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**THE AUDITOR GENERAL AND
RESPONSIBLE GOVERNMENT**

**Submitted to the Department of Political
Science of the University of Windsor in
partial fulfillment of the requirements
for the degree of Master of Arts**

by

Robert Krause, B.A.

**Faculty of Graduate Studies
1967**

UMI Number: EC52666

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ABSTRACT

Responsible government is an integral part of a parliamentary system of government. In Canada one essential method by which responsible government finds meaning is when the legislative is able to keep the executive accountable for its financial undertakings. The Auditor General, who as an independent agent of the legislature reviews the financial transactions of the executive, plays an important role in helping to maintain responsible government. A study of the role of the Auditor General shows that he has not been wholly successful in aiding the legislature in achieving responsible government.

What seems to come out of this study is an indication that, at times, both the House of Commons and the executive have reacted to pressures exerted by the Auditor. More often, however, this phenomena has not been evident for any appreciable and consistent length of time. It is the aim of this thesis to discuss the particular reasons for this, in relation, first, to the role and position of the Auditor General in the Canadian Financial system and finally, to relate how his position has effected and been affected by his dealings with both the executive and Parliament.

From these observations it appears that while the

Auditor General has employed a generally thorough audit his role in responsible government since Confederation has laboured under several handicaps.

PREFACE

The Auditor General's role in Canadian government has never been specifically related to keeping the executive responsible. However, in the years since Confederation the Auditor has been a central figure in advising and reporting to the House of Commons in trying to maintain executive responsibility. In treating the subject this thesis attempts to clarify the part the Auditor's office has played in the development of responsible government.

In making acknowledgements, I am indebted to the members of my thesis committee for their assistance in the completion of this work. Dr. W. L. White, my thesis director, has given invaluable insight into the functioning of the Canadian financial system and has offered many succinct observations which have been of great value to the author. To Dr. E. D. Briggs, of the Department of Political Science and Dr. J. C. Strick of the Department of Economics, I wish to express my gratitude for their pertinent and helpful advice on matters of content and presentation.

Finally, I wish to express my sincere appreciation to those who have aided in the typing of this thesis.

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INTRODUCTION

The purpose of this study is to describe and analyze the role of the Auditor General in achieving responsible government.

Principles of responsible government in a parliamentary system rest on the bedrock of legislative control of the executive. Today in Canada the Cabinet, which is the operational arm of the Privy Council,

wields very extensive authority over all legislation and exclusive authority over all financial legislation; the Cabinet controls the time, regulates the business, and apports the energies of the House almost from hour to hour during every day of its meeting.¹

It is primarily through the power of Parliament to control the purse strings of the executive that executive responsibility is obtained and maintained. The executive is responsible to the House of Commons for the determination, preparation, and management of the public finance of Canada. Parliament authorizes the financial proposals of the executive and keeps it responsible by holding the executive to account for management in financial policy. Accountable here is used in a

¹ R. M. Dawson, The Government of Canada, (Toronto: University of Toronto Press, 1960), p. 431.

narrower sense than the broad encompassing term responsibility. For the term responsibility "in its core meaning, denotes answerability" and this implies "accountability which focuses attention upon the sanctions or procedures by which public officials may be held to account for their actions."² It is by control through the management or stewardship role of the executive, that Parliament maintains executive accountability and responsibility to Parliament. Parliament provides this accountability by undertaking a dual function involving criticism and recommendation. It first carefully scrutinizes and criticizes the executive control agencies and government departments which are responsible for financial operations and procedures; and then makes recommendations for their improvement. This cycle of accountability is crucial to modern responsible government.

Responsible government may only be maintained if the House is supreme. The only practical way this can be achieved is by an effective and constant check of the financial proposals and transactions of the executive. If this is not achieved, then Parliament merely becomes an agency of the executive. The end result is a perversion of the

² J. Gould and Q. L. Kobb (ed.), A Dictionary of the Social Sciences, (New York: Free Press, 1964), P. 599.

traditional chain of responsibility which flows from the people to Parliament to the Cabinet. If viewed in the perspective of a systems analysis,³ this chain of responsibility first gives the demands from the people, which are expressed by parliamentary members. These demands are then filtered and transmitted into "inputs" by the executive where they are subjected to the process of "conversion" by parliament. The end product is policy fed back to the people as "outputs" to satisfy the demands as originally expressed by the populace. If this chain is broken, the Parliament would be for all practical purposes by-passed and the "union of powers" principle of our parliamentary system would vanish, with only an oligarchy appealing directly to the people. The parliamentary process as we know it and understand it would be perverted.

