“Biggest Scandal in Canadian History”: HRDC Audit Starts Probity War

Abstract. The article describes the nearly year-long political and media uproar that followed on the release in January, 2000 of a qualitative or soft “audit” of management control in the federal government department, Human Resources Development Canada, and analyses the contributing factors. The article argues that the auditors’ examination of project files for programs delivered by grants and contributions was so abstract and poorly executed that nothing whatever can be concluded from the work. Factors that favoured the “scandal” interpretation include across-government New Public Management reforms where accountability has not been re-theorized for Canada’s Westminster system of government; Canada’s electoral volatility that starves the country of experienced politicians and spurs the tradition of political compensation for electoral support; and the political role of the Office of the Auditor General. This paper has been accepted for publication by the journal Critical Perspectives on Accounting, which holds copyright.

Introduction
The article takes up an audit event that dominated Canadian national politics for the first three quarters of the year 2000. The proximate cause or trigger was an internal auditors’ qualitative research report of its review of files – not a financial audit. On January 19, 2000, the Minister of Human Resources Development Canada released the audit, Final Report: Program Integrity/Grants and Contributions along with a press release. Despite its identity as a qualitative study the audit report unaccountably claims that one minor, non-random, facet of its research can “…provide an estimate of the magnitude of the [financial] loss” in programs using grants and contributions as their instrument (p. 5). The press release claims that the audit “looked at programs representing approximately $1 billion of annual federal spending.” It then listed “areas requiring improvement.” Everything needed improvement. Management control of operations seemed hardly to exist.

Soon labelled “the biggest scandal in Canadian history,” the series of events begun by the audit’s release unfolded in Human Resources Development Canada and general government like the wreck of a bullion train in a valley of bandits. The
media’s instant formulation was that the governing political party had colonized HRDC’s administrative processes, corrupting the bureaucracy’s handling of funds that represented at least one billion dollars, and possibly three billion. Bureaucratic sloppiness documented by the audit report had surely made this possible. Federal and other police investigations followed. The two programs that the media thought would yield the smoking gun to prove political corruption and kickbacks were intended to help the longer-term unemployed: the Canada Jobs Fund (CJF) and its predecessor, and, in a secondary way, a program that had channelled emergency financial relief to persons affected by the collapse of the Atlantic Fishery. This second program is known as The Atlantic Groundfish Strategy (TAGS), and it too had ambitions to provide enduring employment. The Canada Job Fund monies, representing up to 110 million annually, were the focus of intense interest because all MPs had been formally consulted on potential job-creation projects in their ridings, and there was thus a “political interference” angle. On the face of things, grants and contributions programs had been audit-saturated (see the bibliography). The OAG used its VFM techniques in the Department in 1992, 1995, 1997 and 1999, and its reports did not anticipate the internal audit findings (Morin, 2000:452). The programs had satisfied the annual financial audit for probity for the Public Accounts of Canada. How was it, then, that the Department and the Government itself was blown off course for most of a year?

The purpose of the paper is to probe the case as an over-determined event of a kind that will surely recur in Canada. A level of risk is likewise present in each of the Westminster democracies that experienced the imposition of the New Public Management on a modern audit society. The aspects of the case that spring from audit technology, or the lack of it, are illuminated by the work of the critical theorist, Michael Power (1997). The other roots are, in my opinion, found in the lack of fit between elements of Westminster government and New Public Management Reforms; Canada’s high electoral volatility that is one major cause of a shortage of career politicians, and which also seems to hamper the development of credible alternatives to the Liberal Party of Canada; this latter encouraging thwarted conservative forces to flow into political support for the Office of the Auditor General of Canada; and, not least, Canada’s tradition of offering political compensation for electoral support.

A sketch of the progress of the scandal follows, after which the organizational context is provided. The paper then presents the main elements of Powers’ general critique as a framework for the analysis and summary of a series of the three internal audits – really file reviews – of grants and contributions by HRDC and its predecessor department, Employment and Immigration Canada. These three audits were widely understood to present an irrefutable condemnation of the decade’s management control of grants and contributions funds. My critique is no doubt dry reading, but the audits well illustrate Powers’ critique. Next, I present a discussion of each of the additional causal elements listed in the paragraph above. Throughout, I will yield to usage, employing the term “audit” for both financial audit and the soft consultancy-type products first developed for application to the private sector, but I will identify each study I discuss as either a financial audit or a qualitative-soft piece of work. I will also use the title “auditor” for the personnel working in any federal audit function even though notable proportions do not hold accounting credentials.
The gist of the article is that there never was evidence that an annual billion-dollar fund was out of control or habitually misused. Further, the audit evidence did not show – and because of audit design could not show – that even the budgets of the Canada Job Fund and its predecessor were significantly used for political compensation, without justification through program guidelines, or were otherwise corrupted. Translated, this means that the audits are so poor that nothing should be made of them. I say nothing about whether the technology exists to create jobs. This is a separate discussion, bearing on policy instruments.

The political damage of the audit scandal was serious. It miniaturized the career of one of Cabinet’s few promising ministers, a woman who, until the scandal, was seen as a possible successor to the current Prime Minister. Leading into an election year, the scandal portrayed the Prime Minister as a Mafia-type godfather to his economically disadvantaged Québec riding, and as possibly having enriched himself. The scandal so dominated the politics of the official opposition that it even ignored the contents of the annual budget. It exhausted departmental staff and diverted the huge department (administering the largest operating budget of any federal department) for most of a year.

The main sources for the study are public documents.4

“The Scandal”

The body of the 2000 IAB report released on January 19 specifies a dual purpose: one goal, as a management study, is to assess the management and delivery of all HRDC programs whose instrument is grants and contributions against “applicable” current management standards and against “principles of accountability, effectiveness, efficiency and economy.” The study’s second goal is to test whether funds awarded to job sponsors are “adequately protected from errors, misappropriation, misuse and abuse, within and outside HRDC.” The report further claims that the data’s quality is good enough to allow the auditors to “…provide an estimate of the magnitude of the [financial] loss, if any” in programs using grants and contributions as their instrument (p. 5). This claim was, as noted above, to be the primary catalyst for the scandal. The executive summary says that the “integrity” study covers all of HRDC’s programs delivered by grants and contributions except for those assisting the fishery. (Grants are a small proportion of these funds.) Its methodology was to study paper files on awards that were forwarded to headquarters for the purpose.

Government grants and contributions were awarded to applicants under the terms and conditions of eight programs of the Human Resources Investment Branch of the Department.5 Yet, the audit reported, according to the files, 15 percent of awards were made without even an application for the funds, and almost three of four project files the auditors looked at did not include evidence of a cash flow forecast. Other elements that were not faithfully recorded were evidence of consultation, evidence that sponsors had no outstanding debts to the public purse, evidence of monitoring for results of the projects, evidence of supervision, and so forth. The internal auditors also pronounced that public money was not secure in this environment, and estimated risk to public funds at three percent. This exact situation had existed for at least a decade. Management had ignored two earlier audits that had allegedly worked the same ground. The first part of the title, “Final Study,” resonated against this background of alleged inaction.
HRDC soon released the first two internal audits of this sequence. The earliest dated from 1991, when Employment and Immigration Canada was in charge of such programs, and the second from 1994, about six months after the employment side of EIC was annexed to HRDC. The December 1994 study states that eight important recommendations arising from the 1991 audit had not been implemented in the period between studies. Significantly, it claims that the grants and contributions programs had no framework for program delivery such as “proper forms, procedures, training, and units of business.” Because of the absence of a framework, it is emphasized, staff conclude that control and monitoring are not important (paragraph 3). This of course begs the question of where the auditors found the standards that they audited against (below).

On January 19 when the 2000 audit became public, Minister Stewart told the media that she had “a tiger by the tail.” She would bring it to ground by cleaning up what she first characterized as sloppy administration. The Minister began with a somewhat insecure grasp of the difference between financial audit and qualitative reports on management controls. Worse, she seemed to assume that others understood the distinction. She was not equipped, therefore, to appreciate what her political situation was until the House had exploited at her expense the confusion stemming from the word “audit.” Her first instinct, in her ministerial role as head of administration, was to accept that the audit was wholly credible and work constructively to correct whatever needed correction. She reached out to engage partners in this work to create transparency. The independent state audit bureau, the Office of the Auditor General (OAG), began by working with the beleaguered Minister.

Just eight days after taking hold of the administrative tiger’s tail, on January 27, the Minister felt it necessary to soothe an Alpha tiger: “Money is not missing,” she told the media, “Furthermore, the audit did not indicate any political interference, nor did it indicate that money was wasted.” For the media, the claim was not tenable. The reason is simple: one of the two main messages in the text of the 2000 audit was that financial losses seen in the sample could indeed be projected to the billion, and the January 19 release flatly stated that the audit measured management of a billion dollars. The Minister’s January 27 statement, however, took the defensible position that the audit applied to administration only, but it did not directly address and deflate the audit’s credibility. It spelled out the measures the department had taken to ensure that the situation was being corrected. Nevertheless, by January 29, two days later, pressure had mounted such that HRDC felt it necessary to stop payments on new awards in all eight grants and contributions programs.

**The Tiger has the Minister**

For the journalists, if files sent to the auditors from regional office contained no proof that management control activities had been executed, this meant that no control tasks had been performed in HRDC’s operations. Otherwise, why would auditors bother to study files? The media understood the introductory statement of the 1991 report, the first of the alleged series, to the letter and cited it often: “… present monitoring does not offer adequate protection against possible misuse of public funds.” Within days, the media interpretation was that a decade of “poor bookkeeping” had created an uncontrolled environment where politicians could turn the funds to partisan ends. It is
important to be clear that the media were following the auditors’ script: the auditors said their findings had emerged from a random sample and could therefore be generalized to the billion in discretionary grants and contributions.

Once the situation was out of control, the Prime Minister intervened. In a press conference in the House of Commons foyer on January 31, as shown on national television and other outlets, the Prime Minister ignored his Minister’s attempts to lean on the differences between kinds of audit. His version was blunt and addressed the zeitgeist, “The accounting has not been done according to the best standards and we’re looking into that.” The cause, he said, was personnel cuts at the same time as program authority had been devolved. At the same time, the Prime Minister compacted the billion dollar tiger. The probable extent of any error or abuse was, he said, a fraction of the worth of 37 problem cases from the 459 cases whose files were reviewed. The 37 files were worth, in total, about $30 million, while the worth of the whole set of 459 was about $200 million.

