
REVIEW OF PUBLIC SERVICE COMMISSION OVERSIGHT

*Report of the
Independent Review Committee*

January 2009

Prepared for the
President of the Public Service Commission of Canada

Maria Barrados, President
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January 13, 2009

Dear Ms. Barrados:

We are pleased to submit the report of the Independent Review Committee which was struck to determine the appropriateness of the approach and level of effort of Public Service Commission oversight and to identify areas for improvement.

In conducting this review, we consulted with Deputy Heads, current and former Parliamentarians, bargaining agents and other senior officials within the public service. These individuals helped us better understand the many points of view around the Commission's oversight responsibilities and we are grateful for their input. We also benefited from work done by Dr. Ivan Fellegi, Ernst & Young and Deloitte.

The Committee wishes to formally acknowledge and express our appreciation for the excellent support provided by the Public Service Commission. Special thanks go to Mary Clennett and Blair Haddock from the Commission and to John Clark from Treasury Board Secretariat who assisted us throughout the review process.



Larry Murray
Chair



Marie Fortier



Jon Singleton

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Executive summary

The Public Service Commission (PSC) is accountable to Parliament for ensuring the staffing system in the federal public service is merit-based and politically impartial. The PSC develops policies and regulations and offers staffing and assessment services to ensure that appointments are made according to the core values of merit and non-partisanship, as well as the guiding values of fairness, transparency, access and representativeness. The core values and guiding values are collectively referred to as the key staffing values.

The *Public Service Employment Act* (PSEA) assigns the PSC exclusive appointment authority which it then encourages the PSC to delegate to deputy heads. The PSEA also gives the PSC oversight power to audit and investigate staffing activities that can result in the PSC withdrawing delegated appointment authorities and revoking individual appointments. The effectiveness of the system relies on the PSC and departments and agencies¹ collaborating while respecting the statute. In short, the PSEA sets out a challenging framework – the PSC must find a way to maintain its independence and to work collaboratively with the system.

The current PSEA was enacted in 2003 and came into force in December 2005. Staffing under the previous PSEA over time had become burdened by cumbersome rules and a lengthy appeals process all aimed at selecting “the best” applicant. The current PSEA was intended to place greater emphasis on the key staffing values and long-term HR planning in guiding decision making. Changes to the PSEA took place as part of the broader set of reforms to Human Resources (HR) management introduced in the *Public Service Modernization Act* (PSMA) in 2003. These reforms brought about changes to roles and responsibilities of organizations (PSC, Public Service Staffing Tribunal, central agencies, and the Canada School of Public Service) and individuals (line managers and HR specialists).

The current PSEA also emphasizes the Parliamentary obligations of the PSC through the appointment of the President approved by Parliament and the provision for special reports. The PSC must support deputy heads and their departments in exercising their delegated staffing authorities, protect the interests of individual employees and provide a full accounting of operations to Parliament. These interests can conflict and require a clarity of purpose and solid, reliable information on the part of the PSC.

The current PSEA was intended to offer hiring managers greater flexibilities in managing their staffing activities while at the same time ensuring the integrity of the staffing system by the PSC. With the PSC's decision to maximize delegation of staffing authorities to deputy heads, the PSC placed greater emphasis on its oversight activities, audit in particular, as a way of discharging its accountabilities to Parliament.

This shift in managing its operations can be seen in changes in the PSC's spending patterns. The PSC oversight budget for 2008-2009 calls for spending on oversight activities of \$23M, or about 22% of the PSC's budget of \$102M. Prior to the implementation of the current PSEA, the PSC spent about \$14M on oversight, or about 15% of its total spending at the time.

¹ “Departments” is used in this report to refer to both departments and agencies.

The mandate of the Independent Review Committee was to determine the appropriateness of the approach and level of effort of the PSC oversight and to identify areas for improvement.

In assessing the appropriateness of the approach, the Committee considered the spirit and intent of the current PSEA: to modernize the staffing regime, balancing flexibility with greater accountability, with appointment processes based on merit, non-partisanship, fairness, transparency, access and representativeness.

In this context, the Committee found that the implementation of such a major change will inevitably be a long process, is still very much underway, and there are varying perceptions among stakeholders (deputies and senior managers, bargaining agents, central agencies, and Parliamentarians) as to the success so far. The Committee also heard that there is continuing need for effective oversight.

Conclusion 1 – In examining the PSEA, the delegation instrument and the activities of the PSC, the Committee concluded that the scope of oversight of the PSC must be as broad as the range of delegated authorities. That is to say, it must encompass the effectiveness of the staffing system and cannot be limited to non-partisanship or any other single component.²

The Committee concluded that the oversight activities of the PSC, namely monitoring, audit and investigations³ are the right ones. However, some calibration is needed in the quality and amount of monitoring, and there is a need for development of capacity across its monitoring and audit activities.

As the current PSEA is a work in progress in departments and agencies, so is it at the PSC. Most importantly, the PSC must improve engagement with stakeholders and coordination with other oversight bodies. There is a need for improved dialogue with some of its stakeholders, improved communication and coordination with other oversight bodies and with departmental internal audit, streamlining of reports to Parliament, improvements in the coherence of policies, reports, accountability frameworks, and audit criteria and also continuous learning by hiring managers.

In pursuing these improvements, the Committee is of the view that parties should be guided by the following principles:

- clear expectations relevant to the key staffing values – merit, non-partisanship, fairness, transparency, access and representativeness;
- effective communication among stakeholders;
- risk-based – focus on matters of greater risk and significance;
- cost-efficient – minimize overlap and duplication;
- continuous improvement – oversight activities lead to practice improvements; and
- fair reporting – recommendations for improvement provide context.

² The PSC role in overseeing political activities was not part of the Committee mandate.

³ Investigations were not part of the Committee mandate and are not discussed further.

In assessing the appropriateness of the PSC's level of effort invested in oversight, the Committee considered the maturity of the PSC's oversight operations. The PSC is in the midst of capacity building that is intended to enable it to carry out its oversight responsibilities efficiently and effectively within a period of three to five years to achieve a five to seven year audit cycle.

Conclusion 2 – The Committee concluded that the level of effort planned for oversight is appropriate from an overall perspective but there is a strong case to be made to increase the level of resources for its monitoring activities. The Committee leaves it to the PSC to determine whether this is best achieved by slowing the building of audit capacity or by reallocating other PSC resources.

Given the developmental nature of the PSC's present oversight activities, the Committee recommended that the PSC's annual reviews of strategic plans and PSC performance continue to include a robust examination of the results of its monitoring and audit activities with a view to ensuring that the level of effort directed to oversight remains appropriate.

The Committee also made a number of recommendations designed to make the PSC's oversight activities more efficient and effective. These encompass such areas as strengthening systems and technologies devoted to monitoring activities, developing more robust and focused audit methodologies, investing in learning, strengthening and clarifying the policy framework within which oversight activities take place and incorporating best practices (e.g., use of IT audit technologies and quality assurance reviews) into its audit practices.

In addition, while making these recommendations and conclusions on the appropriateness of the approach and level of effort of the PSC's oversight, it became evident that the significant "change process" inherent in the full implementation of the PSEA across the entire public service is still very much a work in progress. This is not surprising given that this major initiative requires fundamental cultural change if its full potential is to be realized. Cultural change of this magnitude takes time and it is also occurring at a time in which the demographics have resulted in dramatic changes in key HR staff as well as managers at all levels since 2005.

On a separate but related issue, we observed the very high priority being assigned to HR renewal and the solid progress being achieved in this extremely important area.

It is the view of the Committee that full implementation of the PSEA, as one of the essential foundations of HR renewal, requires renewed engagement by everyone involved including deputy heads, managers, HR specialists and bargaining agents. Simply enhancing PSC oversight, in isolation, will not be enough. A concerted "team effort" is required, including, initially at least, the application of similar emphasis, focus and dialogue to that which occurred in the months prior to the coming into force of the current PSEA legislation in December 2005. Maximum advantage should be taken of existing or planned fora, orientation and training courses to ensure that all line managers and HR specialists have the necessary knowledge to effectively use the current PSEA, within the framework of the key staffing values, with confidence. Bargaining agents should be invited to participate in these sessions where appropriate.

Conclusion 3 – The Committee concluded that to ensure full implementation of the PSEA, as one of the essential foundations of HR renewal, renewed engagement and a concerted "team effort" is required by everyone involved including deputy heads, managers, HR specialists, and bargaining agents. Simply enhancing PSC oversight, in isolation, will not be enough.

Summary of Major Findings

The Committee found that the PSC's approach to oversight flowed from the PSEA and its oversight objectives, and that the PSC's overall approach was reasonable.

Overall, the Committee found that the Appointment Delegation and Accountability Instrument (ADAI) provided a comprehensive summary of expectations with reference to additional detail, where needed, such as the PSC appointment policies and the Staffing Management Accountability Framework (SMAF).

Overall, the Committee found that the PSC's approach to monitoring was appropriate but did have recommendations to strengthen the ongoing effectiveness of the Departmental Staffing Accountability Report (DSAR) and supporting data monitoring activities.

Overall, the Committee found the PSC's five to seven year cyclical audit approach to be reasonable but was concerned about whether it was achievable in the near term.

The Committee reviewed the PSC's analysis comparing the level of spending on its audit of staffing activities to that spent on internal audit across government on other activities and found that it supported the overall reasonableness of the PSC's level of investment in audit.

The Committee found the PSC's level of investment in audit to be reasonable.

Conclusions

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⁴ The PSC role in overseeing political activities was not part of the Committee mandate.

⁵ Investigations were not part of the Committee mandate and are not discussed further.

Recommendations

Recommendation 1 – To streamline its reporting to Parliament, the PSC should consider providing Parliament with a consolidated report summarizing the results of departmental audit activities while continuing to provide departments with the results of their individual audits. To ensure transparency of reporting, departmental audit reports need to continue to be easily accessible to the public by being placed on the PSC Web site.

Recommendation 2 – To improve collaboration between the PSC and departments and central agencies, essential to effective oversight, the PSC needs to create a regular forum for dialogue on staffing and oversight with deputy heads of departments and central agencies.

Recommendation 3 – To improve communication between the PSC and public service bargaining agents, the PSC needs to regularize its meetings with leaders of bargaining agents.

Recommendation 4 – To address changes in leadership and renewal of the public service, the PSC needs to continue to communicate its oversight framework and ensure ongoing orientation and training for deputy heads, line managers and HR specialists. Bargaining agents should be invited to participate in orientation and training sessions where appropriate.

Recommendation 5 – To minimize overlap and duplication of oversight activities within departments related to PSC staffing audits and internal audits, the PSC and the Office of the Comptroller General (OCG) need to develop a Memorandum of Understanding (MOU) to address how they can better streamline their activities in the areas of:

- a. planned staffing audits while still respecting their individual responsibilities;
- b. capacity building of audit committees – training and education on the requirements of the PSEA and PSC oversight responsibilities; and
- c. capacity building of the internal audit community – development of a methodology for the conduct of staffing audits and training and education on the application of the methodology.

Recommendation 6 – To minimize overlap and duplication of oversight activities within departments related to PSC staffing audits and Office of the Auditor General (OAG) HR audits, the PSC should work with the OAG to foster a collaborative working relationship and a formal means of exchanging plans.

Recommendation 7 – To clarify its expectations of departments, the PSC needs to:

- a. complete its planned policy review of appointment and appointment related authorities;
- b. continue to refine its Staffing Management Accountability Framework (SMAF); and
- c. ensure appropriate stakeholder consultation and communication while making these changes to its policies and SMAF.

Recommendation 8 – To clarify its expectations of departments for the use of non-advertised appointment processes, the PSC needs to clarify and communicate its policy expectations regarding the choice of appointment process, with appropriate stakeholder consultation.

Recommendation 9 – To improve the ongoing effectiveness of its monitoring process, the PSC needs to:

- a. ensure appropriate stakeholder consultation and communication of the Departmental Staffing Accountability Report (DSAR) assessment process; and
- b. refine the DSAR assessment process.

Recommendation 10 – To improve the overall effectiveness of its data monitoring activities, the PSC needs to:

- a. implement a formal data strategy and upgrade its IT infrastructure; and
- b. continue working with departments and central agencies to contribute to a streamlined government-wide approach to data collection and supporting IT systems.

Recommendation 11 – To contribute to the overall effectiveness of its monitoring of the choice of appointment process, the PSC needs to review its approach to collecting non-advertised data to determine if changes can be made to improve its completeness and accuracy.

Recommendation 12 – To ensure the long-term sustainability of its monitoring activities, the PSC needs to continue with its plans to:

- a. increase its level of resources for its monitoring activities; and
- b. invest in succession planning and capacity building in this area.

Recommendation 13 – To ensure an efficient audit process and the long-term sustainability of its audit operations, the PSC needs to continue with its plans to:

- a. invest in team building and leadership of its auditors; and
- b. establish and implement a learning strategy to ensure the adherence to methodology and the efficiency of audits (e.g., training and coaching).

