

**Notes for an address by**

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**Russian Project Phase III**

**Academy of Finance  
Moscow, Russia**

**15 March 2006**

*Introduction*

Ladies and gentlemen, I am very pleased to be here today to speak to the Academy of Finance about the importance in democracies of independent agents of public accountability and the work of my Office.

Thank you very much for inviting me.

The Office of the Auditor General of Canada is one of many agents of public accountability throughout the world. We call them Supreme Audit Institutions.

In the nearly five years I've served as Auditor General of Canada, I've had the privilege of working with representatives of these institutions from scores of countries in an effort to learn from each other and strengthen independent auditing throughout the world.

One of the more unique and interesting opportunities we've had over the last several years has been to work with the Accounts Chamber of the Russian Federation and with regional Accounting Chambers on a project designed to introduce performance auditing in your country.

This cooperation has taken place under the Canada-Russia Parliamentary Program and the Accountability Strengthening Program implemented by the Parliamentary Centre and funded by the Canadian International Development Agency.

In my view, this has been a rewarding experience for my Office and I certainly hope it has been helpful to the Accounts Chamber as well.

I'm very pleased to be in Russia to continue the process of sharing information and expertise on our methodologies

As chair of the Sub-Committee on Independence of the International Organization of Supreme Audit Institutions, I am also involved in an ongoing project to strengthen the independence of audit institutions worldwide through the development and promotion of a new charter and guidelines on Independence.

So, as you can imagine, I am deeply convinced of the value of agents of public accountability and the need to work together as a community to bolster and support each other's independence.

In my remarks today, I'll start by talking generally about why these independent agents of accountability are vital in democracies.

Then I'll use the role played by the Office of the Auditor General to illustrate how this works in Canada's system of government.

Finally, I'll reflect on the importance of independence for agents of public accountability.

*The importance of independent agents of public accountability*

Good governance—in both the public and private sectors—is good for all citizens. It contributes to stability and predictability, which encourages investment, which can promote growth.

Good governance helps instill faith in our public and private institutions, and the people who run them, which is vital to a healthy, well-functioning society.

As you know, there have been a number of high-profile failures of governance in North American corporations in recent years. When governance falls short, investors lose confidence and faith in the corporate sector. That's not good for the economy.

Sometimes governance falls short in the public sector as well. This has the potential to waste taxpayers' dollars, put the health and safety of people at risk, harm the natural environment, and even threaten national security.

Accountability and transparency are two vital ingredients of good governance. At the end of the day, these two key elements offer the best protection against corruption and abuse of authority.

And this is where independent agents of public accountability come in, such as the Accounts Chamber of the Russian Federation and the Office of the Auditor General of Canada, as well as the national audit offices in many countries.

These audit institutions play a vital role in helping democratically elected legislatures hold governments accountable to their citizens for the stewardship of public funds.

Their authorities and status make them uniquely suited to provide independent views on the quality of public sector management and whether the bureaucracy is operating within its authorities.

It is the ability of audit bodies to conduct audits that are critical of government, which may not please government, as well as to report those findings publicly, that makes their role indispensable in democracies.

All over the world, audit offices conduct regular and impartial examinations of government operations, acting first and foremost in the public interest and serving as champions of open and transparent government.

*The Role of the Auditor General in Canada*

So how does all this work in Canada?

First of all, like Russia, Canada is a federation. In our case, powers and responsibilities are constitutionally divided between the federal government and the 10 provincial governments.

So, for example, the central or federal level of government is responsible for such things as national defence and the provinces are responsible for delivering education and most social programs, among other things.

Canada also has three territorial jurisdictions in the far north of the country. Today, I will talk about the federal level of government, since that is the level with which my Office is mainly concerned.

The 10 provinces each have their own legislative auditor. The fact that they are all independent of the federal auditor makes our situation different from yours.

However, all 11 of our offices work closely together on matters of common concern through an organization called the Canadian Council of Legislative Auditors.

Another point of interest is that Canada's political system is a Westminster-style parliamentary democracy modelled after that of the United Kingdom.

