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## BACKGROUND PAPER



# The Office of the Auditor General of Canada: Beyond Bean Counting

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*The Office of the Auditor General of Canada: Beyond Bean Counting*  
(Background Paper)

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# THE OFFICE OF THE AUDITOR GENERAL OF CANADA: BEYOND BEAN COUNTING

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## 1 INTRODUCTION

The Office of the Auditor General (OAG) has existed for more than 130 years. At its inception in 1878, the OAG's work focused on the financial auditing of federal departments and agencies, mostly through accountancy and bookkeeping. Nearly a century later, in 1977, the OAG's mandate was expanded to include performance audits, which were referred to as value-for-money audits at that time; these audits involve a different methodology and approach and have a relatively broader scope than typical financial audits. The audit professionals at the OAG have a variety of backgrounds, and include accountants, economists, engineers and environmental specialists.

This paper explains various aspects of, and issues related to, the OAG. First, it describes the OAG's mandate, role and relationship with Parliament. It also provides a brief description of the evolution of the OAG from 1878 to today, focusing on the broadening of its mandate over the years. Second, the paper describes the OAG's three main product lines: financial audits, performance audits and special examinations. Finally, the paper discusses selected aspects of the OAG with respect to its role and mandate, the manner in which the Office remains accountable to Parliament, and its audit approach and methodology.

## 2 THE MANDATE OF THE OFFICE OF THE AUDITOR GENERAL AND THE ROLE OF THE OFFICE IN THE CANADIAN PARLIAMENTARY SYSTEM

Like a number of British Commonwealth countries, Canada operates under a Westminster system of parliamentary democracy. This system started when "various nobles and wealthy elites sought to monitor and eventually limit the ability of the monarch to raise funds through taxes and to spend those funds. In other words, Parliament developed as a check on the King's spending authority."<sup>1</sup>

Auditing for legislatures, which is known as legislative auditing, ensures that legislators have objective information, advice and assurance on which they can draw in their scrutiny of government spending and performance. With this independent reporting, legislators can more effectively question or challenge the government on its actions.<sup>2</sup> The OAG assists Parliament by conducting various types of audits and providing its reports to the Speaker of the House of Commons, who then tables them in Parliament. The OAG's reports are studied by various parliamentary committees, chiefly the House of Commons Standing Committee on Public Accounts (PAC).

The OAG's reports identify areas of government that need attention, such as information technology, human resources or financial management, and may focus on particular programs or activities related to one or more department or agency. The OAG's reports also underscore good practices, point to problems and their causes in an organization's management, and make recommendations for improvement. Along

with the Office's testimony at parliamentary committee hearings, the OAG audits assist Parliament in carrying out its role of holding the government to account for the results it achieves with taxpayers' dollars. By performing their distinct parts and working together effectively, Parliament, Cabinet, the government and the OAG contribute to maintaining well-managed public institutions and accountable government for Canadians.<sup>3</sup>

The OAG audits federal departments and agencies, most federal Crown corporations and other federal organizations. It also audits the three territorial governments of Nunavut, the Northwest Territories and Yukon. As an officer of Parliament,<sup>4</sup> the auditor general brings to the attention of Parliament those matters that he or she believes to be of interest and significance. The auditor general's powers and responsibilities are largely defined in two Acts: the *Auditor General Act* and the *Financial Administration Act*.

## 2.1 THE EVOLUTION OF THE OAG: A BRIEF HISTORY

The OAG has a long history of service to Parliament and Canadians. John Lorn McDougall, a former member of Parliament, was appointed as the first independent auditor general of Canada in 1878. The role was previously performed by a government official, the deputy minister of finance. The auditor general of the day had two main functions: to examine and report on past transactions, and to approve or reject the issuance of government payments.<sup>5</sup>

At that time, the auditor general's annual reports to the House of Commons were lengthy documents, which listed every government transaction from the purchase of bootlaces to contracts for bridge-building.<sup>6</sup> Those detailed records revealed a focus that is different from the work of the OAG today. That approach was closer to accountancy and what some disparagingly refer to as "bean counting." However, like today, the auditor general of the late 19<sup>th</sup> century was expected to report on whether public money was spent in the way that Parliament intended.

