

Notes for an address

by

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Asking the Right Questions

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Good afternoon, everyone.

I would like to start by thanking the Canadian Club of Toronto for inviting me to speak to you today.

It is pure happenstance that I am here the day before the Minister of Finance brings down the federal budget, and a few days before the Minister is here himself.

But even though my business is how the government spends your money, I'm sorry to say I don't have any scoops for you today. For some reason, the government doesn't tend to share that kind of information with me in advance...

Looking at how your tax money is spent after the fact has kept me busy since my appointment as Auditor General of Canada some 21 months ago.

I consider myself extremely fortunate to have this job. It gives me an extraordinary overview of the way our federal government works, and how it serves Canadians.

Since my appointment, I've developed an even deeper appreciation of Parliament and the complexity of government than I ever had before.

And, contrary to the impression that may be left by media reports, I quickly came to respect the imagination, honesty and hard work of most federal public servants.

Canada is very fortunate in the calibre of women and men working for all of us—both those providing day-to-day services and those having life-and-death responsibilities.

The Auditor General of Canada is one of a very small number of officials known as Officers of Parliament—and I expect that a similarly small number of Canadians actually know what I do, beyond my publishing the occasional horror story of government waste and mismanagement.

But that's not the essence of my work. And so today I'd like to discuss three things:

- what the Office of the Auditor General does
- why we do what we do
- and what we accomplish on behalf of Parliament and all Canadians.

What we do

First, then, some comments about what my Office actually does.

Like the Canadian Club, the Office of the Auditor General has a long history—more than a century, in both our cases.

And like the Canadian Club, we have reinvented ourselves over the years—in your case, to meet the changing needs and tastes of your members, and in our case, to respond to the evolving needs and requirements of Parliament.

Canada has had an Auditor General since Confederation in 1867.

The first, John Langton, was nothing if not industrious. For a period he served simultaneously as Auditor General, Secretary of the Treasury Board and Deputy Minister of Finance. In his spare time he was also Vice-chancellor of the University of Toronto. Mind you, those were the days when the entire Department of Finance was run by a staff of 28.

Langton's integrity aside, there was an obvious problem. His role was a relatively limited one—mainly to make sure that the government's books balanced, and that every transaction was recorded, from buying bootlaces to contracting for new bridges.

But it is a basic principle of auditing that the person who prepares the books—the Deputy Minister of Finance, in this case—should not be the person who audits them—the Auditor General.

The problem was resolved in 1878 with a new Act of Parliament—a solution that Canadians should still be grateful for, on this our 125th anniversary.

Both sides of the House of Commons cheered when Prime Minister Mackenzie introduced the bill that would, as he said, “free the auditing of Public Accounts from any interference on the part of the administration.”

John Lorn McDougall was the first Auditor General to be truly independent of the government of the day.

This independence is the cornerstone of our Canadian system, and today has a number of important safeguards.

For example, the Auditor General is appointed for a 10-year-period and can be removed only after a resolution is passed by both the Senate and the House of Commons.

I also have the right to ask the government for any information required to do the job and my Office has the freedom to recruit its own staff.

Finally, I submit my reports directly to the House of Commons, through the Speaker.

Another feature of our current system is that we undertake three kinds of auditing, not just one.

Ever since Confederation, we’ve been asked to answer a simple question. Is the government keeping proper accounts and records, and is it presenting its financial information accurately?

This is called financial attest auditing. Auditors General attest to, or verify, the accuracy of financial statements.

In 1931, Parliament drew a clear line between the duties of government and the Auditor General—making the government responsible for collecting and distributing public funds, and the Auditor General responsible for examining and reporting on how those funds were handled.

The second question we were required to answer, then, was a bit more complicated. Did the government collect or spend the authorized amount of money, and for the purposes intended by Parliament?

This is called compliance auditing. The Auditor General determines whether the government has complied with Parliament's wishes.

The work of the Office began to move in a third direction in the 1950s, when the Auditor General started to report on so-called "non-productive payments." These were transactions that, while legal, provided no apparent benefits to Canadians.

Then in 1977 a new *Auditor General Act* expanded the Auditor General's responsibilities. The Office was given a mandate to examine how well the government managed its affairs.

The new Act maintained the important principle that the Auditor General does not comment on policy choices, but does examine how those policies are implemented.

Under this third approach we were asked new questions: Were programs run economically and efficiently? And does the government have the means to measure their effectiveness? This is called value-for-money auditing.

