

As auditors general, these CAs have seen their roles grow dramatically as they patrol the effectiveness of our government programs

By John Lorinc

Waste WATCHERS

I IN EARLY 2005, ONTARIO'S LIBERAL GOVERNMENT embarked on a hard-nosed negotiation with Bruce Power, an energy consortium, over a proposed deal to refurbish an aging nuclear plant on the shores of Lake Huron. The consortium had pitched an ambitious and largely unprecedented quid pro quo: it would spend \$4.25 billion to fix the reactors and Ontario's energy authority, in exchange, would pledge to buy power from the facility for 6.3¢ per kilowatt hour.

"The government said they got a great deal and the opposition said they were taken to the cleaners," muses Ontario's long-serving auditor

photograph by LYNNE FOX/KLIXPIX

In the process of safe



guarding against corruption, Ontario AG JIM McCARTER has become a recognizable figure

general Jim McCarter with a worldly chuckle. With the controversy burning brightly in the legislature, energy minister Dwight Duncan asked McCarter to review the contract.

While McCarter's office has handled all manner of audits in the past nine years, including politically contentious ones focusing on health Ontario and the Liberals' vaunted renewable energy strategy, this request was unusual, he recounts. Duncan hadn't asked McCarter, who once worked as the auditor general in St. Kitts on a CIDA contract, to merely fact-check the numbers or even conduct a value-for-money (VFM) audit on a deal that had already been vetted by the bureaucrats and approved by the cabinet. Rather, he wanted McCarter "to opine on the contract" and report back with the results of what was essentially a review engagement.

McCarter retained a retired nuclear engineer and an investment banker and set to work taking the contract apart clause by clause to determine the sources of hidden risk.

"We did a fair amount of research," he says. "It was a more technically complex area than one we normally look at." The upshot of the AG's 32-page report, released in 2007: that the government's energy authority was going to end up paying 7.1¢ per kWh, almost 13% more than initially estimated.

Such episodes certainly explain the steadily growing public profile of many of Canada's auditors general, who are, as a group, some of Canada's most prominent and influential CAs. In an era when private sector auditors have seen their role grow dramatically, these legislative officers have come to wield tremendous clout as they funnel more resources to VFM audits (also known as performance audits) designed to patrol the effectiveness of government programs. In fact, as the public service becomes increasingly complex, AGs and their audit teams have pushed to expand the scope of their duties while recruiting from a range of professions, besides accounting, to round out their in-house expertise. Nor is the trend limited to Ottawa and the provinces: since the early 2000s, several large Canadian municipalities, including Toronto, Halifax and Montreal, have also moved to establish their own AGs as a safeguard against corruption and wasteful spending.

In the process, some AGs — notably McCarter and former federal auditor general Sheila Fraser — have also turned into highly recognizable figures. Indeed, it's not an overstatement to suggest that the famously plain-spoken Fraser, a former senior partner at Ernst & Young, became Ottawa's most visible public official after she blew the whistle on the sponsorship scandal, which involved bureaucrats kicking back millions to Liberal ad firms hired to promote the federal government in the wake of the 1995 referendum in Quebec. Her findings and evident personal outrage — "Senior servants," she said when she outlined the findings to the media, "broke just about every rule in the book" — felled Paul Martin's Liberals and set the stage for a sea-change in both the bureaucracy and the House of Commons.

The AGs' growing influence has not gone unnoticed. Carleton University journalism and communication director and professor Christopher Waddell, a former *Globe and Mail* Ottawa bureau

chief, says some critics, including politicians, grumble that the AGs now venture too far into the realm of policy-making. "The further they go in terms of talking about value-for-money, the more they tread on political turf."

Some politicians, however, specifically seek out this kind of feedback. Former Ontario cabinet minister Dianne Cunningham recalls that when she took over the education and training portfolio, she solicited the input of then Ontario AG Erik Peters before proceeding with reforms to the province's antiquated apprenticeship program. "Many of my colleagues said, 'Meet the AG. You'll learn something.'"

Indeed, as many current and former AGs stress, the process

The process AGs oversee reduces waste and helps fortify public institutions, even if their findings do send shockwaves through the bureaucratic establishment

they oversee not only reduces waste, but also helps fortify public institutions, even if their findings do occasionally send shockwaves through the bureaucratic establishment.

