

2002



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

APRIL

Foreword and Main Points

*The April 2002 Report of the Auditor General of Canada comprises eight chapters, a Foreword and Main Points.
The main table of contents is found at the end of this publication.*

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AUDITOR GENERAL OF CANADA



VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 2002 to the House of Commons, which is to be tabled in the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

A handwritten signature in cursive script that reads "Sheila Fraser".

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 16 April 2002



Foreword



Sheila Fraser, FCA
Auditor General of Canada

Foreword

A Message from the Auditor General of Canada

Like its predecessors, this report to the House of Commons is about accountability. In the work presented in these eight chapters, we looked at all three links of the accountability chain—Parliament; central agencies of the federal government, such as the Treasury Board Secretariat; and departments. We looked for the arrangements that must be in place to ensure that money is collected and spent according to Parliament’s wishes. Does Parliament have enough control over government spending? Have the central agencies established clear standards and provided leadership for key government initiatives? Do departments follow the established rules in managing their programs, and do they collect the information needed to report their results?

Parliament must have control over government spending

Accountable government requires that members of Parliament be able to approve the government’s plans for spending and scrutinize the results of that spending.

Our first chapter, *Placing Public Money Outside Parliament’s Reach*, notes that the government is disregarding this essential principle with increasing frequency. We examined arrangements in which billions of taxpayers’ dollars are spent without adequate provision for accountability to Parliament.

These include delegated arrangements—private sector organizations established at arm’s length from government, with discretionary authority to carry out federal objectives. They also include collaborative arrangements, which involve the federal government as a partner in program delivery with outside organizations.

The chapter follows up on cases we audited in 1999 and examines some major new delegated arrangements created by the federal government since then. Canadians rightly expect that Parliament will examine how the government spends their tax dollars and whether that spending achieves the intended purposes. However, the government has transferred billions of taxpayers’ dollars to private foundations who will oversee the distribution of funds to the intended recipients. In many cases, these arrangements do not meet all three requirements that government departments would have to meet to ensure accountability to Parliament: credible reporting of results, effective ministerial oversight, and adequate external audit.

While the government acknowledges the need to address these issues, from the Treasury Board Secretariat’s response to Chapter 1 it is not clear whether it agrees with our recommendations for putting these principles into practice.

We provide another example of the erosion of parliamentary control over government spending in Chapter 8, *Other Audit Observations—the Treasury Board Secretariat’s administration of the Government Contingencies Vote (Treasury Board Vote 5)*. Parliament has authorized the use of this Vote by the

government to supplement other departmental votes and to pay “miscellaneous minor and unforeseen expenses not otherwise provided for.”

We recognize that the government needs flexibility to deal with unforeseen events. However, it has used the authority of Vote 5 increasingly for new initiatives that would normally require Parliament’s approval first. In 2001–02, for example, funds from the Vote were used to pay \$95 million in grants to the airlines industry and \$50 million in grants for sustainable development technology. In my view, the use of this Vote needs to be reviewed to ensure that it reflects Parliament’s intent.

Government, through central agencies, must set the standards and provide leadership

Accountable government also depends on central agencies such as the Treasury Board Secretariat and the Privy Council Office. They provide the leadership and guidance needed to ensure that departments meet consistently high standards in approving, monitoring, and controlling expenditures.

We looked, for example, at the government’s modern comptrollership initiative (Chapter 7, *Strategies to Implement Modern Comptrollership*). The government’s goal is to integrate financial information with other information to improve the day-to-day management and stewardship of public resources. We looked to the Treasury Board Secretariat, as the lead agency in the modern comptrollership initiative, for a clear and structured approach that includes an action plan with timelines as well as milestones by which progress can be measured. We looked for evidence of strong senior management commitment and support for the initiative. Chapter 7 presents a status report on this important management reform. We have identified key areas where the initiative needs stronger commitment and support if it is to succeed. And we think parliamentarians need better information on how the reform is progressing.

