



**HOUSE OF COMMONS
CANADA**

**CHAPTER 2, GOVERNANCE OF SMALL FEDERAL
ENTITIES OF THE DECEMBER 2008 REPORT OF
THE AUDITOR GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, MP
Chair**

JUNE 2009

40th PARLIAMENT, 2nd SESSION



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FOURTEENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 2, Governance of Small Federal Entities of the December 2008 Report of the Auditor General of Canada and has agreed to report the following:

INTRODUCTION

The federal government is composed of over 170 organizations—ranging from large departments and Crown corporations to small agencies, boards, and commissions. Government organizations of all sizes must ensure prudence, probity, and effective control over the spending of public funds. However, smaller entities may not have the capacity to respond to the management, control, and reporting requirements of the government’s central agencies. Additionally, the appointment processes and independence of small entities present challenges in achieving good governance.

Recent audits of small entities by the Office of the Auditor General of Canada (OAG) found significant risks to good governance, which led to instances of serious abuse and wrongdoing. These risks prompted the OAG to conduct an audit of the governance of small federal entities. This audit was included in the Auditor General’s December 2008 Report and tabled in the House of Commons on 5 February 2009.¹

The Public Accounts Committee was disturbed by past findings of wrongdoing and supported the audit of the governance of small entities. The Committee held a hearing on this audit on 26 March 2009.² The Committee met with officials from several organizations—from the Office of the Auditor General: Sheila Fraser, Auditor General of Canada; Richard Flageole, Assistant Auditor General; and Tom Wileman, Principal; from the Treasury Board of Canada Secretariat: Wayne Wouters, Secretary; John M. Morgan, Assistant Comptroller General, Financial Management and Analysis Sector; and Frank Des Rosiers, Assistant Secretary; from the Canada Public Service Agency: Mitch Bloom, Vice-President, Strategic Policy, Planning and Research Sector; and from the Privy Council Office: Karl Salgo, Director of Strategic Policy, Machinery of Government.

¹ Auditor General of Canada, December 2008 Report, Chapter 2, *Governance of Small Federal Entities*.

² House of Commons Standing Committee on Public Accounts, 40th Parliament, 2nd Session, Meeting 12.

BACKGROUND

The federal government defines entities as small based on the number of employees that they have, or based on their annual expenditures. The OAG identified 51 entities with fewer than 500 employees or with an annual approved expenditure of less than \$300 million (not including ministerial departments, Crown corporations, or agents of Parliament).

Since 1997, the OAG has conducted audits of the Patented Prices Review Board, the National Parole Board, the Canada Firearms Centre, the RCMP Public Complaints Commission, the Canada Industrial Relations Board, the Canadian Forces Grievance Board, the Courts Administration Service, as well as other small entities in the context of larger audits. The audits of two particular small entities—the Office of the Privacy Commissioner and the Office of the Correctional Investigator—stand out as particularly troubling.

In 2003, the OAG found that the former Privacy Commissioner had “abdicated his responsibilities” as a deputy head, and under his stewardship, rules and even basic standards of decent behaviour were routinely broken.³ This audit also found that the oversight mechanisms of central agencies were insufficient to either prevent abuses and wrongdoing or deal with them after they had occurred.

In 2006, the OAG found that the former Correctional Investigator committed serious abuses and wrongdoing, some of which resulted in substantial personal benefit.⁴ The service provider, Public Safety Canada, did not challenge questionable expenditures and problematic human resources practices. Also, central agencies did not carry out appropriate oversight that would have helped them to identify and stop the improper activities.

The 2008 audit of the governance of small federal entities stems, in part, from these previous audits. The 2008 audit focused on portfolio coordination, the Management Accountability Framework, and internal audits as mechanisms used by central agencies for oversight and coordination. The audit also examined the role of central agencies in relation to reporting requirements and shared administrative

³ Auditor General of Canada, September 2003, *Report on the Office of the Privacy Commissioner*.

⁴ Auditor General of Canada, November 2006 Report, Chapter 11, *Protection of Public Assets—Office of the Correctional Investigator*.

services. The audit focused on the roles of the Privy Council Office (PCO), the Treasury Board of Canada Secretariat (TBS), and the Canada Public Service Agency (which has since been reincorporated into TBS).