It means that as well as supplying Parliament with attest and compliance information, we examine management practices, controls and reporting systems. Simply put, the Auditor General asks whether or not taxpayers got value for their tax dollars.

As you can see, the scope of our activities has broadened over time, at the request of Parliament. What we do, and the approaches we take, aren't just an idle whim.

With the increase in the complexities of government, we need highly professional staff who understand some very technical subjects and areas.

As well as accountants, we have engineers, lawyers, economists, computer experts, management specialists and sociologists.

This year, for example, we have 570 staff members. We try not to have too much sympathy with a former President of the Treasury Board, who was overheard to say about one of my predecessors: "Why give him more money to hire more people to find more mistakes?"

Our annual budget is about \$66 million. The cynic might say that this is a lot of money to keep bean-counters busy. Well, yes, but the days of counting shoelace purchases are long past.

Overall, we audit some 70 federal government departments and agencies, 40 Crown corporations, 10 departmental corporations and 60 other entities and special audits. We also audit the governments of the three territories, 15 territorial agencies, and several United Nations agencies, including UNESCO.

Let me tell you some of what we have on our plate this year:

- We do a financial audit of the summary financial statements of the entire federal government. As you can imagine, this is a huge job, perhaps the largest audit in Canada
- We undertake special examinations of Crown corporations once every five years—this year we'll be doing eight of them
- The Commissioner of the Environment and Sustainable Development, currently Johanne Gélinas, who has been part of our Office since 1996, investigates environmental and sustainable development issues of concern to Canadians by auditing the federal government's performance
- We assess the performance reports of three federal service agencies
- And, of course, we conduct value-for-money audits of departments and agencies—33 this year. These are the ones you hear about in the media.

Why we do what we do

Now I'd like to turn to why we do what we do.

It's all about accountability. This is a popular word these days in the private, the not-for-profit and the public sectors. And there is no question that shareholders, stakeholders and citizens are increasingly demanding it—and that they deserve it.

It is also an idea that permeates all our work—and in large part is the justification for it.

Here's how I see it.

The people's right to control how public funds are collected and spent is one of the cornerstones of democratic government.

In Canada, like other parliamentary democracies, this control is carried out on behalf of the people by their elected representatives, the Members of Parliament.

The government of the day must get Parliament's permission before it can collect or spend money. After it spends public funds, the government must also report on its use of the money authorized by Parliament.

This obligation of government to answer for its actions is called accountability.

Members of Parliament need information with which to hold the government to account. And they need independent assessment of that information so that they can effectively judge the government's performance.

They also need assurance that the information accurately reflects the results of the activities authorized by Parliament.

That is the essential "why" of our work.

Obviously we all want the best possible value from the use of the money that we send to the federal government. Members of Parliament, in turn, look to the Auditor General to help them find out whether the government is getting that value for our money.

The main source of information for MPs is the series of reports I publish each year. But there is another way that we help MPs, and that is through Parliament's committees, especially the House of Commons' Standing Committee on Public Accounts.

The Public Accounts Committee is unusual because it is chaired by a member of the Opposition, not the government. The House of Commons has delegated its watchdog functions to the committee to make sure that the money voted by the House is properly spent.

It examines the Public Accounts of Canada, and reviews and reports on my own reports. The Committee can be very active—some months I can appear before it eight or ten times.

Your tax dollars go through a financial cycle: Parliament first approves the funds, then spends the funds, and finally accounts for them. The Public Accounts Committee closes the loop of this cycle by monitoring the government's accountability.

Sound oversight by Parliament depends on sound information. Let me give you a recent example that you're probably all familiar with.

My December report contained a chapter on the costs of implementing the Canadian Firearms Program, also known as the gun registry.

I'm sure you saw the media coverage about how the program's costs have spiralled dramatically, and apparently out of control.

While that is bad enough, to me the really upsetting conclusion was the one we highlighted—that the Department of Justice did not provide Parliament with sufficient information to allow it effectively to scrutinize the program, to ensure accountability.

It provided little financial information and insufficient explanations for the dramatic increase in the cost of the program.

In other words, we got a few answers, but the right question to ask was whether the department was acting in the best interests of Parliamentary accountability. It was not.

Before we published the chapter in December, we gave the Department of Justice an opportunity to respond, as we always do. They accepted the recommendations of our audit, and we published their response at the end of the chapter.

What usually comes next is a hearing before the Public Accounts Committee or another parliamentary committee. In this case, four parliamentary committees will be conducting hearings based on our report.