In parallel with the conflicting political stories, two very senior officials – one level below the permanent head of the Department – were offering “technical briefings” directly to the media, without the Minister present. These took place on January 19, February 1, and February 7, 2000. The briefings were novel to federal administration. But while the Prime Minister was unveiling ever-smaller sums of money, the officials, beset by journalists, were confirming time and again that the audit universe indeed represented one billion in spending, and that the auditors had drawn a random sample of awards. Naturally, supporting their minister, they were also insisting that the audit findings applied only to administrative practices for recording administrative safeguards, not to money. The media did not bite. The auditors had reported risk and error in the handling of funds. The officials were, respectively, the senior financial officer of the Department and the senior officer in charge of the grants and contributions programs whose administration stood condemned. The senior financial officer was new to the Department, inheriting the audit and its aftermath. Given that a decision had been taken to endorse the audit, the head of the program would only have appeared to be evading his own administrative responsibility had he offered a critique of the audit report to the media. Further, at this point it was believed that the sample drawn for the 2000 study had been random. The officials were thus constrained to agree that audit findings could be generalized, even if they could not get across the abstract nature of the audit’s subject, “management controls.”

In the last weeks of February, after a Herculean effort by the department, about 10 thousand pages of various lists of HRDC’s grants and contributions were finally ready. The compilations required more than a month. At the time their audit was released, HRDC’s internal auditors somewhat inexplicably did not have a record identifying the cases in their sample of 459 files. Neither could they locate the 37 awards they had said were most at risk. (When the files were finally re-identified, with the help of auditees, two extra showed up.) Recreating the steps that the auditors took had also been time consuming because the information systems of the eight grants and contributions programs had not been integrated after the 1993 merger of the parent departments (which should have suggested that the auditors could not have
drawn one simple random sample for the various grants and contributions programs). The most-wanted list, because MPs were formally consulted on projects looking for partnerships in their ridings, was for the job-creation program – the Canada Jobs Fund and its predecessor, the Transitional Jobs Fund. TJF was developed as a three-year fund worth $300 million in total, and the CJF was worth 110 million dollars in 2000.

Predictably, the opposition in the House of Commons demanded that TJF/CJF awards of the last several years be presented within electoral constituencies, to show which politicians of which parties had got what for their ridings. This compilation required manual adjustments to retrofit administrative regions into ridings, introducing discrepancies for later delection. The Government of course felt it had to counter accusations that it had been promoting its own electoral fortunes with its awards of grants and contributions. Its tactics were pure political theatre. An opposition MP would rise, ask a question about misuse of public money, only to see the Prime Minister or Deputy Prime Minister rise to read to the Speaker that very Member’s letter of solicitation. This did not play well for long, however, because if the opposition had proposed, the Government had disposed.

When Audit is not Audit

It was impossible for the Minister to get the media to take on board any distinctions in the meaning of audit. What the Minister needed the media to believe and communicate was that “sloppy administration,” and even perhaps “poor bookkeeping” did not translate into stacks of worn taxpayers’ cash blowing in the wind. Through February, March, April and May Minister Stewart had to defend in the House of Commons, in interviews, and in press scrums, a three-part proposition. The first element in the story was that documentation of “management control” – such as a physical form in a file saying when financial monitoring had been done – was in the course of a decade never “appropriate” in the programs implemented through grants and contributions. The second element was that appropriate documentation is in principle of such fundamental importance that the Department was moving heaven and earth to complete files of control activity on old projects, even freezing current work. The third element was a logic patch that tried and failed to make modern audit practice plausible in ordinary language. Yes, it is important to be sure that management control is “appropriate” and is documented perfectly. However, missing paperwork does not predict that results of financial audit will be bad. These are different kinds of review activity. The media spin on all this was simpler: whatever had been found to be wrong was the key. The Office of the Auditor General’s interpretation was that HRDC’s problems were “far deeper than simple accounting difficulties,” because they reflected lack of “care and due diligence” (National Post, February 11, 2000: A9).

The various allies who spoke up to assist the Department and the Minister offered only mitigating circumstances. No one analyzed the audits to identify their weaknesses. No one even mentioned that “the books” – the annual, OAG-audited Public Accounts – had been clean for the whole allegedly untidy decade. A review of the Public Accounts for HRDC and its predecessor department does not turn up a single observation about unacceptable financial or management practices or outcomes in the program areas at issue. There are only, as in most organizations, a number of small losses reported, such as
stolen equipment, or money wrongly paid because of wilful misrepresentation.

As part of its remedial work, HRDC undertook a full review of the population of grants and contributions. The Office of the Auditor General was part of this work (Progress Reports were posted on the HRDC internet site as the review untangled awards put into doubt.6) The IAB audit estimated that three percent of a billion dollars of grants and contributions money would have been paid outside the terms and conditions of the agreements (p. 9), based on its observations of 63 projects in a judgmental sample, these 63 worth five million dollars.

On February 10, the Minister outraged the opposition and media who were awaiting the human details on a minimum of three percent on a billion in abuse. Addressing the Standing Committee on Human Resources Development, she reported on ten of the 37 reviews of the files that had been identified as most problematic from the IAB sample of 459. The overpayments came to $251.50. The remaining files would be finished by February 18. The amount was met with incredulity. It did not help that, working through the Access to Information Act, the conservative National Post newspaper and the official opposition party, on which its hopes were riding, had by this time made allegations of mismanagement and use of influence in 17 TJF projects in the Prime Minister’s riding.

Nothing had prepared the media and the public for sums like $251.50. Given that the new reviews of the grants and contributions projects’ financial papers was effectively a census as opposed to the sample chosen for the auditors’ work, the message was now that, more than a quarter of the way through the weakest files, actual financial control in the department was good. This made no sense given that the Department had decided to conduct itself as “guilty as charged” ever since the IAB audit was submitted to top managers. The Department struck a team in late 1999, leading up to the January release of the third audit, to implement a comprehensive action plan to remedy management control deficiencies. In addition to the review of open grant and contribution files (and closed files from the previous year), the Department stopped new awards, established a permanent monitoring team to raise the quality of ongoing administration of awards, and developed comprehensive national standards for management controls and training programs for regional staff. The amount of form filling imposed on regional staff and clients is almost beyond comprehension, particularly in that the decision was taken before the empirical work could assess the state of affairs. The new forms, imposed at project level, follow projects from inception to closing. It has been estimated that they require close to 20,000 elements of information for any given project, many of them complex, qualitative and judgmental (see the Department’s web page). The cost of the form-filling exercise does not seem to have been calculated.

By May, the review was complete of some 17,000 grants or contributions to individual or organizations in more than 300 offices across the country, representing more than one and one half billion dollars in expenditure. In a report to the human resources committee of the House of Commons on May 18, the Minister reported that 14 overpayments worth about $250,000 had been made to grant recipients, of which all but $6,500 had now been recovered. The Minister’s “sloppy administration,” and the Prime Minister’s riding.
Minister’s “poor bookkeeping,” even calculated on the overpayment total, thus came to a tiny fraction of the three percent loss projected by the auditors – and, at that, before imposition of the action plan controls. The press was not amused. The billion-dollar scandal had been transformed before its eyes to a claim of good financial stewardship. By now the various parties had called in the House for the Minister’s resignation up to 50 times. They protested that the $6,500 result did not yet include files worth up to $10 million in which opposition politicians and media were now deeply versed and invested (The Ottawa Citizen, May 19, 2000: A3). Not even government-side backbenchers could take in good news.

The final report of the House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities, tabled in June, 2000, made a majority recommendation that the Department be split into at least two smaller organizations to make it manageable (Seeking a Balance: Final Report on Human Resources Development Grants and Contributions, 2000).

The OAG’s involvement in remedial work and its diplomacy appears to end with its endorsement of the Minister’s “action plan.” The Auditor General’s testimony on March 23 before the House of Commons’ Standing Committee on Human Resources and the Disabled that was examining the events contains unusual elements. The Auditor General used that forum and the ensuing press coverage to promise that his Office would get to the bottom of questions of political corruption. He urged MPs to join forces to change “the architecture” of HRDC’s job creation programs – that is, the AG was telling MPs that grants and contributions must be abandoned as a policy instrument. (See, for example, May, 2000: A1.) In a follow-up interview on national television, the AG claimed that his Office’s auditing in various departments had identified similar shortcomings across the whole of government since 1977 – without adding that 1977 was the year the Office acquired powers under its new Act (Section 7) to look at management controls as opposed to accounts of expenditure. In the same television interview the AG urged the public at large “to question” the use of grants and contributions as instruments to deliver job creation and income support.

Then, on June 22, after five months of unremitting attacks, Minister Stewart suddenly closed the Canada Jobs Fund. For all those months, she had defended the outcomes of, and the need for, this job creation effort. The explanation for closing CJF in the press release of that date was twofold. First, given changes in geographical patterns of unemployment, the federal government’s regional development agencies were more suited for delivering such support. The second reason was that HRDC itself would benefit from being able to concentrate on its “core social policy mandate,” and on its own “administrative weaknesses.” No one in a position of authority clearly explained that these “weaknesses,” were the reforms of the previous decade (below).

By this time, there was wide speculation both inside and outside government that both Minister Stewart and her Department were facing extinction. Through the summer, it became common wisdom that no Minister of HRDC as constituted could manage the necessary scale of internal reform: the Department was too big and too under-managed to be brought under control by one Minister (Bryden, 2000: A1). In due course, against advice that the government would be reduced to a minority because of its poor management,
the Prime Minister called a general election for November 27, 2000. The opposition campaign was waged on corruption issues and character politics, including a series of collaborative attempts by Alliance and Progressive Conservative leaders to instigate the federal police to lay charges against the Prime Minister in person. The Liberal Party under Jean Chrétien won a third mandate. Stewart remained in her Department, bearing the stigma of being the first minister in Canadian federal cabinet history to be savagely attacked by the media over a period of months, and to have been repeatedly called a liar in the House of Commons because of an internal audit group’s review of files. No previous ministerial drama bore any resemblance to this event (Clark, 2000; Sutherland, 1991a, 1991b).

Organizational and Program History
As noted, Human Resources Development Canada is relatively new Department, put together in a government-wide reorganization in 1993 from components of Employment and Immigration Canada, Health and Welfare Canada, Labour Canada, Secretary of State and the Department of Multiculturalism and Citizenship. Its legislation is the Department of Human Resources Development Act of June 12, 1996. The Department is responsible for employment insurance programs, “investment” programs administered by grants and contributions, such as those under discussion, all the way to student loans, income security programs including pensions and top-up for poor senior citizens, and national labour-related activities.

Less than a year after HRDC had been leggoed together, the Atlantic groundfish fishery collapsed, and a moratorium on commercial exploitation of that fishery was declared. The relief program known as The Atlantic Groundfish Strategy (TAGS) was put into place by mid-year to adjust out of the fishery individuals and communities affected by the moratorium, in other words, to try to permanently relieve the stress on the fishery. This was to be done by creating other employment for workers who had been dependent on the fishery. HRDC, under its welfare hat, was likewise responsible for providing pure income support to communities and individuals to replace the money swept away by the moratorium. According to the Auditor General’s 1999 Report, TAGS abruptly increased the caseload of HRDC officials in the affected regions by about 40,000 participants (p. 1).

