

2003



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

NOVEMBER

Matters of Special Importance—2003
Foreword and Main Points

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Office of the Auditor General of Canada



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In 2003, the Office marks the 125th anniversary of the appointment of the first independent Auditor General of Canada. Both sides of the House of Commons cheered when the Government of Alexander Mackenzie proposed the 1878 bill that would “free the auditing of Public Accounts from any interference on the part of the administration.” That enlightened legislation laid the groundwork for 125 years of dedicated service to Parliament and to Canadians.

The November 2003 Report of the Auditor General of Canada comprises ten chapters, Matters of Special Importance—2003, a Foreword, Main Points, and Appendices. 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 2003 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, 25 November 2003



Foreword



Report of the Auditor General of Canada to the House of Commons—November 2003

Foreword

I am pleased to present my annual Report for 2003. It contains Matters of Special Importance—2003 and the following 10 chapters:

Chapter 1 Information Technology: Government On-Line

Chapter 2 Accountability and Ethics in Government

**Government-Wide Audit of Sponsorship, Advertising,
and Public Opinion Research**

Chapter 3 The Sponsorship Program

Chapter 4 Advertising Activities

Chapter 5 Management of Public Opinion Research

Chapter 6 Protection of Cultural Heritage in the Federal Government

Chapter 7 Human Resources Development Canada and the Canada
Employment Insurance Commission—Measuring and
Reporting the Performance of the Employment Insurance
Income Benefits Program

Chapter 8 Indian and Northern Affairs Canada—Transferring Federal
Responsibilities to the North

Chapter 9 Economic Development of First Nations Communities:
Institutional Arrangements

Chapter 10 Other Audit Observations

The Main Points of the chapters are reprinted at the end of this publication.



**Matters of Special
Importance—2003**

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Sheila Fraser, FCA
Auditor General of Canada

Introduction

1. This is my third annual Report to the House of Commons. I consider it a privilege to serve as Canada's tenth Auditor General. I feel deeply honoured to follow a long line of distinguished Auditors General who have served Parliament and Canadians so ably in the past.
2. The year 2003 marked another special anniversary for the Office of the Auditor General of Canada. It was 125 years ago on 1 August that a bill to establish an independent Auditor General came into force.
3. I very much appreciate the kind words and statements of support we received on the occasion of this anniversary from members of the House of Commons and the Senate, and from many senior public servants and international colleagues. It is gratifying to see the high regard in which the Office is held.

Public sector values and ethics

Public sector values and ethics need to be integrated into program management

4. In September we reported the results of our audit of the financial management and administration of the Office of the Privacy Commissioner of Canada. We found a major breakdown of controls over financial management, human resources management, contracting, and travel and hospitality. The situation resulted in significant financial and human costs and seriously impaired the ability of the Office of the Privacy Commissioner to function.
5. I was saddened at having to report events like this. I fear that they may be generalized unfairly as common occurrences across the public sector and shake the confidence that Canadians have in their federal public institutions. In my experience, excesses on this scale are by far the exception to the rule.
6. Still, our findings on the Sponsorship Program and on government-wide advertising activities are disturbing. Here, too, we found a frequent disregard for the rules and little evidence of value received for money spent. The irregularities we observed extended to Crown corporations and other agencies as well. The rules for contracting are not there just for the sake of having rules. They are central to maintaining the principles of accessibility, competition, fairness to suppliers, transparency, and best value—principles at the core of the government's contracting policy. We are arguing not that more rules are needed, but that existing rules need to be observed and consequences brought to bear when they are broken.
7. In both The Sponsorship Program (Chapter 3) and Advertising Activities (Chapter 4), we observed a breakdown in the proper conduct of public business at two levels: overall program management and the conduct of specific individuals. I am concerned that the attention focussed on wrongdoing by individuals could divert attention from the more serious,

pervasive problems that have a negative impact on how well programs are managed. While obviously unique, these cases raise important questions: How could situations like this occur? Why did it take so long to deal with them? They highlight the need for effective departmental controls and for improved oversight by central agencies and Parliament.

8. In Chapter 2, *Accountability and Ethics in Government*, we point out that the government needs to identify and act on the problems in its programs. We have recommended that it initiate independent, in-depth examinations of the root causes of problems in major programs to determine why they occurred. It should report the results to Parliament, along with the steps it is taking to prevent their reoccurrence.

9. In our 2000 Report, we indicated that the government needed to provide more vigorous and systematic support for a foundation of sound values and ethics in the public sector. It needed to develop a plan that would address values and ethics, and act decisively to implement it.

10. The government has since published guides to clarify the responsibility and accountability of ministers and secretaries of state as well as deputy ministers, and it has drafted an accountability framework for deputy ministers. In 2003, the government published its *Values and Ethics Code for the Public Service*, a statement to guide and support public servants in all their professional activities.

