The Claxton Papers

The Queen's University Defence Management Studies Program (DMSP), established with the support of the Canadian Department of National Defence (DND), is intended to engage the interest and support of scholars, members of the Canadian Armed Forces, public servants, and participants in the defence industry in the examination and teaching of the management of national defence. It has been carefully designed to focus on the development of theories, concepts, and skills required to manage and make decisions within the Canadian defence establishment.

The Chair of the Defence Management Studies Program is located within the School of Policy Studies and is built on Queen's University's strengths in the fields of public policy and administration, strategic studies, management, and law. Among other aspects, the DMSP offers an integrated package of teaching, research, and conferences, all of which are designed to build expertise in the field and to contribute to wider debates within the defence community. An important part of this initiative is to build strong links to DND, the Canadian Armed Forces, other universities, industry, and non-governmental organizations in Canada and other countries.

This series of studies, reports, and opinions on defence management in Canada is named for Brooke Claxton, Minister of National Defence from 1946 to 1954. Claxton was the first postwar defence minister and was largely responsible for founding the structure, procedures, and strategies that built Canada's modern armed forces. As minister, Claxton unified the separate service ministries into the Department of National Defence; revamped the *National Defence Act*; established the office of Chairman, Chiefs of Staff Committee, the first step toward a single Chief of Defence Staff; organized the Defence Research Board; and led defence policy through the great defence rebuilding program of the 1950s, the Korean War, the formation of NATO, and the deployment of forces overseas in

peacetime. Claxton was unique in Canadian defence politics: he was active, inventive, competent, and wise.

In their detailed report on the actions and decisions of military officers and public servants, the Commissioners of the Inquiry into the Deployment of the Canadian Forces to Somalia defined "accountability" as:

> The mechanism for ensuring conformity to standards of action. In the military, this means that those called upon to exercise substantial power and discretionary authority must be answerable (i.e. subject to scrutiny, interrogation and, ultimately, commendation or sanction) for all the activities assigned or entrusted to them. In any properly functioning system or organization, there should be accountability for actions, whether those actions are executed properly and lead to successful result or are carried out improperly and produced injurious consequences.[1]

The need for such a "mechanism" is an enduring requirement of governments if they are to control policies and bureaucrats across the broad spectrum of government responsibilities. More particularly, if the civil authority is to control the military, then it needs to know whether military leaders and defence officials are doing what they were asked to do and how they are doing it. In this instance, the Canadian government convened an inquiry to examine the Somalia deployment and its aftermath because "the mechanism" had evidently failed on several levels in government and in the Canadian Armed Forces.

Attentive governments can develop effective (sometimes secret) internal mechanisms to aid them in scrutinizing "power and discretionary authority." In liberal democracies, however, civil control of the armed forces goes, more fundamentally, beyond the government's control of the military and concerns also the control by citizens of governments that have in hand the power and obedience of national armed forces. The question, therefore, is what mechanisms best assist the citizens' control over governments and ultimately over the armed forces?

In Canada the traditional answer to this question is a "vigilant Parliament" composed of representatives of the people charged with overseeing the activities and decisions of government. But governing can be perplexing and some departments, most notably the Defence Department, deals with issues cloaked in technical complexities and state secrecy such that "ordinary members of Parliament" may be unable to oversee, much

less control, the doings of officers and public servants. In many instances, the overseer is inevitably dependent on the advice and information of the very experts he or she is asked to manage, leaving the actuality of parliamentary control suspect if not incredible.

The Office of the Audit General of Canada was established in the main to assist members of Parliament in their duty to oversee the exercise of power and discretion by governments. The Office of the Auditor General conducts investigations of most departments and agencies of the government of Canada and reports its findings, independent of the government of the day, directly to Parliament. At one time the reports dealt mostly with the expenditure of funds allocated to government programs, but today the concept of comprehensive policy audits has become a principal aspect of most audits.

This paper examines in particular the "legislative audit" of the Department of National Defence, the Canadian Armed Forces and defence policy generally as conducted by the Auditor General of Canada. It is, in some respects, a highly personal report of the work conducted by the Office of the Auditor General during the author's long experience with the defence audit branch of the Office. Yet, it is also the story of the evolution of this function, its successes and difficulties and of contests and cooperation between the auditors and members of the armed forces and the bureaucracy.

Although this examination centres mainly on the Canadian experience, the story of the continuing evolution of legislative audits of the armed forces and of governments in control of armed forces is undoubtably of interest to citizens in liberal democracies everywhere. The language and legislative histories of these states may be different, but their citizens have a common interest in their parliaments' central responsibility to maintain civil control over soldiers and officials. It is a duty subordinate only to the founding concept of parliament itself, which is to ensure the government's conformity to publicly sanctioned standards of action by holding governments to account for their exercise of power and discretionary authority. Legislative auditors, servants of parliament, are a key component in the mechanism created to discharge these responsibilities.

Douglas Bland
Chair, Defence Management Studies Program
January 2003

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Foreword

This paper was written with the encouragement of Douglas Bland, Chair of the Defence Management Studies Program at the School of Policy Studies, Queen's University. It tries to capture whatever I have learned about reporting to Parliament on defence management issues over 14 years at the Office of the Auditor General of Canada. I was, however, rather disappointed that everything I learned in 14 years could be reported in about 70 pages. I thought I should have learned more. (On the other hand, there are probably some Defence officials who are surprised that I learned anything at all and some that believe I still don't know much.)

The paper is not a comprehensive examination of defence management. There are some striking gaps such as logistic support and financial management. I can only say that these subjects, as important as they are, did not receive substantial audit examination during my time with the file.

The paper is also not a textbook on audit techniques. Rather, it attempts to lay out the issues that I found to be the important ones. Actual audit techniques are discussed (albeit briefly) in the audit reports themselves.

I must also acknowledge the support of the defence audit team at the Office of the Auditor General. Legislative audit is very much a group exercise and the role I played in the audits varied greatly. While it is always dangerous to mention specific individuals, the contribution of several team members is too great to ignore: Dave Saunders, for his understanding of support productivity; Pierre Hamel and Chris MacDonald, for their contributions in policy development and readiness reporting; Wendy Loschiuk, for her work on defence budgeting; Joe Reperto and William Johnson, on capital projects; Nick Swales and Ray Kunce, for doing the first environmental audit; Sylvie Blais, for work on ethics and several human resource management areas; Linda Beaulieu, for her analysis of

Opinions expressed, however, are mine. They may not be those of the Office of the Auditor General of Canada.

Peter Kasurak

CHAPTER ONE

Civilian Control of the Military and Legislative Audit

The title of this chapter would strike most Canadians as strange:[2] control of the military is not an issue that most Canadians spend a great deal of time thinking about. According to one poll, Canadians place defence dead last on their list of priorities, just after spending on arts and culture.[3] That there is "democratic" control of the defence budget is simply assumed, although it is unlikely that more than a tiny minority could say just how this was achieved.

Nevertheless, control of the military is an important matter. The military, after all, are armed and dangerous. The use of force is the ultimate exercise of state power and the ultimate threat to it. Moreover, defence is expensive. Defence spending constitutes 7 percent of federal spending overall, and almost 14 percent of the total federal budget after non-discretionary payments for debt service and statutory payments to individuals are taken into account.[4] Changing the defence budget could significantly affect the availability of funds for other government programs. How much is spent and on what are clearly major decisions that affect not only Canada's security policy, but also the employment of at least 200,000 people working in the military, the public service, and defence contractors and the economy of several industry sectors — particularly shipbuilding, aviation, and electronics.

To understand civil-military relations in Canada, several topics need to be addressed:

- the historic relationship between the military and the civil authority in Canada;

- the structures that are used to ensure "democratic control" of Canada's military and the defence budget;
- the effectiveness and efficiency of the system and structure for control;
- and finally, one needs to understand the role of legislative audit and how it has evolved within the overall military-political system.

HISTORICAL ROOTS OF CIVILIAN CONTROL

There can be no doubt that civilians have always been on top of the military in Canada. Canada is usually at peace, and at peace faces no obvious direct threats. Ever since Confederation in 1867, Canada has tried to ensure that its security policy is carried out prudently, and to the extent possible, paid for by great power allies. The Militia (as the army was known in the nineteenth century) quickly became a vast patronage machine through which the government dispensed military positions to its supporters and provided a stream of public expenditure to government constituencies. As Colonel George Denison pointed out, Militia "drill pay" was the only form of public spending that penetrated down to every dusty concession road in the country.[5]

During this period, the system caused great consternation to the senior professional soldiers in the country, the British general officers commanding. For example, Major General Hutton complained that as a result of "political pull," "discipline had been reduced very nearly to vanishing point" as Militia officers came under pressure from civilian political leadership.[6] While the army has long since been professionalized, it is important to know that the Canadian military thinking and priorities never determined how big its budget should be or how it should be spent.

More recent history is also relevant. In 1972, the two separate headquarters of the Department of Defence (the ministry) and the Canadian Forces were merged. Civilian managers occupied the key posts in charge of Policy, Finance, and Materiel reporting both to the chief of the defence staff and the deputy minister. This action was taken by ministers in response to a decade of failure by either headquarters to provide coherent policy advice or adequate program control to satisfy the government's objectives. The result has been 30 years of controversy over whether National Defence Headquarters (NDHQ) is too "civilianized" and the demonization of several deputy ministers who had views contrary to those held by senior military officials.[7]

THE STRUCTURE OF BUDGETARY AND EXPENDITURE CONTROL

The most important thing to know about budgetary and expenditure control in the Canadian government is that it is based on a Westminster system of responsible government. That is, it is modelled after the British Parliament. In the Canadian system, the executive branch of government is formed by the party that elects the most members to the House of Commons. The prime minister and Cabinet sit in the House and are "responsible" to the Commons in that they are subject to scrutiny and questioning by members of Parliament. The government will fall if the House votes a motion of non-confidence or an important money bill is rejected.

Budgets are crafted by Cabinet and the ministers in the Cabinet are both individually and collectively responsible for the implementation of plans and programs. Parliament — especially the House of Commons — is said to play an "oversight" role. "Oversight" meaning that while Parliament does not manage government programs, it must watch government actions to ensure that money is being spent as intended and that the outcomes being sought have been achieved.

Defence funding is voted to the Department of National Defence (DND) and distributed in controlled segments to various defence activities. Thus, there is no distinct or separate "military" budget.

There are two classes of controls over budgets and expenditure: "before the fact" controls and after the fact. The before the fact controls consist of the review of the government's "Estimates" or department budgets each year by the House of Commons. In the case of National Defence, the Standing Committee on National Defence and Veterans Affairs (SCONDVA) of the Commons holds hearings on the Estimates and can (and does) call senior officials such as the chief of the defence staff and the minister to testify and explain the department's financial plan. The House of Commons subsequently passes "Votes" for capital, operating expenditures, and grants and contributions. Funds voted to the government lapse after one year, thus ensuring that the government must return to Parliament to receive authority to operate on a frequent basis. The government cannot stockpile "savings" and then continue in power without the support of Parliament.

In addition, individual expenditures must also be approved by the executive. The minister of national defence has standing authority to approve

items up to $30 million — not much in the context of a (2001–02) $12 billion budget. Amounts greater than this must be approved by the Treasury Board, a committee of Cabinet. Ministers are assisted by the staff of the Treasury Board Secretariat in scrutinizing departmental plans. In addition, the Treasury Board can apply additional controls, such as contracting regulations, using the authority of the *Financial Administration Act*. Very large or politically significant expenditures, such as major weapon systems acquisitions, would also have to be approved by Cabinet as a whole before being submitted to the Treasury Board.

Once expenditures are made, a range of "after the fact" controls come into play. The government must submit its books to Parliament each year in the form of "Public Accounts" which are audited by the Auditor General of Canada. In addition, each department is required to table a Departmental Performance Report to the House of Commons each year, providing information on activities and outcomes of expenditures. In the case of the Canadian Forces, the chief of the defence staff also submits a publicly available annual report to the minister.

Parliamentary committees generally provide additional scrutiny of expenditure by holding hearings on such subjects as readiness, personnel welfare, and the capital acquisition program. Departmental officials are called to appear as witnesses, but they appear on behalf of the minister and do not provide personal opinions or views to the committee.

Finally, the Office of the Auditor General (OAG) conducts "performance audits" of the defence program and usually reports to the House of Commons at least once a year on a defence matter. Audits generally treat a major expenditure area, such as equipment maintenance or capital procurement and comment on whether value for money was received from expenditure. Audit reports are reviewed by the Public Accounts Committee (PAC) of the House of Commons, which is chaired by a member of the Opposition. The PAC frequently makes its own recommendations to the appropriate minister and ministers are required to respond to reports and provide progress assessments on audit reports on which the committee does not call a hearing.

One should not forget that Canadian citizens under the *Access to Information Act* have access to government records with relatively few restrictions. Major expenditures such as the new naval helicopter have had project records accessed and subsequently published on a regular basis. The media and major news outlets also scrutinize expenditures and often highlight the policy and politics of defence spending.

LEGISLATIVE AUDIT

In the Canadian federal government, legislative audit is used to provide information for use by the House of Commons in its scrutiny of government programs, financial activities, and environmental and sustainable development matters. The Auditor General of Canada provides Parliament and Canadians with the answers to the following questions regarding the Department of National Defence and other departments:

Table 1
Components of Legislative Auditing

Audits	Questions
Value-for-money audits of departments and agencies	• Are department and agency programs run economically and efficiently and with due regard to their environmental effects? • Does the government have the means to measure the effectiveness of its programs? • Is legislation complied with and the public purse protected?
Assessment of agency performance reports	• Are agencies presenting their performance information fairly and in a reliable way?
Financial audit of the financial statements of the Government of Canada	• Is the government presenting fairly its overall financial situation in accordance with applicable policies?
Environmental and sustainable development monitoring activities	• To what extent did departments and agencies meet the objectives and implement the plans set out in their sustainable development strategies?

