Departmental Audit Committees and Governance: Improving Scrutiny or Allaying Public Perceptions of Poor Management?

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Delivered at CPSA Annual Conference

May 29, 2009

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"I don't think any institution can
go through the scrutiny, the scrubbing
we've gone through and come out squeaky clean."
Kofi Annan, 2001

INTRODUCTION[1]

A fundamental shift is occurring in Canada's federal public management - quietly, discreetly and well below the radar of many discussions on the topic. A directive issued by the Treasury Board and administered by the Office of the Comptroller General, requires departments and agencies to institute "departmental and agency audit committees" (DAACs) as of 1 April 2006. The role of these committees is to "ensure that the deputy head has independent, objective advice, guidance, and assurance on the adequacy of the department's control and accountability processes. In order to give this support to the deputy head, the audit committee should exercise active oversight of core areas of departmental control and accountability in an integrated and systematic way."[2] These committees support deputy heads in their role as accounting officers.

Members of these committees are typically former senior public servants, academics or, as is becoming the norm, former or current high ranking officers from private sector firms. That these individuals would have singular and regular access to deputy heads and detailed and confidential information about the management within departments is unprecedented. That they have the authority and resources to compel departmental officials through the deputy head to follow their advice is also a fundamental shift in organizational culture for federal departments and agencies. In some quarters, this shift is the ultimate triumph of the new public management (NPM). Not only is the public sector importing tools and mechanisms from the private sector into its routine practices, but it now has an institutional voice and a means for acting on its particular preferences for public sector action at least at the level of management. According to one senior public servant, "it's finally happened – we've corporatized our public services to such an extent

[1] This paper benefited greatly from the perspectives of many experienced people from the academic, government and private sectors. However, none are responsible for the views, perspectives or errors it contains – these are my own. From the federal government, I would like to acknowledge especially Francois Guimont (PWGSC), Michael Wernick (INAC), Sheila Fraser (OAG), Rod Monette (OCG), Marie-José Bourassa (OCG), Alan Latourelle (Parks), Richard Fadden (CIC), and Christiane Ouimet (Integrity). From the private sector, members of audit committees, I wish to thank with much appreciation the generous time and kind participation of Erik Peters (PWGSC), Ian Clark (INAC), Peter Boomgaardt (OAG), Bill Blundell (Parks), Scott Serson (CFIA) and Michael Nelson (Integrity). Finally, the perspectives I received from the several federal public servants in various audit and finance units and central agencies were pivotal in understanding the particular challenges departments face. To all, I am deeply grateful.
[2] Treasury Board, "Directive on Departmental Audit Committees" (Ottawa: TBS, 2006), section 4.1.

that there is no differentiating between us and IBM, GE or Bell, save for the ensign on our letterhead."

In other quarters, however, the move to incorporating DAACs is a positive step toward improving the operations of departments and the internal audit function. DAACs are a valuable resource providing independent advice to the deputy head on matters of risk. For one senior public servant, "my committee is a sounding board on my internal management decisions, my eyes and ears in the department, and my interpreter of audit findings – it is *my* resource, and these individuals are highly distinguished and experienced in their own right."

The institution of audit committees is a response to the "audit explosion"[3] occurring in most western democracies. Public sectors are obsessed with accountability, responding to the deteriorating confidence of their citizens in all things public management. Failing grades posted by auditors general, internal overseers, polls and media reports, and investigations or inquiries examining scandals and corporate failures have generated demands by citizens that governments "clean up" the messes left in the wake of what may be perceived as poor public management. They also want greater assurance that public institutions are working as expected and that information is made publicly available. The institution of DAACs is regarded as the latest of a number of measures taken in Canada to repair broken, or at least low performing, systems and processes and to focus the attention of senior officials on matters of management.

This paper examines the rationale for instituting departmental and agency audit committees as well as considers some initial observations on their implementation and the effect these may have on Canada's public management including their claims for improving accountability. The rationale for their institution can be traced in part to evolving reforms in public management especially since the mid-1990s but also to events that have and are occurring in the private sector related to poor management and bad behaviour in large private sector companies.

The first section explores the theory behind the implementation of audit committees with a focus mainly on their antecedents in public management reform as they emanate mainly, but not exclusively, in the new public management. The next section examines the characteristics and requirements of DAACs as set out in the Treasury Board's 2006 *Policy on Internal Audit*, the *Directive on Departmental Audit Committees*, and the *Federal Accountability Act 2006*. The third section provides some perspectives on the challenges and strengths of DAACs based on current departmental experience. Many departments and agencies are just now instituting their committees and holding initial meetings with their members. The final section offers some

[3] See Michael Power, "The Theory of the Audit Explosion," in Ewan Ferlie, Laurence E. Lynn, Christopher Pollitt (eds.), *The Oxford Handbook of Public Management* (New York: Oxford University Press, 2005), 326-46.

conclusions on the larger issues of public management related to the implementation of these committees.[4]

ANTECEDENTS OF AUDIT COMMITTEES

Public Management Reforms Contributing to DAACs in Canada

In order to understand the roots of public sector audit committees in Canada, one must take a look at the developments in financial and public management reform through the lens of the "Canadian model"[5] of new public management and the reforms carried out in the 1980s and 1990s. Aucoin understands this version of the NPM according to one central characteristic: a professional public service.[6] This model is premised on the idea that the Public Service is a key source of advice and a partner with the government of the day to achieving political objectives. As Good explains, "political and ministerial attention has not been directed at how to reform or change the Public Service, but at how to achieve particular policy and political objectives."[7] For example, when the Chrétien government carried out its Program Review in 1995, the Public Service identified areas where expenditures could be reduced and programs could be restructured in a way accounting for regional variations and political sensitivities.[8] In such a model, government has several roles in the economy and society. As such, government is dependent on a skilled, professional and impartial public service. By extension, the public service is regarded as a key instrument of change assuming the roles of partners, brokers of government action, mediators, information disseminators, and facilitators.[9]

Good also argues that if the Canadian model requires a public service that is well-performing, professional and non-partisan, then that public service must also be politically sensitive – that is, deal with conflicting values.[10] All senior officials are expected to share this attribute and exercise leadership carrying out the directives of the government of the day. This has manifested itself in

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[4] To assist in all of these aspects, this paper was served greatly by the perspectives of several deputy heads, members of audit committees, senior departmental officials in the areas of audit, evaluation and finance, and central agency officials. In all, twenty interviews were carried out between February and April of 2009. Departments were selected on the basis of size and the amount of experience with this type of committee. The OCG will be carrying out a detailed review of the DAAC Policy before 2011.

[5] Phrase coined by Jocelyn Bourgon in: Jocelyn Bourgon, *Fifth Annual Report to the Prime Minister on the Public Service of Canada* (Ottawa: Privy Council Office, 1998).