11. We reviewed these initiatives by the government and discuss the results in Chapter 2. These are necessary, positive steps. The values and ethical standards they embrace must now be translated into practice and integrated into public administration. We also examined values and ethics initiatives in a number of departments with substantial procurement or grants and contributions programs. We observed some progress by departments in developing and implementing these initiatives, but it is slow progress. Here, too, there is a need to explicitly integrate values and ethics in day-to-day decision-making.

12. Also, it should be clear that it matters when these values and ethics are not respected. Public servants and elected officials must be clear on what behaviour is unacceptable and must be reported and on what consequences will follow unacceptable behaviour.

13. Public sector values and ethics include fairness, honesty, and acting in the public interest. Parliamentarians, ministers, and public sector managers have a responsibility to actively promote an organizational culture that emphasizes these values and high ethical standards. It is important that they demonstrate these values and ethics in their behaviour and take action when others do not demonstrate them.

Parliamentary control over officers of Parliament

The unique environment of officers of Parliament

14. In his Report to Parliament in 1880, the first Auditor General indicated that, as necessary, he would report some issues on which he did not agree with the Executive. He said that the “greater part of the good which [the Auditor General] will accomplish will result from the prevention of irregularities by timely drawing attention to points which must be reported on adversely, if allowed to pass in the first instance.”

15. Today, as then, the responsibility of the head of an organization that reports to Parliament is to ensure that the organization is strong and credible in the eyes of parliamentarians. One of the more troubling results of the events in the Office of the Privacy Commissioner of Canada has been the harm done to the credibility of the institution and its ability to serve Parliament.

16. Over the years, Parliament has created a special class of organizations generally described as “servants of Parliament” or “officers of Parliament.” To serve Parliament effectively, these organizations have been given more independence from government oversight than regular departments and agencies. They are answerable to Parliament, not to a particular Cabinet minister, and have a considerable degree of flexibility to manage themselves. The officers of Parliament are

- the Auditor General,
- the Chief Electoral Officer,
- the Commissioner of Official Languages,
- the Information Commissioner, and
- the Privacy Commissioner.

17. Because of the considerable independence accorded them, these organizations have a special duty to carry out their mandates faithfully and honestly. In practice, they tend to come under less scrutiny and challenge than departments and agencies of government, whose ministers regularly appear before parliamentary committees. But officers of Parliament should be just as accountable for the prudent management of public funds. Given the events in the Office of the Privacy Commissioner, it seems clear that a different mechanism is needed to review the planned and actual spending of officers of Parliament, but without compromising their independence.

18. Like my predecessor, Denis Desautels, I have been uncomfortable for some time with the process for setting my Office’s budget. At present, like almost all federal departments and agencies, my Office negotiates its budget with officials of the Treasury Board Secretariat of Canada. Although this has not affected our independence, I think that as a matter of principle the process should be changed to remove any possibility that undue pressure, real or perceived, could be placed on the Office.

19. At the same time, though, our budget and those of other officers of Parliament should be subject to rigorous review and challenge. As we have pointed out previously, the United Kingdom has a system that sets the audit office's budget by a recommendation made to the government by an all-party committee of members of Parliament. This puts the budgetary decision where it rightly belongs—with the members of Parliament to whom the Auditor General is responsible, rather than with public servants. Recently, we proposed to the Treasury Board Secretariat another possible mechanism for setting the Office's budget. We have suggested that an external blue ribbon panel review our Estimates and make its recommendation to the Treasury Board. The aim would be to ensure that our budget is scrutinized appropriately without compromising our independence. I would be very willing to pilot test this approach with my Office.

Continuing to increase our accountability

20. Members of Parliament, through the House's Standing Committee on Public Accounts, have an opportunity to hold us to account for the management of the resources entrusted to us. I am pleased that the Public Accounts Committee holds meetings regularly to review our reports on plans and priorities and our performance reports.

21. However, I am often asked, Who audits the Office of the Auditor General?

22. Our financial statements have been audited by an outside firm for years, and a copy of the auditors' report is now included in our Performance Report to Parliament. But this is not enough.

23. Members of Parliament and the public look to the Auditor General for independent, objective, and supportable information they can rely on to examine the government's performance and hold it to account.

24. In order to maintain their confidence, it is essential that we operate within our legislative authorities and adhere to established standards of professional practice. To provide assurance that we do so, we are committed to a regular and ongoing external assessment of our audit processes and practices to ensure that they are carried out with due regard to economy, efficiency, and effectiveness. To this end, an international external review of our value-for-money audit practice will be conducted in 2003–04.

25. The external review will be led by the National Audit Office of the United Kingdom. The review team will also include representatives from the national audit offices of France, Norway, and the Netherlands. The team will conduct an independent and objective review in a process that incorporates commonly accepted principles of performance auditing. The General Accounting Office of the United States will participate as an observer.

26. We will be the first national audit office to be reviewed by a team of international peers. We expect to receive the final report in early 2004. As part of promoting openness and transparency in government, we will make the results public immediately, including any recommendations for improvement.