Source: Auditor General of Canada, *2002-2003 Estimates, Part III – Report on Plans and Priorities* (Ottawa: Supply and Services Canada, 2002), p. 6.

THE ROLE OF THE AUDITOR GENERAL

The auditor general aids accountability by conducting independent audits of federal government operations.[8] These audits provide members of Parliament with objective information to help them examine the government's activities and hold it to account.

Figure 1
Relationship of Auditor General to Parliament

The audit office reports audit results to Parliament

Parliament authorizes government spending and programs

Government accounts for spending and programs

Office of the Auditor General

The audit office audits government operations
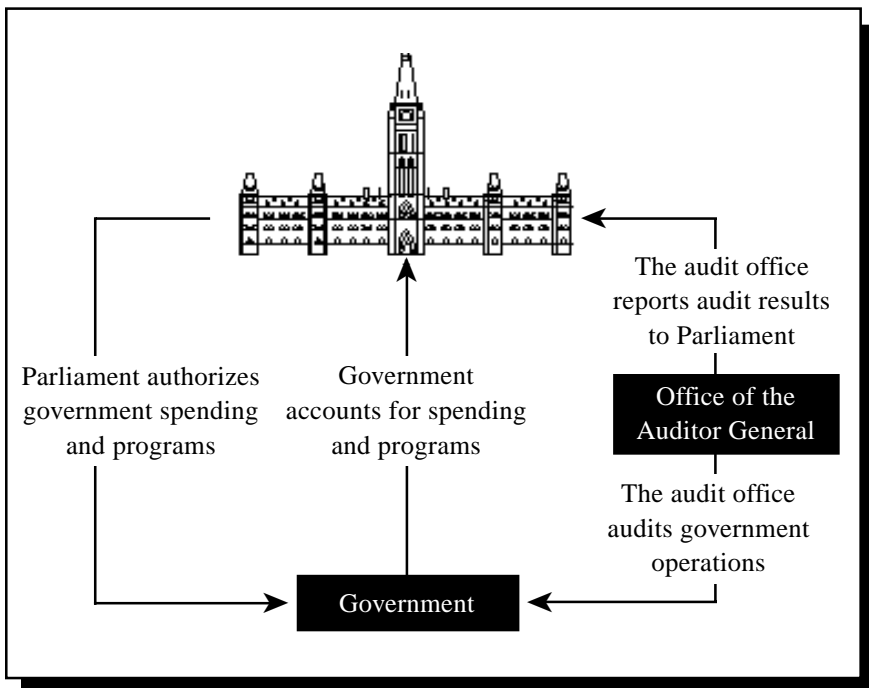
Government

For the auditor general to be effective, it is important to be objective. To help achieve this objectivity, Parliament has taken steps to keep the OAG independent of the government. Therefore, the auditor general is not tied to the government of the day and is appointed for a ten-year period. The Office has the freedom to recruit its own staff and set the terms and conditions of employment for staff. The auditor general has the right to ask the government for any information required to do the job

as outlined in the *Auditor General Act*. Moreover, the auditor general submits her reports directly to the House of Commons, through the Speaker. The 1977 *Auditor General Act* directs the auditor general to address three main questions:

- *Is the government keeping proper accounts and records and presenting its financial information accurately?*
  This is called "attest" auditing. The auditor attests to, or verifies, the accuracy of financial statements.
- *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 asks if the government has complied with Parliament's wishes.
- *Were programs run economically and efficiently? And does the government have the means to measure their effectiveness?*
  This is called "value-for-money" or performance auditing. The auditor asks whether or not taxpayers got value for their tax dollars. Value-for-money audits, which are sometimes called performance audits, do not question the merits of government policies; rather they help legislators judge how well the policies and programs were implemented.

The attest, compliance, and value-for-money audits combine to form an audit framework which, over time, provides a complete view of the organization. The term "comprehensive auditing" is used to describe this audit framework developed by the Office to meet requirements of the *Auditor General Act.*

The 1995 amendments to the *Auditor General Act* gave the auditor general the responsibility to report to the House of Commons on the extent to which departments have met the objectives set out in their sustainable development strategies and action plans, and on all other questions related to the environment and sustainable development that he or she considers should be brought to the attention of the House of Commons.

Organization of the Office of the Auditor General

The Office of the Auditor General is relatively small, employing only about 560 people. It is organized into three major sections: Audit Practices consisting of nine audit groups; Audit Services which provides

corporate support such as financial management, legal services, and re-
port production; and the Commissioner of the Environment and Sustain-
able Development who is responsible for monitoring and reporting to
Parliament the government's performance in protecting the environment
and promoting sustainable development. About 60 percent of the OAG's
resources are devoted to the value-for-money audit.

The DND audit team is one of four teams in its audit group. The
current group has a strong security emphasis, including the Justice and
Solicitor General portfolios as well as DND. The team itself is quite small,
consisting of 12 full-time staff — 11 auditors and one administrative as-
sistant. The team can call upon internal staff specialists and external con-
sultants to supplement its expertise. A typical audit would employ four to
six auditors for a year to 18 months.

Planning and Conducting Value-for-Money Audits

Each team within the OAG has a long-range plan for audits five years
into the future. Teams base their plans on the basis of the criticality of
activities to a department's program, the cost or materiality of the activ-
ity, the team's perception of the soundness of management and the inter-
est of Parliament in the subject. The OAG executive selects audits for
funding based not only on team-level analyses, but also according to how
well the proposed audit supports the auditor general's strategic priorities.
At present, the well-being of Canadians, including security, is a strategic
focus area.

Once an audit has been identified, it is conducted in three major
phases: planning, examination, and reporting. The planning phase may
itself consist of two parts, an "overview phase" in which the structure
and controls in the audit area are defined and a "survey phase" during
which audit issues are identified and audit plans developed. In practice,
the overview phase is usually not required or is very compressed as the
knowledge of business within the team is sufficient to not require work
of this nature.

At the end of the survey phase the audit plan is reviewed by the
executive management of the OAG and by a panel of external advisors
that includes former senior military officials, former senior public servants,
academics, and senior business people. Once executive management is
satisfied of the soundness of the plan it is provided to DND for review.
The department may comment on the audit criteria, the methodology or

the scope of the audit. It is up to OAG to determine whether departmental comments will be accepted and the plan changed.

The examination involves the collection of data according to the audit plan and the basic analyses required by the audit. Depending on the audit tests involved, this can include downloads from data systems, examination of paper records, employee surveys, and interviews. Usually, important observations are discussed with departmental staff as they are discovered and explanations sought.

The beginning of the reporting phase is another major milestone for an audit project. A "principal's draft" is prepared, reviewed by the OAG executive and their external advisors and, once revised, sent to the department for comment. It is the policy of the Office to "clear" audit reports with the auditee. This means that the auditee is asked to agree with the facts presented in the report. However, it gives the auditee an occasion to contest matters of context and tone as well as facts. Clearance can be quite adversarial and frequently presents trying moments for both sides of the table. Once discussions are complete a "transmission draft" is sent to the deputy minister for an official departmental response. The response includes whether the department accepts the recommendations and a reply to each recommendation.

The final version of an audit report is included as a chapter in one of three periodic *Auditor General Reports* tabled in the House of Commons (a fourth periodic report delivers the report of the Commissioner of the Environment and Sustainable Development). The Public Accounts Committee will hold hearings on many of the chapters, but other House and Senate committees may also hold hearings on particular audit reports or call the auditor general or the staff to testify before them. They will also call departmental officials to explain their actions. Committees may issue reports and make additional recommendations to which the government must publicly respond.

AUDIT AND THE GOVERNMENT EXPENDITURE MANAGEMENT SYSTEM

The two key elements of the government's expenditure management system are the budget and the Estimates. Every February the minister of finance presents the budget to Parliament. The budget sets out the government's fiscal and economic targets, policy priorities, and significant

new initiatives. It indicates how spending will fit within an overall fiscal plan and the level of debt or surplus forecast by the government.

The Estimates are tabled in Parliament by 1 March by the president of the Treasury Board; they elaborate the expenditure plans of departments and agencies for the upcoming year and set out expenditure details by program and organization as well as performance objectives. In the fall of each year, each department or agency tables a performance report on what was achieved the previous year.[9]

The audit is involved in the expenditure management process at several points:

- Every fall the auditor general certifies the accuracy of the Public Accounts of Canada, the government's financial statement. This is usually most important from the point of view of the integrity of the government's statement of debt or surplus, which in recent years has been the most sensitive issue regarding government spending overall.
- Value-for-money audits are not reported in a way that is directly linked to the tabling of the Estimates, but audit reports are available for use in review of the Estimates by standing committees and over time cover most of the major spending activities.
- Value-for-money audits also comment on performance reporting. There have been several audit chapters devoted to the quality of performance reporting overall. In addition, almost every Defence chapter comments on performance reporting relevant to the activity audited.

THE REALITY OF "DEMOCRATIC" CONTROL IN CANADA: DEMOCRACY OR DEMOCRATIC CENTRALISM?

Canada lacks nothing when it comes to the structural elements of control of the military budget and expenditures. However, some contend that the actual control structure is only "democratic" in a limited sense and that the outcomes in terms of budgets and individual expenditures often leave much to be desired.

The classical theory of Canadian government holds that Cabinet is "an executive committee of Parliament" and that all power resides in the House of Commons which can effectively control Cabinet by its latent capacity to revolt against its leaders.[10] The reality, however, is quite the opposite. Most power is centred in Cabinet, and as it has lately been argued,

all the power of the Cabinet is actually controlled by the prime minister. Power resides in the executive because members of Parliament are rarely elected as individuals, but as representatives of a political party. This means that members are beholden to the leaders of the party if they wish to gain position and privileges within the government and the party. It has often been commented that party discipline in Canada is stronger than that of any other Westminster-type government.

To understand how this situation plays out, we might consider the review of DND Estimates, the annual budget proposal, which come before the Standing Committee on National Defence and Veterans Affairs. The chair of the committee is a government member chosen by the prime minister. Another member, the minister's parliamentary secretary, sits on the committee. The majority of the committee are government members. All the military and public service witnesses who testify are representatives of the minister and cannot offer personal views. The committee has only two research staff and does not have privileged access to Defence information. The review of the Estimates can, as a consequence, be very one-sided. Estimates are considered and approved in total, not line-by-line. In addition, nearly the entire budget is concentrated in two Votes and the Cabinet can shift money from line item to line item within the Vote without any further reference to Parliament.

The House of Commons has recognized weaknesses in its overall ability to review departmental Estimates. The Standing Committee on Procedure and House Affairs recommended that a separate committee be established to review the Estimates. This proposal has been adopted and will begin to function in the next session of Parliament in 2002. It is hoped that this committee will provide a focus for parliamentary interest in expenditure management and result in more effective scrutiny of spending plans.[11]

Post-expenditure scrutiny works somewhat better. Part of it takes place in the Public Accounts Committee (PAC) which is chaired by the Opposition and has information provided to it from outside the government in the form of audit reports done by the OAG. The OAG reports two to three defence audits a year on such subjects as major capital projects, major service contracts, efficiency of support services, equipment readiness, and human resource management. In most cases, a hearing will be held on each audit report resulting in a report requiring additional action by the department and a communication back to the committee. The PAC

rarely requests that specific audits be done, although the OAG work program overall is discussed with them. The committee has advantages over other standing committees in that OAG personnel become, in effect, an extended research staff and provide independent testimony at hearings. The *Auditor General Act* also gives OAG staff unrestricted access to defence information and requires DND personnel to provide assistance.

Nevertheless, one can question the extent of accountability the Public Accounts Committee can extract. Certainly military witnesses who have to explain a serious performance shortfall can be dealt with harshly. Yet the department only implements about 60 percent of audit recommendations — unpalatable ones can be ignored. At a personal level, accountability remains weak.

Departmental witnesses can also stonewall the committee by reverting to a "line" rather than responding to the committee's question. The audit of the $2.8 billion NATO Flying Training in Canada program reported that competitive tendering policy had been broken. When questioned about compliance issues, departmental representatives repeatedly stated that the contract had complied with the Agreement on Internal Trade. This misdirection had nothing to do with the Government Contracting Regulations that had been broken. While this tactic did not convince the committee of their case, it ran the clock and did not provide the committee with any real answers to its questions.

An important accountability device is the *Access to Information Act* which entitles citizens to request documents from the government for a nominal fee. Documents must be screened for diplomatic, national security, confidential personal information, and commercial information, but generally most records are accessible. Release of documents can take a long time because of the length of time it takes to locate and review them and, according to the federal Information Commissioner, to a certain amount of foot dragging by the department. In some cases, a great deal of information about defence spending has been released to the public domain. Perhaps the best example of this is the current controversy over the maritime helicopter acquisition project.

Canada currently operates the 30-year-old Sea King as its shipboard helicopter. A contract had been signed for replacement by the EH101 in the early 1990s by the short-lived Conservative government of Kim Campbell. Campbell lost the election to Jean Chrétien and the Liberal Party, partly over the EH101 purchase which the Liberals condemned as

extravagant and which they cancelled after the election. No successor aircraft has yet been selected and the controversy over replacement continues. There have been allegations that the requirement has been rigged to favour one candidate aircraft and against the EH101 variant competing. One bidder in particular secured pieces of internal correspondence relating to the requirements process and has appealed the department's actions to the Canadian Internal Trade Tribunal based on the documents it has. The tribunal ruled that as no tender call has been made the complaint of discrimination is premature.