Almost concurrently with the fisheries collapse, beginning in 1995, the Government of Canada ran an exercise under the title of “Program Review” that reduced employment in federal departments and departmental corporations by about 40,000 individuals by 2000. HRDC had to reduce staff by 25 percent, obtain savings of 200 million dollars, and do this without reducing service levels – which the political leadership would not condone. Severity of the cuts in administration and support service was notable, cuts stripping audit capacity from the regions. The staff reduction in HRDC was about 5,000.

The provincial service delivery units of HRDC were at about the same time reorganized and regionalized in self-standing service centres administering all the service business lines of HRDC. These changes were part of a cross-service effort to shift the mind-set and work habits of the federal public service to fit the entrepreneurial, empowered, client-centred and local philosophy of New Public Management (below). Some 450 Canada
Employment Centres were replaced by 100 offices called “HRCCs” (Human Resource Centres Canada) and about twice that many satellites to these centres. To acknowledge the range of services being delivered in the HRCCs, senior executive-level officers were appointed to the Director positions. Risk-taking was promoted, officials were enjoined to “serve clients first” and to do that swiftly, without the usual delays to fulfil red tape, and to creatively recruit and work with partners, all this to help clients find lasting solutions. HRCCs were expected to run autonomously from both the provincial headquarters (“regional” centres) and from NHQ.

Another policy-created emergency was initiated in 1996. Leading into the general election of 1997, the rules governing workers’ access to Employment Insurance (EI) were significantly tightened, to reduce pay-outs and help reduce the annual budgetary deficit of the federal government. The deficit added to the annual service costs of Canada’s national debt, still requiring 25 percent of annual federal expenditure as of 1999-2000, second only to the 30 percent spent on social services, most of them administered by HRDC (Statistics Canada, 1999-2000: 28). Before the EI reforms, seasonal workers and employers alike depended on EI to bridge the Canadian winter. The Transitional Jobs Fund was set up that same year to cushion the certain political crisis in high-unemployment communities, defined as 12 percent or more of the active workforce. TJF was supposed to lever local partnerships to start new businesses and expand existing businesses. TJF had a minimum of red tape.

The “transition” two years later was from a temporary program to one intended to be permanent one. The Liberal Government elected the previous year launched the new program, the Canada Jobs Fund (CJF), in December 1998. The launch was part of a larger strategy to “help Canadians find employment.” As described by an HRDC news release of December 14, 1998, CJF was to assist regions with unemployment rates of 10 percent or more, a two percent easing of the standard under the TJF. This change brought in nine new regions as beneficiaries, four of them in Québec, the base of the federal Parliament’s separatist party, the Bloc Québécois (see below). CJF had comprehensive guidelines, in response to what had been learned from the transitional program. They covered every stage of the process of receiving and keeping a contribution to sponsor employment, from planning to accountability, including conflict-of-interest rules for MP consultations. The rules also ensured that CJF funding could not replace repayable loans from other sources, because awards would top up a package of pre-negotiated funds from other sources. Nevertheless, there was some justification for a leading journalist’s remark that CJF existed “at the slushy intersection of politics and policy” (Adams, 2000: A7). Soft features included complex criteria for “pockets” of high unemployment within prosperous regions, and the already-mentioned provision that all MPs would be consulted on CJF projects in their ridings.

The process of devolving labour market training to the provinces was another element in the reform stew. This was done in a flexible way, designing four significantly different “packages” of arrangements. Administrative complexity increased, and 2,000 service delivery officers were devolved with their programs to the other levels of government.

In summary, even though the Liberal government had explicitly adopted the
de-regulation agenda of the right – cutbacks, deregulation, privatization, devolution, and removal of procedural controls in favour of one measure of “outcomes” – these measures introduced what could appear to be an informal, *ad hoc* character to administration of social programs. As well, any program that supported the retention of working-age population in low-employment regions was an ideological provocation to Reform/Alliance partisans. The political right explicitly wanted all such programs abolished, and had no support to lose among their clients or delivery personnel.

**Modern Audit Practice: Its Rituals**

The questions about why three qualitative studies of management controls were conducted as they were become interpretable in the light of the work of the critical audit theorist, Michael Power. (The question of why their authority was unchallengable is addressed in the section on the political power of audit in federal Canada.) Two of the three areas of weakness in the HRDC internal auditors’ work could be directly predicted by Power’s description, in his *The Audit Society: Rituals of Verification* (1997), of the problems that have challenged audit methodologists since mid-century. First, Power’s work tells one to look closely at auditors’ sampling practices: auditors have trouble making cost-effective use of sampling techniques that is also methodologically sound.

Second, in Power’s view, there is a conscious strategy in the audit profession to reverse the burden of proof onto those being audited. In other words, the whole of good practice must be demonstrated by the auditee. This reconstitutes the auditor as a distanced critic in the realm of paper gathered for inspection, rather than as a professional immersed in the real organization. Auditees subjected to management control audit are accountable for due diligence in their systems – not for the soundness of transactions. For this reason, Power describes the assurance profession as having moved away from “the thing itself” – the kind of work done and the rate of error in doing it – to the control systems that hypothetically maintain the quality of transactions under their guidance. The degree of empirical connectedness between the control systems as examined by the auditors, and the degree of soundness of the work done in the real situation is apparently not a subject of investigation. The burden of proof is on the manager to turn all the office spigots and generate full protection to place between the covers of a folder.

The third major preoccupation of audit theorists identified by Power is present, but in this case, it is turned on its head. Power identifies auditors’ efforts to narrow the “expectations gap” between what most ordinary citizens think audit does, and the kinds of assurance that audit, and its various allied qualitative products, is able to offer. Private sector auditors worry that they will be blamed should they fail to identify activity that is poor or even corrupt, that later becomes known and is given publicity. Their goal is thus to decrease client and shareholder expectations to reduce auditors’ exposure and legal (financial) liability when they offer what most people would accept as a clean bill of health to an organization whose financial situation may shortly prove negative. The case at hand is, of course, in the public sector, where there is no bottom line like bankruptcy, and where, therefore, auditors do not share the vulnerability of private sector auditors. Thus, in the present case, the expectations gap does occur, but it is exactly reversed. The precision, scope and credibility of the
audit exercise is exaggerated, to force the auditee to correct the faults identified by the auditors, not hemmed in with caveats and qualifications to reduce auditor liability as in private sector situations where audits can be seen to fail.

According to Power, even financial audits are for the most part irrelevant to the real life of an organization because even financial audit lacks a technology. The science and technology of audit, “...remains at the level of a folk craft or art” (p. 30). Its methods are “essentially obscure,” (p. 31) and therefore are not replicable, not predictive, and are thus unable to produce demonstrable knowledge. Demands that constitute pure form take the place of a method. One sees emphasis on formal procedures, and pride in the auditor’s independence of both principal and agent, and in the profession’s codes of ethics. There is only one form of acknowledgment of the auditors’ awareness of the fragility of their base of objective knowledge: audit findings and how blame will be allocated are traditionally decided by negotiation between the interested parties.

Power’s general critique can be extended to soft audit, which has an unusually important place in the practice of the legislative auditor in Canada. The technology in this area is derived from academic social science. Sampling is only one of the techniques that auditors do not execute well. This is not surprising because academic social scientists themselves routinely fail to conduct non-trivial work to robust standards. There are however a few summary contrasts one can draw between soft audit practices and the basic logic of social scientific work as a whole, contrasts that are not favourable to soft audit. First, in academic social science the logic of the research plan or design must be set out clearly and it must direct the researcher to seek disconfirming evidence, and to further ensure that all error and method effects are taken into account and cumulated to weigh against confirmation of the research hunch. This is the logic of the null hypotheses, and it is not audit logic. Audit logic looks for evidence of gaps in good practice, and this evidence is supplied by the auditee. Secondly, academic research is part of a social practice of open science. Problems and methods are standardized, so that measurement can be reliably repeated, providing that findings from a series of studies will cumulate to provide a context of interpretation, and, in a sense, rolling “norms” for key variables. To engage enough researchers, problems must be interesting in themselves, have links to other areas of interest and importance, and therefore represent enduring situations. Social scientists accept that temporal sequence is not enough to point out causes. Social science technique as applied in government audit bureaucracies meets none of these conditions. Programs themselves are arbitrarily defined pieces of government activity whose performance is affected not solely by the program’s “logic model” but also by dozens of human and organizational practices. Reorganization and change in the program environment is the rule rather than the exception. Replication of work until researchers understand their instruments is not possible. Often there is no deep consideration of methodology: methods are picked from the tool kit according to knowledge and disciplinary backgrounds of staff, and budget concerns. Causal chains are imputed. They are tested when the program logic stakes a claim to a particular effect: in this case, all the research error cumulates to erase support for the directional hypothesis that the program makes a difference in some
regard. They are not tested when the research rests on them as assumptions, for example, the assumption that management control only exists if employees complete forms for off-site audit.

The dynamics of the qualitative audit work exactly as Power describes for financial audit: results must be negotiated politically. In Canada, Danielle Morin conducted a participant-observation case study of the OAG’s VFM audits for her doctoral project. She qualifies four of six VFM assignments she took part in as “loin d’être le processus froid et prévisible qui est sous-entendu dans le modèle de la vérification traditionnelle,” [far from the distanced, predictable process presumed by the traditional model of audit] but, instead, as constituting a complex game of social relations in which power relations are evident (Morin, 2000: 447).

**The Three Internal Audits of Management Controls**

The article will now look at the three internal audits along the lines that Power suggests constitute the fault lines in audit practice: capacity to handle sampling and to generally stay within the bounds of social scientific technique; the reversal of the burden of proof and its ramifications; and what I think of as fair reporting, or how the expectations gap was addressed in this work.

For the reader’s convenience, the studies to be analysed are the following:


As noted, all three audits verify the presence of forms in files on individual awards of grants or contributions. Form completion indicates, to the auditors, the quality of management controls. Auditors claimed and management accepted that the three studies constituted a series of the same scope and scale of same audit domain – in other words, replications. The 1991 audit finds that very many when not most of the files it reviews do not contain required forms, thus management control is poor. The 1994 audit next finds that not one of the 1991 recommendations has been satisfactorily implemented. The 2000 study suggests new standards and finds that the state of file completion and recording of monitoring on both standard items and on new controls stipulated for the purposes of this audit is extremely poor. In the discussion below, the studies are in chronological order within topics to facilitate an understanding of the disjointedness of their designs. Where the reader sees “Canada Jobs Strategy” or CJS, this refers to a group of earlier programs administered by the former Employment Insurance Commission, not to the Canada Jobs Fund. “Human Resources Centres Canada” designates the decentralized service units of the Department.

