

The Office of the Auditor General of Canada Government in Exile?

S.L. Sutherland
School of Policy Studies
Queen's University

e-mail:
ss18@qsilver.queensu.ca
and slsuther@rogers.com

Abstract. *How can a "servant of Parliament" be held in check if it disregards the constitutional conventions of responsible government and takes a place in its own right in the representative institutions? The paper presents a history of the modernization of the legislative audit in the federal Parliament. It considers the evolution of the powers and practices of the Office of the Auditor General, how its role has become intertwined with that of Treasury Board Secretariat, and the eclipse of the House of Commons' Standing Committee on Public Accounts. The paper is an abridged version of a paper prepared for a conference in Saskatoon in November, 2001. It is to be published in a UBC Press volume edited by David Smith, John Courtney and Duff Spafford of the Department of Political Science at the University of Saskatchewan. The Press will hold copyright. See also "Biggest Scandal in Canadian History," School of Policy Studies Working Paper Number 23.*

Introduction

This paper analyses the formal role and practice over time of the Auditor General (AG) of Canada and the Office of the Auditor General (OAG). The AG is different from other officials called "officers of Parliament"¹ in federal Canada in several respects: the office is old; a House of Commons committee is in theory responsible for reviewing its work; its annual budget is in the range of the govern-

ment's own central agencies; its history is inter-twined with that of government's centres of financial management, and, since the 1970s, with the big private sector consultancies and auditing firms that have been involved in its daily work and have provided most of the members of the top advisory bodies to the AG – making its "independence" a complex subject. In addition, the OAG's "audits" since 1977 wander far from the accounts

of Canada, yet the media confer the status of revealed truth on all it writes or says. Indeed, the lion's share of the OAG budget, 60 percent for the year ending March 31, 2001, is spent on discretionary (not required by statute) "Value for Money" (VFM) studies that can be on literally any organizational or policy topic past or future, conducted by any method. These consulting, admonishing and advisory-type essays – not the financial audit of the Public Accounts of Canada – are the primary materials of the Auditor General's Annual Reports (AR) to the House of Commons. Regardless of content or approach, the OAG's production bears the name "audit."

The OAG and Treasury Board Secretariat are jointly responsible for the peculiarities of the "audit revolution" as manifested in federal Canada. This broad revolution is one of the most significant trends in modern Anglo-American government and business. It is founded on "a seismic shift of efforts and resources from production to regulation" (Charlton, 1998, 249). This shift lifted the OAG from its position at the centre of a small "control bureaucracy" in the late 1970s (Sutherland, 1980; 1981; 1986; Sutherland and Doern, 1885) to its contemporary position alongside and sometimes apparently above government, where it regulates government's management processes. The "seismic shift" that created the modern OAG gave the organization more than money and ubiquity; it brought with it political power. Power and influence over how management must be performed affect the substance of what is done – policy content – because means condition ends.

The OAG's history is roughly as long as that of Canadian self-government. Following British practice, a bureaucracy was

established in the 19th century to support the legislature's "post-audit" of how funds voted in supply had been used the past year. It assisted the politicians serving in the House of Commons' audit committee, the Public Accounts Committee (PAC) in their review of the accounts of Canada. The OAG thus began in form and in reality as a creature *of a creature* of the elected House. Its mandate was effectively limited to financial probity and compliance with appropriation authorities.

At the beginning of the 21st century, the standing of the PAC and the OAG had been reversed. The OAG's contemporary "vision" is one in which it is capable of "making a difference" for "the Canadian people and Parliament" by its *independent* promotion of "answerable, honest and productive government" (OAG, Estimates: A Report on Plans and Priorities, 2000-2001, 5). The PAC and other House committees are now described as the OAG's "stakeholders" and "clients" – and not as the source of its role and authority. The OAG vision of its own pre-eminence in the House of Commons as Government's regulator seems even to overtake the role of the opposition parties. Since the 1970s the Office has worked from the assumptions that political leadership of administration – the core of responsible government – is a conduit for "political interference" in management decisions that would otherwise be purely objective, and that government is unconscionably slow to measure and assess the accomplishments ("results") of public policy and of public services in all domains. As the Office states in large type in a heading in the 1996 Annual Report (AR), "Progress has been hindered by insufficient will" (AR, 1996, heading between paragraphs 120 and 121). This judgement has not changed.

While, in my opinion, the Canadian federal OAG is unique among legislative audit institutions in the scope of its political power and influence, as a regulator it is part of the movement noted above. And at last there is a theoretical literature diagnosing the nature, scope and consequences of this style of independent regulation of government in the Anglo-American democracies. This literature is helpful in sorting the country factors from the cross-national trends in the OAG's adaptation of its mandate during the 1970s, which included the 1977 Auditor General Act. Two scholars, both British, are central to the growing debate on auditors and independent regulators generally: Michael Power, for his critical examination of the practices of audit professionals, and Christopher Hood, who has been at the forefront of investigating audit as regulation, in addition to his very many other major contributions, both creative and critical, to the study of modern public administration (Power, 1997; Hood, 1983; 1986; Hood and Jones, 1999).

Hood and his colleagues tell us that secondary regulation "... is a form of steering or control system that involves a combination of information-gathering, standard-setting and attempts at behaviour modification." An organization is a regulator in the Hood definition if each of the three following elements can be seen: one public bureaucracy acts as an overseer to shape the activities of another (or others); there is an organizational separation between the regulator bureaucracy and the subject of regulation, with the regulator outside the direct line of command (although, I hold for the Canadian case, organizations in the direct line of command can become co-opted into the audit program); and, an official mandate exists for the regulator bureaucracy's

scrutiny and shaping activities (Hood, Oliver and Scott, 2000, 284).

For Britain, Hood and colleagues found a strong but unacknowledged increase in total regulation of government from the mid-1970's onward, even while public service staff were being severely cut. This growth in regulation occurred despite the New Public Management (NPM) insistence on leaving managers alone to manage. Although the rationale for multiplying scrutiny and oversight is to deliver more efficient government to taxpayers, the costs secondary regulators create for those they regulate is not tracked. They are absorbed by the regulated bodies, as their own overhead. And, while regulators insist that the bodies that deliver services to the public must demonstrate success by accessible, one dimensional performance indicators for even the most complex educational, health and cultural tasks, the regulators themselves tend to evade performance reporting. That is, the direct costs of their activities are not similarly evaluated. These observations apply also to federal Canada. One interesting difference is that, in Britain, secondary regulators have tended to focus their attention upon public bodies that have been moved to the edges of core government by privatization and other intermediate statuses. The regulators thus substitute their scrutiny of the acts of appointed heads, and the subsequent publicity, in the place of the leadership and publicity formerly accorded to the activities of the political executive and core bureaucracy in the forum of the representative institutions. In Canada, in contrast, as I shall show, the OAG tends to focus its Annual Report studies on ministerial departments, where the Government is clearly providing leadership and thus accountability. The new Auditor General, Sheila Fraser, even announced her intention to

monitor fiscal policy (“management”) throughout her term as AG in her first annual report (AR, 2001, 3, 6).

Michael Power brings forward other aspects, including the sketchiness of audit methods and standards. Power, once a working accountant and auditor, and who now holds the chair in accountancy at the London School of Economics, says the methods used in their investigations by audit professionals are “fundamentally obscure”. Power’s other major themes are that auditors have serious trouble with sampling methods, with a subsequent misrepresentation of a domain of transactions, and that modern audit reverses the burden of work and proof from auditors to the audit subject. Perhaps more importantly, he stresses that auditors have not educated the public about the shift in the nature of their work and its increasing inconclusiveness. Indeed, the profession benefits from the public’s credulity about audit’s contribution. In this sense, there is a conflict of interest.

The heavy dependence of the state’s regulatory bodies on private-sector accounting and consulting firms for theory and products is critical. A government is truly the best possible client: there is no chance that mistaken or irrelevant assurances by auditors will be revealed to be false by the collapse of an enterprise, because governments do not fail. Nor is there any public process for organizing scepticism about “audit” pronouncements that are highly critical of public management and the motivations of public officials. Thus politicians and officials can routinely be charged with failure, but not auditors. Denis Saint-Martin has described the penetration of the state by managerialist ideology as it has been promoted by the big accounting firms in Canada and Britain, and the sums paid to

private firms to execute work they theorized (Saint- Martin, 2000).