[6] Peter Aucoin, "The Public Service as a Learning Organization: Maintaining the Momentum in Public Service Reform" (Ottawa: CCMD, 2000). This version contrasts with the models framed in the U.K., U.S., Australia or New Zealand grounded in politicization, performance management, privatization and contracting out.

[7] David A. Good, *The Politics of Public Management: The HRDC Audit of Grants and Contributions* (Toronto: University of Toronto Press, 2003), 155.

[8] Gilles Paquet and Robert Shepherd, "The Program Review Process: A Deconstruction" in Gene Swimmer (ed.) *How Ottawa Spends 1996-97: Life Under the Knife* (Ottawa: Carleton University Press, 1996), 39-72.

[9] Good, *The Politics of Public Management*, 156.

[10] *Ibid.*, 158.

many ways including the growing tension between managerial discretion and the degree of political direction, control and accountability.[11] As governments have decentralized, deconcentrated, debureaucratized and devolved, the management of public programs and institutions through shared management and responsibility structures has become more complicated and problematic for citizens, public servants and politicians. Finding ways to make government accountable has become a major challenge due in no small part not only to public service mistakes and scandals but because the centre and politicians do not believe they have the information they need to make informed decisions when program management is dependent on multiple responsibility centres. Internal management and control systems cannot keep pace with increasing needs or they provide information that is inconsistent with new public management demands for results-based rather than process or outputs-based information.

As an essential feature of Canadian reforms, improving accountability and oversight have been central elements of public sector action since the 1980s. In Canada, Aucoin and Heintzman argue that accountability has been examined and improved from three major perspectives as reflected in several reform efforts: accountability for control, accountability for assurance, and accountability for learning.[12] Clearly, however, there are tensions between these various forms. Most notably, there is conflict between ensuring accountability for financial control and fairness, and accountability for performance.[13] Hence, there has been a growing trend toward managing for risk while maintaining integrity in accounting for control, performance and learning. In typical Canadian fashion, audit committees have been instituted and entrusted with assisting deputy heads identify management risks while ensuring that adequate systems are in place that maintain control (e.g., audit and evaluation), performance (e.g., information technology systems and processes for providing sound performance information through the Management Accountability Framework elements), and learning (e.g., ethics and values programs).

In light of these various ways of understanding accountability, the addition of audit committees can be traced to two major management reform initiatives: *Modern Comptrollership* (1998) which led to *Results for Canadians* (2000) with the shift to enhancing results-based management while improving performance information; and, the *Federal Accountability Act* (2006) including

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[11] See Paul Thomas, "The Changing Nature of Accountability," in B. Guy Peters and Donald J. Savoie (eds.) *Taking Stock: Assessing Public Sector Reforms* (Montreal and Kingston: McGill-Queen's University Press, 1998), 349-50.
[12] This conceptualization is based on a number of similar models. See: Robert D. Behn, *Rethinking Democratic Accountability* (Washington, D.C., The Brookings Institution, 2001) 6-10; Barbara Romzek, "Dynamics of Public Sector Accountability in an Era of Reform," *International Review of Administrative Sciences*, 66, 1 (March 2000), 21-44.
[13] Many scholars have commented on this essential problematic of public administration. See: James G. March and Johan P. Olsen, *Democratic Governance* (New York: Free Press, 1995), 150-55; Peter Self, *Administrative Theories and Politics*, 2nd Edition (New York: Allen and Unwin, 1984), 238-46; Frederick Mosher, "Comment" in Bruce R. Smith (ed.) *Improving the Accountability and Performance of Government* (New York: The Brookings Institute, 1982), 72; Phillip J. Cooper, "Accountability and Administrative Reform: Toward Convergence and Beyond" in B. Guy Peters and Donald J. Savoie (eds.), *Governance in a Changing Environment* (Montreal and Kingston: McGill-Queen's University Press, 1995), 72-5.

Section 16.4 designating deputy heads as Accounting Officers. This Act was, for many, a means to formalizing accountability for control systems and practices. Each of these initiatives is inter-related but they were intended to address specific management problems or shortcomings.

Modern Comptrollership: Accountability for Control and Performance

Concerns for improved accountability for control and performance are longstanding ranging from the Glassco and Lambert commissions to the 1990s and Program Review to current financial reforms culminating in new audit and control policies. In 1966, the *Report of the Royal Commission on Government Organizations* (Glassco) found that more authority over program management and less central agency control is required at the departmental level in order to build responsibility for expenditure control. Similar findings were presented by the Lambert Commission in 1979 except that its main concern was for financial planning and budgeting in order to improve program performance and expenditures control. As a result of this commission report, the Office of the Comptroller General was created to develop financial and reporting standards and to improve and promote the program evaluation and audit functions. [14] More importantly, the commission proposed that deputy ministers should appear before the Public Accounts Committee as holders of powers and responsibilities for departmental management in their own right. It was intended that deputies act, in some ways, as "accounting officers."

In 1983, one of Mulroney's principal concerns was the size of government and its ability to control spending.[15] In 1984 he created the Nielson Task Force on Program Review with a mandate to cut federal spending and address inefficiencies, and to reduce government programs and services. Although unsuccessful for the most part, the task force did raise some important questions related to expenditure management and the effectiveness of central control systems to maintain program and management integrity.

In 1987, the Auditor General prepared a study on financial management and control and concluded that, "although accountability is improving in departments, there is still too little emphasis on financial accountability. We found few examples where managers were held to

[14] See Royal Commission on Government Organization, *Report of the Royal Commission on Government Organization* (Ottawa: Queen's Printer, 1966); Treasury Board, "Guide on Financial Management" (Ottawa: Queen's Printer, 1966); Treasury Board, "Guide on Financial Administration" (Ottawa: Queen's Printer, 1974); Royal Commission on Financial Management and Accountability, *Report of the Royal Commission on Financial Management and Accountability* (Ottawa: Supply and Services, 1979); Office of the Auditor General, *Annual Report of the Auditor General of Canada 1990* (Ottawa: Supply and Services, 1990), especially Appendix C: Reports of the Standing Committee on Public Accounts to the House of Commons, 10 October 1989 (refers to CICA suggested amendments to accounting practices for departments). See also: Amendments to the *Financial Administration Act*, 1969, Bill C-92 (1983), Bill C-24 (1984). See also: Commission of Inquiry into the Sponsorship Program and Advertising Activities, *Restoring Accountability: Recommendations* (Ottawa: PWGSC, 2006), 96-100.
[15] See Donald J. Savoie, *Thatcher, Reagan Mulroney: In Search of a New Bureaucracy* (Toronto: University of Toronto Press, 1994), especially 19-86.

account for the efficiency or cost-effectiveness of their operations."[16] In 1993, former Clerk of the Privy Council, Gordon Osbaldeston, initiated a study on public service organization and recommended that the Treasury Board shift its role from functional oversight and control to creating the conditions necessary for improved financial management performance at the departmental level.[17]

Several initiatives were launched after the 1994 Program Review to improve the overall management of government. In 1997, the prime minister designated the Treasury Board as the government's "management board" which spearheaded, among other things, the *Modern Comptrollership Initiative* (MCI).[18] Prior to this initiative, government comptrollership was regarded as the preserve of financial officers and auditors. Their role was to report transactions and to ensure that spending complied with established procedures and had the proper authorizations. "Modern comptrollership" on the other hand, is concerned less with transactional compliance, and more with efficient resource management and bureaucratic decision-making, and the extent to which expenditures achieve the results set out by political decision-makers.