To ensure accountability in public finance, Parliament needs an independent agent to review the financial operations of the executive. This agent is the Auditor General.

He

examines the public accounts after transactions are completed and reports to the legislature any unauthorized, illegal or irregular transactions, any unsound financial practice, or any evidence

3 See J. E. Hodgetts, "Regional Interest and Policy in A Federal Structure", Canadian Journal of Economics and Political Science, hereafter referred to as C.J.E.P.S., Vol. XXXII, No. I, (February, 1966), p. 4.

of corruption, waste or inefficiency which may come to his attention.⁴

The auditor's function is to serve as one of the "accountability controls" which

are designed to ensure that money set aside for a particular purpose is not applied to some other purpose, that the limits set are not exceeded and that there is no defalcation.⁵

His audit then serves three purposes.⁶ It is in the first instance an accounting of the financial transactions seeking to show that the public accounts present the actual financial position of the government, which is certified for the House of Commons. As well the Auditor General conducts an appropriation audit of expenditures which assures the House that the money it has authorized has been spent within the proper time for the services legally sanctioned and finally that the grant of money was not exceeded. The remaining audit of authority

is for the purpose of establishing that those responsible for the administration of the public

⁴ See H. R. Balls, "The Legislative Audit", Canadian Public Administration, hereafter referred to as C.P.A., Vol. XXV, No. 3, (Autumn, 1947)

⁵ H. R. Balls, "The Control and Co-ordination of Public Expenditure", Canadian Tax Journal, hereafter referred to as C.T.J., Vol. X No. 3, (May, June, 1952), p. 152.

⁶ H. R. Balls, "The Legislative Audit", op.cit.

funds have duly authorized each transaction in accordance with the relevant statutes, orders-in-council, executive orders, departmental regulations, accepted practices and recognized precedents.⁷

The latter audit for authority, is a secondary audit to the appropriation audit and serves as a valuable supplement to it. While an appropriation audit can establish that money spent, was spent legally and within the proper time and for its authorized purpose it leaves out an important question which might be phrased as one of efficacy.⁸ For in his audit the auditor will be dealing with systems of administration and these systems may possess symptoms that could lead to future errors. In this connection the Auditor General will seek to strengthen and tighten control systems within the administration itself.

When all three audits are performed they serve as the "accountability tools" by which Parliament can keep the executive responsible to it. The end result of the total audit is the Auditor General's report which is submitted to the Public Accounts Committee. This standing committee of the House, bases its recommendations on the investigation

7 Ibid., p. 158.

8 The audit for authority involves both control and efficiency. It is an audit that seeks to provide that the money authorized was spent to achieve the desired end for which it was intended.

outlined in the report, which is a result of a critical analysis of governmental finance. Out of the dialogue between the Auditor and members of the Committee, recommendations are formulated and presented to the Commons for correction and improvement of executive finance.

To fulfil the purpose of this study the development of the role of the Auditor General in respect to his status, nature and extent of his audit, will be examined to establish his present position as an agent in the management of public finance.

Executive management responsibility will be analyzed in the light of political influences that have shaped the current operation of the executive control agencies.

Accountability to the House of Commons will be measured by establishing the effectiveness of its recommendation based on the House's evaluation of the Auditor's report as discussed in the Public Accounts Committee.

In summary, the study will be devoted to concluding how the principle of accountability in responsible government has been served by the Auditor General and what recommendations could be made for its improvement.

CHAPTER I

THE POSITION OF THE AUDITOR GENERAL IN CANADIAN FINANCE

The position of the Auditor General in the financial management of Canadian public finance has undergone significant changes since Confederation. The British North America Act of 1867¹ had provided for a federal system of government "with a Constitution similar in Principle to that of the United Kingdom"² It followed that the financial system, within which the Auditor General was to function, was to be based upon the principles of the British financial system.