In 1931, Parliament transferred responsibility for approving or rejecting the issuance of cheques to a newly created government official, the comptroller of the Treasury.<sup>7</sup> This change drew a clear line between the duties of the government and those of the auditor general: the former was responsible for collecting and distributing public funds, while the latter was responsible for examining and reporting on how those funds were managed.<sup>8</sup> In 1943, responsibility for compilation of the annual *Public Accounts of Canada*, which report the government's consolidated financial statements, was transferred from the OAG to the comptroller of the Treasury.<sup>9</sup>

The work of the OAG continued to shift away from what is typically examined in the context of financial audits in the 1950s, when the auditor general began to report on "non-productive payments." This move continued most notably under Auditor General Maxwell Henderson, who held the position from 1960 to 1973. While legal, these payments provided no apparent benefit to Canadians. The reports were controversial, however, because government officials felt that Auditor General Henderson was commenting on government policy and therefore was exceeding his mandate.<sup>10</sup>

Arguably the most important change in the OAG's history came with the tenure of Auditor General James J. Macdonnell. In his 1976 annual report, Macdonnell wrote: "I am deeply concerned that Parliament – and indeed the government – has lost, or is close to losing, effective control of the public purse."<sup>11</sup> This report led to the creation of the Royal Commission on Financial Management and Accountability, known as the Lambert Commission.

As Macdonnell advocated amendments to the *Auditor General Act* to broaden the OAG's mandate, some senior civil servants, public policy observers and politicians in Ottawa thought that the OAG was entering into the policy realm. However, after discussions between the OAG and the government, changes to the *Auditor General Act* were proclaimed on 1 August 1977.<sup>12</sup> The amended Act clarified and expanded the auditor general's responsibilities. In addition to providing an opinion on the financial statements, the auditor general had the mandate to examine how well the government managed its affairs, i.e., whether it got good "value for money."

With the expansion into value-for-money auditing, the auditor general could audit and report to Parliament on any matter "that he [or she] considers to be of significance."<sup>13</sup> The key change to the Act was undoubtedly section 7(2), which authorizes the auditor general to examine whether "money has been expended without due regard to economy or efficiency ... or satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented." This section gives significant discretion to the OAG to choose its audit topics, the aspects of a particular government program, activity or area to be examined and the manner in which it will carry out its work.

The OAG's audit authority was further broadened under Auditor General Kenneth Dye in 1982 and 1989, when additional Crown corporations were added to the OAG's responsibilities. The legislation requiring special examinations was also passed in 1984.<sup>14</sup> In 1995, monitoring and reporting on the environment and sustainable development were added to the Office's mandate, and the position of Commissioner of the Environment and Sustainable Development was created within the OAG.<sup>15</sup>

In June 2005, Parliament made further changes to the auditor general's mandate. For instance, the auditor general can now conduct a performance audit on certain foundations that receive public money. Also, seven additional Crown corporations are now subject to the special examination requirement of the *Financial Administration Act*. In December 2006, enactment of the *Federal Accountability Act* authorized the auditor general to audit the spending of public funds by individuals, firms, partnerships and corporations that have received a total of \$1 million or more in federal grants, contributions or loans over any five consecutive years – in other words, the auditor general was authorized to "follow the dollar."<sup>16</sup> The *Budget Implementation Act, 2009* changed the frequency of special examinations required under the *Financial Administration Act* from at least once every five years to at least once every 10 years.

In recent years, in line with the strategic and operating review proposal that it had submitted to Parliament in October 2011, the OAG has discontinued 25 financial audits. The legislative changes required were passed under the *Jobs, Growth and*

*Long-term Prosperity Act* of 2012, which amended a number of Acts to eliminate the requirement for the Auditor General of Canada to undertake annual financial audits of certain entities. Consistent with the government's decision not to proceed with audited departmental financial statements, the Office included among the discontinued audits those pertaining to the financial statements of department-like organizations.<sup>17</sup> For example, the OAG discontinued its financial audit of the Canadian Centre for Occupational Health and Safety, the Natural Sciences and Engineering Research Council, the Social Sciences and Humanities Research Council, and the Canadian Transportation Accident Investigation and Safety Board, among others.

By 2012–2013, the OAG had approximately 600 employees in total, including over 400 audit staff.<sup>18</sup> In light of the strategic and operating review process, the OAG reduced its staffing levels and planned to retain 565 employees in 2014–2015.<sup>19</sup> The OAG's main office is in Ottawa, and it has regional offices in Vancouver, Edmonton, Montréal and Halifax.

## 2.2 AN OVERVIEW OF THE OAG'S MANDATE

The *Auditor General Act* provides the OAG with a broad mandate. For example, under section 6, the auditor general is tasked with the examination of several financial statements as required by section 64 of the *Financial Administration Act*. Essentially, the OAG is to express an audit opinion, in the *Public Accounts of Canada*, "as to whether [the government's consolidated financial statements] present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he [or she] may have."