In 1997, Chrétien announced the creation of the Independent Review Panel on Modern Comptrollership in the Government of Canada comprising public and private sector experts. Their task was to recommend ways to integrate modern comptrollership practices into federal public management practices. It recommended that central agency and departmental financial analysts and program managers must work together to prioritize, plan, set goals and objectives and be part of the process for defining and achieving results. The Panel set out four key areas for effective and responsible stewardship at the departmental level which in many respects mirrors those of the current DAAC Policy:

- *Integrated performance information*: timely financial information which is linked to information on program reporting and results;
- *Sound risk management*: clear understanding of the risk environment, departmental capacity to identify, prioritize and manage risks, and ability to mitigate against those risks;
- *Appropriate Stewardship and Control*: systems of delegation of authorities and control that are conducive to innovative service delivery and risk mitigation;

[16] Office of the Auditor General, *1987 Report of the Auditor General of Canada*, "Chapter 4: Financial Management and Control Study" (Ottawa: Supply and Services, 1987), 4.99.

[17] Gordon F. Osbaldeston, *Keeping Deputy Ministers Accountable* (Toronto: McGraw-Hill Ryerson, 1989), 174-75.

[18] Other initiatives were launched around the same time including Program Integrity Initiative (to restore resources and capacity to core programs following Program Review); Citizen-Centred Delivery (building citizen approaches to consultation and policy); Government of Canada Online (single window service, online consultation and access to services); Improved Reporting to Parliament (Increased Ministerial Authority and Accountability); and, Developing an Exemplary Workplace (LaRelève, labour-management relations).

- *Shared values and ethics*: the organizational mandate and culture should be aligned with the values and ethics of the Public Service.[19]

The MCI was implemented in phases beginning with a pilot phase in 1998. As the MCI was concerned with improving internal departmental management systems, it is widely regarded as the progenitor to the Management Accountability Framework (MAF) announced in 2003.[20] The intent of the MAF was "to develop a comprehensive system that would attempt to gauge and report on the quality of management of departments and agencies, and encourage improvement every year."[21] In this respect, the MAF acts as a guide for audit committees to identify, monitor and make recommendations for assessing management risks.

The conditions set by the MCI were formalized by the *Results for Canadians Initiative* launched by the Chrétien government in 2000. This initiative built on the rationale of MCI and the fiscal circumstances at the time. It focused "on results and value for the taxpayer's dollar, and demonstrate[d] a continuing commitment to modern comptrollership."[22] The thrust of the initiative was "management excellence" and the Treasury Board as "management board" was seen as the guide to better management in the Public Service. The management framework focused on four critical areas to a well-performing public sector: move to a citizen focus on government activities; management must be guided by a clear set of values and ethics; departments and agencies must be focused on the achievement of results which are reported as simply as possible; and, responsible spending.[23]

[19] Independent Review Panel on Modernization of Comptrollership in the Government of Canada, *Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada* (Ottawa: Supply and Services, 1997), 3-4.
[20] The progression of these initiatives is not as clear as implied here. Several initiatives were operating simultaneously to the extent that it is difficult to discern when one initiative ended and another began. However, respondents to this paper's study attribute MAF to the ideas and intentions contained in the MCI. The MCI was implemented in three phases: Phase 1 involved a pilot project with thirteen departments and two agencies to build awareness, identify capabilities and shortcomings, develop priorities for implementation, arrive at standards of practice for control, performance and risk management information, etc.; Phase 2 was initiated in June 2001 and expanded to 88 departments and agencies, and was to institute the full array of TBS policies and use new centres for expertise; Phase 3 involved a series of additional initiatives including citizen-centred service delivery, and Government-On-line. Many of the initiatives in this third phase had overlapping agendas and priorities and were intended to replace the MCI and *Results for Canadians* initiatives.
[21] Evert Lindquist, "How Ottawa Assesses Departmental/Agency Performance: Treasury Board's Management Accountability Framework," forthcoming in Allan Maslove (ed.) *How Ottawa Spends 2009/10*, Draft manuscript, 4. See also: See: Office of the Auditor General, "Chapter 5: Financial Management and Control in the Government of Canada," Report of the Auditor General of Canada 2002 (Ottawa: Supply and Services, December 2002).
[22] Treasury Board Secretariat, *Results for Canadians: A Management Framework for the Government of Canada* (Ottawa: Supply and Services, 2000), 3.
[23] *Ibid.*, 5-6.

Several other management initiatives were spawned by the *Results for Canadians* agenda when the government of Paul Martin was sworn in on 12 December 2003.[24] He had to deal with the fall-out from the Sponsorship and Advertising Program scandal including the introduction of the *Values and Ethics Code for Public Servants* which came into force on 1 September 2003. In addition to ethics, Martin announced various financial management reforms in his government's 23 March 2004 Budget Speech. These reforms included: the reconstitution of the Office of the Comptroller General; departments and agencies were required to hire comptrollers responsible for signing off on all major spending initiatives; and internal audit was bolstered.[25] Internal departmental units were strengthened to support new guidelines by the Comptroller General.

At the same time, an unprecedented number of private sector businesses both north and south of the border were undergoing collapse due to management malfeasance, improper financial management and controls, or simply poor management in the 2000s. The combination of corporate and public sector failures and irregularities such as HRDC and the Sponsorship and Advertising Program scandals, led, in part, to finding ways to improve departmental management. The revised *Policy on Internal Audit* 2006 carries the requirement to support departmental and agency audit committees. The policy "is designed to ensure that, at both departmental and government-wide levels, internal audit and audit committees provide deputy heads and the Comptroller-General, respectively, with added assurance, independent from line management, on risk management, control, and governance processes."[26] Audit committees are established under the *Federal Accountability Act 2006* as supporting deputy heads as "accounting officers."

AUDIT COMMITTEES: CURRENT REQUIREMENTS (As of MAY 2009)

The requirements of the *Policy on Internal Audit* and the *Directive on Departmental and Agency Audit Committees* are current as of time of writing. The next section highlights respondents' concerns with the DAAC Policy to date.