Similarly, Chapter 3, *Information Technology Security*, reviews the current status of this increasingly important government-wide issue for which the Treasury Board is responsible. Security standards are out of date, and a plan to update them has not been completed. The government has not assessed the present state of information technology security, an important element of the Government On-Line initiative. Cyber threats such as viruses and other types of malicious damage could interrupt the smooth delivery of government services.

Departments must follow the rules in managing programs and must report their results

Finally, in carrying out government policies, departments must follow the rules established by the central agencies and use good management practices in general. They must also collect information that will enable them to report fully on the impact of their programs. Departments are accountable to their ministers who, in turn, are accountable to Parliament.

Following the rules

In Chapter 8, *Other Audit Observations*, we note two examples of departments who failed to follow good management practices in buying new technology.

Health Canada and Public Works and Government Services Canada failed to follow the government's contracting rules in awarding a \$25-million contract to establish the Canadian Health Network. Work began without a written contract, equipment that was purchased was underused and its ownership not clearly identified, and expenses were overclaimed.

National Defence purchased a \$174-million military satellite communications system completed in 1997–98, most of which has been in storage, unused, since its delivery.

We also note that the Canada Customs and Revenue Agency did not ensure that all requirements, as set out in its own policies and procedures, were met when renewing duty-free shop licences. We note further that despite its commitment to tender a licence at a certain location, the Agency renewed the licence without doing so.

Gathering information and reporting results

It is easy to underestimate the importance of managing information well in departments and programs. Without good information, we may be able to tell how much departments have spent but not whether they got the results they expected. Without good information about the size and nature of a problem, we cannot know for certain whether a program designed to address it has had an impact.

Chapter 2, *Canada Customs and Revenue Agency—Tax Administration: Write-Offs and Forgiveness*, reports on our review of the system for writing off uncollectable taxes and forgiving interest and penalties. We looked for data indicating that the Agency administers the tax system fairly and consistently and that taxpayers in similar circumstances anywhere in the country can expect the same treatment. Although the Agency is committed to fairness in principle, it does not collect and analyze information about its decisions to forgive interest and penalties. Such information would confirm whether the Agency's practices observe the principle of fairness.

In Chapter 4, *The Criminal Justice System: Significant Challenges*, we looked for information we could use to assess the impact of key challenges (such as justice issues related to youth and Aboriginal people, organized crime, victims' rights, and wrongful convictions). We also considered the impact of the various responses to those issues by separate organizations in their own jurisdictions. How do these responses affect the system's overall effectiveness? The government has not evaluated the impact of recent innovations on the criminal justice system.

The criminal justice system involves two and even three levels of government and many organizations—lawmakers, police, courts, correctional institutions—each with its own objectives and its unique information needs. On a national level, information is inadequate to assess the effectiveness of the system.

As well, information systems need to be updated significantly to allow for timely exchange of information on criminals and suspects. The organizations

involved recognize that good information is essential to their work and to the overall effectiveness of the system. Efforts are under way to improve the quality and consistency of information. Though on the right track, progress has been slow, and cultural and financial obstacles have hampered improvements.

In Chapter 5, National Defence—Recruitment and Retention of Military Personnel, we note that as far back as 1990, this Office reported that human resource managers in National Defence lacked the data they needed to guide recruiting and attrition decisions for military occupations. Today, there are not enough trained personnel in the Canadian Forces to meet current occupational demands. Efforts to step up recruitment are themselves short-staffed, and the Department lacks employees with experience in human resource policies and practices. Despite its efforts to address the shortage of trained personnel, its results have fallen short of targets. A re-examination of the Department's approach to recruitment and retention seems to be in order.

Departments must collect, analyze, and report the data that would demonstrate that their programs are indeed carrying out the will of Parliament. Good information is critical to accountability, whether parliamentarians are voting on departments' annual spending, reviewing future years' priorities and plans, or examining past performance.