Section 7 obliges the auditor general to report annually to the House of Commons, with the ability to present up to three additional reports in any year. Pursuant to section 8(1), the auditor general can also table a special report on "any matter of pressing importance or urgency that ... should not be deferred until the presentation of the next report." This section gives the OAG the ability to conduct audits like the 2003 special report on the Office of the Privacy Commissioner and the 2010 special report of the Office of the Public Sector Integrity Commissioner.

Sections 21 through 23 of the *Auditor General Act* describe the mandate and responsibilities of the Commissioner of the Environment and Sustainable Development to examine environmental and sustainable development issues, as well as to manage the environmental petitions process.

In order to fulfill its mandate, it is important that the OAG have access to all required information. Under section 13(1) of the *Auditor General Act*,

the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his or her responsibilities and he or she is also entitled to require and receive from members of the federal public administration any information, reports and explanations that he or she considers necessary for that purpose.



### 3 THE OAG'S THREE MAIN TYPES OF AUDITS

The OAG has three main audit products: financial audits, performance audits and special examinations.

#### 3.1 FINANCIAL AUDITS

The OAG's financial audits provide assurance that financial statements are presented fairly in accordance with Canadian generally accepted accounting principles or, in a few cases, with other relevant standards. It also provides assurance that the audited organization complies, in all significant respects, with legislative authorities that are relevant to a financial audit. Financial audits answer the question: Is the government organization keeping proper accounts and records, and presenting its financial information fairly?<sup>20</sup>

As mentioned earlier, every year the government publishes the *Public Accounts of Canada*, which contain the government's financial statements and include an audit opinion from the auditor general that the consolidated financial statements are presented fairly and in accordance with the government's accounting policies.

The OAG also conducts financial audits of the three territorial governments, of most federal as well as territorial Crown corporations, and of many other federal organizations. If issues or opportunities for improvement in areas such as financial reporting and internal controls come to the OAG's attention during a financial audit, the Office makes recommendations in a report to the organization's audit committee or, in some instances, in a management letter.<sup>21</sup> Financial audits also provide information and advice to support audit committees in meeting their responsibilities for oversight of financial reporting and internal controls.<sup>22</sup>

#### 3.2 PERFORMANCE AUDITS

Although the OAG has the legislative mandate to conduct financial audits of most federal organizations, it can exercise discretion in the choice of topics for performance audits.<sup>23</sup> In conducting a performance audit, the OAG can choose to audit a specific program or activity (such as pesticides management), an area that involves several departments or agencies (such as sustainable development in the North), or an issue that affects many departments and agencies or areas of shared responsibility (such as the protection of cultural heritage). Financial audits may assist performance audit teams as they seek to identify and understand better the business risks in a given organization. Performance audits answer the questions: "Are programs being run with due regard for economy, efficiency, and environmental impact?" and "Does the government have the means in place to measure the effectiveness of its programs?"<sup>24</sup>

The OAG usually selects the program, activity or area within an organization (or organizations) that will be the subject of a performance audit by examining the degree of risk, the potential for improving government results or the extent to which the program, activity or area within an organization is of interest to parliamentarians and other Canadians. In terms of degree of risk, high-risk programs, activities or areas within organizations are usually those that cost taxpayers significant amounts of money

or that could threaten the health and safety of Canadians if something were to go wrong. The OAG may also consider requests received from parliamentary committees. However, the final decision about what to audit is made by the auditor general.<sup>25</sup>

Like financial audits, a typical performance audit has three phases: planning, examination and reporting. Before the planning phase begins, the audit team notifies the organization that one or more of its programs, activities or areas will be audited, and meets with the organization's staff in order to collect relevant information for the planning of the audit. During the audit's planning phase, a plan is submitted to the organization's management so that they are aware of the audit criteria, timelines of the audit, the length of the process and major audit milestones. The audit criteria, which may be clarified with the organization's comments, are the considerations against which the program, activity or area of the organization will be assessed, such as key Acts, policies or guidelines. This process helps to avoid misunderstandings or surprises for organizations that undergo an OAG audit or that have one of their programs, activities or areas audited.

During the examination phase, the audit team gathers evidence by conducting interviews with the organization's staff; testing key systems, transactions or controls; and reviewing documents such as legislation, program design documents or program files. This evidence is used to compare the performance or achievement of the organization in respect to a program, activity or area against the audit criteria.<sup>26</sup> As the examination phase nears completion, the team begins to formulate audit observations and conclusions, and meets with the organization's senior management to validate the facts.