Constitutional Framework of the Canadian Financial System

The framework around which the Canadian financial system was to be developed focused about provisions of sections 53, 54 and 102 of the B.N.A. Act. Section 53 of the act stated that for the appropriation of public revenue and the imposition of taxes it is obligatory that these bills originate in the House of Commons. While section 54 prescribed that these bills must be, "first recommended to that

1 Hereafter referred to as the B.N.A. Act.

2 Statutes of Canada 1867, (Ottawa: Queen's Printer, 1867) c. 3, p. 2.

House by Message of the Governor General in the session in which such Vote, Resolution, Address or Bill is proposed" ³

To facilitate both management and control of the financial system is the provision of section 102 establishing a consolidated revenue fund into which all government revenues are deposited and from which "payments - - - shall be appropriated by the Parliament of Canada for the public service" ⁴

With these provisions financial sovereignty was vested in the legislature by virtue of its control of the public purse. Sections 53 and 54 had together established the constitutional authority of the legislature over the executive, by giving the House of Commons the power of authorizing financial proposals put forward by the executive designating how the public money was to be spent. The provision of section 102 which had established a Consolidated Revenue Fund allowed the Commons to regulate the management of government finance by obligating the executive to follow their legislative directions. This obligation could only be fulfilled by legislation which would incorporate detailed procedures for financial management.

³ Ibid., s. 54, p.13

⁴ Ibid., s. 102, p. 73.

Legislative Framework and the Auditor General

Consolidated Revenue and Audit Act - 1867

One of the first pieces of legislation enacted by Parliament to attain proper financial management was an act "respecting the collection and management of the revenue, the auditing of public accounts, and the liability of public accountants".⁵ The statute was in form similar to the Canadian Audit Act, as amended in 1864, and was primarily intended to set up proper procedures by which the executive could manage public finance. In this light, the audit was regarded as an executive function. The public accounts were audited by a Board of Audit, appointed by the Governor-in-Council, and was supervised by the Minister of Finance. The auditor, who was chairman of the Board, had general control over the issue of public money and the audit of accounts. However, since the members of the Board were usually deputy ministers their primary interest lay in their own departments. In reality then the full load of the audit fell on the Auditor. To further complicate matters, the Act increased the executive's power to use Governor General's Warrants⁶ and gave

5 Ibid., c. 5, p. 73.

6 Governor General's Warrants are a method employed by the executive for meeting "unforeseen contingencies and natural emergencies" when Parliament is not in session or the money

the final right of appeal, of departmental requests for appropriation, to the Minister of Justice.

Provisions of the Audit Act drastically affected the nature of the audit. While an appropriation audit was provided, its terms of reference were restricted by the financial protection accorded to the executive. The audit for authority was fundamentally concerned not with authorization but rather with "the liability of public accountants" Its emphasis was therefore on punitive measures. In the main, concern was centered on an accurate accounting audit, involving both a pre and post audit function, necessary to ensure the proper balancing of the books. Restriction was also implied in the emphasis on the revenue audit, due to the federal structure of the government and the generous financial provisions of the B.N.A. Act, applicable to the provinces. A large proportion of the revenue obtained was required for statutory commitments. What revenue was left for expenditures was eagerly sought by members of Parliament. Federation by its very nature meant an attempt towards meeting diversified regional needs through a program of financial expansion and

is urgently required. For a historical treatment of the development of Governor General's Warrants and their use see, H. R. Balls, C.T.J., Vol. XI, No. 3, (May, June, 1963), p. 181-193

and assistance. Heavy demands for social capital necessary for railways, harbours and public works developed very soon after Confederation. Each area sought to obtain its fair share and financial advantages were parcelled out as political rewards, and were eagerly sought by parochial members. For this reason proper financial management and executive accountability became a secondary goal. The audit, therefore, remained basically an agent for executive control until the Act was amended in May of 1878.

Consolidated Revenue and Audit Act - 1878

By the amendment of the 1867 Act, the Auditor General's independence from the government of the day was provided, by first, requiring his salary to be paid directly out of the Consolidated Revenue Fund, not dependent upon annual parliamentary appropriations, which was open to manipulation by the executive. Tenure became the second criterion of independence by establishing that he could only be removed from office by a joint address of both the Senate and the House of Commons. These two provisions which gave the Auditor his independence and made him an agent of the House of Commons have been re-enacted in both the Consolidated Revenue and Audit Act of 1931 and the Financial Administration Act of 1951.