Departmental performance reports are the vehicles departments use to provide information to Parliament each year. A good departmental performance report tells Parliament what an organization has accomplished and what value Canadians are getting for the public money the department has spent.

In Chapter 6, A Model for Rating Departmental Performance Reports, we propose a model for assessing the performance reports that departments submit each year to Parliament. Thanks to three departments who volunteered to have us rate their performance reports for this purpose, we believe the model we propose will help all departments improve their reporting to Parliament and thereby improve accountability.

Conclusion

Establishing proper governance, providing leadership and guidance from the centre, managing programs effectively in departments, managing people well, collecting information, and reporting results—these are all essential ingredients of delivering good public services. As this report demonstrates, the government still has some distance to go before it achieves these objectives and the accountability that Canadians want and deserve.



Main Points

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Placing the Public's Money Beyond Parliament's Reach

Chapter 1 Main Points

1.1 The federal government has paid billions of taxpayers' dollars to private foundations and other delegated arrangements set up to achieve public objectives, transferring the funds years before Canadians receive the intended benefits. The government has delegated program responsibilities to these arrangements, but they are often beyond the reach of Parliament's scrutiny. We found that the essential requirements for accountability to Parliament—credible reporting of results, effective ministerial oversight, and adequate external audit—are not being met.

1.2 In the delegated arrangements we examined, reporting to Parliament is not adequate for parliamentary scrutiny. None of the arrangements submit corporate plans for tabling in Parliament. Nor do they all provide annual reports with a credible description of accomplishments.

1.3 These arrangements have been established in an ad hoc way, and Parliament has not had an opportunity to consider fully the resulting changes in how it authorizes and oversees this public spending. The government should seek the views of Parliament on the form and nature of scrutiny that is appropriate for the new arrangements.

1.4 Weak oversight of such arrangements is limiting ministers' answerability to Parliament. Other than appointing a minority of members to their boards of directors, the government has limited means of strategic monitoring of the arrangements and of making adjustments, should things go wrong or government priorities change. Moreover, the roles and responsibilities of federal appointees to the boards are not defined clearly.

1.5 Parliament is not receiving reports on independent, broad-scope audits that examine more than the financial statements of delegated arrangements, including compliance with authorities, propriety, and value for money. With a few exceptions, Parliament's auditor should be appointed as the external auditor of existing foundations and any created in the future, to provide assurance that they are exercising sound control of the significant public resources and authorities entrusted to them.

1.6 As our audit was completed, the Treasury Board adopted the Policy on Alternative Service Delivery, which addressed elements of governance and accountability, as we and the Public Accounts Committee had recommended in 1999. Central agencies still need to show stronger leadership to help ensure good governance and adequate accountability.

1.7 More needs to be done to ensure that the arrangements institute and maintain public sector values and ethics. Sponsoring departments should make provision for the responsible parties to be aware of their duty in this regard.

Background and other observations

1.8 In 1999 we audited new governance arrangements. Some were delegated arrangements, set up as private sector organizations that exercise discretionary authority to carry out federal objectives. Others were collaborative arrangements that involve the federal government as a partner in delivering government programs with outside organizations. That audit found significant weaknesses: the absence of a coherent governing framework, putting accountability to Parliament at risk.

1.9 Our audit this year followed up on the delegated and collaborative arrangements we examined in 1999. We also examined several major funds and foundations set up as delegated arrangements since then. One new foundation, Canada Health Infoway Inc., received \$500 million from the federal government; others have received multiple payments amounting to, for example, \$300 million to Genome Canada and \$250 million for the Green Municipal Funds.

1.10 Although more effort is still required, the collaborative arrangements we examined showed improvement in a number of features of the governing framework.

The government has responded. The Treasury Board Secretariat's response, on behalf of the government and the departments we audited, is included at the end of the chapter. The government recognizes the need to address a number of the elements in our governing framework, but it is not clear from its response to what extent it agrees or not with most of our observations and recommendations for putting these elements into practice. The government seeks flexibility in setting up new governance arrangements, using means it considers appropriate to each case.