**Domains and Samples: General Research Techniques**

Information on domains and sampling emerges only in bits and pieces in all three audits. The consolidation is therefore mine. For the 1991 study, the goal is
to ascertain whether current administrative practices in the then-Employment and Immigration Commission for monitoring of “significant” contributions (contributions defined by an initial commitment of at least 40 thousand dollars) can offer adequate protection against possible misuse of public funds. The second substantial paragraph of the executive summary invokes the “importance and urgency” of “full protection” through systems. The audit examines five programs in three regions of the country for presence and proper use of four kinds of forms. These four form types are for financial monitoring, operational monitoring, assessment of project risk management, and compliance with terms and conditions of the contribution. These constitute the operational definition of management control.

For the 1994 study, the goals of the study and the domain or universe are different. The audit is presented as covering: 1) actions taken in regions studied as a response to the 1991 Audit of Significant Contributions; 2) aspects of the current management framework; and 3) new issues concerning the delivery of Canada Jobs Strategy programs in response to a downturn in the Atlantic fishery (paragraph 1: emphasis added). The tools are again four types of reports: operational and financial management, risk evaluation and monitoring plans. The target sample is broader: Alberta and the Northwest Territories and New Brunswick are newly added to the regions for the broad issues. Nova Scotia and Newfoundland are brought in for study of the administration of programs responding to the difficulties in the Atlantic fishery. The study thus represents seven geographical areas and four program components, in comparison to three regions and five programs in the previous study.

For the 2000 Final Report, the domain is all eight of HRDC’s grants and contributions programs. Fishery Restructuring and Adjustment is omitted. Section 3 in the body of the report states objectives for the study itself. Only one of the study’s purposes is to assess the management and delivery of grants and contributions programs. The second is to develop a set of recommendations that would improve the existing accountability framework. The statement of objectives concludes by stating, “This report provides information that can serve as a baseline for measuring future improvements in administration of grants and contributions programs” (final paragraph, p. 5, emphasis added). Compliance is measured against “applicable” current management standards but also against “principles of accountability, effectiveness, efficiency and economy.” The tools are now the “four fundamental steps” in grants and contributions program delivery, 1) selection and approval, 2) contracting, 3) overseeing and 4) disbursement (p. 1). Each step unfolds into lists of criteria. The developmental parts of the study will assess performance against imputed standards as opposed to standards used in practice. Still another part of the intellectual domain of the 2000 study — the one that drew most media attention — is the notion of assessing financial risk in the whole of grants and contributions: whether funds “adequately protected from errors, misappropriation, misuse and abuse, within and outside HRDC...” The domain or universe to which the study will generalize is comprised of seven Programs in all ten regions, the broadest of the three studies.

Sampling Frames, Sampling Strategies, Targeted and Obtained Samples

This part deals with sampling decisions taken to allow for generalization to the
conceptual universes and program domains. The 1991 study reports in Appendix B that its primary sample was downloaded from financial transactions for contributions projects on the criterion of initial commitment of at least $40,000 (hence, “significant contributions”). The sampling frame is incompletely described in the report body: the 200 files were chosen "at random among the five programs audited" (1.1). There is no indication of whether the 200 files are to represent one universe of significant projects from all five programs, or five strata of significant projects from five program domains, or a census of big projects from each of the three regions. The reader cannot know on what sampling frame or frames the random selection of projects was made.

Confidence intervals are reported, to the effect that findings can be generalized to the population within plus or minus seven percent, 19 times out of 20 such samples. This might point to a simple random sample. Once grants or contributions had been selected into the study, physical files were forwarded to NHQ to be reviewed against the list of management control forms by Internal Control Officers and Program Consultants (1.2, p. 6). Twenty-two cases were judgmentally chosen for site visits and on-site audit by the audit team members.

Turning to the 1994 study, one finds that once again, the sampling frame(s) is not clearly described. The sample consists of 210 projects covering six regions. It is presented as “… a representative sample of projects within the selected programs, options and regions.” It is drawn from “…downloaded commitment records from [a system] for the 1993/1994 fiscal year [for four programs]” (p. 2 of 2, section 4.0). Technical language is misused: as is well known, a representative sample is one where sample statistics mirror known population parameters. The only procedure for obtaining representativeness is to select cases randomly such that each member of the population had an equal and known chance of selection. The degree of certainty (confidence intervals) that the sample is arrayed to represent the population from which it is drawn is determined by the size of the sample relative to the size of the population, assuming random selection. Given the small sample size of 210, and the six regions, four programs, and unknown number of grant levels this small number is supposed to represent, it is highly unlikely that the 1994 sample could contain enough significant (large) contributions of 40K plus at initial commitment to qualify as a “follow-up” to the 1991 study. If it did contain disproportionately large numbers of large contributions, this would be a sure sign that the sample was bad, that is, not representative of the population of the study. And if the sample is representative, and does not contain large numbers of large contributions, there would not be enough big grants to allow one to assess control of significant contributions. All this of course assumes the standards of the audit have been left alone.

Again, the 1994 team selects a judgmental sample of projects for site visits from files under review for site visits. Its size is not reported that I can find.

On the face of things, the 1994 study has a sampling frame that would introduce bias in relation to its task of follow-up of 1991 results. The probable direction of audit bias is bad for program administrators: if regional officials didn’t put together satisfactory files to send to auditors for large projects (40K plus), one might guess that files for less important
projects would be less satisfactory. If this is so, the results of the 1994 study are an artefact of its flawed and even biased approach to sampling. The auditors do not consider the problem. Their “finding” that none of the 1991 recommendations had been implemented does not stand.

For the 2000 study, the sampling methods are not specified beyond saying that the frame was a “download” from the corporate database and covered all grants and contributions programs. In another place, it is noted that a new part of the management system was used to generate the spending base for each program (p. 6). If the sampling frame is completely new, by definition the final study cannot be a replication. The sample appears to be a better size – now 386 contributions and 73 grants files (459 cases) “chosen at random,” the auditors say, within seven programs. However, it becomes clear to the reader that the sample for the audit released in 2000 cannot have been a simple random sample as claimed. An unmissable clue is that the job creation program is represented in the sample by exactly two projects in each province. In any audit universe of job-creation awards, the numbers of projects would have to increase with two factors: numbers of persons residing in the province, and unemployment rates. For example, Québec, New Brunswick and Prince Edward Island all have above-average unemployment rates, but Québec’s population is more than seven million, New Brunswick’s is about 750 thousand, while Prince Edward Island’s is less than 150 thousand (Statistics Canada, Public Sector Statistics 1999-2000: p. 178). Thus, two awards in each province is clearly not a result that could emerge from a representative sample. Indeed, if such a result occurred after an attempt to draw a random sample, it would tell the researchers to draw another sample. And, if auditors selected two projects haphazardly from each province, then the claim that any sample of which the projects are a part represents the universe must be false: Québec alone would be so under-represented as to make the sample useless. Nothing should even be said about the management of the money represented by the group of files themselves. There is also in the study released in 2000 the inevitable “nose” or judgmental sample, here 63 visits to sponsors in all ten regions (no criteria). The report claims that these 63 sites constitute “a representative but non-random sample.” This is another misuse of statistical language.

Reversing the Burden of Proof
The evidence-gathering strategy of all three studies is perfectly described by Power’s phrase. Each study requires the program managers to somehow constitute between two covers a “complete” file of all actions taken for each grant or contribution, and send the files to headquarters for audit. Given that management is castigated in each study for failing to set standards for front-line administrators, the auditees must have been in the dark as to what proof, exactly, would have been required of them to meet the audit standard. The burden of time spent on the audit task is also reversed, with the auditees selecting and duplicating materials for files whose only utility is their use as the raw material of audit, so that the auditors can remain in their home offices.

The Expectations Gap, or Fair Reporting
The substance of what is reported is reviewed in relation to the domains, sampling choices, use of anecdotal information, and in making claims from sample to population or domain.
1991 audit of significant contributions

The Executive Summary of the 1991 audit of significant contributions is dramatic and misleading. Examples of rhetoric follow:

- "The audit of significant contributions has revealed that present monitoring practices do not offer adequate protection against possible misuse of public funds" (first sentence, p. 1).

- There is a lack of division of duties ... one individual [may] review project funding requests, recommend approval ... and approve claim statements (p. 2).

- Regional staff lack adequate financial management and accounting skills (p. 2).

The second two observations above, on fund security and staff skills, are based, anecdotally, on the 22 non-randomly chosen site visits. In effect, the possibility of abuse is seen in examples from the 22 site visits, and from this it is inferred that the practice of program officers is inadequate or risky wherever proof of control activity is not discovered in the larger file sample by the auditors. Another example of unfairness is that regional and local staff are condemned for using judgmental sampling for site visits rather than systematic random sampling – yet this is the auditors’ practice.

Probably the most intriguing aspect of this audit is that it explicitly talks about whether there is an empirical connection between full documentation (so that the auditors can use checklists to scrutinize files), and proper project management on-site. On the one hand, the auditors conclude that good files do not predict good management:

If a problem is documented in the file, corrective action is normally under way or has been taken; conversely, a ‘clean’ file does not give any assurance that the project is managed properly. Most of the project management problems disclosed by this audit could not have been identified by a review of the file. File monitoring cannot therefore be used as a substitute for on-site external monitoring to ensure proper project management (p. 9: emphasis added).

However, monitoring and control systems are a priori important:

... in all instances [of weaknesses found on site] it was evident that more stringent monitoring would have prevented or at least detected the situations ... There is no doubt that a persistent situation of weak controls will increase the probability of project mismanagement resulting from negligence, abuse and even fraud," (p. 2, final statement).

Overall, the 1991 study is dramatic, and blind to the features that limit its certainty.

1994 “Follow-up” audit

The 1994 audit, despite the different problem domain and scope of work, stresses the recommendations of the 1991 audit. The 1994 executive summary repeats the need for standards for documentation, training for everyone, and for a monitoring form to assist program staff. This again begs the question of where the auditors’ standards/demands come from: they must be imputed from their professional beliefs about how much control would prove good enough. The relevance of the 1994 findings to the 1991 study’s message is strongly asserted: “Control and monitoring continued to be neglected, often even with large dollar, complex and multi-year projects.” (Executive Summary: p. 1, emphasis added.) But, as noted earlier, “large dollar” projects are not investigated in the 1994 work.

The 1994 audit, unlike the 1991 study, believes that the state of project files will
predict real management problems that will be uncovered by visits to sites. The auditors assert, “…the use of statistical sampling by this audit team was quite effective in identifying trends requiring corrective action” (p. 10). No details are given. “Statistical sampling” is not explained. The Atlantic region presented particular problems because Canada Job Strategy programs were used as a delivery vehicle to relieve distress arising from the fishery collapse (paragraphs 9 and 10).