During the reporting phase, both the OAG audit team and the organization try to agree on the feasibility of the recommendations; the OAG is mindful of the need to develop recommendations that are clear, cost-effective and feasible to implement. At this point, the organization has the opportunity to provide a response to the recommendations, and this response is included in the OAG's report. Responses are limited to 200 words and must clearly indicate whether the organization accepts the OAG's recommendation.<sup>27</sup>

OAG audit teams ensure that there is ample evidence to support the report, including audit findings and conclusions, as well as the recommendations that flow from this evidence-based work. Among other things, performance audit teams are required to ensure that the audit files are thoroughly documented with all necessary, sufficient and appropriate evidence.<sup>28</sup>

Each performance audit is a chapter in the auditor general's reports to Parliament. A study on a specific topic can also form a chapter. OAG performance audits usually contain recommendations designed to address the most serious deficiencies identified during the audit. These audits do not question the merits of government policies; rather, they examine the government's management practices, controls and reporting systems, with a focus on results.<sup>29</sup>

### 3.3 SPECIAL EXAMINATIONS

Special examinations assess the systems and practices maintained by federal Crown corporations to manage their operations. In essence, a special examination is a performance audit in which the scope of the audit is set by law to include the entire corporation. Special examinations answer this question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively?<sup>30</sup>

In special examinations, the auditor general provides an opinion to the board of directors on whether there is reasonable assurance that there are no significant deficiencies in the systems and practices that the corporation must use in order to meet its mandate. It is an opinion on the management of the corporation as a whole. The term "systems and practices" includes, for example, governance, human resources management, financial management and strategic planning. The term "significant deficiency" means "a major weakness that could prevent the corporation from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively." In turn, this deficiency could prevent the corporation from meeting its mandate. Special examinations also highlight systems and practices that contribute to success, and provide information and recommendations to boards of directors about opportunities for improvement.<sup>31</sup>

## 4 SELECTED ASPECTS OF THE OAG'S ROLE AND MANDATE

As has been noted, the OAG has extensive audit powers, and its mandate has evolved over time. These powers and the exercise of the OAG's mandate have given rise to a number of questions. Are there any safeguards to ensure the Office's objectivity and independence, and to what extent does the current funding mechanism (through a federal department) undermine its independence? Who audits the OAG and ensures its accountability? Are there methodological flaws in the OAG's performance audit approach? Where does a legislative audit end and interference in government policy begin?

### 4.1 THE OAG'S OBJECTIVITY AND INDEPENDENCE

As an independent officer of Parliament, the OAG reports directly to Parliament and not through a minister. This approach has implications for how the Office's reports are tabled, how the Office is funded and how government policy applies to the OAG. In order to maintain its credibility as a legislative auditor, the OAG must maintain objectivity and independence from the programs, activities and areas of the organizations it audits – the government and its initiatives.<sup>32</sup>

Some OAG reports are critical of the operations of the government; consequently, the OAG believes that decisions about its funding should not be the sole prerogative of the government. In its view, to have true independence, the OAG's funding must be independent of government. The OAG currently negotiates its budget with officials

of the Treasury Board of Canada Secretariat (TBS). While the OAG has stated that it is satisfied with the level of its funding, it has proposed that the funding process be changed to remove possible undue pressure on the OAG by the government as represented by the TBS.

Because the OAG looks regularly at the TBS in the course of its audit work, the Office considers it inappropriate to have the TBS determine the Office's level of funding. According to the OAG, the funding mechanism should be determined in an objective manner that removes any real or perceived possibility of interference. The funding mechanism should, however, include an effective challenge function to the funding level and performance of the OAG to ensure accountability to Parliament. The PAC has agreed with the OAG on the funding issue. In 2005, the House of Commons Advisory Panel on the Funding and Oversight of Officers of Parliament was established as a pilot project to review and challenge funding requests from the OAG and other officers of Parliament, and to help resolve differences of opinion between the officers of Parliament and the TBS, including about funding. In 2008, an independent assessment concluded that the Panel had been a success and should be made permanent.<sup>33</sup>