As with most of its parliamentary institutions, Canada inherited the auditor general's role from Britain. But as historian C.E.S. (Ned) Franks, professor emeritus at Queen's University, notes, the first federal AGs shared responsibility for managing finances with federal officials, and distributed funds to far-flung government workers including letter carriers. In the decades after confederation, in fact, the federal bureaucracy faced formidable challenges in paying its bills and monitoring spending across such a vast country, Franks says. "As they say, there were many a slip between cup and lip."

The federal system of financial control became more formalized in the 1930s, as then prime minister R.B. Bennett demanded better information on the government's financial position. During that period, Franks says, the government gave the Treasury Board clear responsibility for the issue of funds, while line ministries had the task of dispersing the money. Increasingly, the AG's role was to serve as an external auditor, even though provincial auditors continued to issue cheques.

In the early 1950s, however, those Depression-era reforms were eclipsed by a sensational spending scandal, which broke after federal auditors reported that the government's payroll included several horses stationed at Canadian Forces Base Petawawa, near Ottawa. As Franks says, "It's been a pretty lively office ever since."

The governments of the day did not always react favourably to this kind of embarrassment and sometimes even fought back. Pierre Trudeau's Liberal cabinet attempted to limit the powers of the federal auditor general in the mid-1970s, but backed down in the face of widespread public protest.

The AG appointed in 1974, J.J. Macdonell, upped the ante, warning Parliament in 1976 that the Trudeau government was "close to losing control of the public purse." Not long afterwards, the Liberals ceded even more political turf to the AG, passing a new act that allowed Macdonell to conduct VFM audits — a much more muscular form of review more akin to a management con-



NB'S KIM MACPHERSON taps into the network of legislative auditors and the OAG when she runs into a wall

sultant's assessment than a traditional attest audit of a department's books. He was also invited by the House of Commons to perform an audit that found, in Franks' description, "severe problems" with the institution responsible for administering the legislative branch. (Sheila Fraser got a less friendly response from the Harper government when she tried to audit the House of Commons towards the end of her tenure.)

When Denis Desautels stepped into the job in 1991, succeeding Kenneth Dye, he found an office with a firm sense of its mandate. But he oversaw a number of critical changes. In 1993 the Liberals had pledged to establish a federal environmental commissioner and they eventually decided to situate that position in the Office of the Auditor General of Canada (OAG). Desautels also began reporting to Parliament several times a year, as opposed to annually — a change that Waddell says has diluted the media's interest in the OAG's findings. And he established a system for tracking how ministries respond to audit reports.

But when then finance minister Paul Martin embarked on his historic campaign to eliminate the federal deficit, Desautels, who served until 2001 and now serves on several corporate and institutional boards, felt it was necessary to signal the government that his department, with about 600 employees, didn't

want to be treated differently from other branches of the public service. "I felt we needed to be able to say we'd done our share," he says. But it was a tough call. "You could argue that when the government cuts back, the risk of error goes up and therefore you could put more into auditing. But we chose not to make that case."

When New Brunswick's auditor general Kim MacPherson, a CA and career public servant, runs into a wall, she taps the extended network of Canada's legislative auditors and the federal OAG for help in assessing programs and policies that crop up in multiple jurisdictions.

After the federal OAG shifted to focus on VFM auditing in the 1970s, its provincial counterparts gradually followed suit. MacPherson, who has held the position since late 2010, observes that VFM audits require far more professional judgment and new skill sets than standardized attest audits. "You have to learn as much as you can about the organization," she says. "You have to decide where you're going to zero in." The biggest challenge, MacPherson adds, "is not being able to do what I want to do" because the New Brunswick government, particularly at this point in time, is short of funds.

Other provinces have experimented with variations on the



Saskatchewan's **BONNIE LYSYK** sees her office as something of a training ground for the civil service

theme and also grapple with the problem of stretching available audit budgets as far as possible. Bonnie Lysyk, Saskatchewan's provincial auditor, says her 62-person team dedicates 90% of its resources to annual "integrated audits" that combine traditional attest reviews with internal control opinions about whether programs and departments are complying with government policy and legislation; VFM audits account for the other 10%. "That is unique in Canada, including at the federal level," says Lysyk, a CA and MBA whose career includes stints in Crown corporations in Manitoba's public sector as well as a post as vice-president, internal audit at the giant Ontario Municipal Employees Retirement System.