The goal of the paper is to explain how the audit revolution came about in Canada, its distinctiveness, and to provide an essentially political evaluation of the consequences for Canadian democracy, not least for the place of the Public Accounts Committee and the House of Commons. I first briefly set out the background for the political primacy of the supply cycle under party government. The budget is the central political document of the Government and whoever affects its form or content has performed a political action. This opening section is followed by the interdependent stories of Treasury Board Secretariat’s (TBS) implementation of a program budget in 1971 and the subsequent “big bang” of the creation of our OAG’s remarkable mandate, one whose powers were in part simply taken on while others were legislated in the 1977 Auditor General Act. I will argue that the Canadian “modernization” has clearly failed because the two agencies have been unable to develop methods to measure “results” of public programs. The failure has political (and partisan) consequences because any method that cannot differentiate between success and failure in a reliable way can put any public program in doubt. Paradoxically, at the heart of both TBS’ and the OAG’s bureaucratic systems for measuring program accomplishments one finds TBS’ seminal 1974 work on performance measurement. This work correctly places electoral politics at the heart of program evaluation in democracy. Its revival by officials in the 1990s renewals of the TBS-OAG partnership (Canada, TBS, 1974, 27 and 29) leaves out the public and politicians, allocating a judgemental task to officials. The last sections of the paper look at the British and Canadian audit

offices and their respective Public Accounts Committees and compares our OAG's resource base to its British homologue and to other Canadian central agencies.²

I shall use the capital "G" in Government for Cabinet together (fused) with its majority or plurality of elected members in the House of Commons. Small "g" government will refer to Cabinet, the elected executive, when it is fused with the civil service, to direct and implement state programs. The OAG's Annual Report, because it is cited so often, is referenced simply as the "AR" with the appropriate year.

Responsible Government, Supply, and Allocation of Responsibility

The constitutional principles that lay out the Commons' role in supply – that the Government must ask for funds, and that it must disclose its use of resources – are the heart of Westminster-style representative government. These principles add predictability to citizens' lives, they are the embodiment of stable government that comes with party government, and they realize majoritarian democracy in that the elected Government can allocate funds to put into practice its public policy intentions. The path of supply constitutionally takes place inside the House of Commons, under control of the House, from its granting to its validation by audit (Canada, House of Commons, Research Branch, 2001).

The House of Commons' authority in supply is summarized by Norman Ward in two principles: the executive can have no income that is not granted or approved by Parliament; and it should not make expenditures other than those approved by Parliament, *in procedures defined by*

Parliament (Ward, 1951, 3, emphasis added). The House of Commons thus annually approves the total revenues that the Government may collect when it passes the budget submitted to it by the Minister of Finance. Likewise it votes on the annual expenditure plan of the government, presented in the form of the Estimates of Expenditure. The government is responsible to maintain records of revenue and expenditure, which are annually submitted to the House of Commons. Ward's formulation is that "Parliament itself audits the accounts of both revenues and expenditures, in almost any way it chooses: parliamentary surveillance, that is, is as loose or rigid, or as selective or comprehensive, as Parliament desires" (Ward, 1951, 4).

As we all know, the other side of the coin of the triumvirate of mass suffrage, the political parties created to organize mass opinion, and the subsequent emergence of stable Governments, is partisan discipline. Discipline makes it unlikely that a Government's supporters would defeat their own spending proposals. Thus Government appropriates supply through its majority in the House of Commons, the governing party having made judgments about what policies and programs will get it re-elected. Since the 1870s, this is how supply has worked in both Britain and Canada under party government. In short, the House of Commons "controls" or "grants" funds largely in the sense that its examination of expenditure proposals meets the publicity principle and the principle of impermanence, expressed in the rule that the Government must ask for funds annually. Nevertheless, if a majority in the House of Commons were to decide to defeat the Government, it can always achieve this end by refusing supply – it would fail to throw its numbers against any motion of non-confidence in the

Government on the occasion of the budget. (Minority governments of course beg to be so defeated.)

The British government's 1989 authority, *Government Accounting*, as cited in an independent review of the National Audit Office commissioned by the British Treasury in 2000, is more concise:

... the functions of Parliament in matters of financial control are exercised by the House of Commons. Thus, the Crown demands the money, the Commons grant it, and the House of Lords assent to the grant. However, the Commons do not vote money unless it is required by the Crown; nor do they impose or augment taxes, unless such taxation be necessary for the public service as declared by the Crown through its constitutional advisers (Great Britain, HM Treasury, Sharman, 19, C3).

In short, supply is a phase in responsible government that involves allocation by the governing majority of funds to pursue the public purposes the elected majority has chosen to pursue. Appropriation is a political process. The House of Commons is the master of its own processes, in both the pre-1870s form of government by notables and the representative form that followed it, party government.

TBS' Revolution: Embedding PPBS in Estimates of Expenditure

The road to the peculiarities of the audit revolution in federal Canada was designed and paved for the OAG by Treasury Board Secretariat's reform in government-wide expenditure budgeting. TBS brought into Canada in 1971 the Planning, Programming and Budgeting System (PPBS). TBS' probable purpose was to create a vehicle for it to draw information from departments. A new vehicle was surely needed, because following the Report of the (Glassco) Royal Commission on

Government Organization, pre-authorization of spending by the Comptroller of the Treasury (exercised in the Department of Finance after 1931) had been abolished in a 1967 amendment to the FAA (Canada, Privy Council Office, 1979, 1.29 – 1.30). At the same time, management authorities had been decentralized to departments. TBS itself was created as a separate organization out of Finance only in 1967.

Nevertheless, its implementation of the program budget was unusual and even radical. Instead of first exploring the potential of the new budget process as a management system, trying it out in a sample of the federal departments, TBS permanently embedded PPBS in the representative institutions of government by making it the format for the Government's Estimates of Expenditure. It thus acquired instant legitimacy, but not workability. The American government had earlier implemented PPBS in departments, as a management system, but had to drop it in 1969 when it was realized that the information demands the system made were impossible to meet, and that value positions flowed into the vacuum left by the system's inability to generate demonstrably objective information. In the American setting, the split between winners and the losers due to PPBS' subjectivity and malleability coincided with a tender and actionable political cleavage. PPBS centralized power in the administration at the expense of Congress, and so Congress used its power to get rid of it (Wildavsky, 1981; Van Gunsteren, 1976). In short, TBS imposed a faddish *management* system, already failed in an American federal trial, onto the political function of supply in the House of Commons. The new system was not even well articulated when it was introduced (Sutherland, 1990). TBS produced a Planning, Programming and

Budgeting Guide in 1969, but the Guide only defined a PPBS system by saying what kind of information was needed to run it – cost-benefit analysis, then thought to be the gold standard. It did not provide any practical help on how the departments and agencies could in a timely and rigorous way conduct cost-benefit on every entity for purposes of form designated as a program (Canada, TBS, 1969).

In creating this situation, in the expectation that program results could be made rigorously fungible or comparable across all program types for PPBS, TBS normalized theoretical and information demands that departments and agencies could never in principle meet. At the same time TBS opened the door to the OAG to become a future program auditor who would undertake validation of departments' reported program results. If a government has a program budget, why should the auditor not "audit" departments' evaluative work on its programs? Thus in federal Canada, an unrealizable analytical burden was in 1971 decisively shifted from the controllers – TBS and the OAG – to the departments and agencies on the lines discussed by both Power and Hood.

The program budget changed what was notionally funded from responsibility centres – units in organizations – to conceptual, purpose-oriented entities moving through time – the "programs." In theory, officials' accountability for program accomplishment could be planned into the budget by specifying up front what measurable result would be caused by their activity and spending for a politically-specified policy goal. The program budget is thus a rhetorical device, inserting goals (exhortation) into budgeting to make it a management driver to control direction of effort. In

addition, it is theoretically an instrument of rigorous accountability for both probity and accomplishment of goals.

Ideally, over time, the PPBS task of packaging and repackaging allied activities into purposeful program entities should in principle have created a framework for expenditure with a continually and naturally evolving set of program categories. In PPBS theory, each program's analytical structure would handle its own costs and benefits serially, while simultaneously taking into account the costs and benefits for each related program. In other words, the information system for each program would track all possible causal impacts within its own boundaries alongside costs arising from other programs. The program would therefore be an analytical and legal estimates entity for supply, and it would also be a way of looking at a program entity in the real world that would force managers and politicians to become educated about measurable degrees of program effectiveness or results within its complex real-world context.³ In this way, in theory, a House of Commons without politics, seeking only program results and savings, could force steady management improvement. The House would force managers and government to be responsible for program performance and to abolish programs that did not perform. This was to be a step toward enlisting the representative institutions for scientific government. The program budget was the manifestation in the accounting world of broader social indicators theory. In academic social science this movement is recalled mainly as a feverish moment in the history of ideas⁴. TBS thus overreached any possibility of implementing a more modern and workable budgetary system by trying for too much. The legacy is that blame of government officials for

ineffective management and careless measurement of results became a renewable resource for the OAG, which would have the last word and the mantle of probity.