Furthermore, as part of the independence issue, there have been disagreements from time to time between the officers of Parliament and the TBS about whether some TBS policies should apply to them, such as the *Communications Policy of the Government of Canada* (the auditor general is among these officers). In particular, the OAG believes that certain parts of federal policies should not apply to it because they would require the OAG to report to a minister. In 2007–2008, along with other Agents of Parliament, the OAG raised these concerns with the TBS. Since then, many Treasury Board policies have been amended to recognize the independence of Agents of Parliament by noting that it is the head of the organization, not the TBS or a Minister, who is responsible for implementing the policies and monitoring compliance with them.<sup>34</sup>

Finally, in order to ensure that it remains independent and objective in fulfilling its duties, the OAG must be able to consider all relevant facts and information before it forms audit conclusions and recommendations, and reports them. The OAG has maintained that any obstruction it encounters in accessing information is a threat to its independence and its ability to serve Parliament. Departmental officials have, at times, refused access to certain documents requested by the OAG. The government has since developed a protocol that guides deputy heads in resolving the access issue.<sup>35</sup>

## 4.2 ACCOUNTABILITY FOR THE OAG

Another question that is often raised is this: Who audits the OAG and keeps it accountable, or, to borrow a phrase from the Roman satirist Juvenal, who guards the guardians? The OAG demonstrates its accountability in various ways. First, the OAG's financial transactions are audited annually by an accounting firm appointed by the TBS.<sup>36</sup> Moreover, the OAG's financial statements are presented in its annual *Departmental Performance Report*.<sup>37</sup> Also, as with every federal organization that operates with funding appropriated by Parliament, the OAG submits estimates each year. The estimates documents contain spending information, a list of results that the organization

plans to achieve with the funds entrusted to it, and the extent to which the organization has achieved these results.<sup>38</sup> Both the OAG's *Report on Plans and Priorities*, which is its spending plan for the coming year, and its *Departmental Performance Report*, which accounts for how the money was spent in the previous year, are referred to the PAC.<sup>39</sup> In this context, the PAC's role is to hold the OAG to account. It asks the OAG to appear before it in order to study the OAG's targets and performance.

In its *Departmental Performance Report*, the OAG provides performance information, such as the number of financial audits, performance audits and special examinations that were carried out during a fiscal year and their overall cost. It also presents the results of its surveys of audited entities and of parliamentarians about the usefulness and relevance of OAG reports.<sup>40</sup>

The OAG also discloses, on its website, the names of those who serve on its audit committee. As with all federal departments, contracts with a value exceeding \$10,000 as well as grants and contributions with a value exceeding \$25,000 are also disclosed on the website.

Each year, the OAG conducts practice reviews, or internal audits, of its financial audits, performance audits and special examinations by assessing the compliance of these activities with the Office's system of quality control and with professional standards. For example, in 2012–2013, the OAG completed 14 practice reviews – eight of financial audits and six of performance audits and special examinations. In all cases, the practice reviews found that the opinions and conclusions expressed in the OAG's reports were appropriate and supported by the evidence.<sup>41</sup>

Periodically, the OAG also requests quality assurance reviews from external organizations. In 2009–2010, the OAG volunteered for, and underwent, an external peer review, or external audit. This effort, which was led by the Australian National Audit Office, was conducted by staff from national legislative audit offices in other countries. Through this initiative, the OAG was seeking independent assurance that its quality management system is suitably designed and is operating effectively to produce independent, objective and supportable information on which Parliament can rely to examine the government's performance and hold the government to account. The results of the practice reviews and peer reviews are available on the OAG's website.<sup>42</sup>

### **4.3 ISSUES ABOUT THE PERFORMANCE AUDIT APPROACH AND METHODOLOGY**

One of the longest-held misunderstandings about the OAG is that nearly all of its audit staff are accountants who may focus too narrowly on financial matters. In fact, the Office has staff with a range of experience, academic backgrounds and skill sets, and they work on issues that go beyond financial accounting. There are two types of audit professionals at the OAG: financial auditors and performance auditors. Financial auditors are accountants who usually complete financial audits, while auditors with other academic backgrounds usually undertake performance audits. Both types of auditors work on special examinations.

As of March 2011, about one third of the OAG's audit staff, including management, had academic backgrounds in fields other than accounting; staff have also studied,

for example, social sciences, public administration, engineering or environmental science. Some financial auditors who have accounting designations work on all three types of audits, particularly if they are senior managers. In some instances, financial auditors work with their performance audit colleagues on performance audits or special examinations.