Recommendation 14 – To ensure the efficiency of its audit process, the PSC needs to:

- a. tailor its audit methodology to better reflect the specific context of staffing audits with clear linkages to the Staffing Management Accountability Framework (SMAF) and PSC appointment framework, and to better focus audit efforts on matters of risk and significance; and
- b. provide appropriate supporting audit tools and technology (e.g., sampling tools and electronic working papers).

Recommendation 15 – To ensure the ongoing reasonableness of its planned level of effort for audits, the PSC needs to:

- a. continue to update and revise its resource planning model, taking into account recent experience and best practices in the profession;
- b. implement its recently revised target budget hours; and
- c. implement more rigorous project management techniques to ensure early detection of potential cost overruns and timely corrective action.

Recommendation 16 – To ensure the ongoing reasonableness of its planned level of effort for audits, the PSC needs to:

- a. formally obtain feedback from departments through a structured survey process; and
- b. undergo a periodic external quality assurance review every one to two years.

Recommendation 17 – To ensure its level of effort directed to oversight remains appropriate, the PSC's annual reviews of strategic plans and performance need to continue to include a robust examination of the results of its monitoring and audit activities.

Recommendation 18 – To ensure accountability and transparency of its oversight performance results, the PSC needs to continue to report to Parliament on its planned and actual number of audits completed in a year as well as its progress on capacity building.

1.0 Introduction

About the Public Service Commission

The Public Service Commission (PSC) is accountable to Parliament for ensuring the staffing system in the federal public service is merit-based and politically impartial. It is also responsible for overseeing the political activities of public servants. The PSC develops policies and regulations and offers staffing and assessment services to ensure that appointments are made according to the core values of merit and non-partisanship, as well as the guiding values of fairness, transparency, access and representativeness. The core values and guiding values are collectively referred to as the key staffing values. (See Annex C for a description of the key staffing values).

Since its creation in 1908, the PSC has evolved from being responsible for most Human Resources (HR) activities to exclusive responsibility for staffing and oversight of political activities. Beginning in the 1930s, many responsibilities were gradually given back to the employer. With the expansion of the civil service in the post-World War II era, government managers were experiencing new pressures to respond to a changing environment in more flexible ways. To address this need, the government undertook a number of reviews which eventually culminated in a major reform of Canada's federal public service in 1967 that included a new *Public Service Employment Act* (PSEA). Subsequently, through a series of court decisions, merit was defined as “relative merit” meaning that applicants were selected for appointment in rank order. Over time the system became burdened by cumbersome rules and a lengthy appeals process all aimed at selecting “the best” applicant.

The current PSEA was enacted in 2003 and came into force in December 2005. It reaffirmed the importance of merit and political neutrality for the public service and the PSC's statutory oversight responsibilities. The current PSEA introduced a new definition of merit that focuses on applicants meeting the essential qualifications for the work to be performed. The hiring manager is responsible for selecting the successful candidate or candidates for the job. Essential qualifications must be met; other qualifications listed for consideration and assets are more discretionary. The current system therefore is meant to provide greater flexibility with an emphasis on the key staffing values and long-term HR planning in guiding staffing decisions.

The PSC continues to have the exclusive authority under the PSEA to make appointments to or within the public service.⁶ The Act encourages the PSC to delegate these authorities to deputy heads and establishes the PSC as an independent oversight body reporting to Parliament on the integrity of the staffing system. The system is made up of both the PSC and departmental staffing and assessment systems and practices, with departments being accountable to the PSC, which in turn is accountable to Parliament. This arrangement creates an accountability model whereby both the PSC and departments contribute to the overall success of the staffing system.

The PSC's oversight activities address both PSC and departmental staffing activities and are composed of monitoring and audits of departmental staffing activities and conducting investigations of specific appointments and political activities when there is a potential requirement to take corrective action. The current PSEA introduced a new approach to recourse. The appeals process was removed and unsuccessful applicants are now

⁶ Except as provided otherwise by Parliament, e.g., Governor in Council appointments.

encouraged to seek feedback from hiring managers through informal discussion. They also have the option of making a formal complaint to their department (internal appointments) or the PSC (external appointments), or to the newly created Public Service Staffing Tribunal (PSST) (internal appointments), primarily for allegations of abuse of authority.

The Public Service Modernization Act

The current PSEA was part of a broader suite of reforms designed to modernize HR management in the public service that were introduced in the *Public Service Modernization Act* (PSMA) in 2003. While the current PSEA was a central part of the PSMA reforms, changes were also made to improve labour relations and to provide a centralized approach to corporate learning. In addition to these legislative reforms, the government made organizational changes. The Canada School of Public Service (CSPS) was created to consolidate learning activities from a number of organizations that previously had responsibilities for learning activities. These included the PSC which was, at the time, responsible for language and other training and development activities. The PSST was also created at this time. Subsequently, the Public Service Human Resources Management Agency of Canada (PSHRMAC) (now the Canada Public Service Agency (CPSA)) was created as a separate organization from the Treasury Board Secretariat (TBS) to manage the employer's responsibilities for HR other than issues related to compensation and labour relations which continued to be managed by TBS.

In addition to creating new roles for organizations, the PSMA also created new roles for line managers and HR specialists. The implementation of the new regime required changes to attitudes and behaviours across government with regards to HR management.

Public Service Employment Act implementation

The implementation of the current PSEA is being done at a time when much attention is being given to HR renewal in government. In November 2006, the Prime Minister announced the establishment of an advisory committee to provide advice to him and the Clerk of the Privy Council on matters related to the future development of the public service of Canada. The Advisory Committee has produced two reports – one in March 2007 that focused on issues of recruitment and a second in February 2008 that focused on management of HR in the public service. The Advisory Committee is planning further work on addressing the issue of reducing the “web of rules” that affect the HR management regime, as well as the broader rules across the public service, with a view to encouraging a workplace culture of intelligent risk management and oversight. The Privy Council Office (PCO) established a Deputy Minister Committee on Public Service Renewal; deputy heads were directed to place a greater focus on HR as a strategic priority with progress monitored by PCO.

This increased emphasis on HR renewal came at a time when not only was the PSC implementing its delegated staffing model that placed greater emphasis on oversight of staffing activities, but also at a time when there was more interest in oversight of all government operations. A new Internal Audit Policy took effect in the spring of 2006, only months after the coming into force of the current PSEA. This was followed by the passage of the *Federal Accountability Act* in December 2006.

Although much progress has been made through the current PSEA, this is still a period of transition. Managers and the HR community are dealing with a significant culture change, moving from a primarily rules-based system to one more focussed on values in guiding staffing activities. They are also learning to use collective staffing to create pools of qualified candidates to increase staffing efficiency. The high rate of turnover in the HR community is an additional challenge facing departments. In its 2007-2008 Annual Report, the PSC characterized the staffing system as mostly adequate in meeting the expectations of the PSEA but with few examples of excellence.

Issue

The current PSEA encourages the PSC to delegate its appointment authorities to deputy heads. At the same time, the PSEA sets out a model whereby deputy heads are accountable to the PSC for managing these delegated authorities, thereby establishing a collaborative arrangement in which departments and the PSC are both accountable for contributing to the overall success of the staffing system. The system is designed in this way to allow departments to manage their own operations, while at the same time providing accountability to an organization with authority direct from Parliament, not via a Minister.

Objectives and focus of the review

The objectives of this review were to determine the appropriateness of the approach and level of effort of PSC oversight and to identify opportunities for improvements, while respecting the PSC's statutory obligations. Oversight activities of investigations and political activities are outside the scope of this review. (See Annex A for the Terms of Reference of the PSC Oversight Review.)

The review was done by an Independent Review Committee (the "Committee") made up of Larry Murray (Chair), Jon Singleton and Marie Fortier. (See Annex B for biographies of committee members.)

The review was carried in the fall of 2008 with the support of the PSC. The review involved interviews, comparison with oversight activities of other organizations and analysis by outside specialists of some key aspects of the PSC's monitoring and audit activities. (See Annex D for a list of outside specialists and Terms of Reference.)

Committee members interviewed a number of Parliamentarians, deputy heads and leaders of public service bargaining agents and the Executive of the Human Resources Council (HRC). The Committee also interviewed the PSC Commissioners, the PSC Internal Audit Committee and senior representatives of the PSC, the Canada Public Service Agency (CPSA), the Office of the Auditor General (OAG), the Office of the Comptroller General (OCG), the Privy Council Office (PCO), and the Treasury Board Secretariat (TBS).

2.0 Oversight objectives

The PSC uses a formal instrument of delegation called an Appointment Delegation and Accountability Instrument (ADAI) to establish the terms and conditions of delegation with deputy heads. Included in these terms and conditions is the requirement for deputy heads to monitor and adjust their organizational staffing performance against PSC expectations, risk areas identified for the public service as a whole, and risk areas identified specifically for their organization. Deputy heads may also choose to use the internal audit function as a means of monitoring compliance with PSC expectations.

The objectives of the PSC oversight framework are to:

- ensure a merit-based and impartial public service;
- identify areas for improvement in all areas of the staffing system, including within individual departments, the employer and the PSC itself; and
- hold deputy heads to account for the exercise of delegated authorities and to take corrective measures where appropriate.

In this delegated staffing regime, the PSC remains accountable for the effectiveness of the overall staffing system but recognizes that the system cannot work without collaboration between the PSC and deputy heads, within the context in which they work.

3.0 Organizations subject to the *Public Service Employment Act*

There are 82 departments and agencies subject to the PSEA. These organizations form most of the “core public administration”. In 2007-2008, overall hiring and staffing activities to and within the public service were 122,093. Eighty-nine percent of these appointments were made in about a quarter of these organizations, all “large” departments.

Table 1 – Organizations subject to the PSEA

Category	Number of employees as of March 2008	Number of departments and agencies	Percent of appointment activities
Large	2,000 or more	22	89.0
Medium	350 to 1,999	21	9.5
Small	349 or less	39	1.5
Total		82	100.0

Source: PSC

4.0 Current Public Service Commission approach to oversight

Oversight activities

The PSC's approach to oversight is designed to obtain an independent and balanced perspective of the staffing system and focus on matters of risk and significance. There are three main activities as summarized below.

Oversight activity	Questions	Frequency
Monitoring	What is the general state of the staffing system? Are there indicators of early warnings or risks to merit and non-partisanship and to the guiding values?	Ongoing
Audit	Are deputy heads managing delegated authorities in their departments in a manner that respects the conditions of delegation by upholding merit and non-partisanship and the guiding values? Are deputy heads meeting the requirements to ensure employees respect their responsibilities for political impartiality and are employees respecting these requirements? Are there opportunities for improvement? Is there a need to impose special conditions?	Cyclical Planned for a cycle of five to seven years
Investigations⁷	Was there a lack of respect for merit and non-partisanship and the guiding values in a specific appointment decision or political activity that needs to be corrected?	On request

Audit is the largest of these activities, accounting for about half of the 2008-2009 planned spending on oversight. Included in the audit activity is a small evaluation and studies program designed to assess the effectiveness of the PSEA and the PSC appointment framework. Audit, evaluation and studies are managed in a highly integrated way and all contribute to assessing the integrity of the staffing system.

5.0 Remarks of the Office of the Auditor General

The Office of the Auditor General (OAG) commented on the PSC oversight activities in its 2003 report of the Office of the Privacy Commissioner (OPC) and in a series of reports from 2000 to 2005 on HR modernization in the federal public service. In the report on the OPC, the OAG criticized the PSC for having not met its oversight responsibilities. In the series of reports on HR modernization, the OAG called for a more responsive-simpler staffing system. They also called for a strong accountability framework with some form of external oversight to provide Parliament with assurance on HR management. In its 2005 report, the OAG recognized these reforms would require time to implement and that the full impact of the changes would not be evident until several years later.

⁷ Investigations were not part of the Committee mandate and are not discussed further.

The OAG's reports were considered in the development of the current PSEA and contributed to the PSC strengthening its oversight activities in general and, more particularly, to rebuilding its audit function.

6.0 Results of Public Service Commission oversight

In its 2007-2008 Annual Report, the PSC states that the majority (approximately 75%) of the performance indicators reviewed across departments for 2007-2008 were assessed as acceptable in that they were consistent with the basic requirements of the ADAl. The PSC characterized the overall picture of performance of the staffing system as acceptable, with a few examples of management excellence and some areas that require greater attention. The PSC noted that while departments have made improvements to their planning and staffing strategies, this continues to be an area requiring attention. The PSC also reported that further progress is needed in the areas of management accountability and organizational HR support systems, including the support provided by the HR community. These conclusions were drawn from the PSC's monitoring and audit activities.

For example, the PSC uses the survey of appointments to monitor fairness in the staffing system by asking successful candidates in recent appointment processes about their perception of fairness in these processes. In 2006-2007 and 2007-2008, about 70% of recent appointees who responded to the survey agreed with the statement "internal appointments (acting, terms, and promotions) are made fairly". The PSC is presently expanding this survey to include unsuccessful applicants to obtain a broader perspective of fairness.