The 1994 audit’s format illustrates institutional relentlessness. The list of recommendations made in 1991 for significant contributions is the principle for organizing the findings from the new and different domain. Not even one of the recommendations for managing significant contributions had been implemented to the auditors’ satisfaction across the whole gamut of award amounts. “Other than post-audit, most monitoring by CJS/Employment supervisors, or regional staff was either sporadic or non-existent” (p. 9). Whereas it would have been useful to directly link monitoring to results from “post-audit,” which one assumes is audit of financial probity, this is not done.

In conclusion, because of its sampling choices, the 1994 “follow-up” is irrelevant and probably quite misleading in relation to the 1991 audit of significant contributions. Yet, the tone is certain, and the reporting format is directly misleading.

**2000 “Integrity” audit**

The 2000 “integrity” study’s misleading reporting begins in the title’s claim that it is a final report. It cannot be the final report of the imputed series, because it is different in its both goals and sampling frame. It does not concentrate on significant contributions, and its scope is different again from the 1994 study, which included the fisheries programs. Neither does the 2000 study reconcile its audit standards with the standards of the two previous studies. Nevertheless, the 2000 audit lists deficiencies: nothing has improved. The organizational format is “four fundamental steps” in grants and contributions delivery.

Another feature of the 2000 study is its “baseline” or organization development work. For example, the auditors note that it is legitimate under the applicable contract terms for sponsors of jobs to claim expenses without providing full documentation (although they must be prepared to present it). Nevertheless, in their findings the auditors castigate departmental staff for paying out claims without requiring their clients to first physically produce all the receipts (as opposed to recovering overpayments from later instalments).

The most egregiously misleading claim of the 2000 study is of course that audit results provide an estimate (three percent of a billion) of the magnitude of financial loss through grants and contributions (p. 5). The loss estimate, which it was irresponsible to advertise and calculate, is developed from the judgmental sample of site visits, and therefore no projection should be made to either the group of 459 projects or to the grants and contributions universe of nearly a billion.

Taking all three studies together, there are a number of points that are firm enough to bear keeping in mind.

**Assessment of Audit Quality: Lost on the Audit Trail**

The short answer to the question of continuity and cumulativeness between the three studies is that there is none. This is largely because of the total lack of
attention to defining conceptual domains and populations to which results would be generalized, and the failure to find reliable sampling frames and engage in defensible sampling strategies.

Indeed, the head of the Internal Audit Bureau knew that the three studies were not comparable, but drew quite a different conclusion. When he was asked about the comparability between the three studies by a member of a House of Commons’ Committee, the Director General of Internal Audit stated that only the findings and the audit criteria had remained the same from study to study (House of Commons, March 16, 2000). In fact, the criteria appear to an outsider to shift considerably, although there is subject continuity. Only the findings remain the same.

A second basic problem, confirmed in the testimony just referenced, is that the auditors did in fact arbitrarily specify their audit standards, as opposed to verifying the performance of officials against the ongoing standards for the performance of work required by program management. For the study released in January 2000, the head of the IAB told MPs, the audit team took the management control standards issued by the Canadian Institute of Chartered Accountants, and made changes to them according to their own interpretation of HRDC’s management priorities, which they inferred from statements made by the Department’s leadership. (This seems to catch auditors making management policy by the back door: the auditor applies arbitrary standards and finds practice falls short, a nervous management swears to repair the situation, and management standards are thereby imposed by auditors.)

It is of considerable importance that HRDC officials accepted at face value the auditors’ claim that the 2000 study was based on a random sample. It was only when the audit bureau officials testified to the House committee on March 16 that program managers learned the sample was not even random in conception or its designers’ imagination. In his testimony, the head of Internal Audit told MPs that the file sample was a compilation of slices from each of 27 program-regional combinations. He explained that the 27-slice sample design was settled upon to allow the audit team to draw good conclusions about the quality of management in each of the 27 slices. However, when the MPs then pressed him to characterize the quality of management in particular regions, he reversed gears and told them the audit findings applied only to grants and contributions as a whole. This passed unremarked.

The use of findings from the auditors’ judgmental samples of sites is also clearly misleading. If sites are chosen judgmentally, and the auditors knew it because they did it, the findings from chosen sites should not have been reported as though representative of either the file sample or the population. In each of the three audits, the judgmental sample of sites is so small (22 in 1991; unknown in 1994, and; 63 in 2000) that the work ought to have struck auditors, auditees and audit consumers as irrelevant. If the site visits had been conducted before a genuine random sample of projects was drawn for scrutiny, seeing the “real world of management” might have helped the auditors design their explorations. Site visits, chosen by nose, would have constituted domain exploration. But the observations have no objective value. Using them to illustrate the "real world" of the percentages derived from the larger studies of files, as is done in places in the executive summaries, is very poor.
In what follows, I break the political-administrative context into which the audits fell into three main components: the conflict between the theories of New Public Management and Westminster Government; the weaknesses of representative democracy in Canada, where electoral volatility tends to neutralize alternatives to the natural governing party; and the willingness of the Office of the Auditor General to engage in political discourse from its probity podium.

Reform-Engineered Disaster
NPM Reforms and Westminster Government

One can paraphrase Donald Kettl’s summary of the content of the managerialist revolution as follows:

- productivity, or doing more with less;
- marketization, or using market-style incentives and strategies to overcome the slowing and goal-displacing effects of bureaucratic “command and control” administration;
- service orientation, or finding ways to respond to citizen-suppliants as customers;
- decentralization, or shifting traditional programs to move them closer to the end-user, even where this means shifting power to other governments;
- policy accountability, in which the semantic distinction between policy and implementation is emphasized, partly with the goal of making it seem possible and imperative to track policy effects, and;
- accountability for results, which has generally meant that governments try to find means to replace simple adherence to rules with a bottom-up accountability for outcomes and results (Kettl, 2000: 1-2).

In Canada, public administration intellectuals who advise government tend to support NPM reforms. Hierarchy, control, and tracking of inputs and outputs, are seen as old technology. A recent evaluative discussion, published by the pan-governmental Institute of Public Administration of Canada, is that by Kenneth Kernaghan, Brian Marson and Sandford Borins, in their The New Public Organization (2000). The New Public Organization, they say, is evolving to “post-bureaucratic” forms. It tends to be citizen-centred, leadership-driven, people-oriented, collaborative, change-oriented, results-oriented, and decentralized. It may be non-departmental in structure, and might generate at least some of its own revenues (Chapter 1). The authors designate HRDC as a new public organization, writing before hierarchy, control, tracking and monitoring were urgently reimposed.

NPM theory was brought to the federal government in the Public Service 2000 reform that was heavily promoted by the then-Clerk of the Privy Council, federal Canada’s senior public servant, as well as by the Office of the Auditor General (below). As we have seen, HRDC was subjected to NPM-type reforms – decentralization and deconcentration, a “results” focus over rules, marketization, empowerment of local staff, and partnerships and horizontality embedded in arrangements supporting sponsors of job-creation projects – at the same time that staff levels were cut to meet government goals for right-sizing the headcount of government employees. As in the rest of government, there was heavy emphasis on making employees alert to the
importance of personal ethics in government service, as a direct and conscious substitute for the control that bureaucratic structure itself has traditionally provided. Some of the public administration intellectuals who pushed hardest for NPM also pushed on ethics training initiatives for the whole of government, as did the Office of the Auditor General.

One can indicate the commitment of HRDC to the NPM formula with examples from day to day administration in the Ontario region, the largest in Canada. Here, headquarters expected that the necessity for a layer of directors-general to coordinate and control the work of the HRCC directors would be temporary. At that time, the direct reports from the directors of about 30 HRCCs across the province would be added to the span of control of the regional ADM. After the reorganization, therefore, directors-general for service delivery were merely seconded to these temporary positions for a two-year term (the position still exists as of 2001). For another example, manuals of rules and precedents for the welfare side were removed from front-line offices. The purpose was to free clients and staff from formulaic responses. Instead, front-line workers now had to build arguments, based on their interpretation of the client’s circumstances and plans, rather than looking up entitlement in a manual. Soon case officers in all HRDC’s “business lines” were networking with one another so they could find ways to treat like cases alike and build precedent under the new dispensation that could stand up under public law. Thus, the complexity of work and the time required by each income support case was increased. (The insurance side continued, of course, to work with entitlements because working people pay premiums based on earnings.)

At the same time, probably because of restraint, central agency heads making management policy for government broke one of the cardinal rules for maintaining a viable organization (see Brocklesby and Cummings, 1999: 101). In allowing the capacity for review and internal audit to be removed from the regions, they left regional management without an internal research and intelligence-gathering function that could rationalize the new decentralized situation. If accountability had been consciously considered by those planning the PS 2000 and subsequent NPM reforms, audit theorists would have been invited to look at the new NPM practice in each context to develop new procedures and audit standards appropriate to the new mode of operating.

**Nexus of OAG-Electoral Politics**

**Politics in the Representative Institutions**

The Liberal party, the centrist “natural party of government,” has governed federal Canada for two thirds of the last half century, often as a minority government, its dominance based in either or both of the two large-population provinces, Québec and Ontario. The Liberals’ hold on power has high electoral volatility as its constant companion (Sutherland, 1991b). Canada has a disposable House of Commons: combining voluntary departures and upsets, 60 or even 80 percent of MPs can be new to politics after a general election. So short is the average tenure, that MPs’ pensions kick in after six years of service in the House. People elected to Parliament for the first time regularly get ministerial portfolios. The leader of the Conservative Party which was to hold government roughly from 1984 to 1993 was elected leader in a mass convention without holding a seat in the House of Commons, had never before held an
elective office, and led the official opposition from the visitors’ gallery before contesting for a safe seat when one was relinquished.

This low level of political experience means that many active MPs do not know how to perform their constitutional roles in the representative institutions. One role of the political opposition is to maintain appropriate boundaries for the Office of the Auditor General so that it functions under the constitution. But the right’s lack of experience in government, the implacable and unflappable Liberal dispensation of what the right sees as outmoded welfare-statism and thus high taxes, and, not least, the fact that the Liberal party has had unmatched access to the wells of political compensation, early led the political forces of the right to a moralistic right-wing politicization of the Office of the Auditor General. Potent economic forces flow where they can if they find themselves unable to maintain a serious presence in electoral politics.