Still the mummy lives. The intellectual problem of 2002 is the same as that of 1971. The problem is still how to capture program results or strategic outcomes in a reasonable and workable combination of words and numbers, to satisfy the TBS-OAG requirement for highly-aggregated statements of program accomplishment that are demonstrably true and verifiable. Not one of the several mutations of PPBS since 1971 has come close to solving the artificial riddle made of accountability. These include the Operational Performance Measurement System in the 1970s, the Policy and Expenditure Management System around 1980, the initiative called Increased Ministerial Authority and Accountability in the mid-1980s, the New Public Management of the 1980s and 1990s, the superficial renaming of the planning units from “programs” to “business lines” in the late 1990s, plus the change of 2001, when the term “strategic outcome” apparently replaces “results.” Not even the preliminary task of overlaying onto the financial framework measurable indicators of desired outcomes – a piece of work that should have preceded the 1971 implementation of PPBS – had been mastered as of 2001. A direct admission is found under reporting principles in TBS web document Performance Report Guide (TBS, 2001, principle 5).

In fact, TBS had then been aware of the nature of its mistake in implementing PPBS as part of supply for more than a quarter of a century. Academic economists led by the deservedly-eminent University of Toronto economist Douglas

Hartle, working for TBS in the late 1960s and early 1970s, clearly explained to TBS the many facets of the information challenge it had created. Their work is summarized in two figures in the Board’s 1974 reference document on operational performance measurement (TBS, 1974, 27, 29). Figure 1, titled “A Conceptual Framework for Program Evaluation”, is a system diagram of the type made famous by the political scientist David Easton in the 1960s. The lid of the Eastonian “black box” at the centre of the feedback loop of state action is lifted to expose, inside the causal box alongside government, the non-profit sector, the business sector, and the “rest of world.” These non-government sectors mediate program outputs to the “household sector.” The household sector is also inside the causal chain, further affecting what the outputs/effects of government programs can be. Conceptually, then, factors the government does *not* control are *not* exogenous to its programs. The business, social and world context are intervening variables that will alternatively augment or undo government’s program efforts to bring about desired states of affairs, in complex interactions. If the forces that operate alongside public spending are not factored into the bottom line of quantified results of public programs, resulting data is empty of usable causal knowledge: what would a government policy-maker want more than to know what to do in particular kinds of situations, or what people will do in reaction to its actions? That the situation of almost any program is too complicated for calculation is the point.

Peoples’ experience of government is the start of the feedback loop. Aggregated political behaviour in elections or forms of protest feed back into Government policy decisions. The feedback affects responses,

responsive legislation being injected back into the multi-stage black box just described.

The Figure 2 in this 1974 TBS study, "The Means-End Hierarchy," elaborates on Figure 1. It takes a number of government programs, including the Post Office, Defence and the Canadian Transport Commission, and fills in each proxy level, culminating in impact on citizen well-being. The inputs are standard: labour, capital and material – all fungible or capable of being made fungible - turned into a common metric. For the Post Office, operational outputs are timely deliveries, program outputs are "reduced communication costs," and, further out, program effects (results) are increased earnings and an improved cultural and social environment. One can note that many desirable results of public programming will not be fungible. The same is true for program impacts on well-being of citizens. Impacts are national integrity, social justice, national wealth and individual fulfilment. Only wealth, and that, arguably, has a metric. Impacts on well-being are measured by the political response of individuals who experience them. The political response is the measure of the program's utility. The economists showed that the evaluative task of assessing results and outcomes is multi-faceted and suffused with values – in the final analysis evaluation is the work of politics and not that of officials in government bureaucracy or the OAG's bureaucracy.

In summary, the TBS theoretical foundation cannot be used for a rationale for force fitting a framework of inputs, outcomes and results over the political process of supply in the representative institutions. TBS' Figure 1 represents only one moment – the aggregation by government policies/programs of public/

political support expressed in the electoral process under responsible government. The House of Commons is not in the diagram: it does not have its own box. A companion diagram could be imagined that would place, as a portrait inside a portrait, the whole diagram inside a "House of Commons" box. But this would create fatal complications. In fact, the way the schematic is imagined, the House could only be fitted inside the "legislation" box. It is not there because Government controls the legislative program. These reflections make it abundantly clear that program evaluation within PPBS was in 1974 critically rethought inside TBS and recognized as a political tool for Government to help it respond to public reaction to programs.

The Modernization of "Audit"

A few sentences of history are necessary to bridge the reader to the modernization of the OAG's programs of investigation which modernization began in earnest only in the 1970s. In federal Canada in the late 19th Century, the audit bureaucracy was closely integrated with central government. Norman Ward's discussion of the legislation of 1878 that both centralized control of public money and established the Canadian Office of the Auditor General makes it clear that in the period, the Auditor General performed key tasks in the government's financial control framework (Ward, 1951, 71-73). Likewise Villard and Willoughby show that until World War II the Department of Finance and the Office of the Auditor General collaborated closely to improve accounts (Villard and Willoughby, 1918, 164-165). The federal Auditor General served as controller in the Department of Finance (to 1931), pre-auditing requests to spend even while his Office post-audited the eventual public accounts. This kind of arrangement is not unusual (Fennell, 1994).

In 1931, legislation removed the controller function and the prepayment audit from the Office of the Auditor General, leaving the Audit Office with only one task: responsibility for auditing the public accounts and reporting on them. The remit of the Auditor was in the same legislation extended to all financial statements in the accounts. Overall, therefore, the legislation put all authority over expenditure in the executive through the Consolidated Revenue and Audit Act of 1931, at this point in the Department of Finance (Ward, 169-173). Later, in 1943, the responsibility for the compilation of the public accounts was likewise transferred from the OAG to the Comptroller of the Treasury. Until the early 1970s, although Maxwell Henderson was full of ideas and struggled with the Government to get permission and resources to broaden the OAG's scope of work, the basic responsibility of the Office to pore over accounts of expenditure was hardly changed.

In the creation of the present confusing audit situation in federal Canada, the impact of J. J. Macdonell overshadows all his predecessors and successors.⁵ Appointed AG in 1974, he won the 1977 Auditor General Act in good part thanks to the 1971 TBS reconstruction of the Estimates budget. In his term, which lasted to 1980, he shifted the Office's flag and identity from financial audit to "management control systems" and "value for money" (VFM) or qualitative studies, displaced much of the burden of financial audit from the OAG to government's internal auditors in departments and agencies, and forced the Government to create a program evaluation function across government. Having had a prominent career as a management consultant himself, and being interested in control as steering activity rather than solely or even primarily as verification of probity, he

transformed the Annual Report from comment on financial and economy issues arising from the Office's examination of the public accounts to a compilation of consultancy-type reports on programs and cross-government management functions.

Legislative Mandate

In the introduction to his first Annual Report in 1973 (p. 6), Macdonell began without legislative authority to implement the ideas of Maxwell Henderson, auditor general from 1960 to 1973, to modernize the work programs of the office. Macdonell also decided to define his own job: to determine "independently" different statutory terms of reference, reporting, a scope of work, and resources to allow him to discharge his duties as Auditor General "effectively and with the necessary degree of independence." Even before putting his thoughts before the public, he had appointed a three-man committee, comprised of a retired senior partner of Clarkson, Gordon and Company, Chartered Accountants (a past-president of the Canadian Institute of Chartered Accountants), plus a lawyer and a professor, but no Members of Parliament (AR, 1973, 9-10). Where Macdonell would deviate from Henderson's blueprint was on the role of the private sector in the OAG. Henderson believed the AG had a duty to protect the Office's independence from private sector interests. He feared expanding his Office's remit because it would lead to large-scale contracting of Office work to private firms: "... if the Auditor General permitted such patronage to invade his office he would lose the one priceless asset he possessed, namely his independence" (Henderson, 1984, 241-244). For Macdonell, public servants were lazy and self-interested, the private sector was the only conceivable "independent" source of advice, and that was that. He

almost immediately set up two “independent” committees made up in good part of partners from the biggest accounting and consulting firms to serve as his direct personal advisors for the further development of public sector audit (AR, 1974 - 1991, Organization charts).

Mandate reform thus began autonomously and informally, and well before the “independent” committee reported. The 1974 AR notes that the AG will in future “evaluate the adequacy of financial procedures and controls” in addition to its mandate to review accounts. The authority was read into section 58 of the Financial Administration Act (FAA). This section requires the AG to ascertain whether in his opinion rules and procedures being applied across government are sufficient to secure effective checks on the collection and expenditure of public money and to safeguard and to control public property. Macdonell’s interpretation re-centered the work of the Office on management process *as his Office would define it*, as opposed to the FAA’s anticipated compliance with rules specified by government. This brought his Office deeply into operations in a theoretically autonomous way clearly in advance of any legal authority: “In short, appropriate measures to determine the adequacy of the organization, application and operation of financial controls and procedures should desirably constitute the core of the audit programs and operations of the Audit Office.” Macdonell then established a new Branch in the Office, “Special Audits and Inquiries,” to define and conduct studies of a government-wide or subject nature (AR, 1974, 3).