Issues of access and fairness were also raised in a recent statistical study produced by the PSC that examined staffing trends from 1998 to 2006. The study found that more than 80% of new indeterminate appointees had prior public service experience – 75% as either a casual and/or a term (specified-period) employee. The PSC concluded that subsequent hiring of casual or term employees can be seen as a testament to the value of the work they do and their future potential. However, over-reliance on the temporary workforce to fill permanent public service jobs potentially limits the pool of candidates and provides privileged access to some.

Recent audits have identified specific areas requiring attention. For example, the recently completed audit of executive level (EX) appointments concluded that 13.5% of these appointments did not respect merit, or there was the appearance of a preferred candidate, or there was no evidence of an assessment. A further 37.9% of the EX appointments were identified as needing improvement. The audit covered the first year the PSEA came into force and was also the first year deputy heads were not required to involve the PSC in making EX appointments.

The PSC may also impose special conditions on departmental staffing activities. Such action is normally only taken after an audit is completed. Presently, special conditions have been imposed on the Canadian Space Agency and the Royal Canadian Mounted Police (appointments under the PSEA) following audits of these organizations. These special conditions will remain in effect until the PSC is satisfied with the integrity of their respective staffing activities.

7.0 Financial analysis

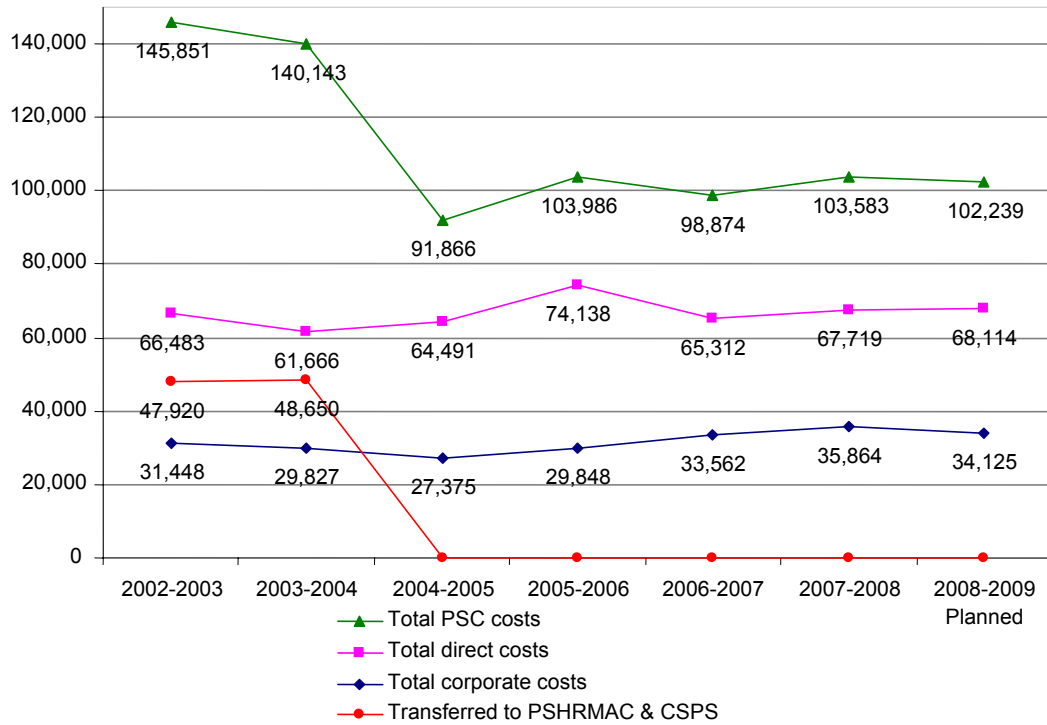
The PSC's permanent reference level (A-base funding) in 2004-2005 was \$147M.⁸ As a result of the implementation of the PSMA, a total of \$55.5M (38%) of the PSC's reference levels were transferred to the newly-created Public Service Human Resources Management Agency of Canada (PSHRMAC), now called the Canada Public Service Agency (CPSA), and to the Canada School of Public Service (CSPS). Subsequently, the PSC budget rose by some \$10M to fund economic salary increases and to provide temporary funding to support the implementation of the PSMA (for policy development and training of the HR community) and a major Information Technology (IT) project to modernize the public service staffing and recruitment system. (See Figure 1 for the trend analysis of the PSC overall spending - direct costs and corporate overhead.)

In preparation for the December 31, 2005 coming into force of the PSEA, the PSC did not seek additional permanent funding and chose instead to continuously reallocate internally to fund the changing priorities resulting from its new mandate. More resources were required for the robust oversight required for complete implementation of the PSEA. From 2005-2006 to 2008-2009, the PSC reallocated a total of \$10M to fund its audit activities, oversight of political activities, and priority administration, communications and Parliamentary affairs and legal services.

The PSC planned spending for 2008-2009 for monitoring and audit is \$5.5M and \$11.8M respectively, with a combined total of \$17.3M on these two oversight activities. Section 9 of this report presents more detailed analysis of these budgets. (See Figure 2 for the trend analysis of the PSC – direct costs by program activity and Figure 3 for the trend analysis of the PSC spending on oversight. See Annex E for a description of the PSC's program activities.)

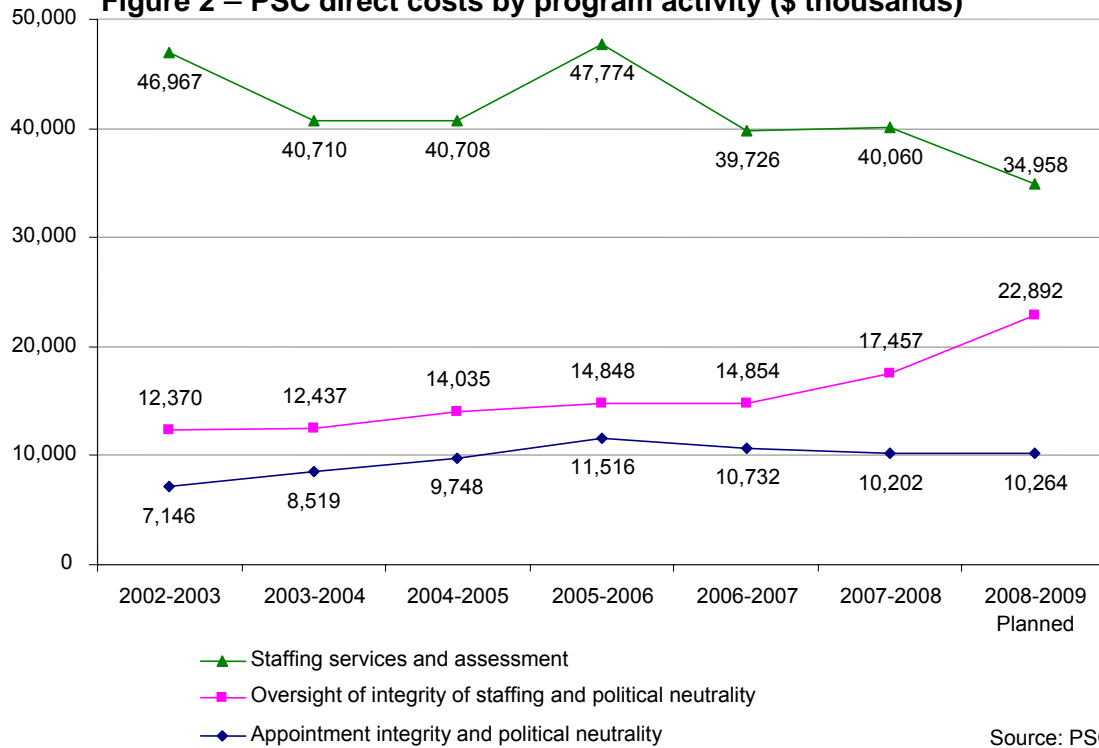
⁸ Permanent reference level (A-base funding) in 2003-2004 was \$148M.

Figure 1 – PSC resources (\$ thousands)

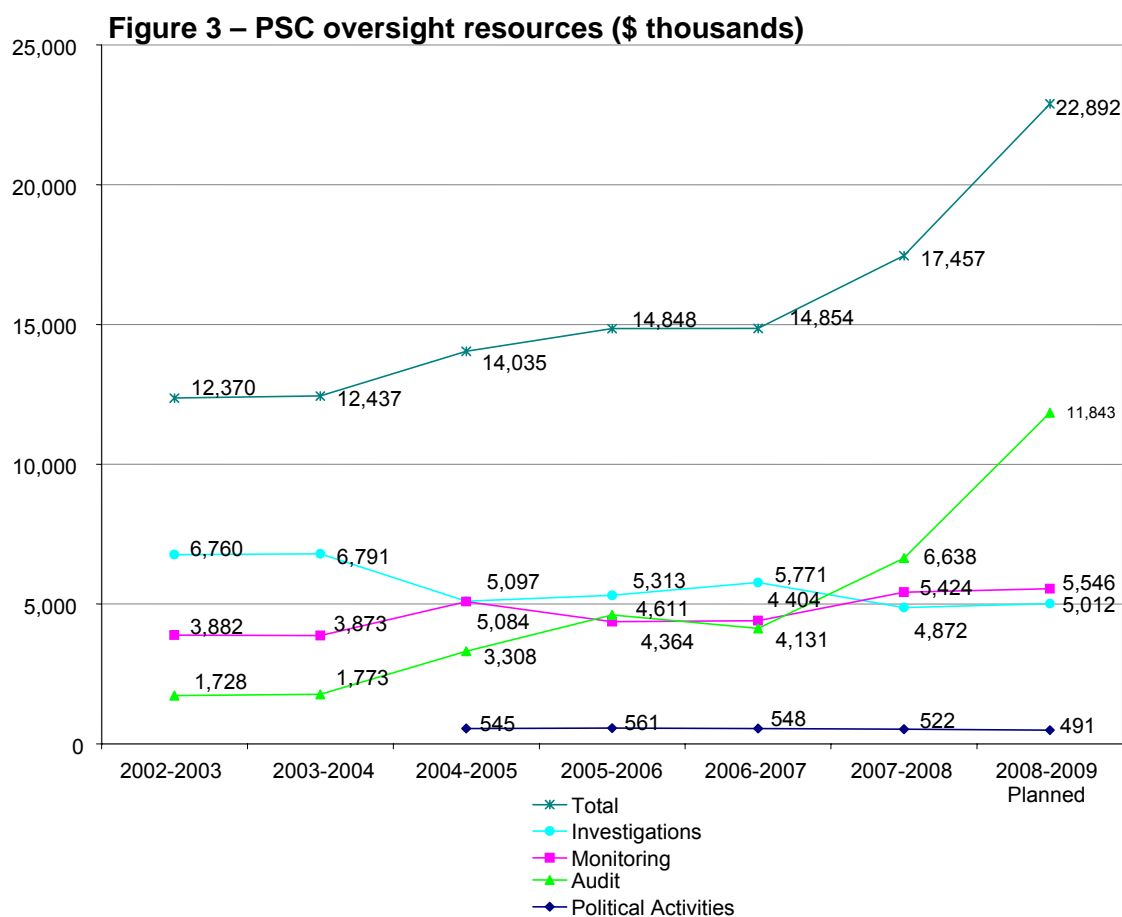


Source: PSC

Figure 2 – PSC direct costs by program activity (\$ thousands)



Source: PSC



Source: PSC

8.0 What we heard

Parliament. The Parliamentarians we spoke with talked about the importance of a non-partisan public service. They also raised other concerns about ensuring fair access to public service jobs through such means as using national area of selection. They also expressed concerns about the significant proportion of casual and term employees subsequently hired into indeterminate positions which can limit access and jeopardize the ability to attract “top talent”.

There was support for the role played by the PSC – the danger of a politicized public service was seen as far too real. They felt the delegated staffing model was an appropriate way to manage the public service staffing system but it was critical to have effective oversight. There was also some concern expressed about the level of understanding of the role of the PSC by all Members of Parliament.

There was praise for the reports tabled by the PSC but also concern about the engagement of Parliamentarians. The PSC reports to Parliament on the results of its own accountability

and not strictly as overseer like others, such as the Auditor General. There was discussion about the unique role of the PSC in terms of its relationship with Parliament. For example, it was suggested that the PSC should strengthen its working relationship with the Government Operations and Estimates Committee, which could include the Committee having a standing agenda item to address the PSC reports shortly after they are tabled. A similar suggestion was made by the Senators.

There was also a suggestion that the PSC provide more follow-up reports on its audits and studies.

Departments and central agencies. Over the course of the review, the Committee heard from a number of deputy heads and the Executive of the HRC, who provided their insights into how the PSC oversight role is working. During these discussions, a number of themes and issues areas emerged, including concerns over duplication of effort, the need for better communication of roles and responsibilities and the need to focus oversight efforts on what is important. The following provides a more detailed summary of these themes.

The first central theme emerging from discussions with senior managers and deputy heads included a general sense that, although the PSC oversight of the staffing function is important, greater clarity is required in terms of roles and responsibilities of the agencies involved and how and when oversight tools are used. Many felt that there was potential for duplication, given the number of oversight bodies with an interest in the HR function.