Provision for the Auditor General's function was assigned to provide "for the more complete examination of the public accounts of the Dominion, and for the reporting thereon to the House of Commons" ⁷ To secure this objective the Auditor was furnished with a staff appointed and regulated by the Governor-in-Council. In matters of staff relations the Auditor General was conceded

full power to make from time to time, orders and rules for the conduct of the internal business of his office - as long as these - rules, regulations and forms shall be approved by the Treasury Board previously to the issue thereof. ⁸

Staff needs for the proper auditing of executive financial transactions were thus influenced by a notable degree of executive control. ¹

Auditing of the public accounts assigned to the Auditor, duties that were administrative in nature. He was responsible for controlling the release of credits to spending departments, the counter-signing of cheques for reimbursing banks for payments made to the departments, as well as the pre-audit of various classes of expenditure. His audit was two fold. It was to be both a pre-audit and a post audit

⁷ Statutes of Canada, 1878, (Ottawa: Queen's Printer 1878), c. 7, s. 11, p. 46.

⁸ Ibid., s. 15, p. 47.

encompassing a total continuous oversight of departmental revenue and expenditure transactions. This was feasible when government was centralized and responsible for expansion in a laissez-faire economy. In these circumstances a detailed and comprehensive audit was conceivable.

However, the closely knit and compact financial organization, began to exhibit glaring signs of weakness as the Canadian economy expanded and the populace demanded a more positive economic approach by government. Increased demands were satisfied by an enlargement of governmental services and a subsequent decentralization of governmental control necessary to meet diversified needs. Remoteness from central direction and control gave rise to tardiness in departmental accounting and reporting. Consequently, the appropriation audit whereby the Auditor was directed to discern that no cheques were issued which were not covered by parliamentary appropriation became more difficult to achieve, as departments frequently overdrew letters of credit. It was only upon request by the banks for repayment of the preceding month's departmental issue that the Auditor General became conscious of overdrafts. To remedy this deteriorating situation which was aggravated by the Depression of the 1930's, a more highly centralized control system was devised

by the Consolidated Revenue and Audit Act of 1931.

Consolidated Revenue and Audit Act - 1931.

By the new legislation essential modifications in the financial system were made. Types of audits were enacted to include audits for accounting, appropriation and authorization. A relaxation of some of the Auditor's administrative duties was achieved by appointment of the Comptroller of the Treasury who was now responsible for pre audit. Responsibility for disbursement from the Consolidated Revenue Fund and issue control was transferred from the Auditor General to this new executive officer.

Creation of the Comptroller's office had several effects on the types of audit employed by the Auditor General. As expenditure payments were transferred from the departmental accounting officers' jurisdiction, and centralized in the Comptroller's office, it had one immediate effect on the Auditor General. Except for a few minor exceptions the Auditor lost his power over the issue of public money and was stripped of the power to prevent what he considered improper expenditure. Appropriation audits were limited to a strictly post audit. However, the Auditor was still responsible for ascertaining that disbursed money was spent efficiently and on the goods or services that Parliament had

intended.

The area of audit was also increased by the new Act. Now all accounts that were to form a part of the public accounts were included in the scope of his audit. Accounting audits were facilitated by the Comptroller's office although the Auditor General still had the responsibility for every transaction in the public service relating to the public accounts and that they presented the true financial position of the country. These audits were to include a comprehensive examination of all types of Accounts and accounting systems. This did not necessitate, however, that every item in financial transactions be individually checked. Rather a test audit was deemed sufficient. The range of the test audit was dependent only upon the Auditor General's regard of how effective were the systems of internal accounting and audit procedures.

By the new Act of 1931 the Auditor was also limited in his investigation for authority in financial transactions. Previously his decision that there was no Parliamentary authority for any particular expenditure if supported by the Minister of Justice was binding on the executive. However, the new stipulation in the Act moved the final authority for expenditure audit to the Treasury Board. His only

recourse left was to report later to the House of Commons.

Two new audit responsibilities were entrusted to the Auditor General due to the impetus and manipulation of government funds during World War I. Manufacturing and the acquisition of stores necessary for the war effort caused an increase in governmental services and to place these under some type of control both Crown Corporations and Public Stores were to be included in the audit. Both of these audits proved to be extremely difficult to perform as a result of the narrow statutory directions applicable to their audit. The second World War accentuated this particular problem. Expanding financial activities of Crown Corporations and a multiplying stores account, displayed the vital necessity for some method to ensure accountability.

The Financial Administration Act - 1951

To provide better financial management the Financial Administration Act centralized executive control even further.