In our system, the main power to make policy, prepare budgets, draft legislation, and manage the public service resides with the executive. By that I mean the Prime Minister and his or her cabinet of Ministers.

In Canada, we have a check in place to ensure that the powers of the executive are used responsibly rather than arbitrarily. And that check is our federal legislature, known as the Parliament of Canada.

The government of the day must answer for its actions to the people's representatives in Parliament.

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

To assist in this process, the government provides Parliament with information about how it uses the public funds entrusted to it.

At the same time, Parliament needs assurance that this information is appropriate, credible and complete and that it accurately reflects the results of the activities of government.

The way it obtains such assurance is through an independent audit function set up to assist it in fulfilling its oversight role.

That's where my office comes in. My job is to give parliamentarians independent, fact-based and reliable information on how programs are being delivered—and how they can be delivered better.

The audit function is therefore a critical link in the chain of public accountability and a vital part of the democratic process of responsible government.

We provide information and assurance to Parliament by performing different types of audits that answer important questions.

With a staff of almost 600 people and an annual budget of some \$77 million, we audit more than 100 federal government organizations, ranging from small boards to large complex organizations.

We audit some 40 Crown corporations, the governments of the three northern territories, and some 20 territorial corporations and agencies.

These audits we conduct fall into two main categories: financial audits and performance audits. I'm going to focus today on performance audits.

These audits are designed to assess how well government initiatives are being managed.

It's worthwhile explaining how we select these audits and how we conduct them.

As you can imagine, governments are involved in a vast range of activities, and ours is no exception.

We can't audit everything, so how do we decide where to focus our efforts? How do we ensure that our decisions aren't perceived to be arbitrary and capricious?

Deciding what to audit is a complex and challenging exercise which requires a sound knowledge of government and its functions.

The process we use is called "one-pass planning" and it is systematic, strategic, and rigorous. By using our in-depth knowledge of how government functions, we are able to identify government programs and initiatives where the consequences of failing to achieve specified objectives makes them "high-risk."

And what are some of the more important consequences we consider? Well, wasting large amounts of taxpayer's money, for example.

We audit programs that spend in the billions of dollars, such as some programs of National Defence.

Other areas that are important to audit are those that have the potential to put the health and safety of people at risk, do severe harm to our natural environment, or even threaten national security.

Examples here include our recent audits of the medical device program, our audit of contaminated sites in the North, and our audit of passport security.

Once we identify the high-risk areas, we then determine if they can be audited. Some may be areas of policy, which we do not audit.

We also don't audit areas under the exclusive jurisdiction of provincial or municipal governments.

We must also take into account such practical issues such as whether we have the financial and human resources to conduct an audit.

How do we conduct performance audits?

Essentially, we follow professional auditing standards and examine government activities against established criteria, such as its own laws, policies, and targets.

We look at whether initiatives are being carried out with due regard for economy, efficiency, and environmental impact, and whether measures are in place to determine how effective they are.

The process begins with planning. In this phase, the audit team sets out to understand the organization being audited—to get “the big picture.”

It is important for us to be fully versed in the relevant laws and policies, the way the organization is structured to achieve its mandate, and the challenges it faces.

The audit team then identifies the specific aspects of the program to be audited. These are generally those that are most important to its proper functioning.

The team develops the criteria against which the audited activities can be assessed. Audit criteria are meant to be reasonable and attainable standards of performance against which compliance, adequacy of systems and practices, and the economy, efficiency and cost-effectiveness of operations can be assessed.

Sources for the criteria include laws and regulations, standards developed by the organization being audited, standards developed by recognized professional organizations, and targets set in the planning and performance documents submitted to Parliament by the organization.

We make sure these criteria are clear and explicit to the organizations we audit. In fact, we take management's views into account about whether the criteria we are using are reasonable.

The second phase is the examination phase. Here, the audit team gathers evidence to allow it to determine if the program is operating according to the criteria established.