Federal Accountability Act: Tightening Responsibility for Key Actors

The *Federal Accountability Act* was introduced in Parliament on 11 April 2006 and received Royal Assent on 12 December 2006. Events leading up to the introduction of this bill including the Commission of Inquiry into the Sponsorship Program and Advertising Activities suggested a

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[24] Note that Paul Martin had many several announcements related to democratic reform, strengthening social foundations, enhancing economic success and Canada's place in the world. However, for purposes of this paper, I am focusing on financial and management reform.
[25] See: G. Bruce Doern, "Martin in Power: From Coronation to Contest," *How Ottawa Spends 2004-2005: Mandate Change in the Paul Martin Era* (Montreal and Kingston: McGill-Queen's University Press, 2004).
[26] Treasury Board Secretariat, "Policy on Internal Audit" (Ottawa: TBS, 1 April 2006), s. 3.2.

malaise among Canadians that their governments were self-serving and that internal systems of control to prevent such events were either weak or broken altogether. The Harper government had identified thirteen areas this legislation was intended to address in its Action Plan each of which was intended to address the overall objective of "rebuilding the confidence and trust of Canadians."[27] One of these priorities calls for strengthening the accountability of departments by clarifying the responsibilities of deputy heads and bolstering internal audit.[28]

The FedAA made specific amendments to the *Financial Administration Act* including those regarding accounting officers and the creation of audit committees. Section 16.1 of the FAA makes "the deputy head or chief executive officer of a department responsible for ensuring an internal audit capacity appropriate to the needs of the department." Section 16.2 addresses this requirement: "the deputy head or chief executive officer of a department shall establish an audit committee for the department." In addition, section 16.3 designates deputy ministers and the deputy heads of departments and agencies as accounting officers. Finally, section 16.4 provides that the accounting officer "is accountable before the appropriate committee of the Senate and House of Commons for:

- The measures taken to organize the resources of the department to deliver departmental programs in compliance with government policies and procedures;
- The measures taken to maintain effective systems of internal control in the department;
- The signing of the accounts that are required for preparation of the Public Accounts; and
- The performance of other specific duties assigned to him or her by the FAA or any other act in relation to the administration of the department.[29]

The *Federal Accountability Act* formalized the arrangements contained in the *Policy on Internal Audit* into law. It is clear that there is a direct link between the designation of accounting officers and the requirement to constitute audit committees. What is also clear is that the combination of authorities makes it a priority for deputy heads to improve the management of their departments. The addition of the Management Accountability Framework and its associated annual assessment combined with enhanced processes for internal control including the direct reporting relationship of the Chief Audit (and Evaluation) Executive and the Senior Financial Officer should assuage any doubt that "job 1" for the deputy head is management of the department. Such a shift clearly comes with implications. The addition of audit committees as a means of oversight will have effects on departmental management. The following section attempts to

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[27] Canada, "Brochure: Federal Accountability Act and Action Plan," (Ottawa: TBS, 11 April 2006).
[28] See: Canada, "Accountability Act Action Plan" (Ottawa: PWGSC, 11 April 2006) at: http://www.faa-lfi.gc.ca/docs/ap-pa/ap-pa00-eng.asp
[29] Canada, "Bill C-2: An Act providing for conflict of interest rules, restrictions on election financing and measures respecting administrative transparency, oversight and accountability (*Federal Accountability Act*)" (Ottawa: PWGSC, 12 December 2006), ss. 16.1-16.4, 188-89.

highlight, at least from ten thousand feet, some of the challenges with implementation of audit committees in departments and general implications for Canadian public management.

As of August 2008, 72 members had been appointed by the Treasury Board to sit on departmental and agency audit committees across the federal Public Service. Almost all departments and agencies have created their committees. It should be noted that despite the number of appointments to date, there are several outstanding. Many departments have nominated committee members who are awaiting formal appointment. At the time of writing, there was no data on the number of outstanding appointments.[30]

Internal Audit Policy 2006

The revised 2006 *Policy on Internal Audit* accentuates the federal government's requirement for better assurance that public monies are being spent as intended and that there are adequate financial management and control systems in place to make certain that such spending takes into consideration key departmental and government-wide risks. The policy also makes it clear that deputy heads are responsible for internal systems of control within their departments and that there is an "integrated assignment of responsibilities for internal auditing between deputy heads and the Comptroller General that supports strong internal auditing across government."[31] In this respect, deputy heads are responsible for appropriate audit coverage, and the Comptroller General is responsible for horizontal and sectoral audits including the support of the audit function in small departments and agencies.[32]

DAACs are created under the policy in order to "ensure the real and perceived independence of internal audit from line management." Departments and agencies must create audit committees to "include competent and experienced members drawn from outside the federal public service" and the Chief Audit Executive must be organizationally independent reporting directly to the deputy head rather than through a director general or assistant deputy minister.[33] The Audit Policy makes the deputy head ultimately responsible for internal audit including:

- Instituting effective procedures to ensure systematic review of control and accountability processes in their departments;
- Taking into account the results of internal audits conducted by the Comptroller General;

[30] Treasury Board Secretariat, "Department and Agency Audit Committees: 2008 DAAC Symposium Synopsis" (Ottawa: OCG, January 2009), Annex 2, 9.
[31] *Ibid.*, s. 3.3.
[32] *Ibid.*, s. 4.2.3.
[33] *Ibid.*, s. 4.2.2. Section 5.3.2 further stipulates that the audit committee must include a majority of external members who are not currently in the Public Service. The stipulation of the direct reporting of Chief Audit Executives is outlined in s. 5.3.3 and supported by the TBS *Directive on Chief Audit Executives*.

- Ensuring that the audit committee receives all of the information and documentation needed or requested to fulfil its responsibilities, subject to applicable legislation;
- Ensuring that management action plans are prepared that adequately address the recommendations and findings arising from internal audits, and that the action plans have been effectively implemented;
- Ensuring that completed audit reports are issued in a timely manner and made public in a timely way and posted on departmental websites in both official languages;
- Ensuring that the minister is briefed on significant items arising from audits and the audit committee. The minister will also meet annually with the audit committee for assurance regarding risk management, control and audit systems. The deputy head, if not a member of the audit committee, would also be briefed the audit committee on its findings;
- Ensuring that the Office of the Comptroller General is given full access to departmental information, and management representations needed to support the audit work of the OCG.[34]

The supporting TBS *Directive on Departmental Audit Committees* outlines the following areas of responsibility for audit committees:

- Values and Ethics: The audit committee shall review, at least annually, the arrangements established by management to exemplify and promote public service values and to ensure compliance with laws, regulations, policies, and standards of ethical conduct (s. 4.2.1);
- Risk Management: The audit committee shall review, at least annually, the corporate risk profile and departmental risk management arrangements (s.4.2.2);
- Management Control Framework: The audit committee shall review, at least annually, departmental internal control arrangements, including management-led audit (s. 4.2.3);
- Support the Internal Audit function in the following ways (s. 4.2.4):
    - Recommend, and regularly review, a departmental internal audit charter or internal audit policy for approval by the deputy head;
    - Regularly review the adequacy of resources of the internal audit function;
    - Review and recommend for approval the risk assessment and the internal audit plan prepared by the chief audit executive;
    - Regularly review the performance of the internal audit function;
    - Advise the deputy head on the appointment and performance appraisal of the chief audit executive;
    - Receive and recommend for approval internal auditing reports and management action plans to address recommendations; and
    - Be aware of audit engagements or tasks that do not result in a report to the committee, and be informed of all matters of significance arising from such work.
- Support the Office of the Auditor General by (s. 4.2.5):
    - Ensuring that management has arrangements to support the audit work of the OAG;
    - Being fully briefed on all audit work relating to the department;
    - Reviewing the audit reports of the OAG and central agencies that have implications for the department or government and recommend for approval responses and action plans;
    - Meet periodically with the OAG and seek comments and advice on matters of departmental risk, control and governance;

[34] *Ibid.,* ss. 5.5.1 to 5.5.7.

- Being briefed on audit-related issues and priorities raised by central agencies and advise the deputy head on required action;
- Being briefed on, and advise the deputy head on the impact of government-wide initiatives to improve management practices.

- Follow up on Management Action Plans by ensuring there are mechanisms in place to monitor and follow up on such plans and to receive reports from management on actions taken. In this respect, the CAE must report to the committee on whether these plans have been implemented and whether the actions taken have been effective (s. 4.2.6).
- Review all departmental financial statements and public accounts reports and recommend for approval to the deputy head. With respect to departmental audited financial statements, the audit committee will review the statements with the external auditor and discuss any significant adjustments and any difficulties or disputes with management as a result of the audit (s.4.2.7);
- Review the departmental Corporate Risk Profile (CRP), the Report on Plans and Priorities (RPP) and the Departmental (or Agency) Performance Report (DPR) and other accountability reports and assess those areas where there may be misstatements or omissions (s. 4.2.8).[35]

With respect to committee member selection, three to five members may be selected who are not currently members of the federal Public Service. These members can be engaged for a term of four years serving no more than two terms. Deputy heads may not select previous internal staff members. Committees must comprise a majority of external members. Deputy heads may elect to chair their own committee but this is not preferred. If the deputy head is not the chairperson, he/she is an *ex-officio* member. The deputy head, chief audit executive and senior financial officer are expected to attend all meetings of the committee. It is expected that at least four meetings are to be called annually.[36] Finally, the audit committee must prepare an annual report to the deputy head that summarizes committee's activities; assesses the department's system of internal controls, documents significant concerns regarding the department's risk management, controls and accountability processes, and provides an assessment of the capacity and performance of the internal audit function.[37]

The Internal Audit Policy and the Directive on DAACs affords committee members a great deal of discretion to review those areas of management they deem appropriate. These policies make certain that the DAAC and the Chief Audit Executive and Senior Financial Officer work closely to identify weaknesses in internal controls and to recommend improvements to the deputy head who, in many respects, is compelled to consider such recommendations for implementation.

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[35] TBS, "Directive on Departmental Audit Committees" (Ottawa: TBS, 1 April 2006).
[36] *Ibid.*, see s. 4.3.
[37] *Ibid.*, see s. 4.4.

DESIGN AND IMPLEMENTATION CONSIDERATIONS

The various advocates, departmental officials, and audit members are keenly aware of the trade-offs involved in designing and implementing a system of oversight such as departmental audit committees. All agreed as a general point, and it is well taken, the initiative is still new and wrought with many challenges. Implementing a tool such as this will take at least three to five years before there is significant community of practice upon which to base solid best practices to guide departments and agencies forward should they decide this is a useful addition to our public administration. The early overall opinion is that this is a effective tool for departmental and agency oversight but this should be taken as tentative given limited evidence to date of its effectiveness and coherence within our system of government.

To best guide an initial assessment of the DAAC policy, it is useful to consider some general questions: What are DAACs intended to achieve? What problems are they intended to resolve that could not be resolved before they were instituted? Are the benefits of instituting DAACs worth the costs involved, and do we understand these costs properly? Are advocates of DAACs realistic about the strengths and opportunities these committees may have on departmental and agency operations, decision-making and oversight? Are audit committees a useful addition to our public administration? To assist with addressing these questions, at least in a cursory way, for purposes of this paper, it is organized around considerations related to the rationale of the policy itself and matters of implementation (only significant aspects will be considered here).

Rationale of the Policy

Goals of the DAAC Policy

Aside from the "stated" goals of the DAAC policy for providing assurance on the adequacy of departmental control and oversight processes, it is always useful to look beyond what is stated to super-ordinate goals about what animates corporate-wide policies.[38] In this case, goals of increased accountability and control within departments are desirable in and of themselves, but less stated are the goals of cultural change and maintaining appearance of control in a dynamic and difficult environment. As Kevin Lynch, Clerk of the Privy Council, suggests: "On the one hand, there is the urgent search for knowledge to better understand the nature of the [policy] crisis so as to better shape the policy response, and this takes time and expertise. This is always in tension with the understandable desire for action, to do something and to be seen as doing something."[39] As Perrow suggests, when there are competing and difficult problems, it is sometimes desirable to be seen to be doing something so as to generate organizational

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[38] See: Charles Perrow, "The Analysis of Goals in Complex Organizations," *American Sociological Review*, 26 (1961), 854-66.

[39] Privy Council Office, "Public Policy Making in a Crisis: Remarks by Kevin G. Lynch to 2009 Conference of the McGill Institute for the Study of Canada," Speaking Notes, Montreal, 27 March 2009.

momentum in dealing with areas of crisis. In this case, the insertion of audit committees appears to be a response to growing perceptions within and without government that challenges related to inadequate accountability or broken controls on public expenditures must be contained.

Respondents identified a longstanding tension with respect to the implementation of this policy: more oversight versus building organizational excellence. The federal government has created layers upon layers of policy that have supported one or the other side of this tension as outlined in the previous section. In the 1990s, for example, Treasury Board supported LaReléve with the express goal of fostering leadership and excellence in departments including building better mechanisms for internal accountability. On the other hand, government has a long history of building an ever increasing “web of rules” to reduce uncertainty in government decision-making and ensure compliance to existing procedures.