Overall, the effect of public access has been beneficial. The government has been compelled to explain, in detail, how it has set the requirements for this aircraft and the rationale for its contracting approach. It has been put on notice that it must rigorously observe contracting law and processes or it could be faced with its decisions being overturned by the trade tribunal and the courts. The minister had to justify decisions in the House and the Senate reconstituted its moribund Defence Committee and held hearings on the project. All of this contributes to openness and accountability for public expenditure.

Audit and citizen access requests are, however, episodic and do not provide an overview of the general level of achievement made by the defence program. What is needed is comprehensive performance information. Throughout the decade, the OAG drew attention to the fact that Parliament had received little or no information on the state of the armed forces. In 1998 the Public Accounts Committee asked that the department's annual report include a comprehensive review and assessment of defence and indicators showing how well capital acquisitions were meeting defence goals. The government told the committee that an annual review would be impractical and that information had already been provided in other public documents. The annual performance report to Parliament has been a disappointing collection of "good news" anecdotes rather than a source of genuine information on performance. The department lacks an internal performance management system on which reporting to Parliament could be based. And while the department continues to contemplate significant reductions and restructuring of the Forces, Parliament has been told little more than that "the Canadian Forces are now more combat-capable than they were ten years ago."[12]

DND is not unique in this regard. Auditors general have commented on the general lack of accountability in many reports to Parliament, noting

that there was a "lack of true accountability for the management of government programs." In 2001, the auditor general stated that:

> Part of the problem is the nature of Canadian politics. There is a reluctance to let Parliament and the public know how government programs are working, because if things are going badly you may be giving your opponents the stick to beat them with. And even when a Minister is not personally concerned about this, senior public servants assume this fear on the Minister's behalf. The people who write government performance reports seem to try to say as little as possible that would expose their department to criticism.[13]

In the same report, he concluded that "our political culture makes poor reporting safe reporting."[14]

Overall, the picture we see is one of an impressive accountability structure for parliamentary control of defence expenditures, but one that delivers far less well. The government controls Parliament (which is how it got to be the government) and information about why it has made certain choices, and the quality of the results is scarce and hard to get. Unless the government fears punishment at the ballot box during an election, there may be few consequences for non-compliance with regulations or for poor results. And since the Canadian public does not have a high interest in defence matters, Canadians seem very tolerant of low performance by the department. In the last election, the government was returned with a significant majority and defence was not a major campaign issue for any political party. This was in spite of the fact that only 37 percent of the public think that the department spends its budget wisely and only 61 percent believe that the leadership of the Forces is doing a good job.[15]

WEAK CONTROL CONTRIBUTES TO POOR RESULTS

Ideally, there should be a strong relationship between the money voted by Parliament and the results achieved. Through annual performance reports Parliament should be able to gauge defence achievement and either change the money or goals or insist on better performance. This annual dialogue should ensure that resources roughly match the outcomes expected.

The following sections point out what can happen when accountability links are broken: the budget is overstretched, marginal equipment is purchased and performance falls. Strengthening the role of Parliament is a key step in ensuring that the armed forces match the goals of Canadians and can carry out their task. Each section will present opportunities and approaches to the legislative audit of specific areas of defence management: policy, capital acquisitions, contracted services, infrastructure management, human resource management, ethics, and operational readiness. The concluding section will offer an evaluation of the impact of legislative audit on the defence program.

CHAPTER TWO

Policy

WHY POLICY MATTERS TO MANAGEMENT

Policy is the cornerstone of all defence management decisions. From the defence policy of a state flows what sort of armed forces it maintains, how they will be equipped and how numerous they will be. If defence policy is coherent and sound, a basis for sound management exists. Where policy is faulty, management is unlikely to be successful. "Faulty policy" from the perspective of the audit office does not necessarily mean that policy is strategically or politically mistaken. Sound policy is marked by well-articulated and coherent goals and consistent priorities; is based on a rational process; and can be explained to those not involved in making it. As well, the resource implications of implementation have been taken into account.

If policymakers have ignored these factors, then it is unlikely that the defence establishment will, or can be, well-managed. Without well-defined goals and priorities, the defence establishment quickly degenerates into a snake pit of brokerage politics as each service and branch competes for what they conceive to be a fair share of resources. It becomes less important as to what a particular part of the service can contribute than to where it is placed in the defence power structure: what positions in the national headquarters it occupies, what interest groups support it externally, and whether it has the minister of the day's ear. If there has not been a rational process used to develop policy, high-level planners are unlikely to find that lower-level decisions translate their policy into effective structures and plans. Indeed, strategists and military planners can find themselves unable to communicate and left complaining that the other camp "just doesn't get it." Finally, if the resource demands of policy have not been reckoned, then management will be left trying to

periodically re-locate shortages. Management itself may end up being weakened as modern systems are not installed and specialist staffs not created or maintained as being unaffordable overhead expenses.

THE CONTROVERSY OVER THE AUDIT OF "POLICY"

While policy is a critical element of sound defence management, dealing with policy is a matter of extreme sensitivity to the audit office. Canada's *Value for Money Audit Manual* says that:

> Special care is required when audit findings touch on government policy. As officers of Parliament, we do not want to be seen to be second-guessing the intentions of Parliament when it approves legislation, or of Cabinet when it selects a certain policy direction. On the other hand, auditors must understand pertinent policies to audit effectively, and results-oriented auditing inevitably brings us closer to policy matters.[16]

The debate of the legislation that established the Office of the Auditor General in its present form also addressed the issue of policy. Some officials were concerned that if the auditor general were allowed to comment on matters beyond the financial statements of the government, then he or she would become involved in politics. For example, Gordon Osbaldeston, then Secretary of the Treasury Board, commented that if the auditor general were to comment on the effectiveness of programs, then "a political battle would rage around the Office of the Auditor General, and its independence would be compromised beyond belief."[17]

Such concerns have been long-lasting. Critics of the audit office have focused their concerns on the extent to which the auditor general has become "political." In a recent article, Sharon Sutherland wrote,

> The OAG's audit revolution started out as a hyper-rationalistic ambition to come to absolute determinations in regard to the economy and efficiency of government operations, and the soundness of procedures to measure effectiveness. The implementation has been sub-rational and small "p" political on any judgment ... the OAG has been transferred coercive and controlling powers that belong to the House of Commons.[18]

A WAY OF DEALING WITH POLICY

The legislative auditor is therefore caught on the horns of a dilemma: if he or she deals with policy directly he or she will be accused (probably with some justification) of having exceeded the mandate; if policy is ignored, audits may never get to the root of an array of serious management problems. The Canadian experience in this regard offers a fairly useful example of how the problem can be addressed.

First, the audit office has never commented on the content of policy. The office has never said what the Canadian Forces should exist to do, what the force structure should be, or how large the defence budget should be. These matters are clearly political and for Parliament or the government as the executive authority to decide. Expressing an opinion on these matters would not only raise questions as to whether the audit office had exceeded its mandate (legal or perceived), but would certainly embroil the office in the cut and thrust of partisan politics. Independence would thereby be severely damaged.

What the OAG has done is to define the elements of *policy-making* that are politically neutral. The principal components are:

- Policy should be based on adequate research and studies to inform decisionmakers of the options and consequences of the policy choices they face. It is appropriate to expect that high-level defence policy will be based on appropriate intelligence, strategic analyses, war games, operations research, and cost analyses commensurate with the decision being made.
- Policy should result in clearly articulated goals and priorities in sufficient detail that force structure planners can make resource allocation decisions in a coherent way.
- Policy should be affordable. That is, the policy should not require more resources than the legislature is likely to vote in order to implement it.

The OAG has never been challenged regarding its expectations related to policy-making. Indeed, the alternatives are absurd (policy based on inadequate research, lacking clear goals, unaffordable policies).

RELATED AUDITS AND AUDIT FINDINGS

Several audits of the Department of National Defence have touched on policy-related areas: an audit of the Reserves in 1992, an audit of industrial support programs (also in 1992), an audit of major departmental management systems in 1994, and an audit of the capital program in 1998.

The audit of the Reserves did not have the objective of assessing policy. However, by focusing on the outputs of the reserve system and by finding extremely grave problems, the policy itself was called into question. For example, we found that over 90 percent of the Naval Reserve training courses and over 80 percent of Militia (Army Reserve) courses were substandard and should not have qualified the individuals who attended them. Moreover, although the reported "effective strength" of the Militia was over 15,000 soldiers, staff and unit commanders estimated no more than 2,000 to 3,000 soldiers to be trained and available should a call-out occur. The audit concluded that the reserve system as a whole provided only limited military capability and that the department needed to devise policies that would ensure reliable turnout of reservists for training and in emergencies.[19]

The Reserve audit led to several fundamental studies of the Reserves, including one by a ministerial committee. Basic problems, however, have yet to be completely solved and the army is still engaged in a Land Force Reserve Restructure program intended to place the Militia on a sound footing.

Our audit of industrial development initiatives the same year followed a similar pattern. These initiatives were intended to promote long-term, sustainable development of Canadian industry by requiring bidders on major defence procurements to propose industrial and regional benefits in requests for proposal, along with price and technical suitability. The audit examined the management of individual industrial benefit proposals, and generally found this wanting. In addition, the audit concluded that industrial benefit programs increased project costs by up to 20 percent and that long-term industrial development had been limited. Few additional sales had been made and a number of subcontractors had gone out of business.[20]

As in the case of the Reserve audit, reporting actual outputs called the policy into question. It should be noted that while the audit concluded

that the benefits called for by the policy were not being received, it did not comment on whether the goal itself was appropriate or attainable by other means.

In response to the 1992 findings, the department merely noted that it did not control the process whereby policy was set, that responsibility lay with the minister and government.

The 1994 and 1998 audits took a more global approach and attempted to assess the quality of policy planning within the department. In 1994 we looked at the existing *Defence Policy Statement* to determine if it provided clearly stated capability objectives for the military. We found that there were no formal studies supporting the policy and that force development planners found that the statement was too vague for them to determine what types of conflict the Canadian Forces should prepare for. Readiness and sustainment targets had not been set. The audit also questioned whether the policy as a whole was affordable. We found that the department had only costed activities and projects it had already approved, rather than all those necessary to implement the policy statement. Budget cuts had imposed a further shortfall on the allocation of resources made to the defence program.[21]

We returned to this theme in our 1998 audit of the capital program. Following our 1994 management systems audit the government released a new fundamental policy document, the *1994 Defence White Paper*. The White Paper did elaborate on the capability requirement to a certain extent, but it appeared to us that the problem of affordability of the required force structure was unresolved. During the planning phase of our 1998 capital program audit we found that many major procurement programs had been substantially degraded because of a lack of funds: 12 mine countermeasures vessels were purchased, but only partial combat suites for four vessels were acquired; a tactical utility helicopter was purchased that lacked adequate lift and mission suites; and the Leopard C1 tanks owned by the army were only partially upgraded even though army studies termed a total upgrade as the "minimum viable operational requirement."[22] We therefore decided that we should report on the overall size of the budget shortfall.

Our audit determined that the force structure being maintained by the department would require almost doubling the amount available for capital in the five year plan — from $6.5 billion to $11 billion. This level of shortfall indicated that the status quo was not viable and that it would

be necessary to either identify more funds for equipment modernization or to re-think the structure of the Canadian Forces. Once again, the audit did not conclude that the policy itself was mistaken, only that the means available to implement it were inadequate.

The audit led to a Cabinet review of the defence budget and to modest funding increases spread out over several years. It is important to recognize that the OAG did not recommend a budget increase. The OAG only pointed to the shortage of funds and to the loss of value for money this was causing throughout the defence program. The issue is far from resolved. A recent Senate Committee on National Security and Defence report recommended that DND be allocated an additional $4 billion a year (a 25-percent increase) to solve its budget problems and to meet new security needs.[23]

DOES THE UNITED STATES OFFER A BETTER ALTERNATIVE?

Our audits raise the question of whether any other state has implemented a sound defence policy planning process. While it is doubtful that any country has a completely satisfactory system, the United States developed a clearly superior approach and sustained it throughout the 1990s. This planning approach originated in the 1993 "bottom-up" review conducted by Secretary of Defense Les Aspin.[24] The bottom-up review addressed the United States' defence strategy, its force structure, modernization plans, and infrastructure requirements. It included:

- a range of "threat scenarios" defining the types of opponents or situations United States armed forces were expected to face;
- determination of forces required to meet the threat;
- explicit consideration of force options, including varying the levels of sea, land, and air forces to be maintained;
- explicit consideration of costs;
- evidence of specific in-depth studies of important options for forces and equipment, including cost and technical risk; and
- a public document disclosing the major choices and decisions that planners made when considering the above factors.

The bottom-up review approach was institutionalized and repeated throughout the 1990s as part of Congress' *Quadrennial Defense Review* (QDR) process. The QDR was subject to a number of failings (most of which were identified by Congress' legislative auditor, the General Accounting Office[25]). Some of these were technical, such as the limitations of the operational modelling used to estimate force requirements. Others were strategic, including the apparent inability of the planning process to break out of a status quo armed service model and be "transformational." The department both underestimated costs and overestimated savings from reforms. According to the Congressional Budget Office, plans were at least $27 billion underfunded for capital expenditure alone. Finally, the QDR could not solve political disagreements between the branches of the US government. The executive called for additional base closures to make up the difference, but Congress did not agree and a budget over-hang persisted throughout much of the decade.[26]

With all its failings the QDR nevertheless was one of the most rational and transparent defence planning approaches ever implemented. It was possible for outsiders to understand the strategic goals of the government, assess how well the forces being maintained met those goals and determine whether the budget would support the forces being raised. Those looking to improve defence planning and budgeting would do well to begin by looking at the QDR.

