

## **The politics of "audit": the elephant in our living room**

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By Sharon Sutherland

Public sector reform, says the rational-choice scholar Jan-Erik Lane, "is a political activity. The battle over the public sector, 'its reform and future shape ... [provides] ample scope for the interplay of tactical behaviour and the self-interests of the various actors."

It is crystal clear to other nations that their versions of the Office of the Auditor General (OAG) must be in the final analysis accountable to their legislatures and work through their primary legislative audit committee. The alternative is that audit is infused with the politics of appointed officials. However, in Canada, anyone who might suggest that the OAG is a political actor and has tactical interests will be shouted down.

Media and public adulation of the auditor is such that the host of CBC's Radio's program, *The Current*, told Mrs. Fraser in one of the Auditor General's (AG) February 11 publicity spots that "... a lot of us stand in awe of what you do." A reader's letter of February 12 to the *National Post* hoped that Mrs. Fraser would run for the Conservative leadership. That same evening the *Post* ran a spot poll on its web page asking if Auditor General Sheila Fraser ran for the office of Prime Minister, would visitors to the site support her? Mrs. Fraser got 3,957 yes answers, as opposed to 2,937 "no" responses, for a 57 percent pledge.

How many votes would John Williams get? Mr. Williams, it happens, is a Member of Parliament and the opposition chair of the Public Accounts Committee (PAC). A credentialed accountant, he is also the founder of an international organization of parliamentarians to struggle against corruption.

It is because of Mrs. Fraser's passionate voting constituency that new Prime Minister Paul Martin looks and sounds frantic these days. In *The Citizen* of February 16, he is even quoted saying he will quit politics if an inquiry into the Public Works and Government Services Canada (PWGSC) sponsorship program shows that he knew anything about it.

The OAG's resource in its struggle for "correct" management structures and correct public policy is therefore you and me - we "taxpayers" who roar our rage each time the Auditor General gets our attention. Does anyone in your house believe that any gun registry's fate can still be decided by elected politicians?

The OAG's effect is the result of the way that audit powers are structured as much as of its intentions and mentality. Mrs. Fraser is not the problem. The 1977 Auditor General Act made it possible for the OAG to abandon spending accounts in favour of more adventurous consulting-type studies. Now its particular take on "risk management" combined with audit materiality (roughly the amount of money that would exceed the margin of error stipulated as reasonable for Canada's total spending) allow a "below radar" zone. Here, small agencies and operations can be forgotten. Of course units whose work borders the political will not be the universal big-ticket items where losses could be huge in principle. (The President of France's former political party, when he was mayor of Paris, did not subsidize apartments for the population.)

The OAG reports (2002-2003) that about 52 percent of its \$74 million budget is spent on its non-accounts-based, value for money (VFM) investigations for the Annual Report, at a cost

of one million dollars for each essay. However, less than ten percent (\$6.5 million) of its budget is spent on "financial statement audit activities" of the Government of Canada (Crown corporations are reported separately by the OAG). The Office sometimes comes in even lower for financial audit because it decides to accept more risk.

In the U.K., in 2002-2003, the audit office's value for money examinations represented 28 per cent of its 63.9 million pounds annual budget and are planned to find and accomplish financial savings in government operations. Its budget for "certifying and reporting on financial statements" is 49 per cent of its budget, almost twice as much as its VFM budget. The U.K. Audit Office now saves the government eight times the cost of its own budget and generates 20 per cent of its own revenues to reduce its parliamentary appropriation. Its work is reviewed by independent third parties. All previous Canadian AGs have refused to undertake or allow specific examinations of its impact.

Is it consistent that even though the OAG does not routinely scrutinize small funds like the Privacy Office budget or the sponsorship unit, it will lay on outrage like the Jehovah of the Old Testament when a scandal arises over such a fund? Sponsorship monies were too minor for the OAG to look at for at least five years of that fund's activity, but the tenor of its recent report is so livid that Transparency International predicts "measurable consequences" for foreign investment in Canada. The Citizen's Aileen McCabe reports that Canada slid from fifth in worldwide perceived transparency to number 11 between 2000 and 2003.

The period 2000 to 2002 that ruined our global reputation was the setting for the "billion-dollar boondoggle" in Human Resources Development Canada. The scandal officially began in January 2000 with the Government posting its internal audit to the HRDC web site. The study summarized "program integrity" in bundled grants and contributions together reaching about a billion dollars a year. The "political" funds came to about 200 million dollars over two years, and were job creation efforts that followed the collapse of the Atlantic Groundfish fishery and newly tightened conditions for EI. (One billion is a thousand million.) Working together, the OAG, the Department, and KPMG designed a plan to investigate all current grants and contributions, and reformed HRDC's control structure. By the end of the investigation of the whole account, unrecoverable funds were by any standard a tiny percentage of either the 200 million in jobs monies or the billion for the whole package of programs.

The OAG had never once in the ten years from 1990 to 2000 qualified its remarks on HRDC's financial statements in the Public Accounts of Canada. Nor did the OAG's consulting studies for its Annual Report look into the Department's use of the job creation funds during the period. The OAG's attention at the time was focused on how best to support a management reform movement (Public Service 2000) to "empower" line managers by getting headquarters and everyone else out of their way. The OAG was in my recollection also silent when, following the 1995 Program Review, internal audit was seriously cut across government, and pretty much abolished in HRDC's regional operations.