I attend these hearings with my audit team, and senior public officials from the audited department, so that the committees can review the audit findings and question senior officials.

After the hearings, the committee may report and make recommendations to the House of Commons. The audited departments are generally expected to report back to the committee on what they have done in response to the committee's recommendations.

Last year, parliamentary committees held hearings on more than 70% of our value-for-money audits and the Standing Committee on Public Accounts endorsed over three-quarters of our recommendations in the chapters they reviewed.

Audits are learning tools. Where a program is doing poorly, our auditors try to identify concrete steps to improve it. We want to improve the system, so that you as taxpayers actually are getting value for your money.

What we accomplish

I'd like to conclude with a brief look at my third theme: what we accomplish.

Recently I was with my colleague, the Auditor-General of New Zealand, when he was musing about whether he was a watchdog or a bloodhound. I think that in Canada I have to be a bit of both—warning about problems, while seeking out the elusive information that Parliament should have.

But I also recall the metaphor used by one of my predecessors, J.J. Macdonell. He once said that "watchdogs do a lot of barking, and there is another kind of dog called a guard dog. He doesn't do much barking, but he can be quite effective."

I hope I have shown you that in my Office's concern for the rights and duties of Parliament, and for taxpayers, there is also an element of the guard dog about us.

In fulfilling our mandate, we can and must influence the attitude of the government and public servants toward effective management of—and accounting for—public funds.

But does our work make a difference?

Absolutely. Government departments DO take action on the recommendations of our value-for-money audits.

Among the recommendations we have made over the past five years, departments have already completed nearly a quarter of the total, and are making satisfactory progress on another half. That's a pretty good result, if I do say so myself.

As well, the government as a whole benefits from our advice on how to improve its operations. And I'm very pleased to say that it does accept and implement our recommendations.

The latest example of this was the government's announcement last week that it has decided to implement full accrual accounting for this fiscal year. Of course, there were many other good reasons besides our suggestion that led to this decision.

I don't need to tell those of you in this room what accrual accounting is, but it may come as a surprise to learn that the government has been reporting on a modified accrual basis up to now. By "modified" I mean that tax revenue and capital assets are recorded on a cash basis, even though most other expenses are recorded on an accrual basis.

The decision to adopt full accrual accounting may not sound like an earth-shattering one, but in fact, changing the accounting practices for a huge organization like the federal government is an enormous undertaking.

The work involved has been colossal. Among other things, it has required making an inventory of and determining the cost of every single government asset.

I believe this decision will have a very positive impact on government financial management and control and the government's accountability to Parliament. I heartily commend the government on this move and congratulate all those who laboured long and hard to make it happen.

I am on record as saying that accrual accounting is superior to the government's current accounting policies for several reasons.

Firstly, it provides a more complete measure of the overall size of the government.

Secondly, it will allow the financial results of the government to be presented on a more appropriate and widely recognized basis of accounting.

Thirdly, it will allow the financial results of the government to more adequately reflect the economic realities of the period in question.

Finally, and perhaps most importantly, having proper cost information and better information on assets and liabilities will help government managers make better decisions and do a better job of managing resources.

But, it is important to note that this change in government accounting practices in no way changes the government's underlying fiscal situation.

What accrual accounting actually does is better reflect that situation in the government's financial statements.

It is fortuitous that the timing of this announcement has coincided with the release of new standards for government reporting by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants—again, the result of much hard work by many.

These standards stress the need to consider more than just one number—the annual deficit or surplus—in painting a complete picture of the state of a government’s finances.

Governments need to provide other indicators as well—particularly the net debt, the accumulated surplus or deficit, the change in net debt in the year and cash flow in the year.

Governments need to include these numbers and explain them in their financial statements. This will help taxpayers to understand what is really going on.

To wrap up, I would like to stress that improving the performance of the public sector will go a long way toward restoring confidence in government.

And success means more than giving taxpayers value for money. It is about building stronger public institutions, a better country and a healthier democratic society.

And let’s not forget that the source of much of the confidence that Canadians can have in our government is the transparency that supports criticism of its operations many times a year.

This is a hallmark of an open democracy—one that is envied by citizens of many countries throughout the world.

Yes, maybe change takes longer than we’d like. But change does happen, as I’ve shown. By asking the right questions, we at the Office of the Auditor General are proud to play a role in bringing it about.

We’re proud to be making a difference in the lives of Canadians.

Thank you.