CHAPTER THREE

The Capital Program

The capital program is the most visible part of a defence budget. In modern industrial states, capital acquisitions consume about 20 to 25 percent of the entire defence budget. Weapons systems are the physical embodiment of force structure decisions and are therefore fundamental to the shape of the armed forces. Moreover, weapons systems tend to stay in the inventory for a long time — more than 30 years is no longer exceptional for aircraft and ships, and land vehicles like the venerable M113 APC have been around for almost 40 years. Mistakes therefore can be extremely costly and persistent.

The legislative auditor needs to look at the capital program from at least two perspectives: the overall management of the capital budget and the management of individual acquisition projects.

MANAGING THE CAPITAL BUDGET IN VARIOUS COUNTRIES

There is constant pressure to overextend the defence budget. As already noted, policy can itself be unaffordable, diffusing funds across too many capabilities and projects. But even if policy itself is sound, the urge to buy more than the budget can support is powerful. The reasons for this are many: costs are inevitably underestimated, every branch and service works hard to ensure that it will be re-equipped and modernized, and every state's industrial sector lobbies for its production to be purchased by the defence establishment. In times of change, legacy capabilities and facilities persist because of the need to buy peace within the family or support the electoral goals of the government. The US, UK, and Canadian legislative audit offices have all evaluated how well the overall capital budget is managed, each from a slightly different perspective.

The British National Audit Office (NAO) produces an annual report on the Ministry of Defence's capital program, commenting specifically as to whether projects are progressing on time and on budget. The audit report is based on a report produced by the ministry at the request of the House of Commons. The Public Accounts Committee has placed a strong emphasis on the ministry's ability to manage the program and is alert for signs of significant performance failures. This approach is valuable in that it reduces the possibility that failing projects will go undetected for long as managers miss budget milestones. It also acts as a brake on over-expenditure by keeping pressure on the ministry to complete all projects in a reasonable (and economic) period of time rather than starting too many projects and stretching out development and production, thereby increasing overall costs.

The audit offices of Canada and the United States have focused on the issue of affordability. Both offices have released reports that comment on whether defence plans can be supported by the budgets voted by the legislature.

In the case of the United States, the General Accounting Office (GAO) has issued several reports on the Department of Defense's Quadrennial Defense Review plans. Similarly, the Canadian Office of the Auditor General has emphasized the need for budgets to be affordable. The origins of this concern come from the realization that many problems found in individual capital projects had occurred because of underfunding. The Canadian approach was a direct one: assess the total cost of projects in DND's plans and compare that to the funding likely to be available. Both the reasonableness of cost estimates and the face validity of the requirement for the equipment were assessed as part of the audit.

MANAGING INDIVIDUAL PROJECTS

It is unlikely that any part of the public sector can rival weapons procurement for waste and loss. No country is immune from a history of weapons that cost far more than expected, took far too long to field, and were ineffective when put into service. Certainly Canada has not been an exceptional case in this race to the bottom. One of its first indigenous weapons — the World War I Ross rifle — while an excellent sniper weapon, failed miserably in general issue. Sensitive to dirt, it proved to be completely unsuitable for trench warfare and Canadian troops abandoned it

for allied weapons whenever possible. In the 1960s one famed Canadian weapon system — the Avro Arrow jet interceptor — threatened to consume a significant portion of the defence budget through an enormous cost overrun. When a project office was finally set up, five years into the project, the project manager compiled the first estimate of total cost: about $1 billion in 1957 dollars! The prime minister of the day not only cancelled the project, he had all the prototype aircraft cut into scrap to prevent any possiblity of its revival.[27]

While Tolstoi remarked that while all happy families are the same, each unhappy family is unhappy in its own way, failed weapons projects tend to have quite a bit in common. Generations of legislative auditors have identified most (though likely not all) of the high risk areas.

Development Risk

Probably the highest level of risk is experienced in developmental projects. Military services place great emphasis on having modern equipment. Strong arguments can be made that in at least some military sectors, such as air-to-air combat, technology can be decisive no matter what level of training or doctrine is selected. Large military organizations can possibly afford to write off a certain portion of their budget on technology mistakes. Small militaries rarely can. They will be given only a single chance to equip a capability element. If the system does not perform well, they may have to live with the mistake for a long time.

Small militaries, nevertheless, often accept a high level of development risk precisely for the same reason. They have only one chance every 20 or 30 years to re-equip a capability element. They therefore do not want to purchase equipment that is based on mature technology and will be obsolete in 10 to 15 years. There is therefore considerable pressure to attempt to buy equipment that is at the "bleeding edge" of technology.

During the 1960s and 1970s Canada undertook a number of indigenous military development programs. Several of these were spectacular failures, like the Avro Arrow jet interceptor aircraft, while others, like the DDH280 destroyer, were qualified successes. And still others like the Canadian Patrol Frigate were technology successes, but industrial development failures.

Faced with its less than stellar track record, the department became more conservative in its approach throughout the 1980s. By the 1990s its acquisition approach was heavily biased toward off-the-shelf purchasing.

The Office of the Auditor General has therefore had little recent opportunity to develop an approach to the audit of developmental projects.

Perhaps the most advanced approach to the audit of developmental military projects has been created by the US General Accounting Office. Faced with the world's largest military development program and often indifferent results, the GAO undertook a large analytical project to understand why things go wrong. It found there were major differences between civilian and defence projects that had gone unrecognized.

The GAO concluded that military projects had a developmental incentive structure that was completely different from those of commercial projects. The GAO found that private sector managers insisted on a high level of technical knowledge before starting. For a commercial project, not having knowledge regarding the match between requirements and technology, the ability of the design to perform as expected and the ability to produce the product on time and at the right price constituted unacceptable risk. Defence projects were quite different. The GAO found that the armed services committed themselves to large-scale production before all technological problems had been solved. The motivation for this was the desire to secure and maintain congressional funding which, in the United States, is given on a project-by-project basis rather than for the capital budget as a whole. Defence bureaucrats believed that once in production, a project was safer from budget cuts than if it was still developmental. The game, therefore, was to get projects into production as fast as possible rather than aim to solve technology problems first.[28]

Military Requirements

It matters little, however, if technology problems are solved but the resulting equipment purchase is inappropriate to the requirement. Failing to match equipment to the requirement was the leading cause of failing to get value for money for the Canadian Forces during the 1990s. There were a number of reasons for this. The first is that the Canadian Forces did not (and still do not) have a well-functioning doctrine development system. Well thought-out doctrine is essential so that all the pieces of a combat system, like a brigade group function together. An example of a mature doctrinal system is found in the United States Army. Faced with the threat of Soviet Operational Manoeuvre Groups during the 1970s, the US Army refined its combat development institutions and created what

became known as AirLand Battle. This concept was formalized in fundamental documents such as FM100-5 and drove the development of an integrated and balanced set of equipment: the Abrams tank, the Bradley infantry fighting vehicle and the Apache attack helicopter as well as a network of supporting systems. These systems were built around a well-understood concept of warfare and ultimately worked well together.

Lack of a strong doctrinal concept has been the main element that has inhibited developing a coherent set of equipment for the Canadian Forces. The Army has, therefore, ended up with:

- a utility helicopter that cannot lift a complete infantry section or transport a field gun a tactically usable distance;
- a very good light armoured vehicle;
- a tank, but one that has been only partially upgraded and which would not survive on a high-intensity battlefield;
- an excellent reconnaissance vehicle, but one that cannot easily distribute the information it collects because it overwhelms communication systems;
- no aerial reconnaissance of any sort;
- no attack helicopters; and
- no strategic lift for an army that habitually operates overseas.

This equipment set appears to be suitable for relatively static peace-keeping operations, but not for even medium-intensity, mobile operations. It is not clear how it corresponds to the 1994 White Paper goal of being able to fight "alongside the best, against the best."

The second contributory element to poor requirements definition has been shortage of funds. Too few dollars chasing too many projects pushes staff to abandon rigorous efforts to define the military requirement. After all, if one cannot afford to purchase what is really required, why waste time thinking about it?

Third, a mentality that "the window is open" for a purchase can tempt staff to take planning shortcuts. There are few other explanations for requirements for major weapons platforms based on extremely implausible scenarios. This was the case for both the tactical utility helicopter which was rationalized around a requirement to airlift three combat-equipped companies of infantry from three separate locations to an objective within

Canada and the purchase of *Upholder* class submarines from Great Britain where fisheries patrol (!) was stated as a key part of the requirement.

POOR RISK ASSESSMENT AND RISK MANAGEMENT

Risk management is a systematic approach to identifying, analyzing, and controlling areas or events that have a potential for causing unwanted change. It includes planning for risks, assessing risk areas, developing options for handling risk, monitoring risks to determine how they have changed, and documenting the overall program of risk management.

Reviewing a risk-management program is often a good means of identifying problems before they happen and perhaps even avoiding them. A case in point is the Electronic Support and Training Systems (EST) project, intended to outfit several executive jets as EW/ECM training aircraft. Although the project office had assessed technical risk as high, the department told Treasury Board that the risk of exceeding the cost and schedule was low and the risk of failing to meet project performance objectives was low to medium. Shortly after the OAG completed the audit of this project it was cancelled, resulting in a nearly $200 million loss to the department. An earlier audit would have come to the same determination and might have been beneficial.

INADEQUATE TEST AND EVALUATION

That test and evaluation of a developmental system is required goes without saying. The main problem here is ensuring rigor, realism, and honesty of the test and evaluation in process.

In Canada, where few developmental systems have been purchased in the last ten years, a problem has arisen from the belief (or hope) among officials that because a system is purchased "off-the-shelf" that no, or only minimal, testing is required. Unfortunately, this has not proved to be the case. The utility helicopter once again offers an example of this. On the assumption that the aircraft was in commercial service and military service elsewhere, little testing was done prior to purchase. In the event, the aircraft has proven problematic, suffering from engine over-torque and electrostatic shock to personnel who ground the aircraft while rappelling out of it.

CONCLUSION

Auditing the defence capital program is one of the central tasks for a legislative auditor. Capital is where politics, the military profession, laws and regulations, and business management meet. Problems that must be faced are very often caused by the failure of major institutional systems, rather than a lack of competence of a single manager or project office. To perform well, auditors need to keep their eyes open for these higher level problems.

CHAPTER FOUR

Contract Services

THE "NEW PUBLIC MANAGEMENT" AND THE DEFENCE SECTOR

During the 1990s the public sectors of many democratic industrial states were restructured on the basis of what the Organisation for Economic Co-operation and Development (OECD) has called the "new paradigm" in public management in order to become not only more efficient, but more flexible and adaptable.[29] Traditional government departments were regarded as inflexible, bureaucratic, and costly compared to the alternatives available by contracting out to the private sector, semi-autonomous agencies or "partnerships" with other levels of government or non-governmental organizations.

The defence sectors of the United Kingdom, the United States, Australia, and Canada all became involved in major projects to compete or contract out services that had formerly been provided by public servants and military members. These programs were known variously as the Private Finance Initiative (UK), A-76 (US), the Commercial Support Program (Australia), and Alternative Service Delivery (Canada). In Canada, the Department of National Defence stated in 1995 that its goal would be to achieve a savings of $350 million a year by 2001.

None of these programs has really lived up to their advance billing. Legislative auditors have been unable to substantiate many of the claims made for them. In the case of Canada, a 1999 audit indicated that at best about $68 million a year had been saved.[30]

Nevertheless, contracting-out remains an important issue for defence management. Even if savings are not available on the scale that new public management proponents believed, often significant economies can be made. The "market testing" of defence sector services appears likely to continue for several years into the future.

RELATED AUDITS AND AUDIT FINDINGS

Availability of Cost and Performance Data

The most rudimentary information needed to be able to decide whether one should purchase a service or do it oneself is how much is being made now at what price. This is the information that invariably can never be found in the course of a defence audit.

Most of the support service audits conducted prior to 1996 found that production costs were not being measured. Training and education have already been mentioned. Other examples were Forces' hospitals whose costs were 86 percent higher than civilian hospitals of a similar size and construction engineering trades people whose productivity was 33 percent lower than those in the private sector.[31] Lack of cost consciousness appears to have been a consequence of the centralization of management of support services in the 1970s. This was efficient in its day as computing technology relied on mainframes that filled good sized buildings. But the effect was to create an organization with visibility of neither costs nor outputs at the working level. While local managers could readily identify inefficiencies at their sites, they were taught to believe that overall, the system as a whole was efficient and they should not worry about minor local concerns.

Audits repeatedly recommended the development of cost and performance management information, but little had been accomplished by the end of the 1990s. Government accounting systems have historically been structured to ensure that spending stays within authority limits not to manage costs. Most defence resources are multi-tasked, meaning that the allocation of costs from particular units and resources can be difficult. Although the department made repeated attempts to develop activity-based costing systems, they must be regarded as a failure.[32]

Performance data tended to be even weaker. Almost none of the support functions audited over the last decade had working performance-management systems. At best, a single location would have a local system developed by its management team, but often these did not outlast the tenure of their developers. Where systems do exist, data quality is often poor because there is little perceived benefit to the people who have to enter information into a database. Data definitions are often vague and inconsistent, or there is outright manipulation of data to make reports serve local management.[33]

Contracting Errors

Assuming there is enough information available to construct a business case that compares the cost of internal services to those available from external providers, suggesting that contracting-out is viable, the next step is to enter into a contract. This introduces a set of new risks to value for money that internal provision avoids.

First, getting the best price for a contract depends to a significant extent on the existence of a competitive market. This has sometimes not been the case. For example, the NATO Flying Training in Canada project which let a $2.8 billion, 20-year contract to supply flight training services to the Canadian Forces and other allies was let without competition. The OAG found that this had not been adequately justified.[34] This contract awarded the contractor a profit markup of about $200 million over 20 years, based on the risks the department assumed would be borne by the contractor, but officials could produce no calculations to support their risk estimate.[35]

Small, and even medium-sized, countries may not have a competitive market in the defence sector for all services. This means that governments must make a policy decision to open major service contracts to international competition, a step they may be reluctant to take. In the United Kingdom, the National Audit Office has suggested that departments take steps to stimulate competition, to allow for the creation of competitive consortia, and to maximize competitive tension throughout the contracting process.[36] There are indications that the Ministry of Defence has followed up on this recommendation.[37]

The second major contracting risk is lack of flexibility in the contract. Service contracts are necessarily long term and the defence establishment's needs are likely to change over time. Inflexibility can be costly.