Canada Customs and Revenue Agency

Tax Administration: Write-Offs and Forgiveness

Chapter 2 Main Points

2.1 Under legislation referred to as the “fairness provisions,” the Canada Customs and Revenue Agency can waive or cancel all or part of any interest or penalty owed by a taxpayer because of a delay or error by the Agency, circumstances beyond the taxpayer’s or employer’s control, or the taxpayer’s inability to pay it. During the year ended 31 March 2001, the Agency waived or cancelled \$185.3 million in interest and penalties.

2.2 The controls the Agency has put in place to guard against inappropriate forgiveness of interest and penalties are deficient. While the Agency has improved its administration of the fairness provisions, the fact that it does not record the amounts waived in interest and penalties and the reasons for waiving them is still a concern. The approval and monitoring processes also need to be strengthened and consistency and procedural fairness enhanced.

2.3 The *Financial Administration Act* or another legislative authority such as the *Bankruptcy and Insolvency Act* provides the Canada Customs and Revenue Agency with authority to write off uncollectible accounts. The Agency has reasonable controls in place to guard against inappropriate write-offs of taxes owed. However, it needs to strengthen the system by taking accrued interest into consideration and grouping related-party accounts together when considering approval to write off an account.

2.4 The Agency needs to take administrative action and/or seek legislative action to minimize the effects of a recent court decision that held that provincial limitations, which range from 2 to 20 years, apply to the collection of federal income taxes. The decision could prevent the Crown from collecting over \$1 billion in owed income taxes and could result in different treatment of taxpayers who live in different provinces.

Background and other observations

2.5 The Agency manages a portfolio of taxes owed that is valued at over \$13 billion. Most taxpayers who still owe tax when they file a return pay the balance promptly. However, some do not. Unlike businesses in the private sector, which can choose whether and to whom they will grant credit, the Agency must accept as accounts receivable all taxes owed by taxpayers. For the three-year period ended 31 March 2001, taxes owed that were written off averaged about \$1 billion a year.

2.6 The Agency needs to monitor activities carried out on Canada's behalf by the Province of Quebec for GST accounts receivable—activities that include write-offs and the administration of the GST fairness provisions.

The Agency has responded. The Agency agrees with our recommendations and in its responses has indicated a number of actions under way to deal with them.



Information Technology Security

Chapter 3 Main Points

3.1 The revised Government Security Policy came into effect in February 2002, replacing the 1994 policy. It has a strong focus on information technology (IT) security and is an important step toward improving the governance of security across government.

3.2 We found that the IT security standards that support the Government Security Policy are out-of-date and a plan to update them has yet to be completed. The security policy will not be fully effective without updated standards, setting out the minimum requirements that departments and agencies must meet. The standards are an essential tool for supporting appropriate IT security practices across government.

3.3 Moreover, there was little monitoring of the 1994 policy. As a result, the government does not have enough information to assess the overall state of IT security. It does not have an adequate basis for determining whether current practices across government are acceptable, nor does it have an appropriate baseline for measuring future progress. Furthermore, the revised policy calls for a report on its effectiveness but not before summer 2004. In our view, a report is needed sooner.

3.4 The government has made a commitment to connect Canadians and provide them with on-line access to services. The Government On-Line initiative was launched to accomplish these goals. Security and privacy concerns have been identified as a key issue in this initiative. It is important that the government promptly address those concerns in order to support Government On-Line.

Background and other observations

3.5 Cyber threats are real and can do significant damage. Recent attacks using viruses and other types of malicious code have raised the profile of IT security. With the heightened awareness of national security, IT security is widely seen as essential to protecting our critical infrastructure.

3.6 Our audit of four departments found a number of weaknesses that could provide some insight into the state of IT security across government. They could help the government set priorities for the operational and technical standards it develops to support the revised Government Security Policy.