Evidence gathering can include holding interviews with program staff and stakeholders; reviewing documents such as legislation, studies and evaluations, and program files; and testing key transactions, systems, and controls.

The audit team then compares the evidence with its criteria. We make our conclusions against the criteria. The team ensures that any resulting observations and conclusions are fair and well founded and that recommendations could lead to improvements.

In the reporting phase, the audit team drafts the document that will eventually be included in my Report to Parliament. And we report what we find.

That means if we find that organizations are doing well, we say that. If we find areas in which they could improve, we say that too. And we provide specific recommendations that are well grounded in our findings and are achievable.

At the federal level, we produce some thirty audits that are published in several performance audit reports that are tabled in Parliament every year.

Unlike our counterparts in some other countries, we have no power to compel departments to act on our recommendations nor can we ask the courts to do so. It is by working with and through Parliament that we make a difference.

So let me say a bit more about our relationship with this important body and briefly take you through the process of tabling and holding hearings on a report.

By convention and House rules, the OAG has a close working relationship with a committee of the House of Commons called the Standing Committee on Public Accounts.

Reports of the Auditor General and the Public Accounts of Canada, including the Auditor's opinion, are referred to this committee once they are tabled in the House of Commons.

Some people call the PAC the "accountability committee" because it conducts hearings on our audits in an effort to hold the government to account for its actions.

By holding hearings on our reports, committees can keep the public spotlight on the issues we raise.

This attention helps to educate the public and encourage the government to take appropriate action. The process makes it much harder for government to ignore our findings.

When committees support our findings, they can make recommendations to Parliament, requesting the government to respond.

We make a point of maintaining close contact with parliamentary committees, and bringing to their attention audit findings of particular interest to them.

On the day a report is tabled, I give parliamentarians a confidential preview of the report several hours before the report is tabled in the House of Commons.

We also hold a briefing for the media and I answer questions at a news conference. It is important to do this since the media are a main source of information for parliamentarians.

As I mentioned, all of my reports are automatically referred to the Public Accounts Committee for further review.

Hearings begin with a short opening statement containing the results of the audit and the two or three main messages. This is usually followed by the department or agency's opening statement in response to the audit report.

Then the committee members ask the witnesses questions, both ourselves and representatives from the audited organizations.

Generally speaking, departments are encouraged to develop and publish action plans that spell out how they intend to remedy areas of weakness.

In the future, their deeds can be compared to their words to assess whether real progress has taken place.

Following a hearing, the committee may choose to hold more hearings with different witnesses on the same subject. And when it feels it has heard all the evidence, the committee normally issues a report to the House of Commons.

These reports are substantive and are based on the testimony received. The committees' reports often endorse our recommendations and contain recommendations of their own.

They also may request that the government table a complete response to the report. The government then has 120 days to table its response in the House.

Committee reports represent the committee's view, not necessarily the government position. Opposition parties or a minority of committee members may also table one or more dissenting opinions.

These hearings and reports are very important to us. Without the support that Parliament can offer through its attention to our findings, we are not nearly as effective as we might otherwise be.

While it may be a bit simplistic, it is not inaccurate to describe the partnership between the legislative audit office and the oversight committees of the legislature as a garden that needs to be watered and tended if it is to flourish. Both parties need to work at it.

As legislative auditors, we need to be sure that the things we bring to Parliament's attention are not only significant and relevant, but are also clearly presented and done with the utmost professionalism.

We also believe that members of Parliament need to draw attention to our audits by holding hearings on the matters we raise and by pressuring government to make appropriate changes.

And we have to remember that, at the end of the day, we are all working toward the same goal—well-managed and accountable government.

But parliamentary hearings are not the end of the road either. We don't just conduct audits, report them, make recommendations, attend hearings, and then leave things at that.

Once a reasonable amount of time has elapsed—usually a few years—we go back to do another audit to see whether anything has changed for the better and whether our recommendations have been implemented.

Once a year we produce a report called the Status Report, which contains the results of several of these follow-up audits. I will be tabling this year's Status Report this spring.