Also, the approach to performance auditing has been presented by some commentators as a choice between “doing things right,” or focusing on process, and “doing the right thing,” or focusing on the results sought.<sup>43</sup> In auditing, there is a tendency to prioritize doing things right (ensuring that the correct processes and procedures are in place) over doing the right thing (ensuring that the policy goals of the government are met). That being said, a choice is not required. In this context, public administration may be seen as aiming to do the right thing by doing things right. Policy directions are determined by politicians in light of their goals, values and expertise, as part of their responsibility to represent their constituents. Successful policy implementation depends largely on the proper management of processes, procedures and activities that rest with government organizations, and this is what the OAG verifies through its audits. In short, the process may be as important as the result, because if the right tools are in place to achieve a result, the result should follow.

All OAG performance audit reports are evidence-based. Recommendations must be justified and supported by the audit findings and conclusions, and the reports must be substantiated with sufficient and appropriate evidence. While there may be elements of subjectivity in the choice of audit approach or criteria, these are widely discussed at the OAG and are presented to the organization before it, or a program, activity or area within it, are audited.

Some observers have wondered why the OAG does not present its working papers or evidence sources.<sup>44</sup> Section 16.1(1) of the *Access to Information Act* prohibits the OAG from disclosing any record “that contains information that was obtained or created by [it] or on [its] behalf in the course of an investigation, examination or audit conducted by [it] or under [its] authority.” Essentially, any material produced as part of the audit file in order to reach conclusions and observations cannot be disclosed. This requirement exists in order to protect confidential or sensitive information that should not be made public; for example, confidentiality may be required for national security reasons or to protect whistleblowers from reprisal.

#### **4.4 PUBLIC ADMINISTRATION AND GOVERNMENT POLICY**

The OAG exercises caution in using the powers described in its mandate, including those contained in section 7(2) of the *Auditor General Act*. Abuse of these powers could undermine the Office’s credibility. Some commentators have shared their view that the OAG audits the results achieved by certain government organizations and that it therefore comments on the policies of the government.<sup>45</sup> As mentioned earlier, the OAG does not audit the results produced by programs in organizations per se. Instead, the OAG examines the performance of organizations in relation to the audit criteria (i.e., whether an organization met its program targets, or the extent to which progress towards these targets was achieved).

According to other commentators, the ultimate objectives of Parliament, government, an auditor general's office and other public institutions are usually the same: to strive for good performance of government operations that use public resources to achieve public purposes.<sup>46</sup> Many interpretations can be given to the term "good performance," and not all performance can be measured quantitatively. The OAG seeks to avoid the problem of differing interpretations of this term by determining audit criteria that are based on concrete government policies, laws and best practices. This approach also allows the OAG to tackle programs, activities or areas which can also be subject to interpretation.<sup>47</sup>

In February 2001, just prior to his retirement, Auditor General Denis Desautels described concerns that had existed since 1977 about the changes to the OAG's mandate, changes which may appear to have drawn the OAG away from exclusively financial auditing and, with the new responsibility of performance auditing, into policy matters and politics. On one hand, there was what the auditor general described as administrative policies, such as those related to accounting. On the other hand, there were the government's policy goals, which are subject to political debate. In Desautels' view, administrative policies that support programs by specifying how they should be managed or policies that establish program goals and program decisions were more of a "gray area." Even though the line between management and policy may sometimes be difficult to navigate, Desautels believed that the OAG had established a track record of making this distinction.<sup>48</sup> Hence, in his view, the OAG had remained above the political debate by focusing on public administration or administrative policies and management, rather than on national policy decisions and politics.

However, in light of a number of reports that have been critical of the administration of certain government programs, activities or areas, some observers have suggested that the OAG is playing the role of the political opposition.<sup>49</sup> In fact, the OAG's duty is to help Parliament hold the government to account. Some critics of the OAG have argued that use of the term "audit" should be restricted to financial work,<sup>50</sup> and others have stated that the OAG should return to a traditional audit of the financial accounts.<sup>51</sup> If the OAG were to abandon performance audits and return to a mandate focused exclusively on financial audits, one could reasonably ask: What would be the negative implications for Canadians and parliamentarians? For instance, without the objective and independent information currently reported through performance audits, parliamentarians could be limited in their ability to hold the government to account in terms of its performance and the proper management of its programs.

## 5 CONCLUSION

The OAG has a long history of service to Parliament and Canadians, and its mandate is now quite extensive. The 1977 modifications to the *Auditor General Act* clarified and expanded the auditor general's responsibilities beyond financial auditing and introduced the notion of value-for-money, or performance, auditing. With performance audits, the OAG has significant discretion in choosing its audit topics, as well as the aspects of organizations and their activities to be examined, and the manner in which it would carry out the work. Moreover, with this type of audit, the auditor general looks at whether government programs are being managed with due regard for economy, efficiency and environmental impact, and whether there are measures in place to determine the programs' effectiveness.