The 2008 audit of the governance of small entities makes four recommendations, and the Committee fully supports all of them. As the Treasury Board of Canada Secretariat, the Canada Public Service Agency, and the Privy Council Office agreed with all the recommendations, the Committee expects that these organizations will implement the recommendations, and have a plan of how they will do so.

ACTION PLAN

The Committee believes that departments should develop action plans in response to OAG audits because such plans demonstrate management's commitment to implementing the recommendations. While departments invariably agree to the recommendations, the rate of implementation does not fully reflect this commitment. According to the OAG's 2007-2008 Performance Report, 55 percent of its recommendations have been implemented four years after they were made, and another 29 percent are substantially implemented.⁵

If a department is indeed serious about implementing the recommendations, then senior management should ensure that an action plan is developed; without one, senior management would not have the information needed to monitor implementation. A well-developed action plan focuses management's attention on what needs to be accomplished, by whom and when, thereby making it more likely that the necessary actions will be taken.

Moreover, neither the OAG nor the Committee has the authority to force departments to act, and their power to influence departments is limited to suasion and public pressure. The preparation and presentation of an action plan allows the Committee and the OAG to hold departments to account for more specific actions than the often vague commitments made in departments' responses to OAG recommendations. As the Auditor General, Sheila Fraser put it, "When departments

⁵ This is based on self-assessment by departments. The previous year, the OAG conducted the assessment and found that 46% of recommendations were fully implemented and 26% substantially implemented, as noted in the OAG's 2006-2007 Performance Report.

agree with us, they give us a very small text saying they are agreeing and general broad strokes of what they're going to do, but we would expect them to have a detailed plan as to how they're actually going to carry out what they say they're going to do.”⁶ In order to function effectively as a committee of accountability, the Public Accounts Committee requires departments to make clear and public commitments for which they can be held to account.

In the past, the Committee has asked for action plans in its reports. As a result, the Committee was unable to review action plans at its meetings. Additionally, in lieu of a full-fledged action plan, departments would often note a few key actions in the government response to the Committee report. As the Committee wanted to formalize its expectation to receive action plans prior to hearings, it adopted the following motion on 5 March 2009:

That all departments and agencies of the federal government that have been subject to a performance audit by the Office of the Auditor General of Canada provide a detailed action plan to address the audit findings and recommendations - including specific actions, timelines for their completion and responsible individuals - to the Public Accounts Committee and the Office of the Auditor General of Canada within six months of the audit being tabled in the House of Commons; and that departments and agencies that are invited to appear before the Public Accounts Committee to discuss the findings of an audit should, when feasible, provide an action plan to the Committee prior to the hearing.

Subsequent to the adoption of this motion, the Committee held hearings on audits of the Public Health Agency of Canada (PHAC), Correctional Service Canada (CSC), and Public Works and Government Services Canada (PWGSC). Despite short notice, all of these organizations were able to provide action plans in both official languages to the Committee prior to the hearing. These action plans each had a slightly different format, but they shared the common feature of specifying what actions the department needed to complete in order to implement the recommendations and what the current status of those actions were.

The Committee does not believe it is necessary, nor appropriate, for it to dictate a format for these action plans. Departments should decide what information is

⁶ Meeting 12, 17:30.

needed and how it should be presented. Nonetheless, the action plan should make it clear what will be done, by whom, and by when. Departments are encouraged to work with the OAG when developing their action plans, as the OAG is well-placed to comment on what actions might be most effective at addressing the weaknesses identified by the audit.

With respect to the hearing on the audit of the governance of small federal entities, the Committee's expectation of an action plan was relayed to TBS prior to the hearing. However, TBS subsequently informed the Committee that its responses to OAG recommendations, which were included in the audit, constituted its action plan. The Committee does not believe that this is satisfactory because some of the responses are vague and do not specify the actions to be taken with respect to small entities (this issue is discussed in more detail below). Moreover, TBS could have taken the opportunity to outline in its action plan what progress has been made to date in responding to the audit.