3.7 Although the departments have established a governance framework, they need to implement it better to make it fully effective. This is especially

true in departments where responsibilities for information systems are decentralized and in departments with strategic partnerships and/or outsourcing relationships with other government organizations. Other improvements needed to address some weaknesses we identified include the following:

- conducting broad-based risk assessments and providing employees with adequate training in information security awareness;
- ensuring that IT security is considered at the start of a system development life cycle and that ongoing monitoring is carried out with appropriate scope; and
- carrying out audits and independent reviews periodically, including technical testing for potential vulnerabilities in network systems.

The government has responded. The Treasury Board Secretariat, on behalf of the government, has generally agreed with the recommendations. The government's responses, including the action that it is taking or intends to take to address the recommendations, are set out in the chapter.



The Criminal Justice System: Significant Challenges

Chapter 4 Main Points

4.1 Canada's criminal justice system faces major and complex challenges. It is trying to respond to crime committed by youths; make the justice system more responsive to Aboriginal peoples; address victims' needs; remedy wrongful convictions; prevent questionable plea-bargains; deal with organized crime; adjust to court decisions on police powers; provide police with lawful access to persons, property, and information; and ensure that criminal justice agencies share information effectively.

4.2 Criminal justice agencies are responding to these challenges with initiatives that affect most of the system. They include community safety and crime prevention programs; renewed approaches to youth justice; diversion programs to keep offenders out of the formal justice system; restorative justice programs; specialized courts; strategies to deal with organized crime; and development of integrated justice information systems.

4.3 The challenges and the responses have the potential to change the system significantly. Efforts have been made through numerous liaison and co-ordinating bodies to share information and co-ordinate their policies and program delivery.

4.4 For the most part, however, each agency manages key challenges and initiatives separately. This reflects the complex and multijurisdictional nature of the system. The agencies are accountable to federal and provincial legislative bodies and often to different ministries of the same government; some are accountable to municipal governments. Courts, which play a key role in the system, are independent from government.

4.5 The agencies and elected bodies may have different interests and priorities. As a result, it is difficult for the system to have an overall vision and common objectives and devise comprehensive strategies and co-ordinate their implementation. Further, federal initiatives are often developed and funded in response to pressing issues rather than on an integrated and sustained basis.

4.6 According to federal government agencies, the system's capacity to maintain a high standard of public safety is under severe strain. We believe the interrelationship of the challenges and initiatives and their collective impact need to be assessed. Without that knowledge, it is difficult to ensure that the initiatives are working together effectively rather than at cross purposes. Carrying out such an assessment may be difficult because there are major gaps in information.

Background

4.7 The formal criminal justice system is a complex network of independent but procedurally connected police, prosecutors, courts, correctional agencies, and parole boards. It costs governments at all levels at least \$10 billion a year. The federal government estimates that the cost of crime to Canadians may be as high as \$46 billion a year, when the impacts on victims and society are considered. Canadians responding to a 1999 survey by Statistics Canada said they had experienced about 8.3 million incidents that they believed were criminal. In 2000, police reported about 2.5 million *Criminal Code* crime incidents.

Federal agencies have responded. The Department of Justice Canada, Solicitor General Canada, Correctional Service Canada, and Statistics Canada have generally agreed with our observations. The specific views of each are presented in the responses at the end of the chapter.



National Defence

Recruitment and Retention of Military Personnel

Chapter 5 Main Points

5.1 The Canadian Forces needs to fill shortages in most of its military occupations. Over 3,000 positions are vacant, many of them in key occupations such as engineers, vehicle and weapons technicians, and doctors and dentists. Currently, there are not enough trained and effective personnel in the Canadian Forces to meet occupational demands.

5.2 Today's shortages are a result of actions taken when National Defence downsized in the mid-1990s. A reduced recruiting level, cuts in human resource management, a lack of information to monitor the health of occupations, and limitations in training capacity have contributed to the current problems. Human resource managers did not have the data to guide recruiting and attrition decisions for each of the military occupations. Today, the military population is unevenly distributed; there are not enough personnel in most occupations and too many in some.