The OAG does not audit government policy or the results produced by programs or organizations; rather, it assesses the management of these programs or organizations against criteria that are communicated to the organizations at the beginning of the audit. The OAG usually audits programs, activities or areas that pose a greater risk to organizations; those programs, activities or areas that may improve government results; or areas that are of great interest to parliamentarians or other Canadians. An elaborate process guides the OAG and organizations through a performance audit, and helps to avoid misunderstandings.

In order to maintain its credibility and reach objective conclusions, the OAG must remain objective and independent from the organizations, or the programs, activities and areas within the organizations that it audits; in essence, the OAG must be independent from the government. Objectivity and independence can, in some sense, be assured when the OAG is able to access all relevant facts and information, has an objective funding mechanism that removes real or perceived influence by government organizations or the government, substantiates its reports with sufficient and appropriate evidence, and comments on the management of programs designed to achieve the government's objectives, rather than on government policies or the results achieved by government programs.

Ultimately, parliamentarians – particularly members of the PAC – do not always have the time or expertise required to scrutinize government expenditures as presented in the estimates, or to be specialists on the performance of a specific government organization or some of its programs, activities or areas. Just before her retirement in May 2011, Auditor General Sheila Fraser said:

We are there to help Parliament, to give [members of Parliament] information they need to do their job of holding government to account. The reality is that the government is so large, so complex, so many documents face [them], and sometimes we expect them to know everything about everything. I just don't think it's realistic.<sup>52</sup>

Today, the OAG continues to uphold this vision, to ensure that it maximizes the value of its audits for parliamentarians, territorial legislators, Crown corporation boards of directors, and audit committees. Building on the work of his predecessors, the current Auditor General Michael Ferguson signalled that the Office plans to release an annual summary report in relation to its financial audit practice, as well as to establish a new mechanism to more clearly articulate the anticipated value, and to assess the value realized, from each performance audit.

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## NOTES

1. Alex Smith, [A Guide to the Estimates](#), Publication no. 09-25E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 3 October 2012, p. 1.
2. Office of the Auditor General of Canada [OAG], "[An Office of legislative auditors](#)," *What We Do*.
3. OAG, [2009–10 Estimates: Performance Report](#), Ottawa, September 2010, p. 1.



4. For a brief description of the officers of parliament, see Élise Hurtubise-Loranger and James R. Robertson, [Appointment of Officers of Parliament](#), Publication no. 2009-21-E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 13 December 2010.
5. OAG, "[A Brief History](#)," *Who We Are*.
6. John Gray, "[Auditing the Auditor General](#)," *The Walrus*, December 2010, p. 31.
7. OAG, "A Brief History."
8. Ibid.
9. Sharon L. Sutherland, [The Office of the Auditor General of Canada: Government in Exile?](#), Queen's University, School of Policy Studies, Working Paper 31, September 2002, p. 10.
10. OAG, "A Brief History." See also Sonja Sinclair, *Cordial But Not Cosy: A History of the Office of the Auditor General*, McClelland and Stewart, Toronto, 1979, pp. 62–69.
11. Gray (2010), p. 32.
12. Sinclair (1979), p. 124.
13. [Auditor General Act](#), R.S.C., 1985, c. A-17, s. 7(2).
14. OAG, "[Special Examinations of Crown Corporations](#)," Chapter 8 in *Report of the Auditor General of Canada to the House of Commons*, Ottawa, May 2008, para. 8.11, p. 5.
15. This paper does not discuss the work of the Commissioner of the Environment and Sustainable Development (CESD) in detail. The CESD, which is part of the OAG, conducts performance audits and studies on environmental and sustainable development issues. Under the *Auditor General Act*, it is also tasked with the monitoring of federal and departmental sustainable development strategies, as well as the management of the environmental petitions process. The CESD's reports are usually studied by the House of Commons Standing Committee on Environment and Sustainable Development.
16. OAG, [Serving Parliament Through a Decade of Change: Sheila Fraser, FCA, Auditor General of Canada 2001–2011](#), Ottawa, Spring 2011, p. 4.
17. OAG, [2012–13 Report on Plans and Priorities](#), p. 9.
18. OAG, [2012–13 Estimates: Performance Report](#), p. 45.
19. OAG, [2014–15 Report on Plans and Priorities](#), p. 9.
20. OAG, "[Financial Audits](#)," *What We Do*.
21. In this context, a management letter identifies issues not required to be disclosed in the annual financial report as well as the auditors' concerns and suggestions noted during the audit.
22. OAG, *2009–10 Estimates: Performance Report*, p. 5.
23. On 24 April 2001, then Interim Auditor General Sheila Fraser mentioned the discretionary nature of value-for-money auditing at a House of Commons Standing Committee on Public Accounts hearing. See House of Commons, Standing Committee on Public Accounts, [Evidence](#), 1<sup>st</sup> Session, 37<sup>th</sup> Parliament, 24 April 2001, 1610.
24. OAG, "[Performance Audits](#)," *What We Do*.
25. Ibid.
26. OAG, "[Evaluate the sufficiency and appropriateness of audit evidence](#)," *Performance Audit Manual*, 2011.