Finally in late 2000 the Office was invited by the Public Accounts Committee to look at management of grants and contributions in HRDC. It did a small amount of work and was ... well ... it was outraged and appalled. The Auditor General of the time, Mr. Denis Desautels, gave many media interviews. He demanded a new "program architecture". He marked the end of his term with a personal supplementary report at public expense. Even though it was by then clear that the "boondoggle" had unearthed little abuse, he continued to call it a "billion dollar" scandal.

The sponsorship scandal at PWGSC dates from the same period. The OAG reviewed the financial statements for PWGSC, but there is no qualification on that account in the Public Accounts that I can

find. It also conducted its non-accounts-based investigations in the Department annually from 1995 to the present without noticing the sponsorship unit.

It was on the face of things not intrigued by the Department's organizational structure for managing the sponsorship monies: a small unit outside of the Minister's office, but reporting to the Minister - or at least not reporting to the Deputy Minister. The Department's internal audit function did become worried sometime before the year 2000. The OAG had to be invited in 2003 by the former Prime Minister, apparently to draw a line under the events with a definitive investigation. The outrage in the Report appears fresh. Which "awed" journalist will think to ask this question: "What did the OAG know and when did it know it?"

The scandal in the Office of the Privacy Commissioner was also very old before the AG consented to review it. A whistle-blower had alerted the Public Service Commission ... which did not investigate because it had too few auditors. The audit staff complement had been cut after the 1995 Program Review.

Mr. J. J. Macdonell, the management consultant who revolutionized the OAG, achieved the Office's 1977 Act by a ruse. He reported in inflammatory fashion in his Annual Report of 1976, when the Liberal party was governing with a slim majority. His words were carefully chosen: "I am deeply concerned that Parliament - and indeed the Government - has lost, or is close to losing, effective control of the public purse." What he was saying, according to the fine print, was that the government did not have in place the "management controls" or consulting powers that now over-rule the policies of governments elected on the majoritarian principle of democracy.

Some observers of the audit process use the term, "expectations gap", to describe the difference between what the public and the audit consumer expect of audit, and what the auditor can reasonably provide. The phrase "comprehension gap" works even better for Canada. It is difficult if not impossible to discuss individual OAG reports with people who do not regularly read the annual reports cover to cover. Citizens take it on faith that the OAG's words are based in objective, quantitative and accurate measurement.

The non-financial essays reported in the OAG's Annual Reports create problems because they do not publish a rich fact base yet they do provide completed judgments. Often, the essays are skimpy in the facts they present. Some draw their conclusions on the basis of tiny samples, and sometimes the reports are armchair experiments around what might happen if certain conditions were to occur. This material is often too elusive for politicians to work with profitably, or the language can slide away, like the Macdonell claim of 1976. Mr. Macdonell got his 1977 Act because his Report rocked a minority government, not because what he wanted made any sense outside the management fads of his time.

With Mrs. Fraser now looking into why faulty information was presented to MPs on Mr. Martin's business conglomerate's contracts with Government (brought to light by partisan research in the House), in the context of the OAG's domination of public opinion, will Mr. Martin now ever be able to establish a Royal Commission on the OAG's programs of work?

We all - including the OAG - forget that the vast "audit" bureaucracy exists only because a small bureaucracy of professional auditors was already serving the British PAC when Canada's first governments were formed. The OAG must begin to support PAC by releasing its reports through that body of elected officials. It should commit to ensuring real savings as in the U.K. and U.S. Systems.

My hope as a student of the Office since the 1970s has been to convince it to spend more on financial

and compliance audit - the "bean and bootlace counting" it scorns - and to take an interest in complementing the internal audit process to catch problems early before they build. In my view, a scandal such as the sponsorship frenzy, the HRDC boondoggle or the Privacy Office mismanagement should have been diagnosed, reported and corrected within two financial years (at the most) of the first misuse of public money.

Someone does have to count money and things. The Auditor General Act of 1977 says in its preamble, the mission statement for the Office, that the Auditor General is auditor of the accounts of Canada. The Value for Money powers were merged into a traditional view of audit of accounts at that time under 7 (2) and do not appear to legally or constitutionally define the near-totality of the OAG's responsibilities to the public.

The power of the AG to review "effectiveness" (policy) was understood in 1976 to be restricted to cases where there exist reliable methods for making global assessments. Both the OAG and the Government have failed to develop such methods (the OAG has defined "measurement" as "anything that enhances understanding"). Academic social science has similarly failed. There is no unit of measure for "results".

The results or performance management mentality leads to audit failure. For our purposes, OAG audit failures can be understood as the discovery of significant wrongdoing even though a clean or silent report has been issued on both accounts and "results" audits for the period. I have described a few such failures. The Office of the Auditor General and Treasury Board Secretariat should bear a share of responsibility for audit that is too late and too little, and for the progressive de-legitimation of Canada's federal government.

Many people have failed the public in the sponsorship scandal. In this group, the OAG is the elephant in the living room, of which no one dares speak.