Participants also felt that they wanted a better understanding how the level of risk in the staffing system related to the level of oversight. Many made the point that oversight activities, and specifically audits, need to focus on what is important.

An additional message that was received was the need to evolve a sensible HR oversight function that allows deputy heads to take responsibility. Some felt that if deputy heads and managers do not take responsibility for the HR function, then no amount of oversight will ensure a well functioning HR system. The objective should be to build a creative and dynamic HR system with a clear articulation of responsibility.

Many also felt that communications around the roles and responsibilities of the PSC, the employer and other oversight bodies needs to be improved. Many felt that the PSC's role and objectives need to be better defined and communicated across government. For some deputy heads, the role of the PSC is to guard the principle of non-partisanship, not the application of merit, and it is the job of departments to ensure that they have the right people.

It should be noted that not all individuals spoken to during this process felt the role of the PSC should be further constrained. Members of the Executive of the HRC felt that that the PSC should play a greater leadership role across government. On the whole, they felt that the HR community needs assistance to move from a rules-based system to one that is more flexible and that the PSC is an essential player in that process. They felt that, left on their own, the HR community was at risk of becoming more rules based rather than less.

Discussion also indicated that the adoption of the PSEA represents an ongoing cultural change across government. This cultural change will take time and should be encouraged through the balanced use of oversight and flexibilities and with a primary focus on improving the system, as opposed to placing blame.

Bargaining agents. To support this review, the Committee met with a number of leaders of public service bargaining agents to understand their perspective and those of their members. Leaders of bargaining agents were concerned about how managers were exercising the increased flexibilities given to them in a regime that they felt provided ineffective recourse. They saw the recourse system as ineffective because hiring managers were not forthcoming with information during the informal discussion process; departments accepted few cases for investigation and the PSST was limited in scope to cases of abuse of authority. They also felt that the PSC was too close to the employer in the PSST cases and did not view the PSC as independent. With respect to PSC investigations and audit activities, they felt the PSC should take stronger and more timely corrective measures.

Leaders of bargaining agents were concerned with the new definition of merit and felt that managers were making staffing decisions in a fairly “loose” way. While they felt the use of non-advertised appointment processes in exceptional situations was appropriate, they felt these processes were being over-used by managers.

Overall, they felt that the PSC plays a valuable role in supporting transparency in the staffing system and needs to do more to protect the interests of employees. They saw a need for the PSC to exercise increased oversight and greater consultation with them. They felt that an additional meeting with leaders of bargaining agents should be added to the PSC’s existing consultation framework. They also stressed the importance of PSC consultation with bargaining agents during the planning of audits to allow bargaining agents to provide input.

9.0 Findings and recommendations

To address the objectives of this review – to determine the appropriateness of the approach and level of effort of PSC oversight and to identify opportunities for improvements while respecting the PSC’s statutory obligations – we first addressed broader issues of communication with Parliament, departments and central agencies, and bargaining agents and then reviewed the oversight framework. We then examined issues related to collaboration with other auditors to address the matter of overlap and duplication and communication of expectations. Next, we considered the more technical issues of approach and level of effort for the PSC’s monitoring and audit activities.

Accountability to Parliament

The PSC understandably places a high importance on its relationship with Parliament, given its responsibilities for ensuring the overall integrity of the appointment system and the political neutrality of the public service. In addition to providing regular and special reports to Parliament, including those related to audit findings, the PSC makes appearances before Parliamentary Committees (e.g., Commons Committees on Government Operations and Estimates, Official Languages, Access to Information, Privacy and Ethics and Senate Committees on National Finance and Human Rights). The number of Standing Committee appearances increased from three in 2005-2006 to eight in 2006-2007. The President of the PSC also has direct communication with Members of Parliament when required.

In general, it appears that Parliamentary Committees are pleased with the work the PSC is doing – especially on the oversight side. The PSC has been effective in identifying issues, providing information and analysis and responding to their questions. Parliamentary

Committee members have praised the PSC for its work. The PSC reports have also contributed to the work of these Committees. For example, the Senate National Finance Committee prepared a Report on HR Management Issues in the Public Service after the hearing it held to discuss the 2006-2007 PSC Annual Report. In addition, the Government Operations and Estimates Committee is interested in the work the PSC has done on mobility in order to support its studies on Issues Concerning the Federal Government Employee Compensation Delivery System and Geographic Distribution and Turnover Rate of Federal Public Servants.

Parliamentary Committee members and Parliamentarians in general are faced with large volumes of information and have significant demands on their time. The PSC's objective is to fully implement a cyclical audit approach in which departments would be audited on a cycle of five to seven years. Over time, this would result in the PSC producing about 13 departmental audits annually. Over the past five years, the PSC has been building its audit capacity and has tabled no more than three departmental audit reports in a year. There is an opportunity for the PSC to streamline its reporting to Parliament as it builds its audit function.

Recommendation 1 – To streamline its reporting to Parliament, the PSC should consider providing Parliament with a consolidated report summarizing the results of departmental audit activities while continuing to provide departments with the results of their individual audits. To ensure transparency of reporting, departmental audit reports need to continue to be easily accessible to the public by being placed on the PSC Web site.

Collaboration with departments and central agencies

Fundamental to the design and conduct of its oversight of departmental staffing activities is the decision to delegate almost all of its statutory appointment authorities. This underscores the *raison d'être* of the establishment of a strong oversight capacity to ensure a meritorious and non-partisan public service. However, to be effective, oversight needs to be implemented in a manner that recognizes the deputy heads' responsibilities for managing their operations and the risks to the staffing values. Thus an investment in collaboration is essential. Related to this is a clear focus on results and the adoption of a problem solving approach. This should allow for a streamlined approach that respects the interests of all and includes the common goal of ensuring the integrity of the staffing system.

In its 2002 Chapter on Modernizing Accountability in the Public Sector, the OAG made the following observations regarding managing for results in a manner that creates a culture of change:

The key questions are whether risks were managed effectively and whether appropriate changes are being made as a result — what has been learned? And mistakes that were the result of carelessness, incompetence, or malfeasance call for appropriate sanctions.

We found this last point to be of particular importance to this review. In our interviews, a number of people raised concerns that the PSC's oversight activities, and in particular its audits, were having an adverse impact on the implementation of PSEA reforms. They were concerned that departments were acting in an overly risk-averse manner because they

feared the possible negative consequences of having their mistakes identified in an audit. They also raised concerns about the PSC not distinguishing “honest” mistakes from those that were the result of “carelessness, incompetence, or malfeasance”.

These concerns were frequently cited in relation to the 2008 PSC Government-wide audit of executive (EX) appointments. This audit examined EX appointments made in the first year of the current PSEA – the first time EX appointments had been delegated to deputy heads. The PSC divided its audit findings into three categories – unsatisfactory appointments, those needing improvement and satisfactory. The unsatisfactory appointments accounted for 13.5% of the ones audited and were comprised of appointments that raised serious concerns pertaining to merit, appearance of preferential treatment and/or lack of key assessment documents. The audit report stated that these appointments would be considered for possible investigation. In an investigation, further evidence is gathered primarily through enquiry of those involved in a staffing process so the PSC can make a final conclusion about respect for the PSEA and the need for corrective action. The PSC recognizes that unsatisfactory appointments may be a result of “honest” mistakes but is directed by its statutory responsibilities to assess compliance with the PSEA in order to determine if corrective measures are required. The challenge for the PSC is to ensure its audits focus on the effectiveness of delegated authorities and to make recommendations for improvements to the staffing system while at the same time meeting its statutory obligations to correct individual appointments, where warranted. This linkage between audits and investigations was not well understood by those interviewed.

The deputy heads and the HRC Executive Committee also expressed confusion about the purpose of the PSC’s oversight activities. There was also a general frustration in what they perceived to be too much oversight of their operations being carried out by too many organizations. Clarification of the PSC’s approach to oversight was seen as being an essential element to opening up a meaningful dialogue between the PSC and deputy heads on improving their understanding of the PSC’s oversight activities.

This dialogue should begin with a discussion of the principles of an effective oversight framework for staffing. This should contribute to collaboration, essential to the success of the system.

Recommendation 2 – To improve collaboration between the PSC and departments and central agencies, essential to effective oversight, the PSC needs to create a regular forum for dialogue on staffing and oversight with deputy heads of departments and central agencies.

Communication with bargaining agents

The Committee also recognized the importance of the PSC having effective communication channels with employees and bargaining agents since the staffing regime in the public service is established by the PSEA and not through collective bargaining. It is therefore important that the PSC understand their perspective on the effectiveness of the staffing system. We noted that the PSC meets with bargaining agent leaders on a semi-annual basis, participates in conferences on HR-related matters and consults with them on its policies through a standing advisory committee co-chaired by bargaining agents and management.

Recommendation 3 – To improve communication between the PSC and public service bargaining agents, the PSC needs to regularize its meetings with leaders of bargaining agents.

Oversight framework

The basis for a modern oversight regime is one that takes a balanced approach using a variety of activities (such as monitoring and audit) and is risk based. To support this review, a comparison was made of the PSC's approach to oversight with those of a number of other oversight bodies. This analysis showed that approaches to oversight varied considerably. Some oversight organizations appeared to rely solely on complaints as a means of identifying issues, while others described a system that combined monitoring activities with either an early intervention mechanism or post audit activities. The analysis found these differences in approach reflected differences in the statutory responsibilities, composition of the organizations subject to oversight and the risks being managed. The PSC was unique in this group in that its statute establishes it as having a direct responsibility for the system it oversees and as the overseer.

The Committee found that the PSC's approach to oversight flowed from the PSEA and its oversight objectives, and that the PSC's overall approach was reasonable.

However, through our interviews we found that the PSC's oversight regime was not well understood and have made recommendations for further communication.

The PSC has communicated its oversight regime in its Annual Reports and in its Accountability Policy. The Annual Reports describe the objectives and results of its monitoring, audit and investigations activities. The description in the 2005-2006 Annual Report, the year the PSEA came into force, was particularly good.

The PSC Accountability Policy describes the activities used by the PSC to hold deputy heads accountable for the exercise of delegated staffing authorities including: monitoring of delegated staffing authorities; providing feedback to delegated organizations so they can take action to improve their staffing system and ultimately to protect merit in the overall system; conducting audits, studies and investigations; and reporting to Parliament on the health of the public service staffing system.

We noted that the Appointment Delegation and Accountability Instrument (ADAI), that establishes the terms and conditions of delegation with deputy heads, also provides information about the PSC's oversight framework.

The PSC's oversight regime is still relatively new and undergoing change. While the PSC has communicated its vision of the staffing oversight regime, further repetition is needed. One of the key principles of implementing change is the need for repeated communication. This is particularly important in the current environment, given the high level of turnover among executives and HR professionals.

Recommendation 4 – To address changes in leadership and renewal of the public service, the PSC needs to continue to communicate its oversight framework and ensure ongoing orientation and training for deputy heads, line managers and HR specialists. Bargaining agents should be invited to participate in orientation and training sessions where appropriate.

Collaboration with other auditors

Pursuant to the PSEA as the holder of the appointment authority, it is the PSC's responsibility to hold deputy heads to account for their exercise of their delegated authorities, make recommendations to departments for improvement and impose corrective measures, including the possible withdrawal of delegated appointment authorities. The PSC uses audits to fulfil this part of its oversight objectives because they provide the high level of assurance needed to support such an assessment given the potentially serious consequences. To minimize overlap and duplication of oversight activities, it is important that the PSEA audit activities be coordinated, wherever practicable, with those of other auditors with broader mandates, namely internal audit functions, the Office of the Comptroller General (OCG) and the Office of the Auditor General (OAG), while respecting individual statutory responsibilities.

Internal audit functions and Office of the Comptroller General. Internal audit is an important element in enabling deputy heads to ensure that their departments have an effective internal control system. Audit committees play a role by providing an independent view on the controls in place to ensure compliance with legislation, internal plans and results. Departments may decide to conduct internal audits of staffing activities and the PSC's audit methodology is designed to place reliance on the result of such work, where possible, to minimize overlap and duplication. Last spring, the PSC shared its audit plans with deputy heads and the OCG in an effort to minimize overlap and duplication.

It would, however, be a mistake to think that departmental internal audit functions could replace the PSC audit function. The PSC was established to be independent of Ministers and it is therefore critical that its oversight activities operate in a manner, both real and perceived, that is independent of ministerial direction. There are, however, improvements that can be made to ensure a more collaborative approach to fulfilling the responsibilities of the PSC, the OCG and internal audit functions while still respecting the unique mandates of each. We were encouraged by the collaborative nature of the discussions that took place between the PSC and the OCG during this review. For example, senior executives agreed to meet on a regular basis to manage overlap and duplication. The OCG offered to share the preliminary results of work done on HR planning and stop further work in this area, leaving the PSC to take the lead on further audit work.

