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VFM auditing and Accountability: Canadian and Russian Experience

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Ladies and gentlemen,

I would like to thank you for the opportunity to address this seminar. As you are aware, we have just concluded a highly successful pilot project with the Accounts Chamber of the Russian Federation and the Federation Council to develop value-for-money-auditing in the Accounts Chamber and to strengthen the use of the Accounting Chamber's reports in the Federation Council. We are pleased to participate in what is in effect our first opportunity to share experience with the Subjects of the Federation level. As you are aware, with the support of the Office of the Auditor General of Canada, the Accounting Chamber of the Russian Federation developed the methodology to conduct value-for-money-auditing and conducted two pilot audits using value-for-money-methodology. Mr. Thompson has already defined value-for-money-auditing in his presentation and I thought that I would elaborate on why the move to value-for-money-auditing was considered to be so important in Canada when the transition took place in the 1970's.

First, I wanted to state that in the Canadian political system the Auditor General's role is, according to its website, to "audit government operations and to provide the information that helps Parliament to hold the government to account for its stewardship of public funds". The central question is what type of information will the Auditor General present to Parliament.

The reason why Parliament is the focal point for accountability is that in the Canadian Parliamentary system, it is Parliament that is responsible for holding the government to account for the money it spends. A key tenet of our system of responsible government is that the Government cannot spend money or levy taxes without the approval of Parliament. Likewise, it is Parliament that holds the government accountable for the money it spends.

The role of the Auditor General's office is to provide parliamentarians with the information they require to hold the government to account. The Auditor General's reports are tabled to Parliament four times per year. Tabling the reports is not tantamount to holding the government to account, however. The release of the Auditor General's report to the media, and the discussion of the report in the legislature are "in the nature of one-day wonders".¹ The Public Accounts Committee (PAC), a committee dedicated to examining the reports of the Auditor General, undertakes detailed study of the Auditor General's reports and usually endorses most or all of the Auditor General's recommendations, supplemented by the PAC's own recommendations. The respective government department has 150 days to respond as to how it is implementing the recommendations based on the report of the PAC.

By now the mutual dependence between the Auditor General's office and the Public Accounts Committee should be evident. The Auditor General provides independent expert advice through its reports and testimony at PAC hearings and with its 600 employees, has the capacity and knowledge to 'systematically identify substantial weaknesses in government administration'.² But they have no enforcement powers. They are reliant upon Parliament, specifically the Public Accounts Committee, to study their reports and issue recommendations to the government. As Auditor General Sheila Fraser mentioned in her 2003 Performance Report, "Our primary responsibility is to Parliament, and our relationship with parliamentarians is key to our effectiveness. We assist Parliament in its work related to the authorization and oversight of government spending and operations".³

Given the mutual reliance, the Auditor General has typically exhibited a high degree of interest regarding the types of issues that parliamentarians are interested in and whether its reports are useful for parliamentarians. Until 1977, the Auditor General could provide answers to members of the PAC and other parliamentarians on the following questions⁴:

- Do the government's financial statements "give an accurate and appropriate detailed report of the government's financial affairs"?
- "Were all the taxes and other revenues due to the government collected and properly accounted for?"
- "Was the money voted by the legislature spent for the purposes approved..."

Historically, the Auditor General was concerned primarily with reporting on irregular or illegal expenditures. The questions I just cited helped MP's to identify irregular or illegal expenditures, but in most Western democracies, this approach was becoming increasingly obsolete by the 1970's.

Part of the reason why this approach was becoming obsolete was that in Canada, the scope, size and corresponding budget of government had grown significantly following World War II. The economic slowdown of the early 1970's fuelled the concern that government funds be spent with as much utility as possible. As early as the late 1950's, the Auditor General began to report on what were known as "non-productive payments". Non-productive payments analyzed single transactions that "that were legal but resulted in little value to Canadians". In essence, they measured the economy and efficiency of funds spent for a particular purpose (although the terms "economy and efficiency" were not necessarily used).⁵ Detecting and disclosing irregularities was expected to deter wrongdoing.

Given the significant increase in the scope and size of government that I described earlier, Auditor General James Macdonell (who was in office from 1973-1980) recommended moving beyond uncovering individual cases in which funds were not spent for the purposes intended by Parliament, and looking towards how to improve the financial system as a whole.⁶ The introduction of value-for-money-auditing in 1977 mandates the Auditor General to examine whether funds were spent with due regard to economy, efficiency (and whether

departments have tools in place for measuring effectiveness) in whole government programs or agencies. The Auditor General Act of 1977 allowed parliamentarians to obtain in-depth information about the performance of government programs and answers to the following questions in addition to the ones I cited earlier ⁷:

- “How well did the systems of control ensure that public money and property were not lost, stolen or used for unauthorized purposes?”
- “Was the administration frugal or extravagant in its buying and hiring practices?”
- “Were programs managed in an efficient or in a wasteful manner?”
- “Are programs being evaluated and the results reported wherever possible and if so, are the programs achieving what they set out to do, and if not, why not?”

In addition to the Auditor General’s VFM auditing mandate providing parliamentarians with information about the performance of government programs, Auditor General’s reports now provide parliamentarians with systemic recommendations about how an audited government department can improve the administration of a program or agency-in-question. Most of these recommendations are endorsed by the Public Accounts Committee and sent by the Public Accounts Committee to the respective government department.

My understanding is that the Russian Federation is becoming increasingly concerned about developing the capacity to measure the utility of government programs. Russia aims to adopt a results-based-budget by 2005, corresponding to the efforts being made by the Accounting Chamber of the Russian Federation to adopt value-for-money auditing. Bearing in mind that President Putin has

called for the doubling of GDP in a decade, the rationale seems to be that developing a budget organized by results and an auditing capacity to analyze whether those results were achieved with due regard to economy, efficiency and effectiveness will greatly enhance the ability of the Government of the Russian Federation to improve the delivery of government programs and could potentially result in tremendous cost-savings. The Accounting Chamber and the Chair of the Federation Council Commission on Interaction with the Accounting Chamber have recently developed an annual workplan because they see the merit of cooperation in the improvement of government programs.

The key question is whether Canadian experience and Russian experience at the Federal level is useful at the Subject of the Federation level in Russia. This is a question that only you can answer, and I am honored to participate in the dialogue taking place here today to address this important issue.

Thank you for your attention.

¹ John J. Kelly and Hugh R. Hanson. "Improving Accountability. Canadian Public Accounts Committees and Legislative Auditors". Canadian Comprehensive Auditing Foundation. 1981, p. 94.

² Ibid.

³ Office of the Auditor General of Canada. Performance Report for the period ending 31 March 2003, p. 13.

⁴ John J. Kelly and Hugh R. Hanson. "Improving Accountability. Canadian Public Accounts Committees and Legislative Auditors". Canadian Comprehensive Auditing Foundation. 1981, p. 4.

⁵ Government of Canada. Report on the Independent Review Committee on the Office of the Auditor General of Canada. Ottawa. 1975, p. 22.

⁶ Sonja Sinclair. "Cordial But Not Cosy: A History of the Office of the Auditor General", p. 103.

⁷ John J. Kelly and Hugh R. Hanson. "Improving Accountability. Canadian Public Accounts Committees and Legislative Auditors". Canadian Comprehensive Auditing Foundation. 1981, p. 4.