In 1975, Macdonell reproduced as one of his Report’s chapters (Chapter 10), ten sections of his Office’s as yet incomplete

Financial Management and Control Study (FMCS). This work simply assumes that the AG already possesses authority to “audit” whole programs. It urges the government to state its objectives clearly, evaluate its programs, and to consolidate and lead financial management and control. Thirteen private sector individuals representing the big audit and consulting firms led the FMCS (AR, 1974, 26). One of the study’s effects was to build capacity in the private sector firms for the impending government-wide market for program evaluation, presented under the flag of convenience of “audit.”

In the 1975 report the AG also clearly warns government that, in the last year since he claimed for the OAG a mandate to study control systems as such, government has failed to accomplish the management improvement he felt necessary: “... the present state of the financial management and control systems of agencies ... is significantly below acceptable standards of quality and effectiveness” (AR, 1975, 3).⁶ At this point, therefore, even though a greatly enlarged mandate was in place, it had been done unilaterally. The Independent Review Committee’s recommendations were still under study by government officials (AR, 1975, 9).

In his personal remarks in the 1976 AR, Macdonell cashed in the 1975 warning, terrorizing the Liberal Government, in a precarious situation as a minority government. He wrote: “I am deeply concerned that Parliament – and indeed the Government – has lost, or is close to losing, effective control of the public purse” (AR, 1976, 9). However, his concern did not arise from financial accounts, despite the phrase, “the public purse.” Instead, his concern was based on his consultants’

reviews of the nature and quality of government's broad systems and controls as they compared them to the state of the art in the private sector. Hierarchy and legality no longer mattered as controls over public administration. Further, having a poor management control system did not mean that actual financial losses would have occurred – this was a different question. Poor control meant that some form of abuse could be possible in principle. For the media and the public, however, the AG's statement pointed to financial scandal, not to a debate about how to design management controls in such a way that organizations would be constrained to manage economically, efficiently and effectively in pursuit of clearly designed goals.

The outcome of the political storm that followed the AG's 1976 claim, allied to the Independent Review Committee's eventual report, was the speedy passage of the Auditor General Act, 1976-77, c. 34, which became law on August 1, 1977.⁷ What does the Act provide? Sections 5 and 6, under the sub-title, "examination," say that the Auditor General is the "auditor of the accounts of Canada". Under "reporting," in sections 7 (1) and (2), the Auditor General is to call attention to any matter he considers significant and of a kind that should be brought to the attention of the House of Commons. The AG is to report whether expenditures have been made without due regard to economy and efficiency, and whether "satisfactory procedures," to measure and report program effectiveness are in place, the caveat following in the statement, "where such procedures could appropriately and reasonably be implemented." It is important to note that, in this provision, intentionally or not, the Act places the issue of measurement of program results in the joint custody of Government and the AG.

In discussing the Bill, the then-President of the Treasury Board, Robert Andras, assured the House that only the political Opposition could evaluate program effectiveness. The AG would never be drawn into discussing public policy (House of Commons, Debates, 1977, 4948). Andras, like the Act he was supporting, was silent on the role of the PAC. This silence would be perhaps the most significant legacy of Macdonell's phase of the Office's modernization. The Government failed to give the representative institutions any usable, formal mechanism for regulation of the Office's subjective value-for-money topics, schedule of work, or budget.

To activate the Government's role in deciding where program effectiveness could reasonably be implemented, Andras in the same speech stated that a new organization, the Office of the Comptroller General (OCG), would develop the techniques and standards for departments to use in measuring their programs' effectiveness, now results. (Millions had already been spent by the OAG's private sector consultants on methods development.⁸) The *government* would thus at this point develop methods for the departments and agencies to apply, and the OAG would audit departmental progress in applying the eventual methods specified by the OCG to capture effectiveness.

Macdonell's two immediate successors, although they benefited from the momentum Macdonell established for the Office, did little to change the Macdonell arrangement. Kenneth Dye, who was AG from 1981 to 1991, saw the remit of legislative audit broadened in both 1982 and 1989, bringing under the AG's audit authority some additional Crown enterprises. Denis Desautels, whose term was from 1991 to 2000, obtained in 1994 a

mandate to report at least three times a year, rather than at one time only, and in 1995 brought monitoring and reporting on environmentally sustainable development into the Office.⁹

Methods Morass: Delivering on the Mandate

When he was campaigning for his Act, Macdonell alternately took the simplifying position that VFM methodology already existed (and was being wilfully ignored) and/or that methods would be very simple to develop. In 1978, for example, he stated that evaluation of program outcomes is “only the information managers should have at their fingertips” (AR, 1978, 9). Nevertheless, in 1979-80 Macdonell moved methodology development from his Office to the Canadian Comprehensive Auditing Foundation (CCAF), an organisation established under his leadership, for which the OAG was the primary funder. Its members were Canadian legislative auditors, their government interlocutors, and private sector audit and consulting firms: it was established as an audit and consulting network. Following his retirement on reaching 65 years of age, Macdonell became the first Chairman. He assigned standards development to the Canadian Institute of Chartered Accountants. Government did not abandon the field, however. Through the 1980s, the Office of the Comptroller General and Treasury Board Secretariat gamely developed manuals for evaluation or results investigations inside government. The OCG/TBS methods did not provide “fingertips” summaries that would immediately assist managers. Instead the manuals necessarily but messily allowed as evaluative methods any and all forms of applied social research, as officials judged appropriate to each program situation (TB, OCG, 1981; 1983). The OAG under Dye continued to

find that results measurement in departments and agencies was inadequate.

The advent of the New Public Management would eventually save face for both TBS and the OAG, for there had been no progress after two decades of attempting to measure program results. NPM, with its following in the Anglo-American democracies and the strong emphasis it placed on managing for results as opposed to managing processes within systems, allowed both TBS and the OAG to use NPM’s new vocabulary to renew their vows, as it were, to their failed strategies since the mid-70s. 1995 saw TBS launch its “results-based management strategy,” which coincided with an initiative, “Improved Reporting to Parliament” (TB, 1995, 1-2). In March of 1996, a progress report again promised a results-based approach (TB, 1996). At the same time, TBS negotiated with 16 departments and agencies, including the OAG, to pioneer the replacement of the existing Part IIIs of the Estimates with two separate documents – one setting out plans and priorities, and the second delivering a performance report.

The Treasury Board’s 1997 Annual Report to Parliament, *Accounting for Results*, is central to the apparent renewal (TB, 1997). The 1997 Report holds to a PPBS-type framework for management of quantitative information, even while broadening the information component to include qualitative analysis of policy instrument mixes, assessment of general alignment of efforts, and complementarity of programs. It thus proposes the notion of a rigorous aggregation of words and numbers (TB, 1997, 8). The political theory is populism instead of representative government, the authors claiming that “...as taxpayers, Canadians are the source of resources and authority for all government activities (emphasis added).”

The 1998 document, *Managing for Results*, continues the re-dedication to PPBS thinking. This is again lightly camouflaged by a change in language. The inputs and outputs of “business lines” (business lines being linked activities, that is, they are programs) are soon to be tracked by a system of accrual accounting (TB, 1998). The 2000 Report sees TBS moving ahead on a “citizen focus” that comprises values, results and responsible spending, even though it now admits that methodology continues to be a work in progress: “The current state of results-based management is still a good distance from the ideal ... the goal is to establish a more productive cycle of planning, measuring, evaluating and reporting of results to citizens, through ministers and Parliament” (TB, 2000, 5-6, 12).

Overall, the TBS 1995 to 1998 renewal of the Expenditure Management System is a drawn-out attempt to infuse some of the refinements suggested in its own 1974 document into the brutal logic of PPBS, which remains intact. But the logic of PPB is that of comprehensive rational decision-making and cannot be compromised in any step without being lost: state program goals, state the causal logic of the program’s strategy, choose quantitative indicators operationalizing program effects, conduct a cost-benefit analysis to measure the extent of accomplishment over costs, and report the result. The reasons the cost-benefit attempt is impossible in principle were summarised by Braybrooke and Lindblom in 1963 in relation to crude utilitarianism: no interpersonal calculus (no metric), no rule for bringing accounts of (program) consequences to an end; and no rule for specifying reference groups for whom (program) consequences count (Braybrooke and Lindblom, 1963, vii).