In the case of audit committees, there is a general sense that the Treasury Board is attempting to balance both tensions by creating a push and pull effect within departments. Audit committees are pulling the internal audit function to improve their performance, placing pressure on their oversight units to generate better and more reliable reviews of departmental operations, and hopefully, reduce management risks that may be picked up by external examiners. They are also pushing other internal control systems such as performance management, reporting in program units, and management generally to focus more on improving management. The challenge for audit committees is to pay attention to “boundary management” and avoid becoming an instrument of Treasury Board ministers for maintaining departmental control. Clark and Swain’s warning that departments will become adept at supporting their committees through reporting requirements thereby inoculating themselves from effective oversight holds in this case.[40]

There is a real concern among respondents that the institution of audit committees may be perceived as simply “good optics for public consumption.” As one respondent stated, “using outside high-profile private sector managers looking in on the management of federal government departments in an intimate way looks and feels good to voters but are these committees going to actually improve accountability? That is the question.” There is little question that using external auditors is good marketing but this may be simplistic and cynical. The proof of effectiveness for many, was not whether these committees will save deputy heads from embarrassment but whether they create positive change in departments for better management.

[40] See: Ian D. Clark and Harry Swain, “Distinguishing the real from the surreal in management reform: suggestions for beleaguered administrators in the Government of Canada,” *Canadian Public Administration*, 48, 4 (Winter 2005), 453-76.

Audit Committees as an Ongoing "Systems Check"

The principal advantage of audit committees is that they provide not only snapshots of systems quality and capacities within their departments and agencies but they also regularly meet to review the progress being made to these systems and give deputy heads needed perspectives and advice on internal risks. There are certainly some costs and benefits to this argument.

Few question that audit committees provide a useful support for deputy heads to focus attention on departmental accountability and control systems, particularly as this support serves deputies in their role as accounting officers. The principal advantage of audit committees is that they highlight in vivid colour the daunting management challenges that face deputy heads in their responsibilities to respond to pressures internally, from other departments and the centre. The perspectives of audit committees support departmental and agency efforts at understanding their management risks and create the fodder necessary to build and maintain coherent and rigorous corporate risk profiles. Regular review of these systems, at least on a quarterly basis, allow the deputy head to focus on other responsibility areas but also to use their limited time in a focused way to react to the recommendations of their committees on specific problems.

It is clear that the assumption behind the institution of audit committees is that over time, management systems will improve thereby reducing the need for rigorous external examination by the OAG or other agents which might be potentially embarrassing. The challenge for audit committees is that expectations on their effectiveness for gauging the quality of internal control systems, or indeed programs themselves through review of audits and other reports, may be higher than they can deliver upon. As one respondent noted, "the greater the cost of the help, the greater the expectation for quality." This may certainly hold in this case. It is difficult to corral public or internal governmental perceptions and expectations. However, what may be accurate is that because audit committees have been tasked to review and assess specific aspects of departmental operations and systems, it may be the case that their influence may be more implicit than explicit. The old adage, "what gets measured, gets done" could hold in the sense that systems may improve, but are departments actually delivering on their responsibilities in an effective way? Although it could be argued that this is a risk, it may be difficult for audit committees to separate the task of maintaining systems coherence and the department's raison d'être of finding solutions to public problems in a creative and innovative way – another longstanding policy tension.

General Concerns of Implementation to Date

When the DAAC policy came into force on 1 April 2006, it was relatively untested although departments and agencies had been used to working with internal audit and evaluation committees comprising senior managers for some time. The new policy requires external members with significant effort to maintain the committee. This change along with other technical matters has added a complexity to departmental operations that was not there before. Some of these considerations are presented here. It should be noted, however, that the Office of the Comptroller General is reviewing the technical aspects of the policy and consulting with the audit committee community to make changes. The following reflects current thinking on some of the more significant matters.

Senior Management Support to Sustain Committees

When the DAAC policy was being considered there was mixed support among the deputy ministerial community although much of the support could be typified as "cool," some referring to the initiative as "the flavour of the month." Questions abounded about the authorities of the committee, its relationship to the department, and the extent to which it could provide the assurance sought from the centre. As the initiative has been implemented many of these concerns have been responded to through dialogue and education but there is still some reticence about the impact these committees will have as change agents or indeed upon larger matters of departmental governance. At this point, there appears to be management support for the initiative. Several deputy heads indicated that they are finding the addition of the committee to be positive although they understand that it will take some time before they are accepted by senior program managers and the rank and file.[41]

Governance Arrangements

Three main consideration that arises as part of the theme of governance of DAACs is the relationship between chief audit executives, senior financial officers and the DAAC, meetings with ministers, and relationships with central agencies.

Relationships of CAEs and SFOs: According to the *Guidebook*, the DAAC has "functional oversight" over both the CAE and the SFO.[42] Functional oversight is defined broadly as having a "watchdog" role over the functioning of the internal audit and finance units. The DAAC is able to request information from these units, review their activities and identify any areas of risk that may be a potential problem. Most respondents thought raising the profile of the audit and finance managers as "direct reports" to the deputy head was a sound idea. In fact, there was consensus that this change added a degree of "intellectual honesty" to internal systems of oversight. The previous regime was characterized as a "foxes guarding the henhouse" situation with limited options of the guardians to prevent abuses. The shift to a direct report model means in practical terms that information on management coherence gets to the deputy head unfiltered instead of

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[41] TBS, "2008 DAAC Symposium Synopsis," 9.
[42] *Ibid.*, 2.

internal management "noise" getting in the way to diminish or obscure the concerns offered by these units. The addition of the audit committee, however, has the potential to obscure the reporting and accountability relationship between the DAAC, CAEs and SFOs. There is the potential, if it is not showing up already, that these managers may serve two masters in the sense of satisfying both the needs and demands of both the DAAC and the deputy head. This could present itself, for example, in the form of requests made by the DAAC for information, analysis, or informal "direction" with respect to where to direct their energies. It could also place these units in the position of coordinating such requests with other parts of the department such as performance measurement and those responsible for preparing accountability reports. It could also show up in following up on the recommendations contained in management action plans resulting from audit reports. It appears that departments are still reeling from the addition of DAACs and the governance changes resulting from their interaction with departments.

Meetings with Ministers: As stipulated under section 5.5.6 of the *Policy on Internal Audit*, "it is expected that the Minister would meet annually in camera with the internal audit committee for assurance regarding risk management, control and audit systems."[43] Although it is not mandatory, most departments meet this "expectation." There are several pros and cons to this section. The advantage of an annual meeting is that it gives the DAAC profile with the Minister. Likewise, meetings with the Minister lend legitimacy to the committee. It may be the case, however, that the governance behind this arrangement may be faulty the majority of the time in the sense that a mixed message is sent that somehow the DAAC is held to account to the Minister rather than the deputy head for whom this initiative was intended to serve. Conversely, however, when there is a crisis such as the listeriosis outbreak, it may be an opportunity to "give some ministerial lift or visibility" to the recommendations of the DAAC and generating departmental momentum to resolve the matter.[44] This is one of those occurrences when attempting to approximate private sector rationales may be problematic. Deputy heads could reasonably hold their committees at arms-length knowing that their "advisors" have access to the Minister. Such a meeting inserts some instability in the relationship between the deputy head and DAAC that may not be necessary. Meetings with the Minister can always be arranged irrespective of a requirement to do so.