The Act not merely replaced the Consolidated Revenue and Audit Act of 1931, but consolidated all pertinent practices into a concise legal description of the structure and functions of the institutions connected with financial policy, public accounting and auditing. ⁹

⁹ Norman Ward, The Public Purse, (Toronto, University of Toronto Press, 1962) p. 211.

Both the role and functions of the Auditor General were clarified in addition to drawing a clearer line between his office and that of the executive control agencies. One positive indication was the dropping of the Auditor's administrative responsibilities and the allotment of those functions to the executive agencies.

Responsibilities conferred by the Act directed the Auditor General to examine and audit expenditures, revenues, public property and Crown Corporations as well as verifying for the House of Commons a statement of the assets and liabilities of the country included in the Public Accounts.¹⁰ Audit responsibilities, with the addition of public property and Crown Corporations, were now consolidated to encompass virtually the whole gambit of governmental finance.

Broad audit directions accorded to the Auditor General, necessary to assist in audit responsibilities were

¹⁰ See Ian Stevenson, "The Place of the Auditor in Government: Federal Viewpoint." Proceedings of Tenth Annual Conference Institute of Canadian Public Administration, 1958, p. 197. The author points out that the special statements which are included in the Public Accounts and for which the Auditor General is responsible are: "remissions of taxes, fees and penalties; obligation, debts and claims written off accountable advances not repaid or accounted for at the termination of the fiscal year; stores and materials deleted from inventories with Treasury Board approval; and losses suffered by reason of defalcations or other fraudulent acts of public offices."

were two fold. Enacted directions included an examination of both the accounts applicable to the Consolidated Revenue Fund and public property. While the main audit directions for public property were to "ascertain whether essential records are maintained and the rules and procedures are sufficient to safeguard and control public property",¹¹ an appropriation and authorization audit were as well understood. Indeed specific audit directions given to fulfil the two fold purpose, entailed an audit for accounting, authority and appropriation. In this respect his audit was influenced by the re-affirmed and enlarged position of the Comptroller of the Treasury as outlined by the new Act. The Auditor's post audit was partially based on his evaluation of the effectiveness of the Comptroller's pre-audit. Increased use of the test audit, made mandatory by the extended volume of governmental business, was dependent for its extent on the Auditor's assessment of the Comptroller's pre-audit.

Audit relationship to Crown Corporations, however, was restricted in both responsibility and direction. Responsibility was restricted by the provision that he may be eligible for audit appointment, by the Governor-in-Council, if

¹¹ Statutes of Canada 1951 (Ottawa: Queen's Printer, 1952) c. 12, s. 57(d), p. 147.

there is no provision

made in any Act for the appointment of an auditor to audit the accounts and financial transactions of the corporation, or....the auditor is to be appointed pursuant to the Companies Act. ¹²

Audit directions towards Crown Corporations are primarily concerned with audits of accountancy. Both audits for authority and appropriation are secondary to the goal of determining whether the books, records and procedures of the Corporation are sufficient to prevent loss of funds or the avoidance of fraud.

Auditing responsibilities and directions had to be brought into line with the unique characteristic of Crown Corporations and the principle purpose of the Financial Administration Act. That is, how does a government regulate an enterprise whose main purpose is to free it from day to day control of the government, yet hold it responsible? To help answer the question the Act applied a more central executive control which made Crown Corporations more responsible to the executive, but only accountable to Parliament in a limited fashion through the Auditor General.

This dichotomy can be illustrated by noting the provisions of investigating power given to the Auditor. To

12 Ibid., s. 77, p. 150.

obtain the audit of revenues, expenditures and public property he is granted free access at all convenient times, to the files, documents and records that relate to the accounts of the governmental departments and is entitled to obtain from the public service, information, reports and explanations which he requires for the performance of his duties. Free access is qualified only by the provision that his staff must comply to the security requirements of the office to be examined and may be required to take an oath of secrecy. Investigation of Crown Corporations is devised to include

access at all convenient times to all records, documents, books, accounts and vouchers of a corporation and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary.¹³

Thus the investigating power of the Auditor General is much narrower in the case of Crown Corporations.

Public Accounts and the Auditor General

While the Auditor General's responsibility is for the audit of the accounts, audit outcome depends upon more than his own legislative direction. It will rely to a considerable extent upon those who are held responsible for the maintenance of the public accounts and the effectiveness of

13 Ibid., s. 86, p. 152. Underlining by the author.

their control. Audit relationship with government departments is influenced by executive control over administration agencies, who are responsible for the general control in administration of the public accounts. This control is of paramount importance in auditing and subsequent executive accountability.