The PSC draws from both the HR and internal audit community to conduct staffing audits. Both of these communities are facing significant capacity building challenges across the public service. The adoption of collaborative approaches to the development of audit methodology and training and development of staff should leverage scarce resources and increase the capacity of internal audit functions to develop the competencies needed to undertake staffing audits.

The OCG is responsible for the training and development of departmental internal audit committees. When communicating its audit plans last spring, the PSC offered to meet with departments and/or their audit committees to explain its mandate and planned audits. A number of these meetings have taken place.

Recommendation 5 – To minimize overlap and duplication of oversight activities within departments related to PSC staffing audits and internal audits, the PSC and the Office of the Comptroller General (OCG) need to develop a Memorandum of Understanding (MOU) to address how they can better streamline their activities in the areas of:

- a. planned staffing audits while still respecting their individual responsibilities;
- b. capacity building of audit committees – training and education on the requirements of the PSEA and PSC oversight responsibilities; and
- c. capacity building of the internal audit community – development of a methodology for the conduct of staffing audits and training and education on the application of the methodology.

Office of the Auditor General. As Parliament's external auditor, the Office of the Auditor General (OAG) conducts performance audits to determine whether government programs are being managed with due regard for economy, efficiency and environmental impact, and whether there are measures in place to determine their effectiveness. As part of this activity, the OAG may audit HR management of government operations of large and/or of individual departments. While their audits may cover staffing issues similar in nature and scope to those covered by the PSC, they may also include broader HR management issues and possibly other financial management and administrative issues. There have been two recent OAG audits which have led the PSC to carry out additional work to determine what, if any, corrective measures might be necessary. From time to time, the PSC and the OAG have shared their audit and evaluation plans in an effort to minimize overlap and duplication.

While it is not realistic to think that overlap and duplication will be fully eliminated, given the separate mandates of the PSC and the OAG, improvements are possible. We were encouraged by our discussion with the Auditor General and the commitment she made to share OAG audit plans with the PSC – both government-wide and departmental – and to arrange for OAG staff to meet with the PSC at least annually to discuss these plans.

Recommendation 6 – To minimize overlap and duplication of oversight activities within departments related to PSC staffing audits and Office of the Auditor General (OAG) HR audits, the PSC should work with the OAG to foster a collaborative working relationship and a formal means of exchanging plans.

Communication of expectations

The PSC communicates its expectations of deputy heads in the Appointment Delegation and Accountability Instrument (ADAI) that establishes the terms and conditions of delegation with deputy heads. This document includes:

- a schedule of delegated appointment and appointment-related authorities with cross-references to the PSEA;
- the conditions for sub-delegation;
- a list of conditions of delegation that makes reference to the PSC appointment policies;
- accountability and audit expectations that require departments to put in place their own management framework based on the Staffing Management Accountability Framework (SMAF) provided by the PSC, and requires them to actively monitor staffing activities through internal audits and other review measures and to support PSC oversight activities; and
- the consequences, including possible remedial measures or removal of delegation, should the PSC conclude that there has been a contravention or an abuse of delegated or sub-delegated authorities.

Overall, the Committee found that the Appointment Delegation and Accountability Instrument (ADAI) provided a comprehensive summary of expectations with reference to additional detail, where needed, such as the PSC appointment policies and the Staffing Management Accountability Framework (SMAF).

The Committee further examined communication of policies and the SMAF.

Public Service Commission appointment policies. To support the current PSEA, the PSC has articulated its expectations about how appointments should be made in order to respect the PSEA and key staffing values. These expectations were communicated to departments in a suite of policies, guides and tools. Since December 2005, the PSC has amended its policies, guides and tools on an ad-hoc basis.

We found confusion among stakeholders and within the PSC about the relative importance of the PSC policies and guidance. This confusion has led to a perception that the staffing system continues to rely too heavily on rules, which is inconsistent with the aim of creating a values-based staffing regime. Furthermore, this puts the PSC auditors in an awkward position of interpreting policy and guidance during the audit process.

The PSC now has three years of experience with the current legislation and is conducting a review of its policies, guidance and tools to ensure they are consistent with PSEA requirements. The review will also provide more effective information by determining if policies and tools should be revised, reduced or combined, augmented, and/or simplified. This should result in a more harmonized suite of policies, guides and tools that supports a well-functioning delegated appointment model. The resulting policies and guides should minimize overlap, provide linkages, be easy to follow and meet legislative requirements and staffing values. The PSC began this review in November 2008 and expects to complete it by December 2009.

Staffing Management Accountability Framework. To support the coming in to force of the current PSEA, the PSC developed a Staffing Management Accountability Framework (SMAF) which reflected the essential elements that departments were required to have in place prior to acquiring delegated authorities. These essential elements included the new delegation instrument, policies, training and communication, and accountability and reporting requirements. This framework was used in 2005-2006 and in 2006-2007 and redesigned last year for 2007-2008 to better focus on the ongoing operations of the staffing system.

The new SMAF is designed around four key success areas the PSC identified as being important to making short-term progress towards implementing the PSEA. The four areas are:

- delegation of staffing to deputy heads;
- HR planning for staffing and integration with business planning;
- organizational HR support systems for staffing; and
- organizational accountability for staffing results.

According to the PSC, progress in these four key areas should result in greater success by departments in achieving the intended outcomes of the PSEA – a flexible and efficient staffing system and respect for the key staffing values.

The PSC admittedly made these changes quickly to ensure the SMAF was relevant to its expectations of departments who now had over a year to adjust to the new staffing regime. In making these changes quickly, the PSC carried out limited consultation with departments and central agencies and communication was generally late. The PSC is presently reviewing the SMAF to better communicate it and to make refinements. This PSC expects that improvements will be made over the coming years as a normal part of its operations to reflect best practices in management control frameworks and changes in the staffing system both within the PSC and in departments.

Recommendation 7 – To clarify its expectations of departments, the PSC needs to:

- a. complete its planned policy review of appointment and appointment related authorities;
- b. continue to refine its Staffing Management Accountability Framework (SMAF); and
- c. ensure appropriate stakeholder consultation and communication while making these changes to its policies and SMAF.

Choice of appointment process. We found confusion among stakeholders and within the PSC on the appropriate use of non-advertised appointment processes. The option to use non-advertised appointment processes was introduced as part of the current PSEA. About a year after the coming into force of the PSEA, the PSC clarified its communication of the use of non-advertised appointments to state that it expects to see advertised appointment processes as the standard practice. The guidance requires hiring managers to demonstrate how the choice of a non-advertised process respects the key staffing values.

The PSC policies and guidance did not fully anticipate the different types of situations and how the definitions of non-advertised and advertised would apply to them. For example, there is still some confusion about whether appointments made from collective staffing processes should be classified as advertised or non-advertised. From the PSC's perspective, appointments from pools of qualified candidates created through collective processes that were initially advertised to operate in such a fashion should be categorized as advertised appointment processes. While the PSC attempted to clarify this matter, there is still confusion about this situation and others that requires clarification. The choice of appointment process is important as it directly speaks to access to public service jobs for both external recruitment and internal promotions. The PSC monitors the use of non-advertised processes.

Recommendation 8 – To clarify its expectations of departments for the use of non-advertised appointment processes, the PSC needs to clarify and communicate its policy expectations regarding the choice of appointment process, with appropriate stakeholder consultation.

Monitoring – Approach

The PSC's monitoring activities are designed to answer the following questions:

- What is the general state of the staffing system?
- Are there indicators of early warnings of risks to merit and non-partisanship and the guiding values that we should be concerned about?

Monitoring activities are composed of:

- ongoing monitoring through communication and information sharing;
- the Departmental Staffing Accountability Report (DSAR) which provides an annual assessment of the effectiveness of staffing activities of individual departments;
- appointment information and analysis that provides data and information used for monitoring; and
- statistical studies that describe in analytical terms how the staffing system functions.

Monitoring takes place through formal meetings with departments and also in various other venues such as meetings with representatives of bargaining agents and the HRC. The PSC also analyzes reports and information (much of which is publicly available – such as audit reports, survey results, and costing documents). Information sharing within the PSC on issues and concerns, including results of PSST decisions, investigations and judicial review, also forms a critical part of monitoring. The PSC complements these strategies with more structured mechanisms that rely on departmental staff assessments, quantitative data and trend analysis to develop an overall picture of the staffing system and emerging issues and risks.

Overall, the Committee found that the PSC's approach to monitoring was appropriate but did have recommendations to strengthen the ongoing effectiveness of the Departmental Staffing Accountability Report (DSAR) and supporting data monitoring activities.

Departmental Staffing Accountability Report. The DSAR is carried out annually and is similar to the annual Management Accountability Framework (MAF) exercise managed by TBS and the CPSA. Similar to the MAF, the PSC provides feedback on the results of its evaluation to deputy heads and provides input to the Committee of Senior Officials (COSO). The DSAR results are publicly reported in aggregate in the PSC Annual Report along with top performing departments.

The PSC summarizes the results of its annual monitoring activities in its Annual Report to Parliament. These results are also used to manage PSC operations by providing input for consideration of policy issues and risk assessment for audit planning.

The PSC changed its DSAR in 2007-2008 to reflect the changes made to its new SMAF. There were two significant changes made to the new DSAR. First, greater emphasis was placed on quantitative indicators that made greater use of the PSC's appointment data holdings. Second, the new DSAR placed greater emphasis on departmental self-assessment of the effectiveness of their staffing activities.

The Committee heard both praise and concerns about the PSC's monitoring activities. There was genuine praise for the progress made in the past year to streamline the DSAR process to make more use of data – "hard facts", to place greater emphasis on self-assessment and to seek stakeholder input in its design. There was also appreciation for the PSC's success in reducing the reporting burden on departments by reducing the number of questions by 60%.

Concerns about the DSAR process included a lack of understanding of and buy-in to the leading indicators model, the reliability of the data, the timeliness and communication of the process and scepticism about the usefulness of some of the indicators and their assessment results. For example, there is inadequate transparency in departmental assessments: first, with respect to how the cut-offs are determined, and second about the conditions that give rise to a rating of "opportunity for improvement" or "attention required".

The PSC realized it would take a few years to fully implement the new DSAR process and decided to forge ahead in implementing a new monitoring system it felt was more relevant to the current operating environment. Changes are being made to improve the 2008-2009 DSAR process which includes consultation with departments.

Recommendation 9 – To improve the ongoing effectiveness of its monitoring process, the PSC needs to:

- a. ensure appropriate stakeholder consultation and communication of the Departmental Staffing Accountability Report (DSAR) assessment process; and
- b. refine the DSAR assessment process.

Data monitoring. The PSC's appointment information system relies on four main sources of data:

- the Job-Based Analytical Information System (JAIS) – this is a longitudinal file of appointment data for public service employees that is derived from the pay system;
- a set of surveys covering applicants and line managers;
- a manual data collection implemented to collect data specifically about the extent of non-advertised competitions; and
- applicant data.

The changes made to the DSAR process in 2007-2008 placed greater emphasis on the use of these data sources to supply the data needed for quantitative analysis. The current data sources are not integrated, making appointment analysis inefficient and slow. The technology in use also does not meet the need to communicate information easily within the PSC and to departments. These challenges led the PSC to review its approach to data management and the design of its IT infrastructure. In August 2008, the PSC approved an IT strategy designed to integrate its appointment data holdings into a common data warehouse that was recently implemented to store applicant data. The strategy calls for the development of a data strategy to ensure that the longer term data requirements of the PSC are met. It also sets out a vision whereby data can be shared within the PSC, departments and central agencies.

Deputy heads and the Executive of the HRC expressed concerns about the need for the PSC to work with them on data and information needs. The PSC is presently working with central agencies to work on solutions in this area that is being led by the PCO.