It is possible that there was some miscommunication. The Secretary to the Treasury Board, Wayne Wouters, told the Committee that he was not aware of the Committee's motion. He went on to say, "We take the motion seriously, and we will follow up. If, in this particular case, you feel we need to do one later, then we will definitely go back and give that serious consideration."⁷ However, at the end of the hearing, Mr. Wouters expressed reservations about the Committee's expectations. He said, "I'm just worried about the reporting burden we have, because now in each report we have to have a set of recommendations and an action plan. There's an action plan in the recommendations, so now we have to come forward with another detailed action plan."⁸ He also raised concerns about how this requirement would impact small entities, and how this could be an additional report to the one provided to internal audit committees.

The Committee believes that its expectation to receive action plans is reasonable, and it does not create an additional reporting burden upon departments. As noted earlier, an important part of an effective management response to the OAG's

⁷ Meeting 12, 15:50.

⁸ Meeting 12, 17:25.

reports is to prepare an action plan at the conclusion of an audit. The action plan provided to the Committee may indeed be the same one that is provided to a department's internal audit committee. Also, the OAG conducts very few audits of small entities, and when it does, the audit findings are sometimes so serious that an action plan is only the beginning of an extensive process to address management weaknesses.

The Committee believes that Mr. Wouters, as deputy head of the Treasury Board of Canada Secretariat, should take a leadership role with respect to accountability, transparency, and good management practices. Action plans are an effective management tool, and a straightforward means of demonstrating to parliamentary committees that the department is willing to be held to account and take specific measures to address the OAG's recommendations. Given the common interest the Committee and TBS share in promoting good financial management and departmental administration, the Committee would like to work more cooperatively with TBS where possible. However, this requires a spirit of cooperation. The Committee notes that subsequent to the hearing, TBS has not made efforts to clarify the Committee's expectations nor to provide the requested action plan. Consequently, the Committee reiterates its expectation and recommends:

RECOMMENDATION 1

That the Treasury Board of Canada Secretariat provide the Public Accounts Committee with an action plan by 30 September 2009 of how it intends to implement the recommendations contained in Chapter 2 of the Auditor General's December 2008 Report.

The Public Accounts Committee also asks departments for progress reports on implementing recommendations when the audit addresses serious issues or when the Committee is concerned about what progress will be made. As most of the issues examined in this audit have been outstanding for a number of years, and the Secretariat's approach with respect to an action plan raises doubts about how seriously it is taking these issues, the Committee recommends:

RECOMMENDATION 2

That the Treasury Board of Canada Secretariat, in coordination with the Privy Council Office, provide the Public Accounts Committee with a progress report by 31 December 2009 on what actions have been taken to address the recommendations contained in Chapter 2 of the Auditor General's December 2008 Report.

REPORTING BURDEN

Federal government organizations have a number of reporting requirements in relation to such areas as official languages, financial management, procurement, and human resources management. These requirements are generally the same for all government organizations, even though small entities often have limited capacity to meet reporting requirements. This leads to a reporting burden for small entities in the time and effort required to produce the reports.

The reporting burden for small entities is a long-standing issue and has been pursued by the Small Agencies Administrators Network for many years. This network commissioned a series of studies. A 2003 study estimated that 107 reports had to be produced each year. One of the causes of the reporting burden is that small entities generally have the same reporting requirements as larger organizations, yet their risk levels are quite different.

The central agencies have undertaken some activities to reduce the reporting burden. For example, small entities undergo a Management Accountability Framework assessment every three years instead of every year, and the Canada Public Service Agency has developed an online reporting portal. However, the OAG concluded that, "Five years after acknowledging that they have a role in reducing the reporting burden, the central agencies have not taken substantive action to reduce it."⁹

The OAG recommended that TBS and the Canada Public Service Agency "should incorporate into their plans measures that adequately address the reporting burden to small entities, including expected outcomes, timelines, and performance indicators."¹⁰ TBS responded by noting that the number of questions on the online human resources reporting portal have been reduced by 85 percent; that the "people

⁹ Chapter 2, paragraph 2.55.

¹⁰ Chapter 2, paragraph 2.60.

management” reporting requirements under the Management Accountability Framework have been similarly reduced; and that the Treasury Board Portfolio policy suite will be reduced from 180 to 44 policies. Additionally, TBS indicated that it has a Web of Rules Action Plan and that it will consider special measures and support to mitigate the burden for small entities.