The AG in this renewal period, Desautels, echoes Macdonell’s “fingertips” statement in saying the other actors are making too much work of measurement issues. But he casually abandons the core of the concept: “For many, ‘measurement’ means trying to determine the precise magnitude of things ... Our Office sees ‘measurement’ more broadly, as the *gathering of relevant information to enhance understanding* about what a program is accomplishing” (AR, 1996, paragraph 112, emphasis added). The notion that the federal Office of the Auditor General is basing its scrutiny of government on a method as vague as “enhancement of understanding” is startling. One could enhance one’s understanding of a daycare program by collecting the children’s crayon drawings. Effectively, the idea of blending words and quantities of “relevant information” into a third element that will now be arbitrarily labelled “measurement” is transparent nonsense. If the OAG can redefine “measurement” as enhanced understanding, the whole project is gone. Qualitative information by definition has no metric. It cannot add to quantities a “measured” qualitative connotation accessible to all observers, for this would require an agreed and reliable metric.¹⁰

The OAG also makes its personal unfootnoted trip to the 1974 TBS well. Chapter 19 of its December 2000 AR, “Reporting Performance to Parliament: Progress too Slow” in its Exhibit 19.1, “Terms and Concepts of Results and Performance,” reproduces the core of the previously discussed 1974 TBS performance measurement Figure 1. The main difference between the TBS’ 1974 version and the OAG’s 2000 adaptation is that all intervening factors between government programs and their results have been deleted. The government is uniquely

responsible for program results despite shifts in the economy, natural disasters or any other factor one might think beyond its control. Other changes are limited to renaming ratios. Thus the OAG claims evaluation for itself as a rigorous audit undertaking, in which government programs will be judged in a vacuum, although it has earlier acknowledged that “measurement” is judgmental.

The OAG’s 2000 AR’s Chapter 19 then analyses government performance reporting. On the basis of what the OAG now says is too little movement during three years – whereas the reform started 25 years earlier – the OAG thinks about changing the democratic process. It seems to believe that it has the natural right to redesign the supply process. Legislation to embed accountability mechanisms, including changes to supply may be necessary, the Chapter concludes, to provide an “institutional anchor” to results-based reporting initiatives (AR, 2000, paragraphs 19.27 – 19.34). In other words, the OAG has not been able in the period since 1974 to devise objective evaluative methods, yet it wishes to impose the requirement that government provide measured results as a condition for the *House of Commons’* grants of money to support public programs. The OAG’s role will be to assess whether or not program results have been fairly measured. The new AG, Sheila Fraser, is even more forceful in this area, identifying “The erosion of parliamentary control over how the government raises money and spends it” as one of her four priorities to correct during her tenure as AG (AR, 2001, 3). She promises to work toward a restoration of “parliamentary” control over the revenue and expenditure budgets. One wonders what she can mean by “Parliament” in this formulation.

Before leaving this description of the AG’s mandate development, it is important to mention the OAG’s decision to abandon what was once understood as its duty to assess the whole base of government spending in its VFM studies. In the period leading to winning the new Act, VFM audit was said to be of such value that it should assess all spending. In 1978, on the grounds that the VFM or “results” work was independent of the examination of the public accounts and therefore not an annual obligation of the Office, Macdonell had proposed that it would be reasonable to cover the base of government’s spending on a four-year cycle, which, he said, “coincides with the average life of a Parliament” (AR, 1978, 21-22). The cycle then lengthened to five years, the “maximum period between elections”, last cited as a planning ideal in 1986 (AR, 1986, paragraph 16.6). In 1990, Dye acknowledged that in the Office each government organization now had its very own VFM cycle, some as long as 15 years (AR, 1990, Chapter 31, paragraph 23-5). Then in 1992 the Office gave up on the notion that it would ever systematically cover the base of program activity with VFM. It acknowledged that it simply chose the topics that it looked into in its own right. Its criteria were public and political interest, and availability of evidence (AR, 1992, paragraphs 24.4 to 25.10).

One can summarize the impact of these “found” mandates. Over the decade of the 1990s, the OAG has decided it has the right to pick and chose its VFM audit program subjects, pick and choose the kind of information it will bring to bear to “enhance understanding,” leaving out context as it pleases, and make recommendations emerging from its construction of reality. In addition, it sees itself as a source of legislation to change the supply

process and parliamentarians' roles in it. How could an "officer of Parliament" come to confuse itself with Parliament?

The Client: from the PAC to the People

Despite the fact that the Canadian PAC has historically been too partisan and lacking in expertise to play its role in a dignified way (Ward, 172; Franks, 1987, 243-244), it was treated with the respect due its constitutional position until the 1980s. Each of Henderson's Reports of his last years started with a discussion of the Standing Committee on Public Accounts. Macdonell abandoned this practice, but he still used the PAC as the OAG's natural and necessary pipeline to the House of Commons. In his first year he got the committee to make an effort "unparalleled in recent years" to try to absorb the Annual Report (AR, 1974, 12), but refused to take ideas from the PAC or conduct research for it in the absence of a provision in his statute (AR, 1979, 33). Dye in the 1980s opted for multiple parallel plumbing (AR, 1981, paragraph 1.9). He wanted to reach the whole membership of the House through all committees that looked at Estimates. This decision amounts to the marginalization of the PAC. The following remarks by a Deputy Auditor General confirm that the Office believed before 1990 that its work is part of politics and believed that its chapters should directly guide political activity:

The auditor general's annual report contains far more material than one committee can reasonably be expected to handle. All Members of Parliament can use our material ... as policy critics, standing committee members, legislative committee members, and as participants in debate.... *In a related vein the effectiveness of the office would be reduced if question period were eliminated or shortened.* The threat of exposure in Parliament, notably in question period,

probably has a significant but immeasurable impact in keeping ministers and the bureaucracy on its toes (Dubois, 1990, 29, emphasis added).

Desautels' first report launched the populism and apparent lack of respect for the constitutional settlement that characterized his tenure and announces that of Fraser. Desautels began with the vow to use the OAG's "real credibility," to further his goals "both in Ottawa and with the taxpayers across the country" (AR, 1991, paragraphs 1.1 – 1.4).¹¹ The OAG's client would now be "Parliament," in its work of "allocation of scarce resources." His audit entity would be ministerial government. He wants one unified "scorecard" on the Government's fiscal management whose quality his Office will assess (1.42). In his personal chapter of 1996, Desautels states "Parliamentarians – indeed, all Canadians – expect me to concern myself with how well government is functioning ..." (AR, 1996, paragraph 1.7, emphasis added). In Desautels' last Annual Report, that of 1999 - 2000, his personal chapter focuses on performance reporting. Echoing Chapter 19, he rewrites the "basic principles" of public spending to say that results measurements must be used to guide parliamentary approval of expenditure (AR, 2000, "Matters of ...";4).

This 2000 AR and Desautels' farewell or "capstone" volume, called his "Reflections," also cite Canadians' wishes as though the AG were directly acquainted with the thoughts of each and every one of us, and both documents invite the public to take particular value stances. Fraser, in her turn, confusedly invokes populist ideas and shows a lack of understanding of representative government. "Canadians," she says, "have the right to control how public funds are collected and used" (AR, 2001, 4). Representative government is either

being brushed to the side or deemed illegitimate.

Enhancing Understanding of OAG's Results

Some comparisons with Britain's National Audit Office, the OAG's homologue in the Mother of Parliaments, may be helpful. In Canada, the topics that will receive VFM examinations are selected by the OAG. In Britain, the VFM studies undertaken by the NAO are in response to qualified or problematic financial accounts, and in addition from the interest of the members of the Public Accounts Committee and a second oversight body, the Public Accounts *Commission*, with the advice of the audit officials. There is no sense whatever that audit begins with promises set out in the estimates or that the NAO has a role in supply.¹² VFM studies for the most part are more applied and contain more evidence than the Canadian work. Both these bodies are named and their duties set out in the NAO legislation which dates from 1983. The legislation prohibits the NAO from taking up policy topics. As in Canada, the NAO reports separately from its VFM work on its investigations into the financial accounts of government and other public bodies. The portion of the NAO budget that went for certifying and reporting on financial accounts in 2000 - 2001 was approximately 45 percent, with 20 percent going to VFM. In Canada, the OAG's 2001 Performance Report shows 60 percent of the budget goes to VFM with 33 percent on "financial statement audit activities" (NAO 2000-2001 Annual Report, 21-22; OAG Performance Report, 2001, 10, 49). The OAG actually came in under budget for audit of the Government's financial statements in the two years 1999-2001 because it adopted a more "risk oriented" approach (Performance Report, 2000-2001 paragraph 2.50).¹³ In Britain, most of the

National Audit Office's (NAO) 50 annual VFM reports by the Comptroller and Auditor General (C&AG) do deal with resource management. A portion of British VFM work questions the efficiency of the implementation by officials of Government's goals. (Great Britain, C&AG, NAO, 2001a). But, "policy" in the British NAO manual is the equivalent of "program" as understood in Canada (Great Britain, C&AG, NAO, 2001b; Great Britain, Cabinet Office, 1999).

In Britain, quality control of audit reports is by a standing panel of academic experts, based in the London School of Economics at time of writing. The PAC is the NAO's committee and is notified of the NAO papers before or when they are being published by the House. The NAO monitors the implementation of both PAC recommendations and its own recommendations that have not been chosen for review by the PAC. The NAO itemizes its claims that it saves Treasury eight pounds sterling for every pound of budget, and these claims are reviewed by the organizations concerned and are also subjected to checking in independent examinations (Great Britain, C&AG, NAO, 2001c, 3).¹⁴ The Canadian OAG has long resisted any such quantification of the usefulness of its recommendations.