Recommendation 10 – To improve the overall effectiveness of its data monitoring activities, the PSC needs to:

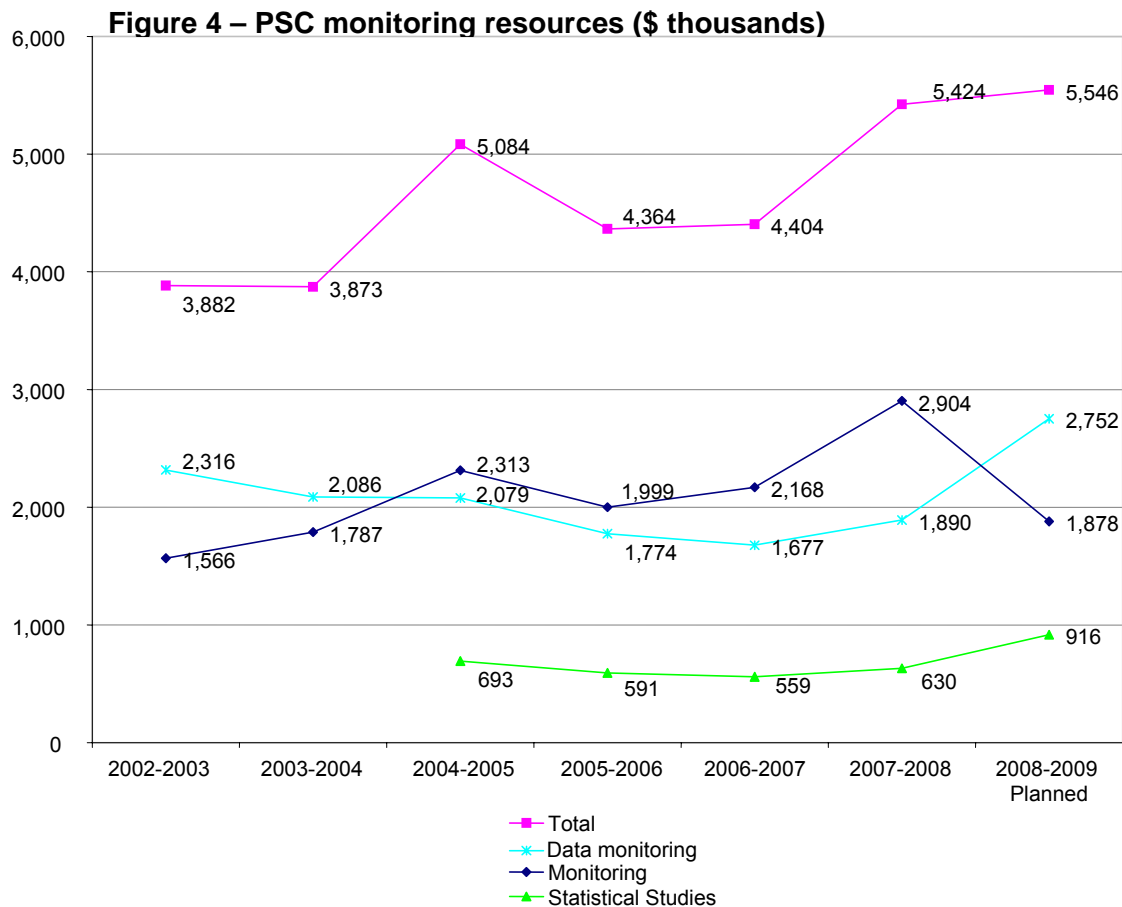
- a. implement a formal data strategy and upgrade its IT infrastructure; and
- b. continue working with departments and central agencies to contribute to a streamlined government-wide approach to data collection and supporting IT systems.

Choice of appointment process. As was previously mentioned, the current PSEA offers hiring managers the flexibility to use non-advertised appointment processes. The PSC expects advertised appointments to be the standard and monitors the use of non-advertised processes by departments. The PSC did not have a way of capturing this information through central systems in place so, prior to the coming into force of the current PSEA, it worked with departments to design an appropriate data collection process. To support this review and to contribute to the PSC's continuous improvement efforts, in the fall of 2008 the PSC asked Dr. Ivan Fellegi to review the adequacy of its data systems used to support its monitoring activities. Dr. Fellegi identified the need to improve the manual data collection procedures for non-advertised processes from departments. The PSC has had difficulty obtaining reliable information in this area, in part due to definitional issues related to its policy framework and also due to the inherent limitations of the manual data collection procedures. Dr. Fellegi was concerned about possible under-reporting of non-advertised appointments and recommended a sampling approach be put in place to verify the completeness and accuracy of the results of the current process.

Recommendation 11 – To contribute to the overall effectiveness of its monitoring of the choice of appointment process, the PSC needs to review its approach to collecting non-advertised data to determine if changes can be made to improve its completeness and accuracy.

Monitoring – Level of effort

To determine the appropriateness of the level of effort of the PSC’s monitoring activities, we examined the financial trend analyses of actual and planned spending of the PSC’s monitoring and audit activities. Monitoring costs have increased since 2002-2003 by \$1.7M largely due to the introduction of statistical studies, the broadening of the PSC survey of appointments to cover unsuccessful applicants, and economic salary increases (See Figure 4).



Source: PSC

As part of his review of the adequacy of the PSC’s data systems used to support its monitoring activities, Dr. Fellegi noted that the PSC staff responsible for its data monitoring were highly competent, dedicated and professional but were operating on somewhat of a “shoestring”. The PSC has begun making some changes in this area but further investment

is required. Over the next few years the PSC expects some key retirements to occur in an environment in which systems require modernization. Some effort has been made to address knowledge transfer of key individuals and the PSC approved an IT strategy designed to modernize its technology environment. However, real progress cannot be made in data monitoring without an overall increased level of effort.

Recommendation 12 – To ensure the long-term sustainability of its monitoring activities, the PSC needs to continue with its plans to:

- a. increase its level of resources for its monitoring activities; and
- b. invest in succession planning and capacity building in this area.

Audit – Approach

The PSC's audit activities are designed to answer the following questions:

- Are deputy heads managing delegated authorities in their departments in a manner that respects the conditions of delegation by upholding merit and non-partisanship and the guiding values?
- Are deputy heads meeting the requirements to ensure employees respect their responsibilities for political impartiality and are employees respecting these requirements?
- Are there opportunities for improvement?
- Is there a need to impose special conditions?

Audit activities are composed of:

- Audits that assess the integrity of staffing activities (respect for the PSEA and PSC policies):
 - departmental audits;
 - government-wide audits that address horizontal issues; and
 - follow-up audits that provide a status update on previously reported audits.
- Evaluations and studies that assess the effectiveness of the PSEA and the PSC appointment framework.

Five to seven year audit cycle. The PSC chose a cyclical approach to auditing departments because of the accountability regime established by the PSEA. The PSC plans to audit departments on a cycle of once every five to seven years. With this frequency, deputy heads know that audits of their departmental staffing activities will occur with reasonable frequency. In implementing the five to seven year cycle, the PSC planning methodology calls for it to be responsive to risks identified through monitoring and an environmental scan. The results of any departmental internal audits on staffing are considered by the PSC as part of its risk assessment activities and positive audit results could result in the PSC assigning a lower priority for a departmental audit. As a result of its risk assessment, the PSC may decide to shift resources from one audit to another and/or may change the order in which it had planned to audit departments. Also, positive risk assessment results could result in lengthening the cycle for some departments.

Establishing a regular cycle is an approach that is often used by auditors to hold organizations to account effectively by auditing within the context of the overall risks to the system and within reasonable financial constraints. For example, financial statements of

organizations are usually audited on an annual basis while the *Financial Administration Act* calls for special examinations of Crown corporations to be conducted on a five-year cycle. We also note that TBS carries out strategic reviews of departments on a four-year cycle.

Another concept supporting this cyclical approach is the so-called “sentinel effect”. This is an effect caused by PSC reporting on the results of its audits. The risks, issues and solutions contained in PSC reports encourage other departments to review their own systems to determine whether they have similar issues and to take corrective action on their own initiative before PSC conducts an audit on them.

Since it began to rebuild its audit function in 2005 to 2008, the PSC has conducted seven departmental audits. Each of these audits resulted in recommendations for improvement to departments with four resulting in the PSC imposing special conditions on delegated appointment authorities. The audit of these seven departments during the four-year period means the PSC produces 1.75 audits per year and equates to a 47 year cycle, far longer than the targeted five to seven year audit cycle.

Overall, the Committee found the PSC’s five to seven year cyclical audit approach to be reasonable but was concerned about whether it was achievable in the near term.

Capacity building – people. The PSC readily admits that its current approach to auditing is inefficient and that improvements are needed. Building an efficient audit practice is largely a function of building a competent work force and supporting it with an appropriate audit methodology, effective tools and operating environment.

To support recruitment, development and retention of its workforce, the PSC has made important progress staffing its executive team and in establishing a developmental program for its auditors covering three professional streams – HR professionals, auditors and evaluators. Some progress also has been made on establishing and implementing a learning strategy but more work is needed to ensure sustained growth.

To support this review and to contribute to the PSC’s continuous improvement efforts, in the fall of 2008 the PSC engaged Deloitte Consulting to review the HR strategy and capacity-building efforts of its audit function. Deloitte recognized that the audit function is faced with HR challenges common to other professional services organizations that have expanded quickly. Deloitte recommended improvements to the PSC in the areas of client service focus, organizational alignment, refinement of management practices, implementation of consistent learning approaches and targeted retention strategies. These capacity building efforts can be expected to take up to three years of concerted effort to ensure the establishment of a sustainable professional services organization and culture necessary to support the business needs of the PSC audit function. In the interim period, the cycle time of the departmental audit program will be greater than five to seven years.

Recommendation 13 – To ensure an efficient audit process and the long-term sustainability of its audit operations, the PSC needs to continue with its plans to:

- a. invest in team building and leadership of its auditors; and
- b. establish and implement a learning strategy to ensure the adherence to methodology and the efficiency of audits (e.g., training and coaching).

Capacity building – methodology. The PSC recognized that producing quality audits and meeting its target audit cycle of five to seven years would be a challenge and specifically established a Professional Practices Directorate responsible for providing functional leadership in capacity building.

The first challenge of the Directorate was to develop an audit manual; this was completed in 2005. The manual draws heavily from the methodology in place at the Office of the Auditor General at that time. Since then, the PSC has developed some guides and templates specific to its needs. However, further development of the audit methodology was stalled due to recruitment challenges of the Directorate and other competing priorities. Recruiting professional staff in this highly specialized area has been a challenge and only recently has the PSC achieved a critical mass needed to make progress. Since then, work has begun on improving the PSC's planning methodology to ensure audits are designed to focus on matters of risk and significance.

To support this review and to contribute to the PSC's continuous improvement efforts, in the fall of 2008, the PSC engaged Ernst & Young to review the PSC's audit methodology, supporting guides and templates. Ernst & Young recommended that the PSC needed to better link its audit manual, guides and tools with the SMAF and PSC appointment framework (policies and guides). Along with the ADAI, these two frameworks establish the PSC's expectations of departments. Better linkage to the PSC audit methodology would provide clearer direction to the auditors, simplify the audit process and make it more efficient. Ernst & Young also recommended that the PSC make use of the risks identified in its ongoing monitoring activities when developing plans for individual audits.

The establishment of appropriate audit tools normally used in the audit profession such as sampling tools and electronic working papers is important to improving audit efficiency. It also provides a more enriching work environment which should contribute to the longer-term retention of the PSC's professional staff. Ernst & Young recommended that the PSC make greater use of technology in its audits. They also recommended the PSC make greater use of standardized audit tools and templates, with variations by size of department, to support a more uniform and simpler approach to conducting staffing audits. The PSC is making some inroads in its use of audit tools and technology, but continued effort is needed to improve the efficiency of operations.

Recommendation 14 – To ensure the efficiency of its audit process, the PSC needs to:

- a. tailor its audit methodology to better reflect the specific context of staffing audits with clear linkages to the Staffing Management Accountability Framework (SMAF) and PSC appointment framework, and to better focus audit efforts on matters of risk and significance; and
- b. provide appropriate supporting audit tools and technology (e.g., sampling tools and electronic working papers).

Target audit hours. Individual audits are managed much like projects, each with its own budget based on the estimated level of effort in hours needed to do the work. In 2006, the PSC developed a model to estimate the number and type of resources it needed to meet the targeted audit cycle of five to seven years. The organizational design and recruitment of audit resources was done using these estimates. These estimates were based on the

PSC's audit experience at the time which was largely focused on small departments. Full implementation of the model as planned, assuming an efficient audit process, would have resulted in the PSC publishing 14 departmental audits per year (See Table 2).

Table 2 – PSC target hours and audit cycle – Original plan 2006

Dept. size	Spring 2006 targets	Number of audits per year	Number of depts.	Audit cycle
Medium-large departments	4,000 hours	6	32	5 years
Small-medium departments	3,000 hours	8	56	7 years
Total		14	88	

Source: PSC

The PSC has now had the benefit of a few years of experience with this model and as part of this review, re-examined and updated it. The updated model uses more precise estimates than were used in the past. The revised model is based on the estimated level of effort required to audit individual departments ranging from 1,000 to 15,000 hours based on the size of the department. The average for the 22 large departments is 7,250 hours, 2,000 hours for 21 medium departments and 1,200 hours for the 39 remaining small departments (See Table 3). Updating the model resulted in a decrease of one in the number of departmental audits to be completed annually.

Table 3 – PSC target hours and audit cycle – Revised plan 2008

Dept. size	Fall 2008 targets	Number of audits per year	Number of depts.	Audit cycle
Large departments	7,250 hours	3.4	22	6 years
Medium departments	2,000 hours	3.3	21	6 years
Small departments	1,200 hours	6.3	39	6 years
Total		13.0	82	

Source: PSC

As recommended by Ernst & Young, the PSC plans to consider the appropriateness of dividing up bigger departmental audits (e.g., those requiring more than 5,000 hours). This would likely result in the audits of some of the larger departments being divided into manageable segments, possibly by location. The PSC would therefore have to do two to three audits of larger departments over a period of five to seven years to cover the whole department in the target audit cycle.

As part of the update of its model, the PSC reduced its plans for the number of government-wide audits, evaluations and studies that it would do in a year, but increased the level of effort required for these products. These reports were originally planned to take about 4,300 hours on average. Under the new model they are planned to take 8,000 hours on average. In addition, the PSC reduced its plans for the number of follow-up audits

required in a year. This resulted in a reduction in the estimated planned number of reports to be completed annually from 31 to 19.