TBS maintains that this response constitutes its “action plan” in response to the OAG’s recommendation. However, the response outlines no actions to be taken to specifically reduce the reporting burden on small entities. The response indicates that “special measures and support *will be considered*” as part of the Web of Rules Action Plan, which is not yet publicly available on TBS’s website, even though the audit report was originally scheduled to be tabled in the House in December 2008.

If TBS indeed intends to take action on the long-standing problem of the reporting burden for small entities, then it must specify what specific actions it will take, and the department’s response does not do this. Consequently, the Committee recommends:

RECOMMENDATION 3

That the Treasury Board of Canada Secretariat include specific elements in its action plan (noted in recommendation 1) of how it will reduce the reporting burden on small federal entities.

SHARED SERVICES

Some small entities have difficulty in ensuring sustainable administrative services. In some cases, they may only have one or two key individuals responsible for providing administrative services. They often lack the capacity for internal services such as finance, human resources management, and information technology. Shared services, which involves the streamlining of common corporate administrative systems and functions amongst organizations, would be a means to address this challenge. Shared services can improve the quality, effectiveness, and efficiency of internal services through economies of scale, and can provide access to specialized resources.

Mr. Wouters told the Committee that there are several different models for shared services for small entities. One would be to have several entities come together

and share their services. Another would be for a larger organization to provide services to a smaller organization. The third option is outsourcing. TBS has a lead role in developing administrative shared services, and in 2005, it launched the Corporate Administrative Shared Services (CASS) initiative. However, CASS does not take into account the capacity and business continuity risks that small entities face. Actions taken by the Office of the Comptroller General and the Canada Public Service Agency have been limited to small-scale initiatives.

Several small entities have entered into shared services agreements on their own initiative. In one case, the OAG was told that TBS had shown little interest in the lessons learned from efforts of small entities to share services. Additionally, there is a lack of an adequate framework to govern shared services, which in the past led to officials not properly fulfilling their responsibilities because there was no common understanding of the roles and responsibilities for shared financial and human resources services.

The OAG recommended that TBS address the issues identified with respect to administrative shared services in small entities. TBS responded by noting that it is developing a shared services strategy and it “will address the issues related to small entities in the overall strategy.”¹¹ The Committee finds this response to be vague, inadequate, and far from what would reasonably be expected in an action plan. It is not at all clear from this response what issues TBS will address, what actions TBS will take to address those issues, or when it expects to complete those actions. Consequently, the Committee recommends,

RECOMMENDATION 4

That the Treasury Board of Canada Secretariat include specific elements in its action plan (noted in recommendation 1) of what issues it will address with respect to administrative shared services in small federal entities, how it will address those issues, and when it expects to do so.

¹¹ Chapter 2, response to recommendation 2.76.

CONCLUSION

Given its position as a central agency, TBS should be a leader with respect to accountability, transparency, and good management practices. While Mr. Wouters expressed concern about the burden of providing an action plan of how TBS intends to implement the OAG's recommendations, the Committee believes that this is a reasonable expectation. An action plan would make TBS more transparent on the actions it intends to take, would increase the extent to which TBS can be held to account, and would demonstrate a serious commitment to addressing the issues identified in the audit. While TBS maintained that its responses included in the audit constituted its action plan, these responses are vague and do not adequately address the specific concerns of small entities with respect to the reporting burden and administrative shared services. TBS has made some progress in reducing the reporting burden for all government organizations and is developing a strategy for shared services, but it needs to devote particular attention to the needs of small entities in these areas. The OAG did note that the new internal audit policy is a positive development because it distinguishes between large and small departments and agencies. The Committee hopes that TBS will make a serious effort to address the concerns raised by the audit and will develop an action plan outlining how it intends to do so.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Canada Public Service Agency Mitch Bloom, Vice-President, Strategic Policy, Planning and Research Sector</p>	2009/03/26	12
<p>Office of the Auditor General of Canada Richard Flageole, Assistant Auditor General Sheila Fraser, Auditor General of Canada Tom Wileman, Principal</p>		
<p>Privy Council Office Karl Salgo, Director of Strategic Policy, Machinery of Government</p>		
<p>Treasury Board Secretariat Frank Des Rosiers, Assistant Secretary, Priorities and Planning John M. Morgan, Assistant Comptroller General, Financial Management and Analysis Sector Wayne Wouters, Secretary</p>		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings ([Meetings Nos. 12, 20 and 23](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, MP

Chair