It must be borne in mind, however, that the public accounts in reality serve two functions. Public accounts are more than mere accounting records of governmental financial transactions. Accounts also serve a vital policy purpose.

They

are designed to assist the bearer of responsibility in carrying out his own duties with full efficiency, having regard to the final purpose his duties are intended to serve. Thus, the executive.....will have coming before it a constant flow of financial data relating to the past and of estimates for the future, not necessarily thrown up by a system devised solely for control, or accountability purposes, and on this information important decisions will be largely based. Similarly, the choice between one course or another in the economic policy of the government must.....be guided in part by consideration of policy accounts. ¹⁴

These two functions have affected the responsibility of executive control agencies in the compiling of the public

¹⁴ H R Balls, "The Control and Co-ordination of Public Expenditure", op.cit. p. 164. Quotation is taken from the "Final Report of the Committee on the Form of Government Accounts", London, 1950, p. 10.

accounts. Policy and accounting functions in the public accounts must be balanced. If there is an improper balance, one of the two functions will suffer. Subsequently, the amount of stress on either of the two component parts, will affect the audit.

Policy requirements have caused a shift in government accounting system objectives. As the government moved from a negative role possible in a laissez-faire economy to a positive role in the modern state, the emphasis shifted from completeness and accuracy in public accounts to speed and economy.

Central control agencies which have developed and are used by the executive for policy making, and implementation of management principles and procedures, are the Cabinet, Treasury Board and the Department of Finance. They are assisted by the Comptroller of the Treasury, who performs both a service and control function, for the Department of Finance and Treasury Board. The influence of these bodies in maintaining public accounts has affected the role of the Auditor General.

Executive Control in Public Accounts :
The Cabinet

The fundamental concern of Cabinet is policy. Managing or stewardship in financial control is but one

aspect to the goal of ensuring proper policy implementation and formulation. To free the Cabinet for consideration of major financial policy questions, responsibility for administration is entrusted to the individual members of the Cabinet and the administrative heads of government departments. Collectively, Cabinet is interested in ensuring that the procedures and financial records of the departments are sufficient to guide policy implementation and future policy formation. The amount of regulation and co-ordination by central executive control agencies will revolve about the purpose to which the departments are to serve and the willingness of the Cabinet to delegate part of its over-all control functions to them. The need soon became apparent.

At Confederation, Cabinet had a dual obligation. It had a responsibility to the British Crown, through the Governor General, and a responsibility to the Canadian people. In relation to public accounts the former responsibility could be met rather handily by a rudimentary system of proper financial accounting and reporting; the latter responsibility to the Canadian people was a more difficult challenge.

The B.N.A. Act had obligated the government to a policy which would bind the new nation together into a concrete reality. Sectional interests were to be met by

programmes which called for enormous growth through large infusions of social capital. Cabinet ministers would have to be chosen to represent regional areas resulting in the fact that departments would in addition to administering policy become agencies for ministerial influence through patronage in the public service. But policy rooted in patronage would result in a need for a system of co-ordination between ministerial areas of influence as well as a means to solve the problem of withstanding the scrutiny of the House of Commons.

Treasury Board and Department of Finance

On July 2, 1867, by order-in-council, a board of Treasury was initially created. This group of ministers served the essential role of co-ordinating departmental financial activities by assisting the Minister of Finance as chairman who was responsible for the general direction of financial policy. Co-ordination in early years consisted principally in balancing ministerial demands for patronage in the public service. However, the greater need for co-ordination in ministerial finance was statutorily recognized in 1869 when the Department of Finance and Treasury Board Act outlined the duties of the Treasury Board and the Department of Finance. By the Act the Board became a committee of the

Queen's Privy Council responsible for all matters relating to expenditures, revenue and finance.