27. OAG, “Developing and responding to recommendations,” Chapter 9 in [What to Expect: An Auditee’s Guide to the Performance Audit Process](#), 2012.
28. See John Mayne, “[Performance Auditing: Cozy, Comfortable and in need of Challenge](#),” *Optimum Online*, Vol. 40, Issue 3, August 2010, pp. 1 and 6. The *Canadian Institute of Chartered Accountants Handbook – Assurance*, Standard 5025.53-58, describes the need for “sufficient and appropriate” evidence.
29. Mayne (2010).
30. OAG, “[Special Examinations](#),” *What We Do*.
31. OAG, *2009–10 Estimates: Performance Report*, p. 6.
32. OAG, *Serving Parliament Through a Decade of Change*, pp. 5–6.
33. *Ibid.*, pp. 7–8.
34. *Ibid.*, p. 6.
35. *Ibid.*, p. 7.
36. *Ibid.*, p. 16.
37. OAG, *2009–10 Estimates: Performance Report*, pp. 36–51.
38. Smith (2012), pp. 1–2.
39. OAG, *Serving Parliament Through a Decade of Change*, p. 16.
40. OAG, *2009–10 Estimates: Performance Report*, p. 1.
41. OAG, *2012–13 Estimates: Performance Report*, p. 45.
42. Please refer to the OAG website for “[Practice Reviews](#)” and “[External Reviews](#).”
43. For instance, this dichotomy was presented by Otto Brodtrick in “How does an auditor general’s office see itself?,” *Canadian Public Administration*, Vol. 47, June 2004, pp. 225–242.
44. Sharon L. Sutherland, “Bossing Democracy: The Value-for-Money Audit and the Electorate’s Loss of Political Power to the Auditor General,” in *Rationality in Public Policy: Retrospect and Prospect, A Tribute to Douglas G. Hartle*, eds. Richard M. Bird, Michael J. Trebilcock and Thomas A. Wilson, *Canadian Tax Paper No. 104*, Canadian Tax Foundation, Toronto, 1999, p. 135.
45. For instance, see Sutherland (2002), p. 7, and Brodtrick (2004), p. 236. See also the article by Guillaume Bourgault-Côté, “Entrevue – Des chiens de garde aux dents trop longues? Gilles Paquet affirme que les bureaucrates vont souvent trop loin en critiquant le gouvernement,” *Le Devoir*, 21 August 2010.
46. Brodtrick (2004), p. 229.
47. For example, “whether an organization is performing its legislated mandate” can be subject to interpretation. Nevertheless, this area was included in the scope of the December 2010 report presented to the House of Commons on the Office of the Public Sector Integrity Commissioner of Canada, [Report of the Auditor General of Canada to the House of Commons – The Public Sector Integrity Commissioner of Canada](#). In this report, the OAG stated that there was reluctance on the part of the former Commissioner (Christiane Ouimet) to investigate wrongdoing, and that the former Commissioner was not properly performing her mandated functions. Ms. Ouimet disagreed with this characterization.
48. Denis Saint-Martin, “Managerialist advocate or ‘control-freak’? The Janus-faced Office of the Auditor General,” *Canadian Public Administration*, Vol. 47, June 2004, p. 133.

49. Sutherland (1999), p. 139, and Sutherland (2002), p. 2. Gilles Paquet, professor emeritus at the University of Ottawa, made a similar point in an interview with Bourgault-Côté (2010).
50. Sutherland (2002), p. 24.
51. See, in Sutherland (1999), the discussion on Douglas Hartle, former deputy secretary to the Treasury Board, who wanted to return the OAG to its traditional audit of the financial accounts.
52. Gray (2010), p. 35.