In the OAG's Performance Report (PR) for 1999-2000, the Office says that from 1994 to 1998, it made more than a thousand observations and recommendations for major improvements, but did not make a database (PR, 2000, 8). In the 1999-2000 AG's Annual Report, there are about 550 observations and about 250 recommendations: the reader must do the count. It is interesting to note that other jurisdictions do number their recommendations to provide easier reference and a more manageable approach to follow-up.¹⁵

While the NAO believes that an auditee's acceptance of its recommendations says how useable its audits are to the subjects of its study, the OAG instead interprets acceptance of its recommendations as a compliance issue.

The NAO is subject to both financial audit and to VFM investigation. At the request of the PAC, the Government in 2000 commissioned a review of central government audit and accountability and of the NAO by an expert (Great Britain, Her Majesty's Treasury, 2001). The working group was assisted by a steering committee of Ministers, members of PAC, senior officials, academics and other experts, including a small number of consultants.

In Canada, the VFM program, the foundation of the AR since the late 1970s, has never been subjected to a VFM review by a third party chosen by anyone but the AG. In 1985 it did commission a review of its VFM production. This review was led by Kenneth Belbeck, then President of the management consulting firm Stevenson and Kellogg (AR, 1985, paragraph 18.27). He is listed as a member of the OAG's Independent Advisory Committee on Government Accounting and Auditing Standards every year from 1976 to 1991, when the Office stops naming the AG's direct private sector advisors. Belbeck found the VFM programs were working well. Belbeck had also led components of major initiatives for the OAG in this 15-year period, including the 1978 Study of Procedures in Cost Effectiveness (AR, 1978, 10), and the 1976 Financial Management Control Study (AR, 1976, 182). It would be, however, unfair to leave the impression that Belbeck's involvement is unique: the OAG fostered close relationships with personnel of all the major firms, as well as with the CCAF and the Canadian Institute

of Chartered Accountants, to whom it loaned senior officers.

In Britain, on top of the annual independent professional review/audit of the NAO's audit programs, the Public Accounts Commission, established in the NAO's legislation, oversees the performance of the NAO, reviews its Estimates and appoints the auditor. The Commission is composed of the Chair of PAC and Members of Parliament who are not Ministers. The Comptroller and Auditor General appears before the Commission at least twice a year. As noted, the PAC and the Commission have a voice in setting the work agenda for the NAO. Further, both PAC and the Treasury can provide input to the Commission in its review of the NAO's estimates. In Canada, as noted, there are no formal provisions for governance over the OAG, and it ignores convention, although it may chose to consult.

The OAG's Annual Report, now conveyed to the Speaker of the House in three instalments each year, is published by the OAG itself, a "tradition" that Henderson began on his own. It is not a House paper. The procedure for tabling, which resembles a budget lock-up, focuses media attention on the AG and eclipses PAC totally. Pre-release quality control is done under contract with individual private sector consultants and academics, and by departmental challenge. There is no institutional panel of scholars and experts to assess methods, completeness of evidence, and fairness in reporting comparable to the NAO body.

Comparing Remit, Input and Output

How does the Canadian OAG's output compare to that of the British NAO? The OAG's remit or audit universe in 1999-

2000 for financial audit is \$137 billion while the UK's NAO remit is worth 650 billion pounds sterling in 2000-2001 (OAG, AR, 2000; Great Britain, C&AG, NAO, 2001c). The financial audit universe is comprised in Canada of 70 departments and agencies; 107 Crowns and other entities; and some international bodies. The VFM remit of the OAG is the departments and agencies, and about 40 Crowns that are on a five-year cycle for special examinations. The NAO audits the accounts of 50 departmental forms, and 600 other bodies, including 135 non-departmental "executive" agencies. In the case of the NAO, the VFM universe is not as conceptually and legally separate as in Canada: as noted earlier, VFM projects emerge from concerns built up in the execution of the financial audit, and/or they are planned in conjunction with the PAC and the Audit Commission. More importantly, VFM studies take very different proportions of the respective budgets: 60 percent of audit resources for the OAG, compared to only 20 percent for the NAO.

The organizations spend about the same proportion of total budget on contractors. The OAG has 520 employees compared to 750 for the NAO with salary budgets being a bit heavier for the OAG proportionally at 74 per cent and 68 per cent respectively. Overall, the OAG's budget, number of staff and VFM audit costs appear relatively generous in comparison, given the NAO's large remit and production.

The OAG Compared to Central Agencies¹⁶

The OAG's detailed 2001-02 Estimates Report on Plans and Priorities (RPP) requested a 15 percent increase of base budget "so that we can effectively discharge our role as a servant of Parliament" (OAG, RPP, 2002, 9). Fraser, then acting as

AG, explained that staff was "burned-out" due to an end of mandate rush to bring to completion and publish work of Desautels' period, including his discretionary farewell report, making more resources necessary to acquit the mandate. A second factor was that the Office might lose momentum in its VFM program, for which costs per unit hour had risen. The Acting AG explained in testimony to the PAC that work under VFM was "somewhat more discretionary" than the financial audit work.¹⁷ This concession was taken back in the 2001 AR, where it is said that the mandate "requires us to report on the economy, efficiency, effectiveness and environmental effects of government operations" (OAG, AR, 2001, emphasis added). S. 7 (2) of the 1977 Act clearly does not *require* the Office to report on effectiveness; it allows it to do so under appropriate conditions. The Treasury Board approved the 15 per cent increase, with the support of the PAC.

Did the OAG deserve the money? I do not believe so. Macdonell, for all his flamboyance, left the Office in relatively good shape. In 1980-81, when the Macdonell era and the mandate of the new Act had been absorbed, with Dye beginning his term, the full executive-level component is 43 persons, officers are at 371, and support staff are at 137, for a total establishment of 551. Executives are thus about 10 percent of professional employment. Professional services contracts are about \$8.5 million annually, in large part representing the private sector's attempts to develop VFM for the Office.

Five years later, in 1985-86, total staff number 659 with executives up by 250 percent (from 43 to 157) while officers drop from 371 to 355. Executives are thus

at this point about 30 percent of all professional employment. The budget for auditing is \$31.7 million, and of that, VFM absorbs 11.7 million or 27 percent of the Office's total of \$42.9 million.

By 1995-96, about mid-way through Desautels' term, there are 200 executives and 300 officers. Support staff have decreased to 73. The total establishment is at 573, down from the previous period's total of 659. The proportion of executives of all professionals is 40 percent (200 of 500), and, of the establishment as a whole, executive employment is now about a third. Professional services are down at just over \$6 million.

The three key central agencies in the federal government do not approach a ratio where executives are even nearly so much as a third of all staff. In Finance Canada, in 1996-97, executives are ten percent of the establishment; in PCO – something of a legend in government where it is often said that EX 2 or more is the “working level” – executives are 15 percent of establishment, while TBS comes in at 16 percent executives. It is difficult to obtain consistent data after 1997 on salary and operating budgets for the comparator central agencies as it appears that TBS has changed the reporting rules. There is no available breakdown of employees by classification or by salary level after 1996-97 in the Estimates documents of the comparator central agencies. As far as one can tell, the OAG's overall salary budget compared to its total cost of operations in 1996-97 is almost 74 percent whereas other central agencies (Finance Canada, PCO, TBS) appear to be under 70 percent.

One has to construct the figures for operating budgets from the Main Esti-

mates, Parts I, II during this 30-year period. It does look like the OAG has prospered more than the three comparator organisations. In 1970-71, the OAG budget is 63 per cent of Finance's, 62 per cent of PCO's and 43 per cent of TBS' operating budgets. From 1970 to 1985, there was dramatic growth for all four entities with the OAG in the lead: it grew by 740 per cent; Finance by 300 per cent; PCO by 360 per cent and TBS by 340 per cent. The next fifteen years sees modest growth and declines: the OAG grows by 25 per cent, Finance decreases by 18 per cent while both PCO and TBS grow more strongly: PCO by 125 per cent and TBS by 45 per cent. After thirty years in 2000 - 2001, the OAG has gained on Finance, now having 72 per cent of its budget, falls behind PCO to 56 per cent of its budget, but gains on TBS at 64 per cent. During the Government restraint and budget reduction period, 1995 to 2000, the OAG budget grew by 5 per cent while Finance decreased by 22 per cent and TBS grew by only 3 per cent. Only the PCO grew more strongly than the OAG at 26 per cent.

The OAG has recently improved in its competitive practices. According to TBS reports on contracting between 1996 and 1998, the Office awarded with competition only 20 percent of its contracts greater than \$25,000. This compares to an average 82 percent for the rest of government in the 1998 report. However, in 2000, the TBS reports that the OAG awarded 60 per cent of its \$25,000-plus contracts as a result of a competitive process. The three other central agencies are Finance at 64 percent competitive; PCO at 64 percent; TBS at 71 percent (TB, 2000)¹⁸.