While an element of central control was introduced, there were two side effects on the Public Accounts and the audit. First, public accounts, while under some degree of Treasury Board control, were compiled by departmental officials who were chosen on the basis of patronage. Secondly, as expenditures for departments were viewed as ministerial areas of influence, ministers did not relish anyone who would perform an independent audit for this could be construed as an infringement on their specific area of influence.¹⁵

However, by the Board's terms of reference, it gradually became involved in co-ordinating administration between departments to ensure "that some general policies on collection of monies, personal policy, form of estimates and other details were sufficiently integrated."¹⁶ A growing

15 This latter phenomenon was readily apparent by the fact that until 1878, when the independent position of the Auditor General was enacted, the secretary of the Treasury Board, appointed in 1868, was responsible for both expenditure control and the audits of the Public Accounts. The Act of 1878 split the two functions and relegated primary concern for expenditure control to the deputy Minister of Finance who was ex-officio secretary of the Treasury Board. See G.G.E. Steele, "The Role of the Treasury Board", Canadian Chartered Accountant, Vol. 79, (November, 1961), p. 459.

16 W. L. White, "The Treasury Board in the 19th Century Canada", unpublished paper University of Windsor.

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involvement in administration and financial management increased through the years although there were no major structural changes by either of the Consolidated Revenue and Audit Acts.

The Financial Administration Act of 1951 consolidated past practices and procedures, developed through Treasury Board co-ordination, into a more concise and detailed statement of duties and responsibilities of the Board .

The Board was given the general duties of acting
as

a committee of the Queen's Privy Council for Canada on all matters, relating to finance, revenues, estimates, expenditures and financial commitments, accounts, establishments, the terms and conditions of employment of persons in the public service, and general administrative policy in the public service referred to the Board by the Governor-in-Council or on which the Board considers it desirable to report to the Governor-in-Council, or on which the Board considers it necessary to act under powers conferred by this or any other Act. ¹⁷

The wide range of formulation and management in public financial policy was understood and included in this broad statement of Treasury Board responsibilities.

For management in public accounts, the Board's position was specifically acknowledged by allowing it to prescribe the form and manner in which the accounts of Canada

17 Statutes of Canada, op.cit., s. 5(1). p. 129.

and the various accounts of the departments were to be kept. Help in the maintenance of public accounts was afforded by the Minister of Finance who was directed to ascertain that the Board's regulations were put into practice.

Under the Financial Administration Act the accepted financial practice whereby the Minister of Finance was responsible for the general control of the Consolidated Revenue Fund was statutorily continued. What was of particular concern to the Minister was the necessity to ensure that the Consolidated Revenue Fund always had sufficient revenue to meet the expenditures which had been legally and statutorily authorized from it. Possible implications of this facet of his responsibilities in the audit of accounts needs no elaboration. Other responsibilities, in addition, added "the supervision, control and direction of all matters relating to the financial affairs of Canada not assigned to any other Minister"¹⁸ These functions of the Minister of Finance while appearing to conflict with the duties of the Treasury Board in reality complemented the Board's extensive responsibilities and duties.

The Department of Finance and Treasury Board were indeed closely linked. Provisions in the Act detailed the

¹⁸ Ibid., s. 9, p. 130.

complementary structure linking the two bodies. By the Act the six members who composed the Board continued to be chaired by the Minister of Finance with Board staff drawn from the Finance Department. Furthermore, the Minister was given the power to name an officer from the Department of Finance to perform the duties of secretary to the Board. This provision acknowledged the fact that as governmental financial activities had expanded it was no longer possible for the Deputy Minister of Finance to do justice to both his role as secretary to the Board and financial duties in the Department of Finance. Remedial action had been taken in years preceding passage of the Act by allowing the Assistant Deputy Minister of Finance to be the actual secretary responsible for Treasury Board duties. Fiscal and financial policy development became even more crucial in the years which followed the passage of the Act culminating finally in the 1966 amendment which relieved the Minister of Finance of his duties as chairman of the Board and freed him to pursue the more complex and urgent responsibilities of planning and developing financial policy necessary in modern government.

Comptroller of the Treasury

Events in the 1930's had shown too well that more was required for proper public accounts than a vague

co-ordination in departmental financial management. Balancing between policy and accounting objectives, effective control over issue from the Consolidated Revenue Fund, assurance that accounting directions and regulations were being followed had to be provided. Assurance was to be provided by the Consolidated Revenue and Audit Act of 1931, with the establishment of the office of the Comptroller of the Treasury.

