mistakes can happen. Each situation needs to be evaluated in its own context.

Canadians are well served by their federal public service

33. Another unintended consequence of audit reports is that while they present findings on specific programs or issues, those findings are sometimes generalized as applying to the government as a whole. This could serve to diminish the trust Canadians have in government and the public service.

34. That would be unfortunate. Each day, thousands of public servants do significant and often unheralded work to improve the lives of millions of Canadians, many in the most vulnerable segments of society. This work ranges from processing Canada Pension Plan, Old Age Security, and Employment Insurance benefits to inspecting and ensuring the safety of our food supply, to working to preserve and enhance the quality of our natural environment, to serving in peace keeping operations. Public servants protect our sovereignty, our security, and our economic interests at home and abroad. I continue to be impressed by the professionalism, commitment, and resilience of public servants in their efforts to ensure that Canadians are well served by their government.

Conclusion

35. It has been said that trust in government is no longer a given; it must be earned. Indeed, Canadians are demanding more and deserve more from public sector leaders and institutions. To serve Canadians effectively, to maintain and, in some cases, regain their trust, the key players in our parliamentary system—Parliament, the government, and the public service—need to work together to ensure that roles and responsibilities are well understood and respected. Their relationship needs to work for Canadians.