The integrated audits, Lysyk says, not only allow her team to readily identify programs that require more scrutiny, but also to complete those reviews quickly: 300 to 500 hours, compared with 1,000 to 5,000 hours required for more typical VFMs. "The majority of our recommendations are based on that 10%," she says. "We're picking areas with more risk."

Risk is the obvious analytical focus for auditors general. But given scarce resources, how to determine what should be audited is part of the art of running a strong and independent office.

After eight years on the job, McCarter is acutely aware of the minefield that awaits an audit work plan. "I try to pick audits that will be of interest to the guy on the street," McCarter says, echoing Fraser's famous edict that her reports must be comprehensible to "Harry in Saskatchewan."

He makes a point of talking to MPPs and various stakeholders about how programs are functioning, or not, at the local level. Sometimes, brown envelopes come over the transom and go into a "possible VFM" file. But McCarter knows that opposition parties love to use a spending scandal revealed by the AG to bludgeon the government, so he doesn't proceed with a full-scale VFM unless he's got majority support at the legislature's public accounts committee, to which he reports, or if requested by a minister of the Crown.

McCarter's nose and his even-handedness have served him well. In his boardroom, located in a downtown office building strategically situated several subway stops away from Queen's Park, he has hung dry-mounted posters of his past nine annual reports, which represent a range of the provincial government's activities. His office has conducted VFM audits on everything from commuter-rail service to the control of C. difficile in hos-

GREG HUSZAR/KLINPIX

pitals and long-term care homes and the scandal involving the province's quasi-public air ambulance service, Ornge.

Despite the diversity and complexity of the policy areas that cross McCarter's radar, he runs a shop largely dominated by CAs whose analytical skills, he notes, "are pretty transferable." When the Ontario AG's office needs to draw on the more specialized skills of experts, it hires outside consultants, often from outside Ontario to mitigate the risk of conflicts of interest.

In Saskatchewan, Lysyk sees her office — which is also comprised of people with nonaccounting designations — as something of a training ground for the civil service and runs a large articling program for young accountants and audit professionals whose graduates can now be found in senior positions in the province's Crown corporations and ministries.

But other AGs have adopted a different approach to the in-house staffing resources. Ottawa's deputy auditor general Ray Kostuch, who is a CA as well as a civil engineer, says his team includes other engineers who have helped analyze why the city was dumping untreated sewage into the Ottawa River. Jeff Griffiths, a CA who has served as the City of Toronto's auditor general since 2002, prefers to populate his office with other professionals, public health nurses and even lawyers. "I think it gives my department a better diversity of skills," says Griffiths, whose claim to fame is unearthing evidence in 2001 of a multimillion-dollar computer leasing scandal that involved senior city officials, lobbyists and politicians. "There's more to what we do than just numbers."

After the number crunchers, policy analysts and expert consultants have applied their collective insight to a VFM audit, there's one more crucial step in the due-diligence process before the AGs take their findings out to the public: passing draft reports by senior officials with the organization audited. For McCarter, this kind of vetting represents the most demanding form of peer review and fact-checking. "They're pretty vociferous if they feel any of our facts are wrong," he says. "They don't hesitate to go through on a sentence-by-sentence basis."

In May 2010, the City of Montreal's auditor general Jacques Bergeron publicly accused senior civil servants of committing a serious transgression by revealing a confidential report on an \$87-million contract to Telus. As the scandal unfolded, it transpired that city officials had also intercepted Bergeron's emails. That deal

wasn't his only radioactive file: his office had vetted some of Montreal's notorious construction contracts, and so perhaps it wasn't a surprise that the city received anonymous allegations accusing him of hiring family members. Bergeron survived even as the city manager left amidst controversy.