5.3 The Canadian Forces recognizes that it needs to act now to address the shortages. It has increased recruiting and wants to triple its annual intake of new regular force military members from about 2,500 to 7,000 per year as part of its three-year recruiting strategy. Efforts are also under way to examine retention and to offer options to members who are deciding whether to leave or stay.

5.4 Despite efforts, the Canadian Forces' current push to recruit has not attracted enough new regular force members to meet its target of 7,000. We found that the Department is doing good work to correct problems with the recruiting system, but the expanded recruiting efforts are themselves short-staffed. And efforts need to focus more on diversity and on recruiting Canadians from minority groups.

5.5 Previous human resource practices have created peaks and valleys in the distribution of the military population that create some gaps in rank and age distribution and in experience. The Canadian Forces needs its skilled and experienced people to stay in the military and so is looking at retention options. However, many of the retention initiatives under way will be implemented only after some members have decided to leave, and it could take the Canadian Forces as long as 30 years to achieve a stable population profile.

5.6 We are concerned that few military personnel assigned to military human resource management have previous experience or training in human resource policies and practices. While there are opportunities available to

take some human resource courses, the Canadian Forces would benefit by having a knowledgeable group, trained and experienced in managing the human resource changes needed over the long-term.

The Department has responded. Overall, National Defence has agreed with our findings and told us it will look at options to improve its human resource management. It also said it will take steps to report performance measurement results to Parliament at the earliest opportunity.



A Model for Rating Departmental Performance Reports

Chapter 6 Main Points

6.1 Departmental performance reports are an important means for Parliament to hold ministers to account for the money their departments spend and the results they achieve. A good performance report tells a department's or an agency's performance story. It tells Parliament what difference a department or an agency has made for Canadians, by presenting a coherent picture of performance. Good performance reports should tell Canadians what value they are getting for the taxes they pay.

6.2 As we reported in 2000, federal departments and agencies have made some progress over the past seven years in improving the quality of their performance reporting to Parliament, but their progress has been too slow. In 2001, a report by the House of Commons Standing Committee on Public Accounts stressed the value of reporting on performance. The Committee asked that we continue to assess departmental performance reports.

6.3 This chapter is a response to the Committee's request. It provides a method to assess the quality of performance reports. We offer a model for rating departmental performance reports by five criteria for good reporting; the model identifies different levels of reporting.

6.4 We expect that the rating model will be one of the tools available to departments that will help them improve their performance reports more rapidly than they have in the past. When a performance report is rated on this model over a number of years, the model can also be used to assess the department's progress in reporting.

6.5 Rating a department's performance report enables parliamentarians to do the following:

- compare the report with those of other departments that have also been rated;
- ask the department to take specific steps that will improve its report; and
- assess the department's progress in improving its report if it has been rated previously.

6.6 We demonstrate the usefulness of our rating model by applying it to three recent performance reports: those of the Royal Canadian Mounted Police, Environment Canada, and Fisheries and Oceans Canada.

Background and other observations

6.7 Most federal departments and agencies submit a performance report to Parliament every fall. The report outlines what the department has accomplished over the past year toward the commitments it made in its earlier report on plans and priorities.

6.8 We first commented on this reporting regime in 1997. We found that a good start had been made and that the basic reporting framework was sound. In 2000 we followed up on that government-wide audit with another assessment of the government's progress in reporting performance. We described the strengths and weaknesses of the reporting regime and said that progress was too slow.

6.9 Since 1995, when the Improved Reporting to Parliament project began, the Treasury Board Secretariat has played a leadership role in improving the government's performance reporting regime. In its guidelines for preparing the 2000–01 departmental performance reports, the Treasury Board Secretariat included principles of good reporting and a lexicon of reporting terms.