[43] TBS, *Policy on Internal Audit*, s. 5.5.6.

[44] In the private sector, the audit committee works on behalf of the board of directors which would expect to be fully apprised of all internal management risks. The same rationale applies here. Under regular operating conditions, the Minister would not usually intervene in routine management issues. However, when there are deviations from the norm, it is reasonable to assume the Minister would want to be informed. For a discussion of private boards and their relationship with audit committees, see: Vershoor, 14-18.

Relationships with Central Agencies: The principal external relationships to the department with DAACs involve the Office of the Auditor General and the Office of the Comptroller General. Aside from general expectations that DAACs play a role in the determination of audit criteria for the OAG, the larger question raised by respondents was whether DAACs are being regarded as a means for central agencies to peer into the management of departments and agencies. This raised some uncomfortable comments on the part of audit committee members in particular who do not regard themselves as "agents" of central agencies. Again, respondents said some reasonable boundaries have to be set for the role that committees play with respect to supporting the responsibilities of both the OAG and OCG. On the other hand, DAACs could play a positive role in focusing the attention of central agencies on areas of high risk in departments and support internal control functions where capacity may be an issue. Much more could be said on these relationships. However, the greatest concern for respondents was ensuring that central agencies *support* rather than *regulate* departments in their oversight responsibilities.[45]

Managing the Responsibilities of Audit Committees

Several concerns were raised about the management of audit committees including: chairing of the committee; provision of secretariat support; boundary management; and accountability of the committees themselves.

Chairing of Committees: According to the *Guidebook for a Departmental Audit Committee*, the chairperson of the committee ideally should be an external member on the committee, not the deputy head.[46] The responsibilities of the chairperson include preparing a DAAC plan, establishing meeting agendas, chairing meetings, leading preparation of the annual self-assessment and annual report and maintaining a positive working relationship. Approximately half of all audit committees use the recommended model. The remainder of committees are chaired by the deputy head. For those deputies who continue to chair their own committee, the argument appears to be this ensures they "own" their agenda and the recommendations arising from meetings. For others, however, there is a risk that the committee may not operate independently in a way that allows for a consensus of advice without undue influence from the deputy head. Although, clearly, how deputy heads conduct themselves in their committee is highly dependent on their own preferences, if the premise of the committee is to provide unfettered and professional advice then chairing one's own committee could taint that advice. Although deputy heads have assumed the role of chair in the initial stages of implementation in order to acclimatize members to the context of their organizations, it will be interesting to determine whether these deputies yield eventually to an external member as chair.

[45] See: John Clarke, "Scrutiny, inspection and audit in the public sector," in Tony Bovaird and Elke Löffler (eds.), *Public Management and Governance*, 2nd Ed. (London: Routledge, 2009), 199-212. Clarke speaks to the support role played by many auditors general in supporting the needs of their "clients" rather than focusing entirely on compliance auditing.

[46] See: TBS, "Guidebook for a Departmental Audit Committee" (Ottawa: TBS, November 2007), 3.

Secretariat Support: Although there is no standard model across government as to where secretariat support ought to come, it appears standard practice so far that the chief audit executive is using internal audit resources to provide such service. The principal consideration under this model, of course, is that such support is provided in a way that is separate from internal audit operations. The support needed to maintain DAACs is not insignificant. Responsibilities for the secretariat include gathering and preparing information and source documents, providing support in the form of preparing the committee's annual assessment and annual report and plan, assisting the committee to brief the deputy head, supporting professional development and training, and coordinating information within the department and between the department and central agencies. The cost of such support in terms of human and financial resources varies across departments but it appears to be significant ranging from the addition of at least one full-time officer in the case of smaller departments to approximately five for larger ones. Aside from the costs associated with providing this support, the main concern for departmental officials is meeting the increasing demands of committees as they become more sophisticated and fluent in the affairs of their departments. Questions arise including what are the appropriate limits on information requests? How much direction ought the committee provide to the secretariat in carrying out its responsibilities? What are the obligations of program units to respond to information and other requests?

Boundary Management: A key concern regarding the management of audit committees is clearly determining the boundaries within which they may act. As described, audit committees have eight general areas of responsibility any of which have the potential of expanding or may appear to require the attention of the committee. One common example is the perceived or real need for the DAAC to at least understand the activities of departmental evaluation units. The Policy on Internal Audit requires that audit units are separate from evaluation. Given evaluation's concern also with oversight, it does not take much imagination that DAACs may want the ability to access and review departmental evaluation reports and participate in focusing evaluation activities. The same situation could also apply to a department's finance, risk and performance management functions. At what point does oversight and advice end, and management begins? The clear concern is that audit committees may become more than independent providers of advice but may also morph into "management boards." Although the policy is not designed for this possibility and audit committee members, at present, do not have the time and resources to accommodate this, without some careful monitoring and attention by the deputy head as to how much he/she depends on the committee and the authorities afforded them, there is always a danger of moving in this direction.

Accountability of the Committee: The Guidebook appears explicit on the accountability of the audit committee: "The audit committee is accountable to the deputy head."[47] The committee must develop a charter outlining its responsibilities. In addition, it must submit an annual plan to ensure that its responsibilities are carried out and fully addressed. It must also submit an annual report which is submitted to the deputy head outlining the committee's activities over the year. The committee is expected to undergo a formal, independent assessment by the OCG every four years. Finally, the committee is encouraged to undergo a self-assessment regarding the extent to which it has met its Charter responsibilities. Methodologies for the self-assessment can vary. Most members of the audit committee community believe this to be sufficient accountability. However, there is significant disagreement on the value of the annual report especially in those circumstances where the deputy head is chairing the committee. More importantly, given that the committee works on behalf of and reports directly to the deputy head, there is some question as to the purpose such a report serves. The more important questions of accountability arise with respect to the reporting relationships between audit units, for example, and the DAAC as noted.

Providing Assurance on Departmental Control and Accountability

Perhaps the single greatest concern for audit committees is providing deputy heads with some assurance that internal management, audit and control systems are working as intended. More importantly, the audit committee is expected to offer a "holistic opinion" on the accuracy of reports and to provide some assurance that internal control systems are adequate using the Management Accountability Framework (MAF) as a guide. The assumption with this approach is that if all ten elements are in place and operating as intended then management risks will be reduced. The challenge, however, is that MAF requires complete audit coverage in order to ensure confidence that departments are operating efficiently and effectively. This is inherently faulty because all systems cannot be reviewed on an annual cycle. This is contrary to a "risk based" approach whereby the DAAC assists with identifying those systems of high risk of failure and focuses internal attention on addressing these. The fact of the matter is that audit committees do not have the means to carry out their obligations of assurance because there are not the systems in place to indicate with any amount of accuracy short of an audit or audit study that they are. The question arises then as to what are the obligations and liabilities of audit committees with respect to providing this assurance. In addition, most departments and agencies do not have working corporate risk profiles meaning that the identification of risks is a challenge at the outset. The best that audit committees can accomplish is to identify risks according to the available evidence, as limited as it is, and based on their collective experience highlight those areas of weakness or potential problems and recommend attention be given to repair them.