Ministers are rarely found under law to have used their positions for their own benefit (Sutherland, 1991a: 102-105; Sutherland, 1993: 130), even though Canadian politics is largely about looking for signs of this. For one thing, they are rarely in one job long enough to identify the levers. But political compensation for electoral support is pretty much the glue that has so far held the Canadian union together (Noel, 1992; Simpson, 1988; Stewart, 1986; Whitaker, 1987). Compensation comes, for example, in the form of regional development organizations and job-creation strategies – good intentions addressed quasi-experimentally. However, inter-regional support is also part of the moral politics of Canadian identity. This is delivered through formula-driven budgetary redistribution of wealth to poor regions (equalization). The trade-off for mingling principled equalization with political compensation is heightened vulnerability for the natural party of government. Other parties look for instances of waste and corruption as character politics, and the political right looks to condemn social spending as inherently wasteful. The public is open to the view that government decisions in procurement and public works normally benefit the friends of the government party. At the same time, broadly speaking, regional publics are jealous to get their share. In the present case, the job creation programs did look like a hybrid between pure compensation and the rule-guided provision of opportunity to deserving individuals.

The involvement of the federal government in direct income support for persons not eligible for employment insurance, through both paid training and direct job creation (welfare proper is administered by provinces), was one of the few “leftist” policies that survived the restraint effort of the 1990s. Since taking power from the Conservative Party in 1993, the Liberal Party had made a priority of eliminating the federal deficit, whose back would eventually be broken the year after rules on Employment Insurance were tightened (Statistics Canada, 1999-2000: 24; Hargrove, 2000: A15). By the start of 1999, the Liberal Party was well into the second government it had won in 1997, with a reduced majority from that of 1993.
Even though the Employment Insurance reforms of 1996 cost them most of their seats in Atlantic Canada in the 1997 general election, the Liberals were the only possible party of government. The Progressive Conservative Party, the second of the great parties dating from Confederation, had run two governments with huge majorities before the Liberals came back into power in the 1993 general election. After the second Conservative parliament, and a failed attempt at constitutional renewal, it split into the western and Québec factions that constituted it. In 1993, it was reduced to two seats. Her Majesty’s Loyal Opposition in the Liberals’ first Parliament was thus the federal arm of Québec separatism, the Bloc Québécois. It had, from 1993 to 1997, two more seats than Reform, now the expression of conservatism in western Canada. The opposition following the 1997 general election was the Reform Party, whose seats were still confined to the west. The social democratic party, the New Democrats, the only opposition party with a national constituency, was in a secular decline, but still present in Parliament.

From 1993, in short, the Liberal Party has ruled as the only feasible governing party. But through the summer and fall of 1999, the Reform Party had been positioning itself to unite the Canadian right so it could move from the prairie redoubt into the populous right-leaning heart of the country, Ontario. Reform’s plan was to negotiate a merger with the Progressive Conservative Party to create the Alliance Party, and then develop a profile of a government in waiting.

Through the fall of 1999, Reform stayed in the media eye with a staged, petty, yet visceral and effective campaign based on the intersection between “character politics” and Liberal policies it thought created high levels of personal and corporate taxation, draining Canadian talent to the south. Its new leader and its MPs made a constant stream of allegations about the “political interference” that it said characterized the Liberals’ management of public money. The most pointed allegations occurred in the House under the protection of privilege, which still got even the most extravagant accusations into the public realm without risk. Reform attacked, for example, on grounds that the Prime Minister personally intervened almost habitually to lobby lenders and generally guide government funds to various enterprises in his own high-unemployment Quebec constituency. And Minister Stewart’s prosperous Ontario riding of Brock was discovered to have “pockets” of unemployment eligible for public funds. The Prime Minister had also, while the Liberals were out of power, invested his own money in a golf course where he might still have had an interest. Its value might have been increased by a loan that he probably influenced to a nearby hotel, because the hotel provided a place for golfers to eat and sleep. The probity front was long.

**Politics in the Audit Bureaucracy**

How does legislative audit fit into this kind of political system? There are three inter-related features that make the OAG difficult to confine within its constitutional space, characteristics make the inverted audit expectations gap more like a black hole. First is the probity power of the Office in the unique political situation. The Office has unquestioning media support. Second is the fact that, as already discussed, there is no robust and explainable technology to support or, perhaps more importantly, confine the Office’s Value-for-Money products. Consequently, Report chapters become increasingly abstract and idiosyncratic in coverage,
leaving the impression of serious government weaknesses on every possible front. Third is the eagerness of the Office to make management policy for government.

The history of how the Office’s operating legislation was developed and the expansive remit that the Office has developed, is documented elsewhere (Sutherland, 1999, provides an introduction to the literature and a critical account). Briefly, the history of state audit in Canada in the past century is one of open warfare between the Auditor General of the day and the government of the day, steadily worsening through the 1950s and onward. In 1970, after years of seeing the media dominated by “horror stories” about mismanagement, the Liberal government tabled a clumsy Bill that offered the OAG increased administrative freedom in exchange for curbed reporting powers. The Conservative Party seized on the Bill – which it said was a “countdown to dictatorship” – and put it into its election platform (PC Party of Canada, 1970). The Bill was abandoned.

Worse was to come in two steps. First, in a burst of reform inspired by the United States, the Canadian federal government implemented in 1971 a Planning, Programming and Budgeting System for presentation of its appropriation budget to Parliament. The federal Government would henceforth present its Estimates of Expenditure for the coming year in program categories, presenting goals for each program. Therefore, the Canadian OAG might sensibly conclude that it had the duty to undertake post-audit of programs, to assure the public that programs were achieving their goals.

The second step came in 1973. The Liberal minority government, looking for moral cover from the constant stream of OAG reports of unproductive payments and typical media-pleasing incidents of waste, recruited to the position of Auditor General the founding president of the Association of Management Consultants and an open neo-Conservative, Mr. J. J. Macdonell. Mr. Macdonell’s vision, as reported in OAG publications, was that the OAG would use its moral standing to support the modernization of management control throughout government, as opposed to delighting in “horror stories” or even in single incidents of lack of probity. It would apply cutting-edge “state of the art” audit methods to “management controls” to discern the economy, efficiency and effectiveness of expenditures of tax dollars.

But Mr. Macdonell’s bureaucratic interlocutors and Treasury Board ministers drew out the talks on his proposals for the first legislation for the Office for more than a year. They did not want to confer a mandate upon the Auditor General to make direct determinations of program effectiveness, because these would assess public policy, and wanted to keep the upper hand for defining management control. Then, suddenly, in his Annual Report’s opening chapter in 1976, Mr. Macdonell broke the impasse with stunning rhetoric. He published a statement that “Parliament has lost, or is close to losing, effective control of the public purse” (p. 9). Mr. Macdonell was, as he had promised, only talking about “management controls” as he conceived them but which were not yet objectively defined – “systems” to ensure that all expenditure could pass the tests of economy, efficiency and effectiveness. But media and public were not sufficiently attuned to modern audit theory to grasp the distinctions. They thought that when the Auditor General of Canada said Parliament had
“lost control of the public purse,” he meant that spending was beyond control and no one knew where the money was. A poorly drafted Bill was fought through in 1977, fleeing public opinion, acrimoniously, on partisan lines, and with last-minute adjustments that created important silences. For example, one change made in committee at the insistence of the opposition separated the Office’s inspection powers from its reporting powers. Canada now had an Auditor General with unlimited reporting powers, because reporting was no longer restricted to the Office’s investigations of the accounts of Canada. A new range of investigative powers, unrelated to accounts, would emerge to support the unlimited reporting powers.

Under the new mandate, financial audit and VFM audit were conducted by different audit teams, the VFM or management auditors generally not holding accounting credentials, because they were supporting non-financial Office reporting. VFM audit and financial audit have also since 1977 been reported in totally separate documents – the OAG’s remarks on the financial accounts are inserted into the annual Public Accounts, which have no public profile. The soft, qualitative, or off-accounts observations are reported in OAG publications (these are not House of Commons papers) and supplied free to a broad audience. These were published annually in one bound volume until 1995, when quarterly reporting was implemented.

Mr. Macdonell’s strategies to obtain the Statute for the Office that he wanted are reported by Sonja Sinclair in her book about Auditor and government, Close but not Cosy (Sinclair, 1979). The book is seen as a vanity publication: in the fall of 1979, the Office acquired 1,500 copies of the book from the publisher for about $22,500, and made gifts of the books to all staff, provincial auditors and some accounting firms (Howard, 1979: 2). As his successes in the court of public opinion accumulated, Mr. Macdonell wore his political colours ever more openly. In 1979, for example, he made a speech to Canada’s national meeting of public servants, the Institute of Public Administration of Canada, promoting the views of Milton Friedman and F.A. Hayek. He spoke of Proposition 13 in California as the beginnings of a tax revolt that would catch fire, characterized bureaucrats as spenders of “wampum,” called deduction of income tax at source as “…this insidious and monstrous bureaucratic stratagem,” and praised right-wing governments in Britain and in Canadian provinces. He also promoted his VFM or “comprehensive” audit as establishing one simple measure of viability for government programs. He had invented a bottom line for Canadian government – a form of audit that still lacks a technology. Mr. Macdonell was comfortable with this speech as a legitimate expression of his official views in his role as Auditor General, and tabled it with the Miscellaneous Estimates Committee. It can be found in the record of the Committee’s proceedings for November 8, 1979 (Issue No. 16). Mr. Macdonell also institutionalized the close and still-current relationship between the OAG and biggest accounting firms, appointing an Independent Advisory Committee of senior accountants from the blue-chip firms that, among its other duties, monitors developments in the accounting and auditing world to be sure the Office is able to bring cutting edge products to bear.

Audit Above the House of Commons
Since 1977, it is reasonable to say that the OAG, styling itself as “Parliament’s auditor,” has positioned itself above the
federal House of Commons. It has risen above its constitutional origin as providing technical support to the Public Accounts Committee’s historical democratic function of closing the accountability loop on public expenditure. The Auditor General in person gives interviews to all media, including radio and television, to get out the Office’s current message. Its reports include broad essays about governance across the two formal levels of government in the federation, from the perspective of the single taxpayer.

The OAG’s Reports are tabled to the House through the Speaker of the House. Reports are released to the media slightly in advance of their delivery to the subject standing committees of the House, the Public Accounts Committee being one among many. The Public Accounts Committee is a creature of the House of Commons, whereas the OAG identifies itself as speaking for “Parliament.” Parliament is a term reserved, in Westminster government, for the sovereign power, including the House of Commons (which takes in the government as its leader), the Senate, and the Crown. In OAG usage, Parliament seems to mean a body apart from and above cabinet and Prime Minister, which it calls the “executive branch.”