Some reflections on the past year

27. From my perspective, the past 12 months saw some notable achievements and some disappointments.

Improved financial information

28. Parliament's ability to hold the government to account for its spending of public money is closely linked to the quality of the financial information available to parliamentarians. For some time, my Office has recommended that the federal government adopt a full accrual method of accounting. I am very pleased that it has now done so. This places Canada among the leaders, world-wide, in financial reporting by a national government.

29. Changing the accounting practices for a huge organization like the Canadian government was an enormous undertaking. Some have called it the biggest change in the federal government's accounting since Confederation in 1867. Many people in departments and agencies across the public service worked long and hard to make this happen. I congratulate the government for making this change a reality.

30. Full accrual accounting provides a more complete measure of the government's overall size. It allows the government to present financial results on a widely recognized, more appropriate basis of accounting. The challenge now is to use this new accrual information effectively in management decision making. Managers will have proper cost information and better information on assets and liabilities. That means they can make better-informed decisions and manage resources more effectively.

31. Appropriations, however, remain on a predominantly cash basis. In my view, until appropriations are put on a common basis with government-wide and departmental budgeting and financial reporting, effective financial management and control will not be achieved.

Greater interest by parliamentary committees in review of Estimates

32. Last year my Report raised major concerns about the costs of the Canadian Firearms Program. During the four hearings it held on the Report, the Public Accounts Committee discussed the role of members of Parliament in reviewing and challenging the figures put forward in departmental Estimates.

33. To assist committees in their review of the Estimates, in March 2003 my Office tabled "Parliamentary Committee Review of the Estimates Documents" (revised from the paper first issued in 1998).

34. We were invited to appear at three hearings before the Standing Committee on Government Operations and Estimates and one of its subcommittees, as well as the Standing Committee on Agriculture and Agri-Food.

35. Recently, members of Parliament have shown a greater interest in the review of the Estimates by committees. A number of standing committees have reported to the House of Commons on the Estimates, in some cases recommending reductions in the dollar amount of a vote.

36. An in-depth review of the Estimates has traditionally been a key means of holding the government to account for its spending plans. It is encouraging to see members of Parliament reassert their role in this process.

37. I am also pleased that committees continue to be interested in our work. In the past year, our Office participated in a record 52 hearings and briefings. Hearings generally focussed on value-for-money audits but also covered the *Public Accounts of Canada*, pending legislation, and our reports on our plans and priorities and our performance.

Gaps between federal environmental commitments and actions

38. This year's report by the Commissioner of the Environment and Sustainable Development highlighted once again the gaps between federal environmental commitments and actions.

39. The Commissioner's audit work this year found that the federal government needs to

- actively work on meeting commitments to ensure that pesticides are safe,
- be able to report the impact its activities in road transportation will have toward meeting Canada's Kyoto target, and
- be clear about the results that its sustainable development strategies are achieving.

40. The Commissioner also looked at whether commitments made by federal departments and agencies in their responses to environmental petitions were met. Although action on commitments was uneven, the Commissioner's report confirmed that the petitions process promotes change and action.

Action by departments as a result of our reports

41. Parliamentarians and the public are also interested in knowing what steps the government has taken to make necessary improvements and whether problems raised in our audit reports have been fixed.

42. To provide this information to parliamentarians, we introduced the concept of a yearly status report devoted to setting out the actions the government has taken in response to previously reported findings and recommendations. We tabled our second Status Report in May 2003.

43. I was pleased in that Report to be able to say that the results were generally positive. Action had been taken, although not all problems had been resolved. We observed that progress in dealing with our findings and recommendations was satisfactory in four of the six audits followed up in that Report.

44. I know that the natural tendency of the media is to focus on the problem areas we report. Consequently, the good news in our reports is overshadowed by the bad news. It is important to point out that departments do respond to our reports by acting on our recommendations and on the recommendations of parliamentary committees who hold hearings on our reports. Continued attention to areas of concern will result, over time, in improved management of government programs.

45. We will continue this approach of in-depth follow-up of the most significant issues raised in past audit reports to the House of Commons. We will also continue to give credit for progress where credit is due.

Providing information to Parliament on program performance

46. One of the important roles of my Office is to provide information to parliamentarians that they cannot readily obtain otherwise. Chapter 6, Protection of Cultural Heritage in the Federal Government, pulls together information on issues facing our cultural heritage from the many different departments and stakeholders involved, not just the one or two largest players. I believe this provides Parliament with a better overall picture of program performance and brings to Parliament's attention that difficult choices are needed to protect our cultural heritage.

Conclusion

47. As Auditor General, I am conscious of how much I must rely on others to produce my reports and bring about improvement in the way programs are managed. I would like to recognize the enthusiasm and dedication of the staff of my Office. I would also like to acknowledge the excellent co-operation and assistance we received from the departments and agencies we audited, sometimes under trying circumstances. Finally, I want to express my appreciation for the work of the committees of Parliament who reviewed our reports and made recommendations to the government for improvements. With the combined efforts of these groups, I am confident that my Office will continue making a difference to Canadians.