The preference of the previous Comptroller General was that departments prepare annual audited financial statements on internal management controls, systems and expenditures. Under a

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[47] *Ibid.*, 5.

principles-based approach with attention to transparency, probity, equity and accountability, this may be a very difficult task given that many decisions made by the public cannot be measured in dollars and sense. What may appear to be an "inefficient" choice may, in fact, be the most effective choice. Systems would not necessarily reflect the wisdom of these choices. Again, providing a holistic opinion on even these statements would tend to skew the rationale of decisions in favour of compliance over results-based management.[48] Finally, the reality is that risk-based management practices in the federal government vary from department to department. In addition, there are several competing and overlapping risk management policies and frameworks and there is no central guidance on which or any of these should be considered for use by departments. These include integrated risk management,[49] enterprise risk management,[50] MAF-based risk management and others.

Clearly, providing assurance on anything requires sound information with well operating systems for gathering, storing, and retrieving information. More importantly, it is vital that these systems provide relevant and timely information to support internal reporting and decision-making. Respondents expressed significant doubt that departments and agencies are managing their performance management and other information systems effectively. They also expressed doubt that the information they are using to provide their assurance is "spotty" at best based on studies and reports which may not be as rigorous as they should be. Clearly, this is a management risk that will take some time to address. In the meantime, many respondents indicated that the assurances regarding internal management control and accountability systems should be regarded tentatively at best. At the time of writing, the OCG was re-evaluating the holistic opinion requirements and considering more guidance on the management of risks for DAACs.

CONCLUSIONS

This paper has been a very high level examination of the implementation of departmental and agency audit committees. In fact, this mechanism demands significantly more attention with respect to governance considerations, the relationships of DAACs to internal and external governmental actors, and indeed the relationship with other mechanisms of oversight and performance including the evaluation function, risk management policies and frameworks, and MAF. Equally important, better definitions of oversight, assurance, independence, advice and accountability with respect to relationships and processes must be considered.

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[48] See: Vershoor, 126-36. Also, Jacques Lapointe, "How Audit Can Contribute to Better Governance," CCAF-FCVI Update, 1 February 2008, at: www.ccaf-fcvi.com/English/updates/JLapointeIIA02-01-08.html

[49] For more information on integrated risk management, see: Treasury Board Secretariat, "Integrated Risk Management Framework," (Ottawa: TBS, April 2001).

[50] For more information on enterprise risk management, see: Professional Accountants in Business Committee, "Internal Control from a Risk-based Perspective," (New York: IFAC, August 2007).

Overall, the institution of audit committees does appear to be an important and effective step forward. The Auditor General has been critical of the effectiveness of internal audit units to reasonably ensure that departmental resources are being used in a way that complies with generally accepted standards and principles.[51] She questions the quality of internal audit reports and the rigour with which internal auditors comply with the *International Standards for the Professional Practice of Internal Auditing*. DAACs appear to be seeing some initial successes in addressing shortcomings in this area but also improved departmental reporting, increasing transparency of information, and focusing the energies of oversight functions.[52] On the other hand, there have been significant criticisms of DAACs in the sense that they are costly both in terms of maintenance and the work needed to keep members fully briefed, and there is still much uncertainty regarding the authorities they hold regarding "functional oversight." These may be short term criticisms but they are nonetheless significant.

There is little question that DAACs are and will have a fundamental impact on the governance of federal departments and agencies. Surprisingly, little attention has been brought to bear on this mechanism for improving departmental oversight and accountability. These committees serve deputy heads but they demand departmental resources to follow their advice. Few respondents questioned that departments and agencies are paying much greater attention to management. The question is at what cost? Does a well-managed department translate into more effective public problem solving? Do DAACs distract decision-makers from their other responsibilities? What is the cost of DAAC support? Is the power of central agencies likely to increase or decrease relative to departmental and agency operations? Is this a good thing or a bad thing?

Certainly many questions abound. However, there is no question that DAACs were instituted to effect change in departments and agencies. Of course, the ideas behind the DAAC policy are not new: the Independent Review Panel on the Modernization of Comptrollership identified many of the problems addressed by the policy which generated several other initiatives including MAF. In the wake of these changes, central agencies have had to find their way to determine how they can best meet their obligations in this new reform environment. As Clarke, Aucoin, Saint Martin and others note, central agencies see themselves as the providers of support, knowledge and expertise.[53] The combination of these roles with enhanced management tools at the departmental level are expected to improve management "excellence," "leadership" and more "strategic thinking." In other words, departments and agencies are expected to take greater responsibility for assessing and managing their own management and other risks. DAACs are a significant part of building this capacity but in a discrete way, quite clearly under the radar of many.

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[51] See for example, Office of the Auditor General, "Internal Audit in Departments and Agencies," *Report of the Auditor General of Canada 2004* (Ottawa: PWGSC, November 2004), chapter 1.

[52] TBS, "2008 DAAC Symposium Synopsis," 9.

[53] Clarke, ""Scrutiny, inspection and audit in the public sector,"; Denis Saint Martin, *Building the New Managerialist State: Consultants and the Politics of Public Sector Reform in Comparative Perspective* (New York: Oxford, 2004); Peter Aucoin and Mark D. Davis, *Modernizing Government Accountability* (Ottawa: CSPS, 2005).

Although there has been much criticism within government with respect to the institution of audit committees, one must ask some essential questions: ought the federal government to continue on its current course of mediocre performance management; in the absence of some basic systems to oversee departmental operations, what does this say about the capabilities and concerns of departments and agencies? Although it could be argued that the implementation of DAACs is high-priced window dressing to provide at least some assurance that departments and agencies are operating efficiently and for the right reasons, it is a reasonable approach to focus departmental energy on management, something that has been lacking for a very long time. For Charles-Antoine St-Jean, public servants have to be challenged regarding their management and spending decisions. DAACs are one way to formally institute such a function.[54]

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[54] See: René Lewandowski, "Steward of Spending," *CA.com Magazine*, August 2006. "Too often public servants are so committed to their programs that they forget to ask about the financial impact. We have to challenge them and make them ask questions such as: Are we spending too much? What exactly are we trying to achieve? Have we correctly evaluated the risks? The idea is to get the most out of available resources."

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