Office Production

Is the OAG a productive organization?
One's response depends on one's

assessment of the appropriateness and value of the VFM work. What is the goal and value of Canadian federal VFM? The Office's Performance Report for 2000 makes the following statement, which I find casual and unsatisfactory as an answer:

Value-for-money audits and government-wide audits and studies do not yet have generally accepted indicators of performance or quantifiable measures that are easy to compare with those of other legislative auditors. We pay close attention to planning and managing the costs, timeliness and results of these audits ... we set a target for the average cost of regular VFM audits excluding government-wide audits and studies at \$750,000 (PR, 2000, 12-13).

In 1993, the Office committed to control costs on VFM studies, including the government wide investigations and recommitted itself each year up to 2001 – 2002. The Office began by “learning lessons” from their practices (OAG, Estimates Part III, 1995-96, 8); then made a renewed commitment to lowering average costs by 25 per cent (OAG, Estimates, Part III, 1996-97, 27); then set targets to reduce VFM coverage to reallocate budgets to special examinations (OAG, Estimates, Part III, 1997-98, 18; 1998-99, 17); then repeated its commitment to maintain VFM at \$750,000 for each exercise (OAG, RPP, 1999-2000, 19; 2000-2001, 17); and one year reported excellent results in internal management by reducing the average VFM costs to \$675,000 (OAG, PR, 1999-2000, 14). But, in the 2001- 02 Estimates document for the Office, VFM is renamed “performance auditing.” Performance auditing “provides information to help legislators decide how well policies and programs have been implemented” and its price per exercise is simply adjusted upwards by about \$50,000 per study to \$800,000 per unit cost (OAG, RPP, 2001-2002, 16). No explanation is offered.

My attempt to divide into categories and map the Audit Office's products over the 30-year period proved meaningless. The products are often renamed, and, even when names stay the same, the definitions are changed. The OAG remakes itself continuously. As late as 1985, “comprehensive audit” meant that a whole department was looked at under the various facets of the audit programs, or that a significant government-wide function such as human resources management had been reviewed in a collection of departments. Into the 1990s, the term comprehensive audit narrowed to one part of a department's work or even part of a program – an “auditable entity.” From this point there can be several chapters in one AR on the same organization. One AR could likewise publish several chapters led by different Assistant AGs on overlapping aspects of the same government-wide subject. Program evaluation is given this treatment (AR, 1993, Chapters 8, 9, 10). VFM chapters since the 1990s can even be small essays or compositions without empirical evidence, apparent methodology, actionable recommendations, or citations of other research.

Volume is the one indicator that can be tracked. But even this is not easy: the Office does not always use page numbers, sometimes preferring numbered paragraphs of variable lengths. Macdonell's volumes averaged fewer than 400 pages, and the Dye decade's ARs that have numbered pages come in at about 630 pages each. In this context, Desautels begins modestly enough. From 1991 to 1993-94, his ARs are one volume, at about 600 pages each. But after 1994-1995, the Office moves to three reporting periods, in which the November/December volume is the wrap-up for the AR. Each “volume” is composed of a number of bound

pamphlets in a case, making the task of counting content pages difficult. Nevertheless, one can take the year that ends Desautels' period, 1999-2000 and do the hand-counting where necessary. For this single year, the English version of his three volume AR 1999 - 2000 and his personal farewell report, "Reflections on a Decade of Serving Parliament," come in at approximately 1,500 pages. This is my count, arrived at by adding pages for paginated documents and counting pages in documents only using paragraph numbering. In addition, the Office published its Commissioner of the Environment and Sustainable Development report of 500 pages, for a 2000 page year.

Of the OAG's 38 chapters in this Annual Report, seven are "forewords" and lists of "main points," and an eighth is the personal chapter of the OAG, Matters of Special Importance. Of the 30 chapters that contain commentary directly on some form of auditable entity, function, program, policy or practice – the \$800,000 chapters – ten concentrate on a program or operations, three are government-wide reviews of administrative matters, three treat government-wide human resources matters, five deal with the programs of central agencies, four take up a subject in a number of organizations that make up a particular policy portfolio, and five chapters revisit a previous audit. Generally speaking, therefore, the OAG, compared to Britain, concentrates on the heart of government in its VFM work. This likely reflects its choice of audit subjects on its political interest criterion.

Any sense of continuity across chapters is limited to production values: colour coordination in the binding of the individual pamphlets, large portions of white space, blank pages, use of text break-outs,

and frequent use of pictures, text boxes, tables, charts and figures (representing about 170 pages in AR 1999 - 2000). Nothing is given up to save paper, surprising in an office that houses the Commissioner of the Environment. In contrast, the Office does indeed seem to cut corners on research; the chapters based on empirical work can have a slight feel to them, samples tend to be oddly small, and methods are not well explained. Anyone with a beginner's background in social science research methods can read the 1995 VFM chapter on ethics to get a feel for the Office's lack of appreciation for standards of evidence.¹⁹ In short, the last ARs of the Desautels decade are dismayingly casual landslides of luxurious and well-written and edited booklets whose substance tends to slide away from the reader, of unknowable reliability and validity, "fundamentally obscure".

Self Evaluation: Mission Impossible

In the Report on Plans and Priorities (RPP) for 2001-02, it is claimed that the work of the OAG, unlike any other entity in government, cannot be captured in a "results" framework: "We share these objectives [promoting answerable, honest and productive government] with many other parties inside and outside government, which complicates the task of identifying results that are specifically attributable to our audits." The Office says its efforts can have "only an indirect influence on the achievement of the immediate, intermediate and end outcomes" that it visualizes for itself (p. 12). This material is set out in Exhibit 3.2 of the OAG's RPP, "OAG's Results Chain". One sees why the highest end outcomes the Office has chosen are not measurable: public confidence in government institutions and honest government are the work of the political process.

The Exhibit clarifies and restates the OAG's intention to participate in the supply process. The OAG identifies its clients as the federal and territorial legislatures, and it wants *all* legislative committees to simply "endorse" Office recommendations and findings. One must look in the section on the Office's "support activities" in the 2000-2001 RPP for a mention of the PAC. In the 1999 Performance Report the Office stopped reporting the total number of PAC meetings and its number of appearances before PAC, which until then had been declining.²⁰

Conclusion

Returning to Hood's ideas about secondary regulation, one can look at the OAG's actualization of its role as a regulator of government in the light of Hood's criteria. The two most relevant are independence of the objects of regulation, and, second, the existence of a formal mandate for the regulator's activities. The AG has a formal mandate, but the mandate expands or shifts at the office's discretion. The AG is independent of the Government, the House of Commons and the PAC. But the Audit Office is not programmatically independent of its bureaucratic partner, TBS. Their projects reveal deep mutuality in that each has planned its own control designs and programs to accommodate the other's role for more than 25 years. Indeed, as Ward teaches us, the government-side and the AG have worked together since Canada's beginning, most often without the PAC. Both TBS and the OAG seem willing to promote new legislation to redesign House procedures to "anchor" this or that. Hood's framework does not seem to have anticipated such mutual colonization and coordination of mandates in modern regulatory practices. In his view, the old, small, clubish, core civil service did regulate itself by self-respect and mutuality, but modern regulation is

supposed to operate impersonally, if only because of the size and complexity of the task. In addition, the OAG appears to have developed a too-close relationship to the private sector consulting industry. The industry members sitting on the high-level advisory boards to the AG would appear to be in a broad or generalized conflict of interest, given the widespread and unmeasured benefits to their industry that flow from creating new forms of work for their firms in government.

As for Power's observations, they certainly hold for the Canadian federal situation: the Audit Office suffers from obscurity in methods, it seems eager to displace cost to other actors, and to displace blame. After having itself promised to develop methods to measure first effectiveness and then results, and having failed, it is firm in describing lack of progress on the "results" bottom line task as pure unwillingness on the part of the Government and officials to undertake frank evaluation of their plans and work. Yet when it comes to itself, performance measurement is not applicable: its goals subsume the whole of good government. It shows little discipline in its spending or in devising defensible research standards for VFM work. It feels free to cut back the amount of financial audit that it undertakes to a minor portion of its activity, saying it is engaging in risk management.

Existing without any meaningful model of governance for its own work and programs, the Canadian OAG might seem to have become a textbook case of what rational choice theorists believe about all public bureaucracies – that they pursue their own interests and seek growth. During the 1990s the OAG freed itself from constraints that had been pre-conditions for its prerogatives and the VFM mandate as Macdonell had

developed it. Its programs of work create unmeasured indirect costs, which appear unjustifiable. The OAG even says it may now “anchor” its work in the supply process.