Most AGs eventually end up with such battle scars; and, if they don't, they're probably not doing their jobs properly. Griffiths, who served as the auditor for Metro Toronto and the post-amalgamation city, recalls battling one notorious city councillor and a few senior officials who pressured him not to look into certain types of transactions — a suspicion-inducing dynamic



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that eventually prompted him to ask council to provide him the sort of bulletproof independence senior AGs enjoy.

In other cases, the response from officialdom is more forthright, and comes in the form of phone calls from the prime minister's office, premiers' offices or their proxies (e.g., clerk of the privy council, cabinet secretary). "Yes, it happens," Desautels says. "It's part of the game. People know your phone number. You will get reactions." McCarter agrees: "I will get a call saying, 'Jim, have you thought this through?'" But, he adds, the feedback is important. "I want to know their concerns. The benefit I have is that I can't be fired. I can call it the way I see it."

The attention comes, in large measure, because the AGs are highly visible public figures whose findings generate not only news but political controversy, regardless of the size of the jurisdiction. For newcomers, that revelation can come as something of a shock: "I am surprised at the media attention that takes place following a report," says MacPherson. So, indeed, was Fraser, who became a media star very soon after taking office and eventually received media training, according to Waddell. In fact, Desautels, a cool, buttoned-down figure, says he found the sudden celebrity to be "the toughest part of the job. As accountants, it's not something we do a lot of." He adds, "You learn that what you say to the media can find its way back to you pretty quickly."

McCarter, for his part, has learned to deal with reporters and makes a point of returning calls promptly and giving good quotes. But he understands the temptations and is keenly aware of the

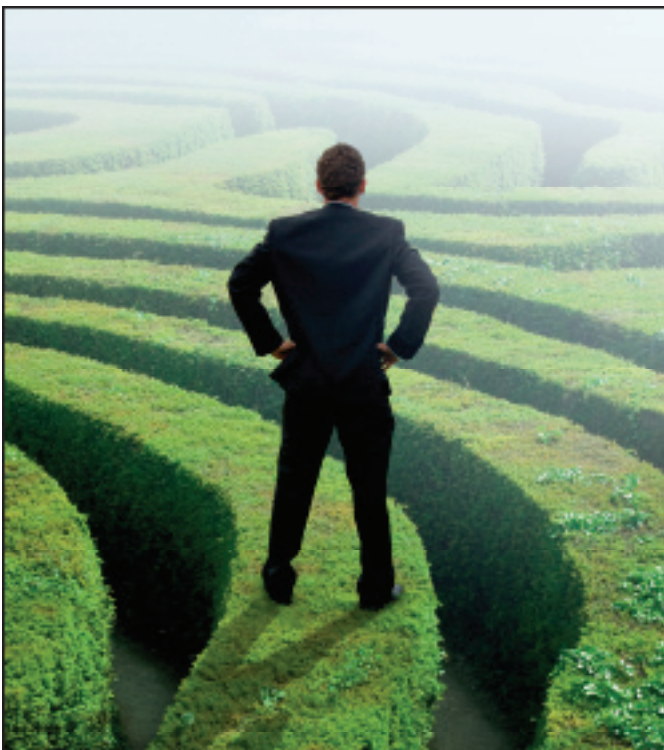
need to dial down any kind of publicity that suggests attention-seeking as opposed to dispassionate analysis. He recalls how he was once watching a debate in the legislature over a study his office did on the GO Transit commuter service. As the politicians argued, a pair of *Toronto Star* reporters approached McCarter and asked him to pose for a photo in front of a locomotive at Union Station, with a pledge of page 1 coverage. "I said to them, 'I'm not going to do it.' That, to me, would have been going too far."

For those AGs who don't fly too close to the sun, the reward comes from watching public-accounts committees and senior officials act on their advice. Increasingly, AGs say, bureaucrats view their recommendations as constructive criticism. "We're not out to get anybody," says Lysyk. "We're here to do a job."

Kostuch says the crispest measure of buy-in from the municipality's civil service is that 95% of the AG's recommendations to date have been implemented, with identified savings exceeding \$40 million between 2004 and 2009.

"I think the fundamental role of the auditor general is to help our democratic system function better by providing information to elected officials and to hold the government accountable," adds Desautels. "It's an essential part of the government we've put in place and if done properly, it can make quite a contribution to the quality of our institutions. Ultimately, you end up with a better country."

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