The use of targets is not intended to replace professional judgement in planning the actual hours needed to carry out an audit. A number of factors come into play in estimating the number of hours required to do an audit, including the size of the organization, the number of locations and the expected findings – or risks to the staffing system. In general, all other things being equal, the PSC would expect to spend less time auditing departments with better monitoring results and staffing systems. Departments can choose to use internal audit as part of their monitoring activities. The PSC's audit methodology encourages reliance on the work of internal audit to help reduce the level of effort required by the PSC.

Ernst & Young found the PSC's targets to be reasonable given the objectives of the audits, nature and scope of the organizations being audited and the requirement for public reporting. In addition to the improvements needed to strengthen its audit methodology, Ernst & Young recommended that the PSC put in place more rigorous project management techniques to ensure early detection of potential cost overruns and timely corrective action. This should include formal approvals to any significant changes in the planned scope of audits and/or planned audit procedures. The combined effect of implementing improvements in these three areas should lead to efficiency improvements needed to achieve a five to seven year audit cycle.

Recommendation 15 – To ensure the ongoing reasonableness of its planned level of effort for audits, the PSC needs to:

- a. continue to update and revise its resource planning model, taking into account recent experience and best practices in the profession;
- b. implement its recently revised target budget hours; and
- c. implement more rigorous project management techniques to ensure early detection of potential cost overruns and timely corrective action.

Continuous improvement. Ernst & Young noted that the PSC is not alone in its challenge in improving the efficiency of its audits. Ernst & Young cited a recently completed survey of internal audit functions of both public and private sector organizations that also identified efficiency improvements, and finding and retaining the right staff as the biggest challenges in the area of managing audit quality.

The PSC is committed to continuous improvement as reflected in its overall commitment to capacity building in the development of both its people and its methodology. The commitment to continuous improvement is reflected in the PSC's current practice of conducting lessons learned sessions of its internal operations at the completion of most audits. Ernst & Young recommended the PSC better integrate the results of its lessons learned sessions by formally sharing this information across the audit function through discussion and revision to its audit methodology, guides and tools. In addition, Ernst & Young recommended that the PSC survey departments at the completion of audits to gain a more complete picture of what went well and areas for improvement. This would also allow departments to provide feedback on other areas of oversight activities such as the integration of PSC monitoring and other oversight activities.

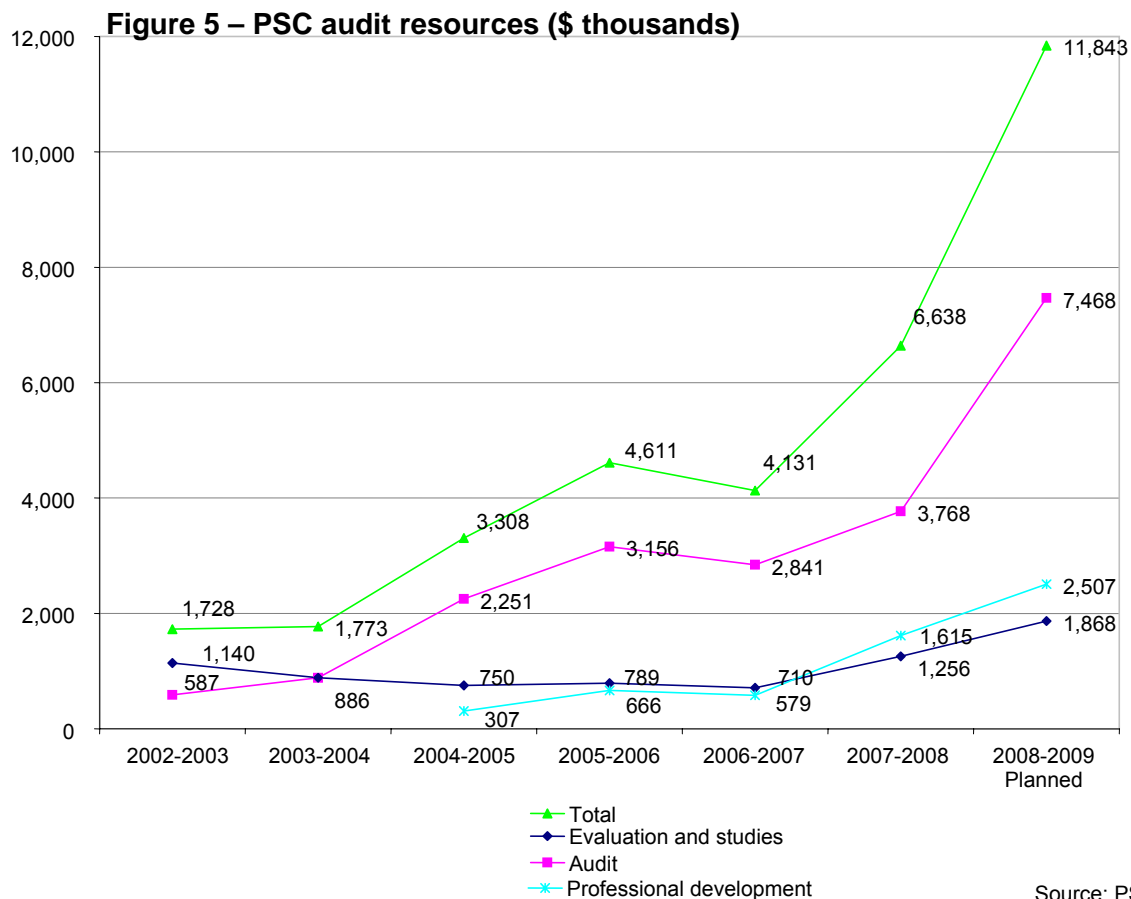
Ernst & Young recommended the PSC take a more objective and structured approach to measuring its progress in implementing methodology improvements. Specifically, they recommended that the PSC would benefit from an external quality assurance review conducted on a periodic basis. Ernst & Young cited best practice to be once every one to two years.

Recommendation 16 – To ensure the ongoing reasonableness of its planned level of effort for audits, the PSC needs to:

- a. formally obtain feedback from departments through a structured survey process; and
- b. undergo a periodic external quality assurance review every one to two years.

Audit – Level of effort

To determine the appropriateness of the level of effort of the PSC's audit activities, we examined the financial trend analyses of actual and planned spending on the PSC's monitoring and audit activities. Total audit costs have increased since 2002-2003 by \$10.1M largely due the PSC's focus on rebuilding its audit function (See Figure 5). While the increased costs for audit are significant, we noted that they are the result of a PSC strategic priority to rebuild its audit function and were funded by an internal reallocation of funds by the PSC to meet its statutory oversight responsibilities.



We first examined the PSC's level of spending on audit from a macro perspective by comparing the level of investment with other oversight activities in the federal government. To support this review, the PSC compared their approach to oversight with those of other oversight bodies. As part of this analysis, the PSC reviewed the budgets of oversight activities of other federal organizations but found it difficult to find reasonable comparators given the differences in statutory responsibilities, composition of the organizations subject to oversight and the risks being managed. Some of these organizations oversee operations in the private sector and operate on a full or partial cost-recovery basis.

The PSC analysis found comparisons of the PSC's audit activities with those of the OCG and internal audit functions at a general level to be more meaningful.

Table 4 – Comparative analysis of PSC audit costs with internal audit costs

Organization oversight & objective	Expenditures	Percent	Audit budget	Percent
PSC – Provides assurance to the PSC and ultimately to Parliament on the integrity of the staffing system	\$18B (personnel)	15%	\$12M	12%
Internal audit – Provides assurance to deputy heads on the effectiveness of internal controls in departments	\$99B (departmental expenditures excluding Finance transfer payments and payment on public debt) ⁹	85%	\$90M	88%
Total	\$117B	100%	\$102M	100%

Source: PSC – based on the 2006-2007 Public Accounts for the 82 departments subject to the PSEA.

The Committee reviewed the PSC's analysis comparing the level of spending on its audit of staffing activities to that spent on internal audit across government on other activities and found that it supported the overall reasonableness of the PSC's level of investment in audit.

This finding is based on the proportionate level of spending on PSC audits and risk. As can be seen in Table 4, above, the proportion of expenditures on personnel in relation to the total expenditures is about the same as the proportion of PSC audit costs for staffing audits in relation to the level of effort expended by both the PSC and internal audit. The Committee also considered that differences in proportionate spending on audit may also be explained by relative risks of the nature and scope of the activity subject to audit. The Committee observed that recent results of the PSC's oversight activities provide overall confidence in the staffing system but point to areas requiring attention. The Committee also

⁹ Finance transfer payments and payment on the public debt totalled \$73B in 2006-07 and were excluded due to their unique nature.

observed that the OCG's risk analysis and resulting horizontal internal audit plan also reflected a relative high rating to staffing as an area of risk.

The Committee then examined the PSC's level of spending on audit by assessing the overall reasonableness of the planned level of effort to support its approach to audit. The planned level of effort reflected in the 2008-2009 budget flows from the five to seven year cyclical audit approach and planned level of effort to conduct audits. The budget assumes the PSC overcomes its capacity-building challenges and improves its audit methodology and tools used to support audits and further develops its people. As described above, the Committee found the PSC's approach to audit to be reasonable.

The PSC has made significant investment and progress in the past five years in rebuilding its audit function but further work remains and the Committee has made recommendations for efficiency improvements. The Committee agrees with the PSC that these changes will take several years to implement. While the PSC's approach to audit encourages reliance on internal audit, the PSC's budget projections do not reflect this as most internal audit functions within government have their own capacity-building challenges and also have many other departmental risk areas to consider in addition to the risks associated with staffing activities.

The Committee found the PSC's level of investment in audit to be reasonable.

As was previously noted in the Monitoring section of this report, further investment is required in the PSC's monitoring activities. The PSC plans to resource this through internal reallocation. This may slow down the implementation of the five to seven year audit cycle. The PSC makes such decisions as part of its annual reviews of strategic plans and performance results.

Recommendation 17 – To ensure its level of effort directed to oversight remains appropriate, the PSC's annual reviews of strategic plans and performance need to continue to include a robust examination of the results of its monitoring and audit activities.

As is required by Treasury Board, the PSC prepares annually a Report on Plans and Priorities (RPP) and a Departmental Performance Report (DPR). These reports are tabled in Parliament and are publicly accessible on the TBS Web site. In its RPP, the PSC provides information on planned spending and performance indicators for oversight. The DPR is an accountability report that provides information about actual resource utilization and performance achievements. The PSC reports on the planned and actual number of audits completed in the year as well as its progress on capacity building.

Recommendation 18 – To ensure accountability and transparency of its oversight performance results, the PSC needs to continue to report to Parliament on its planned and actual number of audits completed in a year as well as its progress on capacity building.

10.0 Conclusions

The mandate of the Independent Review Committee was to determine the appropriateness of the approach and level of effort of the PSC oversight and to identify areas for improvement.

Appropriate approach to oversight. In assessing the appropriateness of the approach, the Committee considered the spirit and intent of the current PSEA: to modernize the staffing regime, balancing flexibility with greater accountability, with appointment processes based on merit, non-partisanship, fairness, transparency, access and representativeness.

In this context, the Committee found that the implementation of such major changes will inevitably be a long process, is still very much under way and there are varying perceptions among stakeholders (deputies and senior managers, bargaining agents, central agencies, and Parliamentarians) as to the success so far. The Committee also heard that there is continuing need for effective oversight.

Conclusion 1 – In examining the PSEA, the delegation instrument and the activities of the PSC, the Committee concluded that the scope of oversight of the PSC must be as broad as the range of delegated authorities. That is to say, it must encompass the effectiveness of the staffing system and cannot be limited to non-partisanship or any other single component.¹⁰

The Committee concluded that the oversight activities of the PSC, namely monitoring, audit and investigations¹¹ are the right ones. However, some calibration is needed in the quality and amount of monitoring, and there is a need for development of capacity across its monitoring and audit activities.

As the current PSEA is a work in progress in departments and agencies, so is it at the PSC. Most importantly, the PSC must improve engagement with stakeholders and coordination with other oversight bodies. There is a need for improved dialogue with stakeholders, improved communication and coordination with other oversight bodies and with departmental internal audit, streamlining of reports to Parliament, improvements in the coherence of policies, reports, accountability frameworks, and audit criteria and also continuous learning by hiring managers.

In pursuing these improvements, the Committee is of the view that parties should be guided by the following principles:

- clear expectations relevant to the key staffing values – merit, non-partisanship, fairness, transparency, access and representativeness;
- effective communication among stakeholders;
- risk-based – focus on matters of greater risk and significance;
- cost-efficient – minimize overlap and duplication;
- continuous improvement – oversight programs lead to practice improvements; and
- fair reporting – recommendations for improvement provide context.

¹⁰ The PSC role in overseeing political activities was not part of the Committee mandate.

¹¹ Investigations were not part of the Committee mandate and are not discussed further.