The Office’s expenditures for VFM audit as opposed to financial audit shift over the years, having begun at roughly half and half in the first years of the VFM mandate. For 1988-89, for example, OAG documents show that half the budget of $45 million was dedicated to work under 7 (2). For the year 2000-2001, planned expenditure to conduct financial audit of the Financial Statements of the Government of Canada is at 4.5 million, whereas VFM work in department and agencies is to cost 31 million dollars, or nearly seven times as much (OAG Web page). Of public sector entities, only departmental and agency forms are subject to the VFM type of review. The definition of VFM also changes through the years. At the beginning of the mandate in 1976-1977, it consisted of direct determinations of economy and efficiency in management, plus an examination of whether government had procedures in place to assess its own effectiveness. This work was conducted on a cyclical basis, and was expected eventually to cover the whole expenditure base of government.

The Office’s approach to coverage of state business by VFM has changed beyond recognition since 1977. For a time, the wording of Section 7 (2) of the 1977 Act (preventing the OAG from conducting its own effectiveness determinations) encouraged a certain caution, which seems to have been abandoned in the 1990s. As of 2001, VFM was defined as “performance auditing” of management practices, controls and reporting systems with a focus on results of programs. The OAG no longer tells citizens where it is on a VFM cycle through the expenditure base of government, nor does it align its VFM subjects with the accounts of Canada, or restrict audit to the past.

Whether a program or entity will receive a VFM audit – will be subjected to its attention – is a matter for the Office’s judgment. The criteria for selection include, as of 2001, importance, significance to “Parliament,” and riskiness. Audit topics thus emerge from a calculation of where the political hot spots will be. The Office acknowledges this. A senior OAG official predicts that the OAG will shortly provide direct determinations of program results (conduct program evaluations) for “Parliament,” following-up on problems the OAG may have identified earlier. Some “auditing” will be “real time:” the Office will
keep back a reserve fund to allow it to respond to “fast-breaking news.” Auditors will be policy experts (“deep subject experts”) with reputations in government and in “relevant professional circles.” The Office will also provide “Parliament” with objective “deep expertise” that is “forward-looking” (Rattray, 2000).

Since 1977, the OAG has off-loaded the costs of audit. As noted, the cost to the OAG of its straight financial audit is very modest. It does no forensic audit, but refers suspected frauds to the Royal Canadian Mounted Police. More recently, it has been integrating its VFM audit programs into government by inviting departmental auditors to conduct studies for it, who may feel they hardly have a choice. The OAG’s then publishes the studies as its own (HRDC’s TAGS audit is one example). The OAG places representatives on departmental audit committees, including that of HRDC. OAG and government audit budgets are melded, to an undisclosed extent, blurring accountability for expenditure, while internal audit for ameliorative purposes is melded with external audit for making recommendations to auditees. The OAG’s role in defining government management policy does not leave an audit trail.

Perhaps the OAG’s sole setback, major or minor, since the 1977 legislation was its failure to obtain legal access to cabinet’s internal political papers. Through the 1980s, spending at least half a million dollars from its own budget, it pursued the government to obtain authority to audit the quality of officials’ advice in the context of any given cabinet decision. The Supreme Court of Canada eventually ruled in 1989 that the Auditor General would have to work with the House of Commons in pursuing cabinet papers, case by case.

The Value-for-Money Studies

One might then ask, how can Ministers continue to be responsible for administration if they do not control the personnel who make management policy, nor the rate and direction of change in management policy?

One can supply examples where the Office of the Auditor General has made management policy. Ian Clark, as a former Secretary of Treasury Board and a former high-level official in the Privy Council Office, is a privileged witness. In an unpublished paper, he notes that the political dynamic spurred by the OAG’s 1976 claim that the government had lost control of the public purse moved Treasury Board Secretariat to impose on departments new rules and reporting requirements (Clark, 2000). It also had to try to devise and impose new forms of program controls so that the OAG could activate its mandate under the 1977 Act to verify management control. But some years later, in 1983, a different incumbent of the Office of the Auditor General reported from the character of his own times as follows: “productive management” was now constrained by “the impact of political priorities on the management process, the degree of administrative procedures with which managers have to cope, and the disincentives to productive management that are characteristic of the public service.” Clark points to the OAG chapter, “Constraints to Productive Management in the Public Sector,” of that year (OAG, 1983: 53). The 1989 Report pushes NPM philosophy again: “Our overall observation is that people are over-administered – too much centralization: too many prescriptions – while, all too often, they experience a lack of real leadership” (OAG, 1989: 35). Most notably, the OAG’s role was crucial to the service-wide set of NPM reforms under PS2000,
which emphasized front-line empowerment and getting results. Clark observes that the Clerk of the day, in announcing the PS2000 reform, explicitly reported the Auditor General’s endorsement. By August of 1991, Clark reports, the OAG saw itself as “the conscience of PS2000.” By the year 2000, which was to have marked the triumphant transformation of the federal government to an NPM organization, that very transformation was a fresh subject for alarm, one for which the OAG took no responsibility.

Epilogue

Some material on the OAG’s follow-ups in October and December 2000, and on the outcome of opposition’s character politics further illuminates the January to October political uproar. It will be recalled that the review of some 17,000 individual awards of grants or contributions found that about $6,500 was still owing to the government. Thus, administration that had been virtually free of management control as defined by the internal auditors, resulted not in the three percent loss as they projected, but in a small fraction of one percent on the value of these 17,000 files. Besides the conclusion that HRDC front line staff had exerted financial control, and deserve an apology, one might also conclude that management controls as the auditors defined them were irrelevant to financial control over projects. Overall, the legacy to the taxpayer of the audit scandal is that new procedures for management control will add about $50 million dollars annually to HRDC’s costs each year, have little margin to improve financial control because it is already at least fully satisfactory, and may even worsen control by adding more pressures for front-line staff, whose numbers have not been augmented.

This finding of satisfactory probity had no impact on the OAG’s October, 2000 report of follow up work it had undertaken on the IAB’s audit released in January 2000. The OAG now said that the Department’s own management controls – which had satisfied its VFM audits before – were too lax. Most “real” payment errors were not recoverable, because they resulted from internal standards and practices which were officially correct but not good enough, and not from recipient misrepresentation. The OAG Report signals its message early: it begins with the IAB’s 1991 claim that “There is no doubt that a persistent situation of weak controls will increase the probability of …mismanagement resulting from negligence, abuse and even fraud” (OAG, October, 2000: 11.18).

The OAG admits that IAB made sampling errors in the work released in 2000. But, the OAG, states, the IAB sampling method “was not designed” to “project the audit results quantitatively to either the full audit universe or any of its component programs” (OAG, October, 2000:11.44 and passim). The IAB results, according to the OAG, were meant to apply only to the 459 projects in the Bureau’s gâteau-millefeuille sample. This contradicts the text of the IAB audit, the explanations of two high-level HRDC officials in their technical briefings, and the testimony of the director of the IAB to the House committee. The IAB’s estimate of financial loss based on its extrapolation from a rate of error observed in a judgmental sample also drops from the OAG’s view. Any sampling errors the IAB made were “not material” to its findings.

The OAG then reports on its own investigations, which it says “confirmed and extended the findings of the 1999 [2000] internal audit” (OAG, October, 2000: 11.51-52.) The OAG says its own sampling strategy is an improvement over the IAB’s
work. The OAG selected “statistical samples of projects from each program in such a way that we would be able, from our review of project files, to project our findings to the program as a whole” (OAG, October, 2000: 11. 44). Thus, according to its own goals, the challenge for the OAG sampling method is to replicate and add to the base of the 2000 audit, and, further, to attain representativeness of the domain of grants and contributions. The OAG strategy for each of the four “statistical samples” of its selected four programs (different from any of the three IAB domains) is new. It takes all higher-value projects, and then adds a “stratified random sample” from the remaining strata. But the sampling factors are odd. For the four samples, numbers of cases are as follows: 74 cases from a population of about 1,100 completed projects; 32 cases from a population of 62 projects; 77 cases from a population of almost 8,100 projects; and 73 cases from a population of 114. It makes sense to “over-sample” on the small populations, if one wished reliably to characterize the sub-groups as individual domains (that is not the goal here, however). But there is no apparent logic in sampling 74 projects from a population of a thousand plus, or in taking a sample of 77 from a population of 8,000 plus. The samples are not large enough to allow confidence in the results for their populations. They cannot represent the quality of work across grants and contributions activity, because the largest population is barely in the sample, while the tiny populations are greatly over-represented. It is impossible to accept that the OAG results have extended and confirmed any of the earlier studies, or that they apply to the grants and contributions billion. It would seem to be another case of only the findings remaining the same.

As a further note on the October, 2000, OAG Report, it is interesting that the Auditor General offers instruction to MPs, and an interpretation of the constitution that contradicts the traditional acceptance that executive and legislature are fused. The provisions under CJF to consult MPs, who are “outside of the executive branch of government,” the Report says, “confuses traditional accountability relationships” (OAG, October, 2000: 11.134). There is nothing in the 1977 Act to support the OAG in making observations of this nature in a routine report.

In a subsequent report in December 2000, the last report from his ten years in office, the departing Auditor General’s remarks under “Matters of Special Importance” reflect the Office’s political opposition to the government’s policies. The remarks both evoke and invoke public opinion:

Earlier this year, the disclosure of serious shortcomings in the management of grants and contributions at Human Resources Development Canada caused a major stir. Public reaction was strong because the amounts involved were large and I believe, because years of rising taxes and shrinking or stagnating household budgets have made the public even more sensitive than usual to lax spending practices in government…. Canadians are justifiably upset by such disclosures. They may agree with Justice Oliver Wendell Holmes that taxes are the price we pay for civilization, and not begrudge the high taxes they pay to finance necessary public services. But they get upset and angry when they see their tax dollars squandered or used with less care than they must use to make ends meet in their household budgets. Frankly, I share their frustration. (OAG, December 2000, pp. 7-8).

The AG later issued a separate bound volume containing his reflections on his mandate, where these messages are
repeated (OAG, 2001). In its December summary of the October chapter on HRDC’s grants and contributions, the Office also feeds a perception that HRDC exposed its full three billion to risk, whereas two of those three billion are statutory entitlements:

HRDC spent about $3 billion in 1999-2000 on grants and contributions for programs such as job creation and youth employment, as well as for employment benefits and support measures. We examined in detail four of about 40 grant and contribution [sub] programs run by HRDC … (OAG, December, 2000: 11-18.)