6.10 Based on our previous work, on pilot testing of the rating model, and on consultation with a variety of experts, we have elaborated on the five criteria for good performance reporting that we introduced in 1997. They are consistent with the principles set out by the Treasury Board Secretariat in 2001. Improvements to the model will be made as we continue to use it, and further changes will be suggested by departments as they gain experience from applying it to their own reports.

The government has responded. The government is generally supportive of this chapter and our model. Its comments are included at the end of the chapter.



Strategies to Implement Modern Comptrollership

Chapter 7 Main Points

7.1 The Treasury Board Secretariat established the Comptrollership Modernization Initiative in 1997 to strengthen management capabilities in departments and agencies. The success of the initiative will enable departments and agencies to manage more effectively the resources entrusted to them and to account more fully to Parliament and taxpayers for the use of those resources.

7.2 Establishing sound comptrollership capabilities throughout the government has two key prerequisites: a clear, structured approach; and strong commitment and support from senior management in departments and the Secretariat and from Parliament.

7.3 We are concerned that the commitment and support need to be strengthened in key areas, such as ensuring that departments clearly understand comptrollership, providing direction and guidance, and monitoring progress.

7.4 Only three of the seven departments we audited have comprehensive strategies for implementing modern comptrollership. We found that in general,

- departmental action plans either did not specify timelines or did not establish targets or milestones by which to measure progress,
- many managers did not understand the concept of modern comptrollership, and
- departmental plans did not include estimates of the cost to implement modern comptrollership.

7.5 The Treasury Board Secretariat (TBS) has a clear role: to provide overall guidance and direction for the comptrollership initiative and to provide Parliament with information on progress across government in implementing modern comptrollership. We found that while the TBS is committed to the initiative, it needs to provide much clearer direction and guidance on how to put into practice key aspects of comptrollership. It needs to set clear expectations for departments and dates by which they are to be met.

7.6 The information that departments and the Treasury Board Secretariat provide to Parliament does not show clearly how well or how poorly departments are doing at modernizing their comptrollership practices. Nor does it show the enormity and importance of the task and the risks the

government faces if departments and agencies fail to firmly entrench strong comptrollership capabilities in their culture and their day-to-day operations.

Background and other observations

7.7 The initiative to modernize comptrollership is a management reform involving changes in the management mindset and corporate culture of the public service. Modern comptrollership goes beyond traditional comptrollership, which focusses mainly on financial information. Modern comptrollership is about strengthening management practices and integrating financial information with other performance information. Stronger comptrollership across government is essential to managing risks and resources more effectively, making better decisions, and ultimately improving the effectiveness of the public service. Strong comptrollership capabilities will also strengthen departments' ability to account to Parliament and to taxpayers for what they have accomplished with the resources entrusted to them.

7.8 As part of phase 1 of the Comptrollership Modernization Initiative, 15 pilot departments were required to carry out an initial self-assessment of their comptrollership capabilities. The self-assessments showed that departments had a number of deficiencies in such key areas as their ability to exercise effective stewardship over resources and to combine or integrate financial and non-financial performance information for decision making.

The Treasury Board Secretariat has responded. The Secretariat has indicated the actions it has planned or has under way that address the recommendations. Its detailed response follows each recommendation throughout the chapter.



Other Audit Observations

Chapter 8 Main Points

8.1 This chapter fulfils a special role in the Report. Other chapters normally report on value-for-money audits or on audits and studies that relate to operations of the government as a whole. Other Audit Observations discusses specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations, and other entities, or during our value-for-money audits or audit work to follow up on third-party complaints.

8.2 This chapter covers the following:

- Health Canada and Public Works and Government Services Canada—Government contracting rules and regulations were not followed.
- National Defence—Military satellite communication system is unused and placed in storage.
- Canada Customs and Revenue Agency—Process for renewal of duty-free shop licences needs to be improved.
- Treasury Board Secretariat—Departments are paying hundreds of millions of dollars in grants before receiving Parliament’s authorization.

8.3 Although audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters not examined.

Report of the Auditor General of Canada to the House of Commons—April 2002

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