In constitutional convention, the OAG is a bureaucracy that assists the MPs on the PAC and in the House to close the loop on the supply cycle. Although it does have statutory powers in its own right that enable it to execute that duty, they do not place the OAG outside the PAC and even above the conventions of representative government. The OAG’s current ambition extends to returning federal Canada to the period before the advent in the 1870’s of the mass political party in the industrialized democracies (Canada, OAG, AR, 2001, 3). Party government, which has existed for well over a century since, means that stable governing majorities allocate resources to realize party goals (Manin, 1997, Chapter 6). The OAG is naively at war with the idea of party government, and can be seen invoking populist ideas of direct democracy in its various documents.

Well-meaning though it may be, the OAG is a source of confusion and misunderstanding. In my opinion, the Treasury Board Ministers and the PAC owe it to the democratic settlement and to the Canadian public to organize a formal, non-partisan review of the OAG’s mandate, as has been done in the UK. At the very least, it would help to educate the media and the public about the uncertainties of the OAG’s chapters if the OAG would restrict the word “audit” for financial work, as is done in the United States and elsewhere. Since the massive private sector audit scandals during 2001 and 2002, the firms that provide accounting and consulting services have been forced by regulators to

separate these practices: why should our state audit office be the exception?

Whatever else may happen, reclaiming the supply cycle for the House of Commons by abandoning the format of a program budget imposed in the early 1970s would be an excellent start toward returning the Government to political control and the OAG to its own constitutional mandate as a servant of the House of Commons.

Notes

¹The explanation for the somewhat grandiose title “servant of Parliament” is likely that, in Canada, the federal House of Commons is called “Parliament” to set it apart from the provincial legislatures. Unfortunately the word Parliament itself creates a halo effect.

²The research is based exclusively on documents in the public domain, and it is concerned with the leadership of the Office and with corporate-level policies as revealed in public documents. Where a view is attributed to the AG, it is taken from the chapter that has existed since 1975, “Matters of Interest and Importance,” that is the personal vehicle of the AG, or another piece signed by the AG. Material stemming from other Report chapters are treated as Office positions. I do not wish to slight in any way the abilities of the permanent employees of the Office, who have been given an impossible task, nor do I wish to say that none of the work done for the Annual Reports is useful. One can find chapters whose themes are in clear contradiction with one another and with “Matters”: some of it must be right. For one example, while Denis Desautels as AG was lending his support to PS 2000, a initiative involving decentralization and “empowerment”, promoting it and other New Public Management reforms in his personal

chapter of the Report, an Assistant Auditor General had begun a series of chapters about the loss of accountability that has occurred as a result of collaborative arrangements – that is, because of the NPM-type reforms being promoted by the AG.

³In contrast, the traditional or line-item budget is only a circulatory system to distribute money to buy categories of things and pay people to execute assigned work, and is later a standard of accountability against which probity and compliance in the use of money can be judged. It does not presume to provide positive control over management and effort. But the beauty of money is that it has a natural metric or numeraire that is apparent to all. The line-item budget allows for accountability only to a point, to be sure, because accounts are drawn up for various purposes, which means that no one statement can ever be transparent for all purposes. But in comparison to the program budget's ambitions, a line-item budget is straightforward, simple, and truthful in the sense that it can be verified in a technical way within its own parameters.

⁴No PPBS implementation has succeeded in establishing the linked quantitative information systems that the concept requires. The system manifestation would have to be a kind of universal computerized scoreboard or "stock market" for the value of units of public expenditure. It would capture all "results" for every program and every penny and pencil tick in every program for every instant in time, taking into account the fluctuations in the linked or causally-related programs and their components. Perfect rational information on effects could be fed to political actors who would want the information so they could do the rational thing in the real world, perfectly, without any unwanted side

effects. Risk would exist only in transformative situations. This is fantasy.

⁵Macdonell and Denis Desautels (the latter serving as AG from 1991 to 2000) had their roots in the big audit and consulting firms of central Canada, while Kenneth Dye (1981 to 1991) was associated with much smaller firms. Desautels' exposure to the public sector was, so far as the ARs reveal, as a consultant to the OAG, and from 1976 to 1990, while associated with a major firm, as a member of the Independent Advisory Committee on Government Accounting and Auditing Standards that brought private sector methods to government. Dye had no experience of government. The first AG since Henderson possessing public-sector experience was Sheila Fraser, appointed AG in 2001 after having acted in the position for the previous year. Fraser is the first woman to hold the federal AG's job, although British Columbia had appointed a woman as its auditor in 1967.

⁶Note that the FMCS papers were also printed as a volume of 300-plus pages, under the title *Supplement to OAG Annual Report for 1975*.

⁷The 1978 report contains as an appendix both the Act and the sections 76 to 78 of the FAA which specify the Crown corporations for which the AG is auditor.

⁸See the OAG's *Financial Management and Control Study* (FMCS) reported in the 1974, 1975 and 1976 ARs, and the *Study of Procedures in Cost Effectiveness* (SPICE) commissioned in September 1976. SPICE used 100,000 person-hours and its purpose was to develop methods.

⁹In regard to Crowns, the FAA was amended by Bill C-24, September 1984. In January 1989, the AG became the sole or joint auditor of each parent Crown named in Part I of Schedule C of the FAA, which added five

corporations. The amendment to allow more frequent reporting took place in June, 1994, while the appointment of the Commissioner of the Environment and Sustainable Development reporting directly to the AG took place in an amendment a year later.

¹⁰Earlier in the 1990s, however, Desautels' Office had said that it believed "Program evaluation is an established tool," and a "necessary measurement tool" (1993 AR, 8.32 and 8.40).

¹¹Invocation of "citizen's" wishes and views, and indeed the creation of direct constituencies is a form of demagoguery. As an appointed official, the AG's service to citizens is limited to the dutiful execution of his or her duties to the PAC and the House of Commons, which realizes the public goods of transparency and publicity in spending.

¹²The Central Supply Estimates for the British government have been through a reform process to implement accrual accounting. In the year 2001-2002, Government requested spending approval for cash and resources as separate categories. Departments separate their requests into "voted elements" for which they list supporting services and spending. While the elements are phrased in terms of "helping," "supporting," "promoting" and so forth, they are not expressed as promises to change any state of affairs. What the document shows is where spending is allocated.

¹³It is the elected Government that assumes the risk, however, as problems that are not caught in a timely way within the fiscal year by financial audit can always be picked up later when the political environment is more volatile by the OAG using its VFM powers. In this way the OAG just stepped into a major role interpreting to the public the year-long media crisis of 2000 created by HRDC's internal audit function's study of

files maintained on Grants and Contributions. Likewise, it had never previously reported on Public Works and Government Services Canada's sponsorship program contracting in Québec. It was actually the Bloc Quebecois party that did the work. The OAG reported retrospectively in its 2001 VFM report, back to 1995.

¹⁴also draw on Lord Sharman's report, *Holding to Account* (Great Britain, Her Majesty's Treasury, 2001) and a letter to me from Ciaran Martin, Policy Unit, National Audit Office, December 14, 1998. The State Auditor for California likewise commits to savings, in its case nine dollars for every dollar spent on audit. See United States, California, 1998, 6.

¹⁵Australia and Alberta's Auditor General number all of their recommendations. The AGs of Saskatchewan and Newfoundland have goals of 80 percent acceptance of their recommendations while Alberta looks for 95 per cent. Saskatchewan expands their goal to add that 90 per cent be accepted by PAC.

¹⁶The historical figures for the OAG's programs and for the comparator organizations are from the Main Estimates, Parts I and II, and from the Part IIIs of the Estimates which later became the Plans and Priorities and Performance Report documents.

¹⁷Standing Committee on Public Accounts, *Evidence* [Recorded by Electronic Apparatus], Tuesday, April 24, 2001, the fifth paragraph after the time notation 16:10. In other places, the RPP says that VFM is more discretionary in "scope and frequency" but not in regard to being done at all (RPP, 2001 – 2002, p. 15).

¹⁸The earlier TBS reports showed a worst-in-the-class for the OAG in 1996 - 1998 from 10, 21, 14 percent for each year respectively.

The OAG states in its *2000 Performance Report* that it is exempt from government contracting regulations. In Australia, the Senate requires much more transparency in its NAO operations, requiring it to report details annually on all contractors engaged by the office.

¹⁹Canada, Auditor General of Canada, "Ethics and Fraud Awareness in Government," 1995 Annual Report, Chapter 1. Pp. 15. Go to www.oag.bvg.gc.ca, then select Annual Reports, and go to the year.

²⁰The *Performance Report for 2000-2001* seems improved. For example, it presents some comparative data with other jurisdictions. A number of references comment on shortfalls in expectations (no hearings on the 2000 Commissioner of the Environment Report) and areas needing improvements (weaknesses in VFM audit practices). There is a new analysis on "Resources Used" and a "Summary of Expenses by Major Classification". It is disappointing that its goal for committee attention does not refer to the PAC, but continues to track appearances before all House of Commons committees that hear Estimates.

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