The Canadian Forces' contract for the management of a Militia Training Centre at Meaford, Ontario is an example of this problem. The department awarded a five-year, fixed-price contract for the operation of this complex of training areas, firing ranges, facilities, and equipment meant to service 10,000 Militia soldiers in Ontario. Unfortunately, at the time of the OAG audit it was only using 43 percent of the facility's capacity. The department therefore ended up paying for services it did not use.[38]

Contract risk is unusually high in long-term defence service contracts because of the overall complexity of this type of contract, the limited nature of competition (which decreases as the contract size increases), and the general lack of contract-management skills in the sectors of the defence establishment that are responsible for services. Audits in Canada have found that business cases were poorly done and that obvious errors were made in terms of agreement.[39]

"Lockbox" Strategies

At least one observer has suggested that contracting-out is a "lockbox" strategy. By this he means that they remove programs from normal budgeting processes and create a structure in which funding is locked up. This protects the program from future program cuts, provides a continuing and perhaps even increasing revenue stream while allowing the agency to claim that savings are occurring because the new agency management is more efficient than a traditional government department.[40]

The NATO Flying Training in Canada Program (NFTC) is an example of this model. Through it the Department of National Defence committed itself to a 20-year, $2.8 billion program. At this point in time it is not clear how well the program is working. While it guarantees that pilot training will be well-funded for the duration of the program, the Air Force has thereby committed a considerable portion of its operations and maintenance budget. Should the Air Force be reduced in size or experience training pipeline problems it must continue to make payments.[41]

The risk of budget inflexibility needs to be carefully considered, even if the services are still valuable and required as defence priorities can easily shift over the long term.

CHAPTER FIVE

Infrastructure Management

The usual problem with defence infrastructure is that there is too much of it. Defence organizations acquire buildings and bases during wars and build-ups. Often constructed in remote or low population areas, they become major employers and a significant part of the local economy. Moreover, government jobs are often highly desirable. Bases offer steady employment and in Canada public servants are paid at more or less a national average for their jobs which can be considerably higher than that paid in the local economy. Once built, it is difficult to get rid of a defence facility.

Defence installations have tended to be expensive to operate due to deficiencies in human resource and performance management. There is usually a labour surplus on a base, if only because the military employs personnel based on operational surge or war establishment requirements. This means that in peacetime, there is more labour available than work. Coupled with weak cost- and performance-management systems, costs remain largely unnoticed and regarded as built into the system.

Bases also create environmental concerns. They are seaports, airports, and large industrial facilities and thus generate pollution and environmental hazards. Because they are the property of the senior government, they are often not subject to environmental regulations put in place by local authorities. Military training and test areas create additional environmental damage by operating heavy and tracked vehicles through sensitive terrain, the noise of low-flying aircraft and ships disturb animals and people, and firing weapons can pollute areas with lead and unexploded munitions. Our audits have examined all of these subjects.

RELATED AUDITS AND AUDIT FINDINGS

Infrastructure Reductions

In 1975 Canada's Department of National Defence carried out a study that concluded that 12 bases could accommodate the entire Canadian Forces, then about 78,000 military personnel and another 35,000 civilian employees.[42] We confirmed this result in 1994 using the department's own modelling tools and estimated that by reducing the number of facilities from 30 to 12, savings of $360 million to $970 million could be realized annually, depending on the configuration chosen.[43] Today, the Canadian Forces has fewer than 60,000 members and employs about 20,000 civilians. It still occupies more than 20 bases.

Bases are kept open largely because of concerns over the social and economic impact of closing them. The OAG therefore carried out work to see what would happen if bases were closed. The OAG wanted to know whether communities were worse off because of closures and whether the government saved any money. We looked not only at the defence expenditures involved in closure decisions, but also at all federal spending including financial assistance to the affected communities.

At the time of our audit, only two major bases had been closed recently. We found that in both cases — small communities in Atlantic and in western Canada — the local economies showed few ill effects from base closure. Even though there was extensive federal financial assistance provided to the communities, the federal government broke even in two to five years.

The large and rapid savings available were evident to officials (indeed, they overestimated them).[44] The reason that surplus facilities were not quickly closed was the lack of a process for doing so. The lack of a coherent government framework for carrying out closures and of a clear structure for mitigating economic effects led to enormous resistance in the communities. In addition, political fears caused the government to rely on the budget process to make cuts. This process is extremely secretive, and involves only a handful of defence officials. Communities (and base commanders) were therefore often surprised when their facilities were closed.

The United States dealt with the same problem by attempting to create an all-or-nothing process through which legislators effectively tied their own hands and made themselves less subject to voter pressure and

the subsequent log-rolling in Congress. In the American system, the armed services are required to match their infrastructure holdings to their force structure. A base closures commission holds public hearings on the military proposals and suggests a package to Congress. Congress and the president must approve the recommendations as a package, within a limited timeframe. Communities have generally perceived this process to be fair and have organized to mitigate the impact early.

This is not to say that the US process has worked perfectly, far from it. The administration can claim savings of only $6 to $7 billion a year (still not exactly chump change), and estimates that it is still carrying 20 to 25 percent excess infrastructure. There have been complaints that the process is still too political. The current administration is proposing new legislation in the form of the Efficient Facilities Initiative. The initiative would put specific base retention criteria in place, centring on military value and would require both houses of Congress to pass a joint resolution to override an omnibus closure decision once endorsed by the president.[45]

Infrastructure Management

The most obvious problems with the management of facilities have already been mentioned: overstaffing, lack of cost and performance management of support functions, poorly-conceived support contracts, and weak business case assessment of capital construction. There are two more problems worthy of mention. The first is the deferral of maintenance and the "rust-out" of facilities. Defence managers understand that timeliness of maintenance is important to reducing operating costs. Nevertheless, in 1994 we estimated the backlog to be $1.7 billion or 13 percent of the plant-replacement value. This represented an almost ten-year backlog of maintenance.[46] Deferral of maintenance not only increases costs overall, it can result in a bow-wave of funding requirements that can arrive in an unexpected manner and significantly affect other budgets.

Deferral of maintenance is the result of general budget overstretch and the failure to get rid of bases and facilities no longer required.

Environmental Management

In Canada, every federal government department is required to have a sustainable development plan that details how its operations are to be conducted to protect the environment. The Office of the Auditor General

also contains the Commissioner of the Environment who is charged with reporting to Parliament on the government's environmental stewardship.

We have carried out several environmental audits at the Department of National Defence. We have reviewed the department's sustainable development plans, we have examined its clean-up of contaminated sites, and we have audited its use of hazardous materials in its operations. We are currently reviewing its stewardship of training and test areas.

Sustainable Development Plans. DND is one of only four departments that can provide evidence that it has well-functioning management systems to implement the commitments in its environmental strategy.

The department identified environmental and sustainable development aspects well; developed objectives and targets, programs, monitoring and tracking systems, and reporting procedures; and actively involved senior management in reviewing performance. There was evidence that specific commitments were managed from initial identification to management review of progress and accomplishments.[47]

Contaminated Sites. Military activity, like its industrial counterparts, can result in contamination. The largest problems are fuel storage tanks and PCBs (polychlorinated biphenyls) at abandoned radar sites. The department regularly reports on its clean-up efforts which are audited by the Commissioner of the Environment.[48]

Management of Hazardous Materials. In 1999 we examined how DND managed hazardous materials such as flammable substances, corrosive products, and ammunition. The department used over 6,000 hazardous products and estimated that at least a quarter of its 80,700 full-time employees came into frequent contact with hazardous chemicals.

Although departmental policies, plans, and procedures at the national level indicated an awareness of the legal framework and best practices for hazardous materials management, implementation at the base and unit levels was inconsistent. We found shortcomings in compliance with laws and regulations, in application of audit protocols and methodologies, and in application of compliance-management systems aimed at promoting continual improvement.

When we tabled the report, the department responded positively to our recommendations and indicated it would take action to address the concerns raised. However, the department has carried out few recommendations fully and has revised and extended many of the completion dates for its action plans. There are three major areas of concern:

Improving safety for employees. The 1999 audit found that the Workplace Hazardous Materials Information System (WHMIS) — a national system that identifies hazardous materials through labels and signs, makes safety data available in the workplace, and ensures that workers receive appropriate training — was not fully in place in the ten bases and wings that we audited. We found continuing problems with labelling, a lack of materiel safety data sheets, and 45 percent of staff handling hazardous materials lacked appropriate training.

The 2001 follow-up found that the department had begun development of a Web-based system to inform all staff of current material safety data sheets. However, DND has told us that this project will not be complete until 2003–04.

Preventing damage to the environment. The ten bases in our original audit did not periodically monitor their air or liquid effluent emissions for all hazardous material contaminants on which limits were set by federal laws or guidelines. While the federal government is not bound by provincial or municipal laws, the department's policy was that it would follow these standards "where applicable." What this meant, however, had never been defined.

In 2001 we reported that the department had committed itself to issuing national guidance on liquid effluent monitoring, developing and carrying out an effluent monitoring plan for storm sewers and periodically testing discharges to municipal sewers. Monitoring was funded through a corporate account which was due to run out this year. This could put this program at risk.

The department does not expect to have a national air emissions strategy until March 2003. Although it has received a legal opinion on defining when it should apply provincial and municipal regulations and standards it does not expect to issue its own policy until sometime this year.

Continuous improvement. The 1999 audit found many gaps in compliance with existing regulations for the management of hazardous materials. Our perspective was and is that compliance monitoring is an essential part of a continuous feedback and improvement system. Bases should have objectives for compliance and should know how well they are doing. They should monitor shortfalls and try to improve. DND has taken some steps in this regard, but progress is slow.

Overall, environmental management practices have been slow to improve. As with infrastructure renewal, apparent low priority and overall budget overstretch have limited efforts.

CHAPTER SIX

Human Resources

MILITARY HUMAN RESOURCE MANAGEMENT HAS SPECIAL FACTORS

Examining the management of human resources goes to the heart of the military profession. Who is recruited, how they are trained, how they are treated while in uniform, and who gets promoted are all questions of professional and institutional values. In addition, the military does not perform its job in isolation. The defence establishment also employs civilians at every level. Military jobs must be integrated with civilian ones in order for work to get done. Different terms and conditions of service and separate career structures must be maintained for both sides of the organization.

Western militaries have also developed a fairly standard approach to what is a "normal" career which is radically different from civilian employment. Civilians are generally responsible for their base-level training and compete for jobs in their organization's labour market and in the wider economy. There is no standard career progression and they may stay in their jobs for a long time or move about at will if their segment of the labour market is in demand. Organizations can take people in at any level — from blue collar worker to president of the company.

Western military organizations work differently. They recruit essentially at the entry level only. They provide nearly all training and education required, both basic and advanced. Officers may spend over 25 percent of their careers in schools. Career ladders are extremely well-defined and require a fairly strict succession of job experiences which are centrally planned and managed. This has two immediate consequences: a huge bureaucracy of "career managers" or "posters" is required to match "faces" to "spaces," and rotational posting of staff is required to provide the required experiences to each individual.

Rotational posting has severe consequences. It is very costly. The Canadian Forces, for example, spends about $250 million annually on removal expenses (i.e., moving expenses) alone for a force of less than 60,000. Of course, the geography of Canada exaggerates this problem — moving a sailor from the east coast fleet to the west coast fleet involves a move of 8,000 kms. Individuals generally lack background for specific jobs and officers are frequently posted to management specialist jobs (including human resource management) for which they lack professional education, experience, and aptitude. Huge bureaucratic procedural systems are necessary to compensate for deficiencies in knowledge, imposing another cost on the organization as a whole. Finally, breakdowns in accountability occur as individuals move off to new jobs before the effects of decisions become apparent. These impacts are apparent enough for a wealth of folk sayings to have evolved. The navy, for instance has "Didn't happen on my watch" and "Not my part ship." The Canadian Forces as a whole identifies individuals as "Having gone FIGMO" during the last months of a posting (FIGMO: F--- It, I've Got My Orders).

And this is only the structural dimension of the problem. There are also philosophical and ideological factors. The military has been struggling with its self-concept for over half a century. The two poles of the debate are perhaps best represented by Samuel Huntington and Morris Janowitz. Huntington presents the military as a vocation, not a job. To Huntington, the professional officer not only has a high level of technical expertise, he emphasizes the importance of the group over that of the individual. According to Huntington, the military man must submerge his personal interests and desires to what is necessary for the good of the service. The military officer is also politically neutral.[49]

Janowitz is more empirical and a greater realist than Huntington, who seems to be posing an ideal type. His vision is more technocratic and far less heroic than Huntington's and he sees the professional military as an institution in crisis as it attempts to reconcile its heroic self-image with the administrative and technological content of military work, which makes the military less and less distinct from civilian professions.[50]

The struggle between the soldier as someone with a calling and a technocrat is also described by Charles Moskos' Institutional/Occupational model. Moskos has posed a model in which a vocational orientation is labelled "institutional." Individuals with institutional values have "work to serve" ideals, are not motivated by money, and consider them-

selves on duty at all times. People with an occupational mindset see the military as just a job, are working for money, and consider taskings outside "regular working hours" to be an imposition.[51]

All these factors contribute to the shape of the human resource management regime that defence establishments put in place. The organization of work must accommodate the military career structure. It must also accommodate efforts to instill institutional values through vertically integrating training, education, and careers inside the military even though the cost of doing this may be extremely high.