Appropriate level of effort for oversight. In assessing the appropriateness of the PSC's level of effort invested in oversight, the Committee considered the maturity of the PSC's oversight operations. The PSC is in the midst of a capacity building that is intended to enable it to carry out its oversight responsibilities efficiently and effectively within a period of three to five years to achieve a five to seven year audit cycle.

Conclusion 2 – The Committee concluded that the level of effort planned for oversight activities is appropriate from an overall perspective but there is a strong case to be made to increase the level of resources for its monitoring activities. The Committee leaves it to the PSC to determine whether this is best achieved by slowing the building of audit capacity or by reallocating other PSC resources.

Given the developmental nature of the PSC's present oversight activities, the Committee recommends that PSC's annual reviews of strategic plans and PSC performance continue to include a robust examination of the results of its monitoring and audit activities with a view to ensuring that the level of effort directed to oversight remains appropriate.

The Committee also made a number of recommendations designed to make the PSC's oversight activities more efficient and effective. These encompass such areas as strengthening systems and technologies devoted to monitoring activities, developing more robust and focused audit methodologies, investing in learning, strengthening and clarifying the policy framework within which oversight activities take place and incorporating best practices (e.g., use of IT audit technologies and quality assurance reviews) into its audit practices.

Renewing momentum of *Public Service Employment Act* implementation. In addition, while making these recommendations and conclusions on the appropriateness of the approach and level of effort of the PSC's oversight, it became evident that the significant "change process" inherent in the full implementation of the PSEA across the entire public service is still very much a work in progress. This is not surprising given that this major initiative requires fundamental cultural change if its full potential is to be realized. Cultural change of this magnitude takes time and it is also occurring at a time in which the demographics have resulted in dramatic changes in key HR staff as well as managers at all levels since 2005.

On a separate but related issue, we observed the very high priority being assigned to HR renewal and the solid progress being achieved in this extremely important area.

It is the view of the Committee that full implementation of the PSEA, as one of the essential foundations of HR renewal, requires renewed engagement by everyone involved including deputy heads, managers, HR specialists and bargaining agents. Simply enhancing PSC oversight, in isolation, will not be enough. A concerted "team effort" is required, including, initially at least, the application of similar emphasis, focus and dialogue to that which occurred in the months prior to the coming into force of the current PSEA legislation in December 2005. Maximum advantage should be taken of existing or planned fora, orientation and training courses to ensure that all line managers and HR specialists have the necessary knowledge to effectively use the current PSEA, within the framework of the key staffing values, with confidence. Bargaining agents should be invited to participate in these sessions where appropriate.

Conclusion 3 – The Committee concluded that to ensure full implementation of the PSEA, as one of the essential foundations of HR renewal, renewed engagement and a concerted "team effort" is required by everyone involved including deputy heads, managers, HR specialists, and bargaining agents. Simply enhancing PSC oversight, in isolation, will not be enough.

Annex A – Terms of Reference of the Public Service Commission Oversight Review

Objectives: To determine the appropriateness of the approach and level of effort of Public Service Commission (PSC) oversight. To identify areas for improvement.

Conditions: Only those imposed by the current statutory framework.

Scope: All aspects of audit, monitoring and studies (includes most evaluations).

Governance:

- The terms of reference and governance structure, including the membership of the Independent Review Committee, will be agreed to by the Treasury Board Secretariat (TBS), the Privy Council Office (PCO) and the PSC;
- The work will be done by a PSC team, headed by Mary Clennett, with necessary resources from the organization, and with a member from TBS;
- Direction will be provided by an Independent Review Committee;
- TBS (Mary Chaput) and the President of the PSC can be observers at the meetings of the Independent Review Committee, with its concurrence;
- The report of the Independent Review Committee will be presented to the President of the PSC, who will transmit copies to the Secretary of the TB for consideration. If the Commission does not concur with the conclusions and recommendations, areas of disagreement will be included in the transmittal letter to the TBS; and
- The report will be communicated to Parliament.

Independent Review Committee membership:

- Larry Murray - Chair
- Jon Singleton
- Marie Fortier

The results:

- The result will be a report from the Independent Review Committee, with recommendations, as appropriate;
- The report will be submitted by the President of the PSC to the Secretary of the TB for consideration; and
- The report will be communicated to Parliament.

Key dates:

Milestone	Date	Independent Review Committee
Establish terms of reference	September	
Establish project plan and resource team	September	
Discussion of issues with Committee	October	√
Conduct review	October & November	
Presentation of preliminary findings	November	√
Present draft report to Committee	Early December	√
Committee report	December	√
Transmit report to Secretary of the TB	Mid January	
Parliamentary review		As requested

Annex B – Independent Review Committee members

Larry Murray

Mr. Murray was born in Stratford, Ontario and enrolled in the Royal Canadian Navy in 1964. Following graduation from Carleton University in Ottawa, he served at sea in a variety of ships based in Halifax, N.S. and Esquimalt, B.C. specializing in navigation and combat control. Seagoing appointments also included Commanding Officer of HMC Ships CHALEUR, MIRAMICHI and IROQUOIS and Commander of the First Canadian Destroyer Squadron.

In 1991, Mr. Murray was promoted to the rank of Rear-Admiral and assumed the duties of Associate Deputy Minister of Defence (Policy and Communications). He was promoted to Vice-Admiral and appointed Deputy Chief of the Defence Staff in early 1993, Commander Maritime Command in 1994, and Vice-Chief of the Defence Staff in 1995. Mr. Murray subsequently assumed the additional duties of Acting Chief of the Defence Staff from October 8, 1996 until September 17, 1997.

Mr. Murray retired from the Canadian Forces and joined the public service as Associate Deputy Minister of Fisheries and Oceans in November 1997. He was appointed Deputy Minister of Veterans Affairs Canada effective August 1, 1999 and Deputy Minister of Fisheries and Oceans from April 22, 2003 until August 6, 2007, when he retired from the public service of Canada.

From August until December 2007, Mr. Murray served as a Member on the Task Force examining Governance and Cultural Change in the Royal Canadian Mounted Police.

Marie Fortier

Marie Fortier studied commerce and health administration at the University of Ottawa. She held a number of positions in hospitals and regional health and social planning in eastern Ontario and western Quebec before joining the public service of Canada in 1986. From 1986 to 2001, she played a variety of roles in Health Canada including those of Assistant Deputy Minister, Medical Services Branch and Assistant Deputy Minister, Policy and Consultation. She also served as Executive Director for the Secretariat of the National Forum on Health. In 1999, she was appointed Associate Deputy Minister of Health Canada and in 2001, Associate Deputy Minister in the Department of Indian and Northern Affairs. She became Deputy Minister of Intergovernmental Affairs in 2004. She retired from that position and from the public service in 2006. In June 2007, Mme Fortier assumed the chairmanship of the Board of Directors for the Champlain Health Integration Network, a health services planning and funding organization created by the government of Ontario. Mme Fortier lives in Ottawa with her spouse. She has three sons and two grandsons.

Jon Singleton, FCA

Jon Singleton is currently a corporate director and governance advisor. He was appointed Auditor General of Manitoba in July 1996 completing his 10 year appointment in 2006.

In 2004, Jon graduated from the Institute of Corporate Directors' (ICD) National Directors Education Program, and is a founding member of the ICD's Manitoba Chapter. Jon currently serves on the Audit Committee of the Public Health Agency of Canada, the Governance Advisory Council to the Information Systems Audit and Control Association's (ISACA) International Board of Directors and is Vice-Chair - Finance of the Board of Governors of Scouts Canada.

In 1995-1996, Jon was International President of ISACA, an organization with over 60,000 members which promotes research, education and certification in controlling and auditing information systems in over 120 countries.

He taught high school physics, science and mathematics from 1969 to 1972.

Annex C – Key staffing values

Values of the *Public Service Employment Act*: The Public Service Commission protects the core values of merit and non-partisanship, as well as the guiding values of fairness, transparency, access and representativeness.

Merit

- Every person appointed meets the essential qualifications, including official language proficiency, established by the deputy head for the work to be done.
- The manager may take into consideration any current or future asset qualifications, operational requirements and organizational needs also identified by the deputy head.

Non-partisanship

- Appointments and promotions to and within the public service are made free from political influence.
- Employees have the right to engage in political activities, while maintaining the principle of political impartiality in the public service.
- The political activity of employees must not impair, or be perceived as impairing, their ability to perform their duties in a politically impartial manner.
- Political activity means any activity in support of, within or in opposition to a political party; any activity in support of or in opposition to a candidate or seeking to be a candidate in an election.

Fairness

- Decisions are made objectively and free from political influence or personal favouritism; policies and practices reflect the just treatment of persons.
- Persons have the right to be assessed in the official language(s) of their choice in an appointment process.

Transparency

- Information about strategies, decisions, policies and practices is communicated in an open and timely manner.

Access

- Persons from across the country have a reasonable opportunity to apply, and to do so in the official language(s) of their choice, and to be considered for public service employment.

Representativeness

- Appointment processes are conducted without bias and do not create systemic barriers, to help achieve a public service that reflects the Canadian population it serves.

Source: PSC

Annex D – Terms of Reference for outside specialists

Dr. Ivan Fellegi – Monitoring (Focus was on quantitative appointment information and analysis)

To support the Review of the PSC's Oversight and to contribute to the PSC's capacity building efforts, in the fall of 2008 the PSC asked Dr. Ivan Fellegi to review the adequacy of its data systems used to support its monitoring activities. Dr. Fellegi examined the four major data systems used by the PSC for monitoring.

- A set of surveys covering, on the one hand, applicants, and on the other hand managers;
- A manual data collection implemented to collect data specifically about the extent of non-advertised competitions;
- The Job-Based Analytical Information System (JAIS); this is information generated from administrative files maintained by others, mostly the Canada Public Service Agency; and finally
- The Departmental Staffing Accountability Report (DSAR); self-assessments prepared by departments but partially based on input provided to them by the PSC.

Dr. Fellegi provided the PSC with a written report of his observations and recommendations and a verbal briefing.

Deloitte – Human Resources strategy and capacity building

In 2006, Deloitte had been engaged to support the PSC in the development of an HR Strategy and Workforce Plan for Audit Operations and Professional Practices. The purpose of this initiative was to establish a baseline capacity and capability profile and plan that would serve to optimize the Audit Operations, Evaluation and Professional Practices' ability to meet existing and future business requirements in the context of the *Public Service Employment Act*.

To support the Review of the PSC's Oversight and to contribute to the PSC's continuous improvement efforts, the PSC engaged Deloitte in the fall of 2008 to review the progress of the evolving HR strategy and capacity building efforts of the Audit, Evaluation and Studies Branch of the PSC. Deloitte was asked to assess progress made since 2006 and to identify opportunities for improvement. As part of the fall 2008 engagement, Deloitte was asked to consider alignment of the PSC's HR strategy and capacity building in the context of the PSC's client services engagement priorities and enterprise-wide talent management strategy, and the Office of the Comptroller General's government-wide internal audit capacity-building strategy.

Deloitte provided a verbal "findings and conclusions" briefing to the PSC supported by a written recommendations report in presentation format.

Ernst & Young – Audit methodology

To support the Review of the PSC's Oversight and to contribute to the PSC's continuous improvement efforts, in the fall of 2008 the PSC engaged Ernst & Young to review the PSC's audit methodology, supporting guides and templates and to report on their findings and recommendations. Ernst & Young performed its services in accordance with the applicable standards established by the Institute of Internal Auditors (IIA). Ernst & Young reviewed the PSC's current audit methodology framework, assessed the practical application of the current methodology, identified gaps and made recommendations for improvements in the areas of methodology and/or audit execution.

Ernst & Young provided a verbal "findings and conclusions" briefing to the PSC supported by a written recommendations report in presentation format.

Annex E – Public Service Commission program activities

The PSC's operations are composed of three main activities (in accordance with the PSC's Program Activity Architecture).

i) Appointment integrity and political neutrality

The PSC develops staffing policies, regulations and guidance; manages instruments that delegate the Commission's appointment and appointment-related authorities to deputy heads; provides staffing advice to departments and agencies; and exercises the authorities that it either does not or cannot delegate in making priority appointments, in monitoring how departments exclude employees from meeting language requirements and in approving certain kinds of these exemptions and in analyzing and making decisions on political candidacy requests from public servants.

ii) Oversight of integrity of staffing and political neutrality

The PSC monitors and assesses departmental staffing performance; and audits the staffing activities of departments and agencies. In addition, the PSC monitors departmental efforts to safeguard the political neutrality of the public service. Further, the PSC investigates suspected fraud, external appointments, and improper political activities.

iii) Provision of staffing services and assessment

As part of the exercise of its authority to appoint and/or provide for the appointment of public servants, the PSC provides a range of recruitment and assessment services to federal organizations and functional communities across Canada through its seven regional offices. Assessment services include second language evaluation. The PSC manages the Government of Canada external job-web-site (jobs.gc.ca) and recruitment and screening system (Public Service Resourcing System). The PSC continues to transform its services and upgrade its recruitment tools as part of the process of leading the modernization of the staffing function.