Given that performance audits on health have recently been completed and published in the Russian Federation, I thought I'd share with you an example of what happened with a recent health-related audit in Canada.

In my November 2004 report to Parliament we reported on an audit of the government's management of drug benefit programs by six departments.

Now, drug benefit programs are a significant and high-risk area to audit for two reasons: their high cost—which currently exceeds \$430 million—and their impact on the health of large numbers of Canadians—approximately one million Canadians receive benefits under these programs.

One of our concerns was that while some programs log the details of millions of transactions in sophisticated databases, this information is not shared with health care professionals in a way that would benefit clients.

We found, for instance, that the number of clients that had received more than 50 prescriptions in a three-month period had almost tripled since 2000.

As well, hundreds of clients were obtaining narcotics from more than seven doctors. But government systems were not programmed to send alerts to pharmacists when these events occurred.

Our audit also revealed that the programs were missing opportunities to save money. So we recommended, for example, that government departments develop a common list of approved prescription drugs and a single fee schedule for dispensing fees.

The organizations agreed to all our recommendations, and informed us that the details of the actions to be taken would be supplied to us within a few months.

The Public Accounts Committee held a hearing on the chapter a few months later in February 2005. The Committee reviewed our recommendations and endorsed them fully in a report issued in May 2005.

Two of the six organizations had submitted individual action plans. The others produced a collective action plan. But the committee sent them back to the drawing board because the plan was too preliminary and vague.

It asked for a second action plan with precise actions along with timetables and an evaluation framework. It specified that the plan and progress reports on both plans must be available to Parliament for review.

I'm pleased to report that the departments have accepted our findings and each department is actively following up on our recommendations.

Action plans have been developed and departments are working collaboratively together to find solutions and to implement the recommendations. When the time comes, we will go into these departments once more to conduct a follow-up audit of the actions taken.

So in this case, Parliament played a very important role in pushing the departments to act. The Public Accounts Committee adds teeth to the results of audits.

### *Importance of independence*

Let me wrap up my remarks by stressing how important it is for agents of public accountability to be independent.

Independence—the state of being impartial and free from bias and conflicts of interest—is absolutely vital to the credibility and effectiveness of my Office.

Independence can be viewed from two perspectives, independence in fact—real independence—and independence in appearance—perceived independence.

Both are important for us to maintain the confidence of Parliament and the Canadian people.

In our system, there are several safeguards in place to protect our independence. For example, the Auditor General is appointed for a 10-year non-renewable term and can be removed only after a resolution is passed by both the Senate and the House of Commons. This safeguards “personal” independence.

I also have the authority to choose what to audit, when to audit and how to audit. I have the right to ask the government for any information required to do the job, which constitutes a broad power to access information. This protects “professional” independence.

My Office also has the freedom to recruit its own staff. This safeguards “administrative” independence.

Another key to our independence is the ability to remain unbiased and stay faithful to the evidence in our audits.

This is protected by our allegiance to a professional discipline that requires us to adhere to stringent standards and our own deep commitment to the value of producing quality work.

All our audits conform to the rigorous quality standards of the Canadian Institute of Chartered Accountants. We rely on a diverse staff of highly skilled auditors who are also experts in accounting, engineering, statistics, and social, environmental and management sciences. And we build in a commitment to quality at every step of the audit process.

### *Conclusion*

In closing, I hope I have been able to show how the work of the Auditor General of Canada is an example of an independent audit office that contributes to a well-functioning democracy by promoting accountability, transparency and the protection of the public interest.

While it is our job to be critical, ultimately I believe we have a constructive role to play in maintaining the confidence of Canadians in government, thus helping to build stronger public institutions, a better country and a healthier democratic society.

We know that Parliament and its committees appreciate and value our work. The Public Accounts Committee said last year that the work of the Office is crucial to the better management and performance of government, which is invaluable for a democracy.

My staff and I are extremely proud to be part of a long history of dedicated service to Parliament and to Canadians.

And it has been and continues to be a great pleasure and honour for my office to work with the Russian Accounts Chamber, another audit institution dedicated to serving its people.