RELATED HUMAN RESOURCES AUDITS AND AUDIT FINDINGS

Retention

Providing enough people is one of the primary objectives of human resource management. The appropriate people have to be identified and brought into the organization and once there, they need to be kept for a predictable length of time.

Both these functions can be problematic.

The Canadian Forces underwent a major reduction in force from 1994 to 1996 due to a government-wide initiative to reduce program spending and cuts to the federal public service. The strength of the Canadian Forces was reduced from over 80,000 to fewer than 60,000 and the civilian defence labour force cut from about 30,000 to 20,000. Reductions were carried out for both military and civilian staff under a government policy that provided incentives for individuals to leave the forces voluntarily.

The effect of the voluntary program, however, was that it created shortages in the vehicle technician trade and in six army combat trades.[52] In addition, recruitment was severely curtailed following the force reduction, and it produced a huge trough in the number of members having between 6 and 13 years of service. Cohorts above and below those years have 2,500 to 3,000 individuals. The four years at the bottom of the trough have less than 1,000 members each.[53] The armed forces recruit only at the bottom of the organization, thus making a demographic gap an extremely serious factor that tends to travel through the institution for years. In the case of the Canadian Forces, it could take up to 30 years to resolve the problem.[54]

Auditors would therefore do well to look at the capacity of armed services for their ability to monitor and forecast attrition and to model the impact on individual occupations and ranks. Many military organizations have computer stock and flow models that can be used for audit work.

Retention programs themselves are another area that deserves attention. Retention is an extremely complex issue since people leave organizations for many reasons and seldom for just one. Factors which can affect retention range from career prospects and pay to housing and family support through to equipment modernization and perceptions of prestige and support from the national community. Trying to predict and control attrition is perhaps one of the most difficult human resource management jobs there is.

The Canadian Forces have frequently pointed to the high operational tempo as a dominant factor in why people are leaving in greater numbers than anticipated. If true, such a situation would require the department to increase the size of the Canadian Forces in order to reduce the number of deployments for individuals, to accept a decline in readiness as units suffer attrition or give up field training, or the government may have to not participate in some military actions overseas.

Our audits have indicated that there can be a great deal of misunderstanding about operational tempo. In 1996 we found that over the previous five years 14,000 individuals had gone on one peacekeeping assignment, about 2,000 had done two assignments, and almost no one had gone three times. Given the fact that the forces were at 84,000 and that the number of individuals engaged was even higher due to attrition and replacement, this could hardly be described as an immense burden. Even the most severely tasked occupations were not overburdened.[55] While the operational tempo increased from 1996 to 2001, the pattern that emerges is the same: 25,000 members have been on one rotation, about 5,000 on two, and almost none on more than two.[56]

Our audits found that the department did not fully understand how deployments were affecting members and that it had no information on what other away-from-home assignments for training, recruiting support or acting as replacement staff amounted to. Nor did it have a very clear idea of why people actually left the force. Available survey data indicate that family concerns — which include regular moves and spousal employment as well as operational tempo — are important. Additionally,

organizational climate and morale, workload, conditions of service, perceptions of the external job market and perceptions of the effectiveness of senior leadership contribute as well to decisions to leave.

The policy and management implications are obvious. An organization cannot have cost-effective programs to retain personnel unless it understands what is going on. Otherwise, policy is made on the basis of folklore: "what everybody knows." Choosing the wrong policy is likely to be ineffective and expensive. For example, pay incentives may be awarded to people who would have stayed anyway and extra personnel might be hired to reduce operational tempo when it is not a factor.

An unexplored area suggested by the Canadian Forces data is that of the two-career family. While Canadian Forces pay has remained more or less constant in relation to the average industrial wage, I strongly suspect that family income has not. The Canadian norm is a two-career family. Forces families are finding moving difficult when the spouse is also pursuing a career. The lack of civilian employment near many major bases, which are often outside urban areas and the continuing reduction of civilian jobs on the bases themselves have increased this difficulty. Not only do many spouses wish to build their own careers, but the general perception of "average income" is shaped by the two-income norm. Logic would point to this as a strong dissatisfier and one for which no easy solution exists.

Recruitment

Recruitment, involving as it does complex individual decisions, is also an area that requires a great deal of institutional effort to get right. If badly managed, individuals are brought in who are not a good fit to the organization and who will leave prematurely or who lack the skills the organization needs. Worse, no one will be recruited at all.

There is also the question of "diversity" of the military as well as whether there are adequate numbers with the right skills. In a democratic society, the military must reflect its parent culture or lose societal support. In Canada, this means that women and ethnic minorities must be integrated into the armed services in representative numbers.

Our audits indicate that all these areas have been problematic for the Canadian Forces. The department was slow to react to what it finally described as a "crisis" brought on by six years of financial restraint during which it hired fewer than half the people it lost. Personnel forecasters

warned as early as 1996 that an aging military would face a staff short-age, but remedial action was not started until 2003.[57]

The department has increased advertising and has begun offering recruiting bonuses and rapid advancement in rank for qualifications in occupations that are facing critical shortages. Previously, there had been considerable resistance to bringing people in above the entry level due to the emphasis on values already discussed. It is not clear how well these initiatives will work. At the time of the OAG audit in 2001, there were still shortfalls in recruiting overall and over-recruiting in some occupations. This not only created a surplus, but used up a slot for an occupation already short.[58]

Our audit also found that in spite of being given priority for staffing, recruiting centres were short of recruiters. We also noted that the surge in recruits could not be accommodated by trade schools and that more members were under-employed while waiting for a school to take them.

Diversity continues to be a problem. Designated groups make up less than 17 percent of the forces (women alone make up more than 50 percent of the overall Canadian population). Young, white males have been the traditional source of recruits and our audit indicated that this continues to the present time.[59]

Training

Military organizations spend most of their time training. Training roughly divides into four categories:

- education, including primary and advanced degrees and professional military education at staff college and war college levels;
- technical trades training, much of which is analogous to civilian training at the technical college level;
- military trades training for combat arms for which there is no civilian equivalent; and
- collective military training that takes the form of field and command post exercises.

Audits of military education in Canada, conducted in the early 1990s, indicated that undergraduate education was extremely expensive — over double the cost of civilian universities.[60] Most of the extra cost was attributed to surplus capacity in the military college system and the fact

that its student-staff ratio was two and one-half times higher than the Canadian average. The military college system has since been consolidated from three schools to one and other overheads have been reduced.

A good deal of attention has been devoted to technical trades training for which there are reasonable benchmarks outside the military. As in the case of undergraduate education, we found huge cost disparities between military trades training and civilian equivalents. The difference could be as much as three and a half times more for training in a military school.[61] Not only that, but staff-student ratios have increased every year since 1992 in Canadian Forces military schools. The situation appears to have become worse, rather than better.

We also found that there was no effective system in place to ensure that schools did not over-train students. The training system was supposed to "validate" the content of each course periodically, but this was rarely done. Schools were lobbied each year to include more courses, but units rarely asked for less. It appeared that many units prepared students prior to going on course so their performance would reflect well on the unit. In addition, schools assumed that everyone arrived with no skills or knowledge, even when some skills like typing had become common among high school leavers. The audit concluded that almost two-thirds of the training effort was being wasted because students either could perform the skills to the required standard before they went on the course, or because they did not have to use the skill in their subsequent job assignments.[62]

Overall, military technical training continues to be a major value-for-money problem. The armed services have largely protected their schools from competition with civilian institutions by stressing the need to acculturate, as well as train, students. Coupled with weak performance management, the result is a very high-cost system.

Issues related to military collective training will be explored in the chapter on Operational Readiness.

RESERVE FORCES

The use of reserves has great potential to improve the cost-effectiveness of a military force. Large numbers of personnel can be retained, but paid for only a modest amount of time to preserve their skill levels. Skills difficult to generate and used only occasionally, such as

foreign languages, can be accessed at low cost. Skills built up in the regular force which would otherwise be lost when a member resigns or retires from full-time service can be retained through part-time service in reserve units.

Nevertheless, reserve forces raise a host of human resource management problems that can be qualitatively different from those of the regular force. In Canada, reserve service is voluntary. And in addition to voluntary enrolment, there is no compulsion for reservists to turn out for training or for a deployment except when Parliament enacts special provisions of the *National Defence Act*: something politicians are loathe to do except in emergencies. The three main issues that affect the value for money of the reserve component are availability, retention, and standards.

We have already commented that in Canada availability is questionable because reserve service and even response to a call-out is voluntary. Our 1992 audit found that of the 22,000 reservists, the department estimated that only about 5,000 would actually be available in an emergency. Unit commanders estimated that less than half the available individuals would be adequately trained to deploy. Overall, this meant that ten reservists were necessary to generate a single soldier.[63] In general, if service is compulsory, there must be accommodations made by civilian society to protect reservists' jobs and educational status if they are called out. This requires some sort of job-protection legislation. While how far a country goes toward compulsory service or compulsory response to a call-out is a matter of policy, legislative auditors need to determine if a consistent policy framework is in place and if plans to employ reserve forces are consistent with their actual availability.

Retention of reservists in Canada has proven to be very problematic. Some reserve components were found to lose 35 to 40 percent of their recruits during their first year of service.[64] At these levels of attrition there is limited ability to build any skills whatsoever. Even if some individuals stay longer, collective skills cannot be met with such a high turnover. Retention is a major factor in calculating the cost-effectiveness of reserves.

Finally, reserve service raises the question of Canadian Forces' standards. It is important that standards for training and promotion recognize both that reservists have only a limited amount of time available for military training and also that reservists have other civilian skills that are readily transferable to military occupations. It is easy for standards to become a battleground between the regular force and the reserves. Regulars

generally want to have the highest skill standards possible and also (as already mentioned) to maintain a training system exclusively under their control. This means that some training may take too long for reservists to actually perform, while "civilian" skills are not recognized.

The reverse view of the problem is that reservists are awarded rank with only a fraction of the experience that same-rank counterparts in the regular force attain. For example, we found that it would take 20 years for a reservist to acquire the combat arms field experience of a regular force major, but that most reservists took only six years to reach that rank.[65]

Training standards are similarly difficult to maintain. There is a tendency for reserve courses to be cut in quality if standards are unattainable. Audits have found a low level of enforcement of training standards.[66]

Maintaining a reserve force is therefore not a "silver bullet" for cost-effectiveness problems. Claims need to be very carefully examined.

Ethics and Proper Conduct

THE CONCEPT OF PROPER CONDUCT

The proper conduct of public business has been a long-standing concern of the federal public service, including the armed services. "Proper conduct" means not only that management acts in compliance with laws and policies but also that resources are used to benefit the public, not the individual public servants to whom public funds are entrusted.[67] Management policies and practices must pass the test of stewardship: guarding and using public funds and resources as if they were one's own. Lapses in proper conduct can therefore range from criminal acts to merely poor business judgement. The exhibit below (Table 2) depicts the types of lapses that can occur.

In order to reduce the risk that improper conduct will occur, management must control risk. First, management must ensure that appropriate values are communicated to staff and accepted by them. In Canada, the Defence Ethics Program is the main vehicle for communicating ethical values to the department and the Canadian Forces.

Second, reducing risk requires effective internal controls and internal audit. Internal controls are the traditional methods and measures put in place by management to prevent and detect both error and misconduct. Internal audit provides management with an independent evaluation of how well those controls are working.

Third, appropriate corrective action must be taken when employee misconduct is suspected. It is important that such behaviour be investigated and discipline applied. Feedback from the monitoring and analysis of incidents of misconduct can be used by the responsible managers to improve controls and encourage conformance with corporate values.

Table 2
Types of Lapses in the Proper Conduct of Public Business

Type	Definition	Example
Dishonesty	Laws or policies are intentionally broken, resulting in benefit to the individual committing the act.	Officials claimed and received allowances by making false statements.
Abuse	Public resources are used in a way that benefits the individual making the decision, but where there is little or no increase in public well-being. Regulations or policies may not actually be broken.	Extravagant improvements to official residences.
Claimed misunderstanding	Individuals claim or accept benefits that are outside the intent of policy, but can plausibly claim that they misunderstood what the policy was.	Officials used a loophole in regulations to make a claim for reimbursement for expenses already paid for by a vendor corporation. The intent of travel policy is to reimburse employees for legitimate expenses.
Waste	A departmental program benefits employees, but does not have demonstrable value to departmental objectives.	An official residence maintained for representational purposes, but where few representational events take place.

Source: Auditor General of Canada, *Report of the Auditor General of Canada, 1999* (Ottawa: Supply and Services Canada, 1999), ch. 26, "National Defence – The Proper Conduct of Public Business," exhibit 26.1.

Armed Services Are Different

Armed services are different from other departments of government. Members perceive themselves as distinct from the rest of society. In 1869, William Windham described the armed forces as "a class of men set apart from the general mass of the community, trained to particular uses, formed to peculiar notions, governed by peculiar laws, marked by peculiar distinctions."[68]

As a result of their mandate, most military organizations develop a unique culture, such as the regimental system in the army. The regiment becomes the family that influences all facets of military life. According to a 1996 departmental board of inquiry in its report *Command Control and Leadership in Canbat 2*:

> It is a well accepted axiom that a soldier's regiment is his family. Many studies of battlefield stress and why soldiers fight have reinforced the notion that a soldier will risk his life for his comrades and for the honour and survival of his regiment. This issue is fraught with emotion. Many officers and soldiers spend their entire lives in a single regiment and they naturally become blind to many of its faults.

Information that could tarnish the reputation of the regiment may be deliberately hidden and whistleblowers perceived as outside the military culture. The board continued:

> It is understandable that a soldier would want to keep any news of wrongdoing within his regiment ... in the military this concept of washing dirty linen *entre nous* can actually work against the chain of command if it is applied with too much rigour.