Only a few weeks after the general election, the official opposition began a process of public disintegration that moved toward the leader’s resignation in the middle of 2001, with more than a dozen caucus members sitting apart from the main caucus, and resignations from party president and treasurer (Laghi, 2001: A1). Alliance support was by now at eight percent, down from 26 percent a year earlier, and it had lost members (Greenspon, 2000: A1, A4). A lay preacher and creationist social conservative as well as a fiscal conservative, the Alliance leader, had lost his moral authority by his finger pointing, largely, but not exclusively, at members of the legal profession. When Minister for the Treasury in the province of Alberta in 1999, Stockwell Day had written a letter to the Red Deer Advocate newspaper in which he suggested there were links between the views of a lawyer and those of his pedophile client. The lawsuit brought by the lawyer, who was looking for a fast apology which Mr. Day refused, became public only after the November, 2000 general election. In January, 2001, Mr. Day reached a settlement to pay the lawyer $60,000 in damages, but the Alberta taxpayers were left with costs of $792 thousand in legal fees and damages built up in the year’s interim (Alberts et. al., 2001: A1). At about the same time, Alliance caucus members learned of a large donation from either the senior partner in one Calgary, Alberta, legal firm that had earned more than $300 thousand for defending Day, or from the firm itself (Mahoney, 2001: A9). Shortly after, Mr. Day publicly questioned the impartiality of a Québec judge who ordered the seizure of documents that, if made public, Day was convinced would have put the Prime Minister’s feet to the fire. The judge had earlier been involved in a transaction in which Mr. Chrétien’s family trust was a party: Mr. Day repeated that the judge seemed in a “clear conflict.” The legal profession predictably mobilized to condemn Day, from the Canadian Bar Association to law schools to individual high-profile lawyers (Bryden and Tibbetts, 2001: A1). Even the individual the Alliance was seeking to champion pleaded with the Alliance to stop helping him (Clark and Leblanc, 2001: A4). Among other revelations were that the Alliance had hired private investigators to get “the goods” on Liberal misdeeds that “the media would not tackle” (McGregor, 2001: A4; Laghi and Oziewicz, 2001: A1; Van Rasel, 2001: A3). If this was not enough, it appeared that Mr. Day’s chief advisor offered a settlement from party funds to the B.C. MP who had resigned to open a seat for Mr. Day, an incentive arrived at in a spirit of fairness, but which is not legal (Ovendon, 2001, A6). Perhaps the single victory came when a B.C. Court of Appeal ruled that the Alliance’s insurer was obliged to defend the party against two further libel suits brought by individual Senators arising from Reform/Alliance’s campaign against the Senate on the Party’s Web page (Gatehouse, 2001: A6). Realistically, Mr. Day’s most serious offence was probably that he had failed to deliver
Ontario ridings to Party funders in the November 2000 election, but his quickness to believe the worst of others did not allow the Canadian public to be exposed to this more important lesson in our civics.

**Conclusion**

Nothing in this article should be understood as saying that soft audit is reliably wrong, and that therefore the maligned HRDC management controls are, in fact, perfect. Soft audit is not a reliable anti-authority. It is only, to use Power’s phrase, “fundamentally obscure.” The federal audit scandal of 2000 supports Power in each of the points reviewed: through unusual sampling choices and generally flawed methods, reversal of the burden of proof onto the auditee, and the nature of the expectations gap in public sector audit, the HRDC auditors made unsustainable claims for their work.

A number of concerns come to mind, suggested by this work. Is it a good thing that auditors can make management policy for government and dictate process through the back door by claiming that workers fall short of standards set arbitrarily by auditors, of which the workers knew nothing? Is the intermingling of external and internal audit a good idea? Does the mutual support and dependency between internal and external audit programs force-feed audit to management? In other words, what does it mean when the OAG joins Treasury Board Secretariat as an equal partner in management policy? Where is responsible government in all this?

Does prudence really dictate the need for qualitative studies of management control through the examination of files, off-site? If checklists and forms are so important to financial probity, should audit methodologists not show us exactly how this works? What is the reason for spending so much more on the political soft audit work than on financial audit? What is the goal?

Why is the OAG working on “hot topics?” In exactly what forum does “Parliament” express its demands for more timeliness in the OAG’s choice of topics and in delivery of its soft audit reports? By what mechanisms does the AG consult taxpayers and the public?

Let us turn now to the over-arching issues that affect the quality of democracy in Canada. Broadly speaking, the Canadian federal government is vulnerable on probity issues, that is, issues in reality or appearance involving money and use of influence, because of our political tradition of compensating both partisan support and support for federalism. The public also believes that audit is about probity, and, unfortunately, probity in Canada is only what the auditors say it is, because their work is not seen to fail in the way audit can fail in private sector financial applications. There is also a natural party of government, the Liberal Party, because the public wants social programs and because the right periodically has long periods of self-destructiveness. However, the fiscally conservative business right long ago found an ally and outlet in the Office of the Auditor General of Canada. Some of the OAG’s causes are good ones, such as its campaign to improve accountability. But the Office is willing to authoritatively impose heavy burdens on managers, and also to change its mind and push as hard in the opposite direction. More importantly, it is willing to use its media power to create politically charged public opinion, and to do so at crucial times in the political calendar. In the case at hand, even though the OAG agreed that the IAB’s sampling was flawed,
it supported the IAB leading into the
general election, and added to the im-
pression of mismanagement if not routine
criminality: nearly one billion of grants
and contributions spending (perhaps
even three billion) had been administered
carelessly, according to the audit profes-
sion. The OAG ignored the results of a
fact-finding operation it had helped to
define, and then raised the bar by claim-
ing that HRDC’s standards were harmfully lax. The government had to fight against
that characterization leading into an
election. If the official opposition had
seemed more credible to the alarmed
public, the scandal set in motion by
auditors could have defeated the govern-
ment, or left it in a minority situation. This
is a big role for auditors.

How does the NPM fit with the theory of
responsible government in the Westmin-
ster version? The two seem to me to be
contradictory. NPM assumes that there is a
natural boundary that separates politics
and policy from administration and
implementation – justifying the set-up
costs of privatization, decentralization and
marketization. It has a simple vision that
policy makers need only specify goals and
officials can design programs as objective
models to deliver the desired policy
results, which they will rigorously mea-
sure. But, as the conservative magazine
The Economist wrote recently, there are
no “reliable non-financial metrics” for soft
concepts, such as those used as surro-
gates for results and outcomes (May 19,
2000: 68). This cannot be solved by new
methodology or new audit products. The
reason that no reliable non-financial
metrics exist for soft concepts is
definitional. They would not be soft if they
had metrics.

NPM, in my view, is based on a
Promethean theory of human nature,
citizens carry varying amounts of coercion, and therefore affect how government is perceived.

It must also be made clear that ministers manage exceptions. This is what makes the number of files a given minister carries at any one time manageable. It is not necessary that ministers are the veridical person who is the first cause of events in their portfolio for ministers to take responsibility for issues as they come up. But when issues come up, ministers have the right to know of all aspects, down to the bottom layer of bureaucracy should this seem necessary to them. This means that the organizations that depend on ministers for direction must be bureaucracies in their foundations—"old" public organizations that gather and analyse information about their own processes and that can make the nuances of implementation transparent to the Minister when the need arises.

Responsible government is sophisticated, subtle and pragmatic in that it builds in the possibility of responsiveness between elections. It further provides that, in accepting remedial responsibility for events in his or her portfolio, a minister acquires jurisdiction for even emergent problems. It is true that some observers, including Peter Aucoin in Canada, see responsible government or party government as existing in a state of tension with "good" government (but how to define it without a line to the public?) and career public service (Aucoin, 1995: 23). But this sensible view is not irreconcilable with a conception of responsible government as the highest order "control system" of democratic governance, one that may include tensions but which works as well as any other constitutional arrangement for political control of bureaucracy.

None of this means that governments somehow cannot address the scope and scale of government, by privatizing and otherwise divesting functions. But the elected part of the executive must understand that nothing can disengage it from political liability for perceived harm to citizens that may arise from failures in the provision of common goods. Ministers will be held responsible by voters for the perceived consequences of moving functions in and out of public provision. Governments are likewise held responsible by voters for perceived harms that arise when jurisdictions are fragmented and government loses the ability to coordinate.

In his book, cited earlier, Kettl argues that political forces, including mechanisms for sharing and/or consolidating power in political institutions as well as aspects of political culture, condition the way that management reforms will work: "Management reform is a matter of integrating administrative efforts with the fabric of each nation’s government and civil society" (2000: 39 and passim). He might equally have said integration may fail, and thus gaps between constitutions and reforms pushed by bureaucracy can become canyons. Poorly-executed reforms have direct political repercussions because all reform is ideological, means conditioning ends. All major reform affects the living constitution within which politicians remain responsible. In federal Canada, it is clear that the philosophical shifts brought in by the NPM for delivery of HRDC’s programs were not reconciled with the Department’s own audit routines, or with responsible government. Neither NPM nor "management controls" audit, internal or external, have been thought about for political accountability purposes in a Westminster-style political system.
Canadian ministers, as heads of administration for their departments, are sitting on a volatile political mixture: administrative reforms that are incompatible with the political system they must operate in, and which few politicians understand or appreciate, the compensation tradition that makes them doubly vulnerable, and an audit community that has a vision, is unified and has been seen more than once to take advantage of public credulity. It is thus, I think, quite likely Canadians will see more such “biggest scandals in Canadian history,” and that little good will come of them.

Endnotes

1 I owe special thanks for their insightful comments to Dr. James Iain Gow of the Department of Political Science, University of Montreal, Dr. David Good of the School of Public Administration at the University of Victoria, Dr. Ned Franks of Queen’s University’s Department of Political Science and Dr. Warwick Funnell of the University of Wollongong. Dr. Good was also extremely generous in letting me see a draft of his book-length draft manuscript, “Security the Balance: Politics and Public Management in the Audit of Grants and Contributions Programs,” from which I benefitted greatly. Colleagues who attended the conference of September 2000 and the anonymous readers for the journal Critical Perspectives in Accounting have also offered welcome advice.


3 Beginning with its 1976 methodology-development Studies of Procedures in Cost Effectiveness, conducted in large part by general management consultants, between a quarter and a third of OAG auditors are from other backgrounds, from engineers to sociologists. The figures were traditionally reported in a chapter about the Office published in the single volume reports, then apparently dropped when the reporting format changed in 1995. The proportion of non-accountants in departmental audit bureaus would be similar.

4 I work as a policy advisor and consultant to various departments and agencies of the federal government. During the past two years, I have worked on two contracts with HRDC. Neither were audit projects. Nevertheless, this work did make me generally familiar with the departmental environment.

5 These comprise the following: Labour Market Training; Canada Jobs Fund; Youth Programs; Aboriginal Training Programs; Human Resource Partnerships; Social Development; Learning and Literacy; and Labour programs. Each is comprised of several sub-programs.

6 The HRDC progress reports can be found at http://www.hrdc-drhc.gc.ca/dept/reports/audit.shtml.

7 I think Morin is hasty, however, in citing the IAB work as evidence that the OAG had objectively failed in its concurrent VFM work in HRDC to spot the real mess (cafouillage) that the IAB identified (Morin, 2000: 448). There is no standard by which to make a comparison. Any auditor performing soft audit must in the end depend on power, as she correctly notes.

8 Reports and information about the OAG are found on its Web site at www.oag-bvg.gc.ca.
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