The Crisis in Canada's Armed Services

During the 1990s Canada's defence establishment experienced a moral crisis. The turmoil originated primarily from the incidents in Somalia involving the killing of civilians and subsequent allegations of a cover-up, but public complaints and departmental investigations into misuse of public funds have added to the problem. Alleged abuses of resources — in, for example, renovation of official residences, hospitality and entertainment, use of aircraft, travel claims, environmental allowances — have

involved both senior officials and personnel at lower ranks. In response, the government and DND launched several initiatives that affected all departmental and Canadian Forces activities and personnel. These resulted in:

- a review of the Canadian Forces and a report to the prime minister on how to address problems of leadership, discipline, command and management and honour (*Report to the Prime Minister on Leadership and Management in the Canadian Forces,* March 1997);
- an assessment of the Code of Service Discipline and the roles and functions of the military police, including the independence and integrity of the investigative process (*Report of the Special Advisory Group on Military Justice and the Military Police Investigation Services,* March 1997);
- a review of the quasi-judicial role of the minister as set out in the *National Defence Act* to ensure that the minister of national defence has maximum flexibility in conducting the affairs of the department and the Canadian Forces and enhancing the impartiality of the military justice process (*Report on Quasi-Judicial Role of the Minister of National Defence,* July 1997); and
- an inquiry into the Somalia operation, including the chain of command, leadership, and discipline (*Report of the Commission of Inquiry into the Deployment of Canadian Forces to Somalia,* June 1997).

On 14 October 1997, the minister of national defence established a Monitoring Committee on Change in the Department of National Defence and the Canadian Forces to ensure the implementation of some 279 accepted recommendations arising from these reviews. Part of the departmental response has been the establishment of the office of the Ombudsman. The Ombudsman was appointed in June 1998 after a period of extensive consultations and negotiations, a working mandate put in place a year later, June 1999. The mandate was to be reviewed after six months of operations, but remains unfinalized.[69]

The Ombudsman's mandate defines his role as "an independent, neutral and objective sounding board, mediator and reporter acting as a direct source of information, referral and education to help individuals access existing channels of assistance and redress within the department and the

Canadian Forces." The Ombudsman also reviews internal processes to ensure that individuals are treated fairly and equitably. The mandate provides the Ombudsman with the authority to conduct investigations where necessary.

The Office of the Auditor General has long taken an active interest in issues of ethical conduct in the public service. The report *Chapter 1, Ethics and Fraud Awareness in Government* (May 1995), proposed an ethical framework for government. The chapter identified the need for a continuous process that highlights ethics in decision-making, a multi-faceted approach to strengthening the government's ethical climate and a heightened awareness among senior managers.

RELATED AUDITS AND AUDIT FINDINGS

The crisis in the Canadian Forces caused an extraordinary number of complaints to be made to the OAG over perceived abuses. It became apparent that attempting to deal with complaints on a one-by-one basis did not result in getting to fundamental problems. We therefore decided to undertake a more comprehensive project addressing all three elements of the management of proper conduct: communication of values, internal controls, and corrective action when misconduct is suspected.

Communication of Values

The main strategy selected by DND to improve conduct within the department was to adopt a "values-based" approach. This places priority on core values and principles of ethical culture as guides to professional conduct. It is distinct from a compliance-oriented strategy that relies on detailed regulations and enforcement. The department's values-based approach depended on its *Statement of Defence Ethics*, a network of ethics coordinators throughout the department, and integration of its ethics statement into training and employee appraisal processes.

Our audit found that although the program was well conceived, implementation had been weak. Senior military officials told us they did not believe they had ever been ordered to implement the ethics program in spite of a decision to that effect by the senior management committee in the department of which the service chiefs are members. The defence ethics statement collided with unit and branch ethics statements. We found over 30 in use which together promoted about 100 different

values (including a sense of humour). Training was targeted at new recruits, but most of the problems had involved senior officer and non-commissioned officers. Like any other comprehensive human resource program, implementation requires consistent effort and senior leadership support.

Internal Controls

Even though the department decided to put its primary emphasis on values, control systems, and compliance programs remain important. We found that some financial controls were weak and that the compliance audit had been severely cut back during the downsizing of the department during the mid-1990s. Outside the national headquarters, audit work was not always directed toward the highest risk areas nor was internal audit work coordinated throughout the department.

At the time of our audit there was evidence that the risk of fraud and abuse was increasing. Internal audits had found that local materiel managers were subject to very little monitoring of any kind and that local managers had few tools or resources to manage risk effectively. There appeared to be few consequences for those who broke rules and guidances unless they crossed the boundary into criminal activity.

In addition, a forensic audit conducted by the OAG in response to a complaint found that there was systematic abuse involving secret commissions and kick-backs for the purchase of diesel fuel involving numerous Canadian Forces and civilian defence employees.

FOLLOWING UP COMPLAINTS OF ABUSE

Following up forcefully on complaints of abuse is essential in preserving the ethical basis of an organization. Weak response to a complaint sends the message to abusers that they can continue and this further demoralizes honest employees.

When we checked on complaints of abuse that NDHQ had received, almost one-fifth of them had not been assessed adequately. When the adequacy of corrective action was considered as well, only one-third of complaints had been adequately dealt with. Complaints could languish for over three years before being completed.

SUBSEQUENT ACTION BY THE DEPARTMENT

It should be noted that DND took quicker than usual action on our recommendations and that nearly all of them have been completely implemented, although the implementation of the ethics program is still proceeding slowly. The number of complaints received regarding abuse has subsided to a low level.

CHAPTER EIGHT

Operational Readiness

The ultimate test of a military force is its performance in combat. Unfortunately, if performance is poor it may well be too late to do anything about it. In order to avoid any unpleasant surprises, modern military forces usually have formal systems in place to measure "readiness" or the ability of a military unit to deliver the output for which it was designed. This depends on four factors:

- *People*. Whether all the authorized personnel are in place and have the qualifications required to do their jobs.
- *Equipment*. Whether equipment is on hand and is in serviceable condition.
- *Training*. Units need to have conducted required collective training, including joint training with other armed services and ideally combined training with foreign forces if multinational operations are planned.
- *Enablers*. In order for military organizations to function they require command elements that can work effectively together and have appropriate communications and intelligence support.

In order to manage readiness effectively, the question of "ready for what?" must be addressed. Unless a mission can be specified and the expected amount of warning time estimated, one level of readiness can be claimed to be pretty much as good as any other. Managing readiness requires defence managers to make a series of complex trade-offs among force size, the rate of modernization, and the current readiness of units. Maintaining readiness is pure consumption. Units cannot stay at high readiness indefinitely, and once there readiness begins to decay as equipment breaks down in training, people are worn out or injured or morale

sags when the anticipated mission does not materialize. If forces are kept at too high a level of readiness, funds are needlessly diverted from modernization or adding more units to the establishment. If units are not ready, they cannot be deployed or will be defeated if they are.

Managing readiness also causes managers to confront the culture and politics of the defence establishment. Military professionals often resist implementing readiness reporting systems. Being measured and held accountable for results is not always welcomed. They also appreciate how difficult and potentially misleading quantitative measures can be. At an even deeper level, some individuals believe that reporting systems undercut military honour and trust. If a commanding officer says his unit is ready, headquarters should not be looking over his shoulder and questioning his judgement by using a measurement system.

Politics is also a factor. As already noted, at the political level "poor reporting can be safe reporting." Government organizations therefore instinctively shy away from creating information that may be awkward for their political leaders to explain. It may be far easier to apologize for having an inadequate readiness-management system (hardly front-page news) than to explain why fewer than half the air force's fast jet aircraft are serviceable or why a third of the navy is tied to the jetty.

A good readiness-reporting system has several characteristics:

Comprehensive. Readiness systems need to be able to give a picture of the entire force, not just units earmarked for deployment. If follow-on forces are not included, a deployed force could be put at risk if a mission expands or suffers reverses. If military planners have overestimated the readiness of supporting units, it could take longer for backup forces to arrive than anticipated.

Report by military unit. There can be no accountability unless reporting results follow the chain of command. Systems that try to report by "capability" rather than by unit sometimes double-count support resources and diffuse responsibility for results.

Positive reporting. Every unit should be required to report results for every time period. Systems should not be based on exception reporting. The problem with such systems is that a collection of negative exceptions do not allow for a good aggregate picture of the force to emerge or for trends to become visible before standards fail to be met.

Objective measures. Systems should count the countable. While the countable things are not sufficient to assess readiness, they are necessary.

Commander's judgement. How all the pieces come together and how enablers such as the command team are functioning is difficult to assess in quantitative terms. A good system should allow for the use of the commander's judgement to adjust a unit rating. This should be visible to users of the system. It also should be able to be overridden by headquarters, but not at the expense of erasing the original record of the commander's opinion.

Validated. The readiness reports should be periodically compared to field experience, either from operations or from field exercises.

Auditable. All management data should be auditable; otherwise the user cannot completely trust the source.

RELATED AUDITS AND AUDIT FINDINGS

National Reporting Systems

The Canadian Forces have never successfully developed a forces-wide readiness-reporting system. We have conducted audits of systems in place over the years and have found them to be consistently inadequate.

The Operational Readiness and Effectiveness Reporting System (ORES) was assessed in 1994. This system was based on appropriate quantitative measures, but it did not measure the readiness of individual units. Rather, it reported on the forces' ability to perform a set of high-level tasks such as "maritime defence of the Atlantic." The standard for this particular task was having a single warship in a high state of readiness! Negative exception reporting of support resources meant that double counting was likely — several operational units could be relying on a single set of stores and therefore reporting themselves to have met the standard, even though there was only enough stock for a single unit. Finally, the system was unauditable for units reporting themselves as "ready." There was no way to assess the accuracy of the system after the fact.

Audits have also assessed the systems the individual armed services use to assess their combat units. In general, these have been better designed, but not implemented. Both the navy and the air force had developed inspection systems to assess unit readiness, but audits find that these have rarely been carried out with the frequency required by regulations. The army has been slow to put an inspection system in place and the development of collective battle-task standards has taken a long time.

Operational Exercises

The conduct of operational exercises is not only essential for the maintenance of readiness; it is also an extremely useful tool for measuring it. This is especially true if field exercises are highly realistic and conducted with free play on an instrumented range. The US Army discovered during the Gulf War that its readiness-reporting system was providing optimistic results when National Guard units, reported as "ready," failed when tested at the National Training Center.[70]

Our audits of exercise analysis and reporting have consistently found that the Canadian Forces do not have an adequate system in place. Most recently, a 2001 audit could locate only about 40 percent of the post-exercise reports that should have been produced during the previous two years. Officials could not tell us whether the missing reports had ever been completed. Failure to complete exercise and post-operational reports is a serious deficiency in a professional military organization as it not only impedes the ongoing assessment of readiness, but it also slows the diffusion of lessons learned and the development of doctrine.

Equipment Availability

We have also recently assessed the operational availability of the major weapons platforms operated by the Canadian Forces. This audit not only provided the first comprehensive public information on equipment readiness, it also identified significant shortcomings in the management systems used to compile equipment availability statistics.

The navy's equipment-readiness system suffered from failure to include minor maintenance routines in its database, even though minor maintenance items cumulatively represent a significant portion of maintenance effort. Some maintenance reports were only entered into the system two years after they were created, and sometimes the data were only estimates. Some data were lost due to bad disks and server crashes.

Army brigades were using different definitions to report whether vehicles were "operational." One brigade excluded all the vehicles that were undergoing the installation of a new communications system with the rationale that the service battalion was not responsible for the loss of these vehicles. Nevertheless, unless NDHQ was aware of this local definition one might have assumed that these vehicles were available for use.

The air force's maintenance-management system had not survived the Y2K conversion and had not yet been replaced. The air force lacked a

definition of operational availability and told us that one should evaluate the performance of maintenance units by their ability to meet the number of sorties required by the operators. While this made intuitive sense, we found that operational units did not ask for an aircraft if they knew that one was not likely to be serviceable. Maintenance performance was therefore systematically overstated.

CHAPTER NINE

Does Legislative Audit Make a Difference?

A legislative audit is carried out with the hope of "making a difference" to government administration. It is fair to ask what difference an audit of Canada's Department of National Defence has made in general and particular policy areas. I am frequently asked by officials attending defence college courses whether anyone has ever been fired as a result of an audit. The short answer is "no." Failures in a complex organization like DND can rarely be laid at the feet of a single individual. Firing one or two people who were on watch when a disaster took place would be little better than scapegoating.

I have also been frequently accused of not laying blame at the feet of ministers who reputedly gave direction to officials for what turned out to be stunningly bad business decisions. Unfortunately, the written record in these cases begins with officials suggesting a course of action to ministers. Auditors must continue to hold officials accountable for the advice they give to ministers as well as the decisions they take from day-to-day.

If punishing the guilty is regarded as the objective of legislative audit, about the only penalty that can be inflicted is a bad afternoon before the Public Accounts Committee (PAC). (Although this can be bad enough. One Vice Chief of Defence Staff told me that a particularly trying session at the PAC had been the worst day of his career.)

This view, however, misunderstands the role of legislative audit. Our Act calls on us to inform Parliament — "report ... to the House of Commons" on "anything that [the Auditor General] considers to be of significance and of a nature that should be brought to the attention of the House

of Commons" including whether money has been spent for other than what Parliament appropriated it for, whether money has been expended without due regard to economy or efficiency and whether there are procedures in place (where appropriate) to measure and report on program effectiveness.[71]

The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations. The OAG has elaborated on this in its mission statement by saying that:

> We want to make a difference by promoting:
> - a fair and frank accounting of government's stewardship of financial and other resources,
> - efficiency and productivity in the public service,
> - cost effectiveness of government activities, and
> - collection of revenues owed to the Crown.
>
> Other effects we want to produce through our work are:
> - objective assurance on matters found to be satisfactory and unsatisfactory,
> - compliance with authority, and
> - deterrence of fraud and dishonesty.[72]

The stress therefore is on reporting to Parliament and on accountability. Focusing on areas suffering from lack of economy or inefficiency encourages management to change its priorities and to address the issues raised. Audit works by advocacy of the principles of transparency and good management; it does not have the power to do anything of its own accord. Numerous DND officials are therefore actually responsible for any progress (or lack thereof) that resulted from audit reports. After the Tabling Day media event and the sparring between the auditors and senior officials at PAC, someone had to roll up their sleeves and get things done.

Overall, the department has satisfactorily implemented about two-thirds of our recommendations — a figure that is about average for government departments. Progress, however, has not been uniform. Some files have progressed, while others have languished. In my opinion, a departmental report card would look like this:

- *Strategic Planning.* A-.
  The department has integrated its planning systems, has defensible spending priorities, and has made a good start at trying to live within its means. But unless budget overstretch is solved in the next year or so, this mark could fall.
- *Major Capital Projects.* A-.
  Significant management deficiencies have been addressed. There is better front-end analysis and better management review than in 1998.
- *Proper Conduct.* B+.
  Complaints are being followed up more vigorously, but the implementation of the ethics program has lagged.
- *Support Productivity.* C.
  The department made aggressive attempts to improve support cost-effectiveness by contracting out, but the payback was far less than anticipated. Measurement systems with which to monitor productivity are largely not in place.
- *Infrastructure Management.* D.
  Still too many bases and facilities.
- *Environmental Management.* D.
  Has good plans in place, but implementation of hazardous materials findings is taking too long.
- *Reserve Forces.* F.
  There has been little visible improvement to the army reserve a decade after our audit report.
- *Operational Readiness Management and Reporting.* F.
  Internal systems either are not in place or do not contain adequate data. The government has declined to provide Parliament with additional data.

I would therefore conclude that DND has made good progress in three areas, some progress in three more and has stalled on two. Not surprisingly, the two most difficult are connected to long-standing debates involving both political and military culture.

I think that the legislative audit has done its job in keeping Parliament informed and has contributed to management improvements within the Department of National Defence. Clearly, there is a lot more for both auditor and DND officials to accomplish before we all can be pleased about the value obtained from defence spending.

Notes

[1]Canada, *Dishonoured Legacy: The Lessons of the Somalia Affair*, Report of the Commission of Inquiry into the Deployment of Canadian Forces to Somalia (Ottawa: Minister of Public Works and Government Services Canada, 1997), Volume 1, p. 21.

[2]A version of this chapter was originally delivered as a paper to the George C. Marshall Center for European Security Studies in Garmisch, Germany.

[3]February 2001 Angus Reid poll quoted by Brian MacDonald, "Will Canada's Forces Have What They Need When They Need It?" *Policy Options,* 22,2(2001): 38.

[4]Canada. Treasury Board Secretariat, *2001-02 Estimates, Part I* (Ottawa: Supply and Services Canada, 2002).

[5]Quoted in Desmond Morton, *Ministers and Generals: Politics and the Canadian Militia, 1868-1904* (Toronto: University of Toronto Press, 1970), p.18.

[6]Ibid., p.23.

[7]Peter C. Kasurak, "Civilianization and the Military Ethos: Civil-Military Relations in Canada," *Canadian Public Administration*, 25,1(1982):118-20.

[8]This section is taken directly from the Office of the Auditor General's Web site, *What we do*. At <http://www.oag-bvg.gc.ca/domino/other.nsf/html/bodye.html>.

[9]Treasury Board Secretariat, *The Expenditure Management System of the Government of Canada* (Ottawa: Supply and Services Canada, 1995), p.5.

[10]R. M. Dawson, quoted in C.E.S. Franks, *The Parliament of Canada* (Toronto: University of Toronto Press, 1987), p.29.

[11]Canada. Parliament, House of Commons, *51st Report of the Standing Committee on Procedure and House Affairs, 35/2 (Catterall-Williams Report)*; Canada, Parliament, House of Commons, Standing Committee on Government Operations and Estimates, *Proceedings*, 11 June 2002.

[12]Denis Desautels, *Reflections on a Decade of Serving Parliament* (Ottawa: Auditor General of Canada, 2001), p. 70.

[13]Ibid., p. 70.

[14]Ibid., p. 40.

[15]Canada, National Defence, *2001-2002 Report on Plans and Priorities* (Ottawa: Public Works and Government Services Canada, 2001), p. 12

[16]Auditor General of Canada, *VFM Audit Manual* (Ottawa: Supply and Services Canada, 2002), para 1.6.

[17]Quoted in Sonja Sinclair, *Cordial but not Cosy: A History of the Office of the Auditor General* (Toronto: McClelland & Stewart, 1979), p.120.

[18]S.L. Sutherland, "Bossing Democracy: The Value-for-Money Audit and the Electorate's Loss of Political Power to the Auditor General," *Canadian Tax Paper*, No. 104, 1999, p.138. As an insider to the OAG, my observation is that power may have been transferred somewhere, but not necessarily to the OAG. A significant number of recommendations are not agreed to and are never implemented. The OAG has power only so long as it is able to persuade all concerned of the reasonableness of its positions.

[19]Auditor General of Canada, *Report of the Auditor General of Canada, 1992* (Ottawa: Supply and Services Canada, 1992), ch. 18, "The Canadian Forces Reserves."

[20]Ibid., ch. 16, "Major Capital Projects, Industrial Development Initiatives."

[21]Auditor General of Canada, *Report of the Auditor General of Canada, 1994* (Ottawa: Supply and Services Canada, 1994), ch. 24, "Defence Management Systems."

[22]Auditor General of Canada, *Report of the Auditor General of Canada, 1998* (Ottawa: Supply and Services Canada, 1998), ch. 4, "Buying Major Capital Equipment."

[23]Senate, Standing Committee on National Security and Defence, *Canadian Security and Military Preparedness,* 1st Session, 37th Parliament, February 2002, p. 97.

[24]United States. Department of Defense, *Report on the Bottom-Up Review*, reprinted in *Joint Force Quarterly*, (Winter 1993/94): 103-09.

[25]See, for instance, United States, General Accounting Office, *Quadrennial Defense Review: Opportunities to Improve the Next Review*, GAO/NSIAD-98-155, June 1998; United States, General Accounting Office, "Defense Planning: Opportunities to Improve Strategic Reviews," letter, 20 March 2001, GAO-01-514R Defense Planning.

[26]United States. General Accounting Office, *Future Years Defense Program: Risks in Operation and Maintenance Procurement Programs,* GAO-01-33, 5 October 2001, pp. 4-5, 19.

[27]James Dow, *The Arrow* (Toronto: James Lorimer, 1979), pp. 109-11. The total defence budget that year was about $1.8 billion.

[28]United States, General Accounting Office, *Best Practices: Successful Application to Weapons Acquisitions Requires Changes in DOD's Environment*, GAO/NSIAD-98-56 (Washington, DC: GPO, 1998), pp.72-73.

[29]Organisation for Economic Co-operation and Development (OECD), *Governance in Transition (*Paris: OECD, 1995).

[30]Auditor General of Canada, *Report of the Auditor General of Canada, 1999* (Ottawa: Supply and Services Canada, 1999), ch. 27, "National Defence – Alternative Service Delivery," paras. 27.25-29.

[31]Auditor General of Canada, *Report of the Auditor General of Canada, 1996* (Ottawa: Supply and Services Canada, 1996), ch. 34, "National Defence – Support Productivity," para. 34.10.

[32]Auditor General of Canada, *Report of the Auditor General of Canada, 2000* (Ottawa: Supply and Services Canada, 2000), ch. 32, "National Defence – Defence Support Productivity: A Progress Report," paras. 32.23-25.

[33]Auditor General of Canada, *Report of the Auditor General of Canada, 2001* (Ottawa: Supply and Services Canada, 2001), ch. 10, "National Defence – In-Service Equipment," para 10.2.

[34]Auditor General of Canada, *Report of the Auditor General of Canada, 1999,* ch. 27, "National Defence – Alternative Service Delivery," para. 27.80.

[35]Ibid., para. 27.16.

[36]United Kingdom. National Audit Office, *Examining the Value for Money of Deals Under the Private Finance Initiative,* HC 739, Session 1998-99 (London: HMSO, 1999)*,* para. 2.32-36.

[37]See, for instance, Douglas Barrie, "British Boost French Giant to Create Domestic Rivalry," *Defense News* 15,22(2000):1, which describes how the MoD loaned a senior official to Thompson-CSF, a French firm, to improve their ability to compete against BAE Systems, the formation of which had reduced domestic competition.

[38]Auditor General of Canada, *Report of the Auditor General of Canada, 1999,* ch. 27, "National Defence – Alternative Service Delivery," para. 27.83-84.

[39]Ibid., paras. 27.64-65.

[40]Alasdair Roberts, "Lockbox Government: Segregating Funding Strategies and the Decline of Governmental Flexibility," *Governance: An International Journal of Policy, Administration and Institutions* 15, 2 (2002):241-70.

[41]Auditor General of Canada, *Report of the Auditor General of Canada, 1999,* ch. 27, "National Defence – Alternative Service Delivery," pp. 27-15 – 27-17.

[42]Auditor General of Canada, *Report of the Auditor General of Canada, 1994,* ch. 26, "National Defence – Infrastructure Reductions," para. 26.26; Gerald Porter, *In Retreat: The Canadian Forces in the Trudeau Years (*n.p.: Deneau and Greenberg, n.d.), p.17.

[43]Auditor General of Canada, *Report of the Auditor General of Canada, 1994,* ch. 26, "National Defence – Infrastructure Reductions," para 26.47.

[44]Ibid., para 26.32.

[45]United States. Department of Defense, News Transcript, "Under Secretary Aldridge Briefing on Base Closure Process," 2 August 2001. At <http://www.defenselink.mil/news/Aug2001>; Department of Defense, "Speech, Testimony Before the Senate Armed Services Committee: Fiscal Year 2002 National Defense Authorization Budget Request, Secretary of Defense Donald H. Rumsfeld," 28 June 2001. At <http://www. defenselink.mil/speeches/2001/>.

[46]Auditor General of Canada, *Report of the Auditor General of Canada, 1994,* ch. 27, "National Defence – Infrastructure Management," para. 27.43.

[47]Commissioner of the Environment, *2001 Report* (Ottawa: Supply and Services Canada, 2001), ch. 2, "Sustainable Development Management Systems," paras. 2.25-27.

[48]Canada. Department of National Defence, *Performance Report for the Period Ending March 31* (Ottawa: Supply and Services Canada, 2001), pp. 28-29.

[49]Samuel P. Huntington, *The Soldier and the State* (Cambridge, MA: Harvard University Press, 1957), pp. 62-64, 70-73.

[50]Morris Janowitz, *The Professional Soldier* (New York: The Free Press, 1960 and 1971), p. 424.

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[52]Office of the Auditor General, *Report of the Auditor General to the House of Commons, 2002* (Ottawa: Supply and Services Canada, 2002), ch. 5, "National Defence – Recruitment and Retention of Military Personnel," para. 5.13.

[53]Ibid., exhibit 5.4.

[54]Ibid., para. 5.63.

[55]Auditor General of Canada, *Report of the Auditor General of Canada, 1996,* ch. 7, "Peacekeeping – National Defence," paras. 7.39-56.

[56]Auditor General of Canada, *Report of the Auditor General of Canada, 2002,* ch. 5, "Recruitment and Retention of Military Personnel," exhibit 5.2.

[57]Ibid., para. 5.8.

[58]Ibid., paras .5.47-50.

[59]Ibid., para. 5.51.

[60]Auditor General of Canada, *Report of the Auditor General of Canada, 1992,* ch. 22, "DND – Human Resource Management – Training and Education," para. 22.61.

[61]Ibid., para. 22.24.

[62]Ibid., para. 22.20.

[63]Auditor General of Canada, *Report of the Auditor General of Canada, 1992,* ch. 18, "The Canadian Forces Reserves," exhibit 18.7.

[64]Ibid., para. 18.66.

[65]Ibid., para. 18.77.

[66]Ibid., paras. 18.85-96.

[67]This section is taken largely from Auditor General of Canada, *Report of the Auditor General of Canada, 1999,* ch. 26, "National Defence – The Proper Conduct of Public Business," paras 26.9-22.

[68]Ibid., quoted in para. 26.14.

[69]*Defence Policy Review,* 17 June 2002, p. 13. The *DPR* publishes an editorial note on the back page of each issue noting how long the Ombudsman has gone without a finalized mandate.

[70]United States. General Accounting Office, *National Guard: Reported Readiness of Combat Brigades During the Persian Gulf War,* No. B-279914 (Washington, DC: GPO, 1998), p. 2.

[71]*Auditor General Act*, 1976–77, c.34, s.1, sec. 7.

[72]Office of the Auditor General Web site.

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Prior to joining the OAG in 1988, Peter worked for the Bureau of Management Consulting specializing in corporate planning and organizational renewal. Assignments included reorganizing the Search and Rescue program, developing and implementing a project and program management system for a Crown corporation, and the reorganization of a major department burdened by an assortment of conflicting legislation, goals and clients.

In his early career as a public servant, Peter worked for the Department of National Defence on the naval staff doing cost-effectiveness studies for minor ships and program analysis. He also served with the audit branch.

Peter received his PhD from Duke University in 1976 in military and diplomatic history. He has published several articles on civil-military relations, terrorism, Canadian-American relations, and management subjects. For a time, he taught defence policy and management at Carleton University. He is a Fellow of the Inter-University Seminar on Armed Forces and Society and Research Associate with the Defence Management Studies Program at Queen's University.