With the stationing of the Comptroller's accounting representatives in governmental departments Treasury Board was able to give meaning to its directions pertaining to accounting methods and procedures. Close scrutiny of the departments' financial management practices was obtained by granting the Comptroller "free access at all convenient times to all files, documents and other records relating to the accounts of every department".¹⁹ In addition, control of issue out of the Consolidated Revenue Fund was acquired by Treasury Board possessing the final right of approval after appropriations had been sanctioned by the Comptroller. By utilizing this officer of the Department of Finance, Treasury Board has been better able to maintain proper records and accounts necessary for financial policy formulation and improvement as well as providing a more complete and accurate

19 Ibid., S 12, p. 131.

compilation of the Public Accounts for Parliament's examination.

Control over issue from the Consolidated Revenue Fund has also enabled the Minister of Finance to obtain a greater degree of day to day control than had existed previously and permitted him to take a more active role in the formulation of financial policy. Moreover, the Comptroller provided a valuable service function by allowing the Minister of Finance to provide accounting services and advice for the departments when requested by the departmental Minister.

That the office has served its intended purpose well, is illustrated by the fact that no substantial modifications were made in the Comptroller's function by the Financial Administration Act of 1951 or any subsequent amendments.

Public Accounts Committee

The Public Accounts Committee scrutinizes and criticizes the Public Accounts relying for information upon the Auditor General's report which is a critical analysis of those Accounts. As a standing committee of the House of Commons it has the power "to send for persons, papers and records and to report from time to time".²⁰ These powers,

²⁰ Sir John George Bourinot, (revised by J. Gordon Dubroy) Bourinot's Rules of Order, 2nd ed. (Toronto: McClelland and Stewart Limited, 1963) p. 53.

however, are restricted by the Committee's composition and method of creation, "at the commencement of every session a special committee consisting of five members is selected to prepare a report, with all convenient speed, list of members".²¹ to form the Public Accounts Committee. Committee members are in reality selected to give a proportional representation of the party make-up found in the House. In this respect, the Committee chosen is a microcosm of the House itself. Strong executive party representation is thus ensured on the Committee.

This assurance has several effects on the role and power of the Committee. It meant for one thing that until 1958 the executive party had the power to pick the chairman who directed the Committee's proceedings. While appearing to be a relatively harmless and usual practice of Committees, this advantage had a direct bearing on the Committee's stated powers. It principally affected the power of sending for "persons" to appear before the Committee as witnesses.

A member of the committee must first file a statement with the chairman that the evidence is important (S.O. 59(1)) and the witness is thus summoned by order of the Chairman.²²

21 Ibid., p. 50.

22 W. F. Dawson, Procedure in the Canadian House of Commons, (Toronto: University of Toronto Press, 1952) p. 204

What this meant was that the government party whose financial dealings were being examined could by virtue of its position as Chairman effectively hinder and delay possible embarrassing evidence if needed. It was not until 1958 with the appointment of an opposition member as chairman that this potential weapon shrunk in importance.

CHAPTER II

EXECUTIVE FINANCIAL POLICY AND THE AUDITOR GENERAL

In evaluating the role of the Auditor General in responsible government one must look to policy and in particular to the executive branch of government which is primarily concerned with policy. Auditing effectiveness will be largely dependent upon the policy goals sought by the executive through its policy role.

Executive policy responsibilities encompass two principal areas, formulation and management. Formulating policy includes the two functions of determination and preparation which culminate in the estimates that are presented to the House as government policy. When the estimates are finally approved, the details become the guide lines upon which the management of policy is based, and provide a means for obtaining information upon which the following year's estimates can be based when policy is formulated. Both principal areas, formulation and management, are inter-related and necessary for the general policy purpose of meeting the needs of the populace as expressed by the electorate through their parliamentary representatives.

Both areas are the political responsibility of the Cabinet. Cabinet ministers in Canada's parliamentary system are both "politicians and administrators". There is a close co-relation between the Minister's role as policy maker and departmental administration. Ministers rely not only upon the administrative system for management of existing policy, but also for aid in development of new and improved methods and techniques for policy formation. Executive control agencies, through which a co-ordination in application of policy is sought, are subsequently involved in policy formation as well as policy management.

Audit examination conducted by the Auditor General of executive financial management is in reality an appraisal of total executive policy duties. Audits for authority, accounting and appropriation performed by the Auditor serve a purpose in regulating management, but also signify potential weakness in construction of policy. Audit findings should have some effect on the method of determining and preparing the policy adopted by the executive. Thus, in responsible government, audit examination serves a vital function when investigation of executive stewardship control points the way to improvements which could be introduced for Parliament to hold the executive responsible for better

construction in both present and future policy.

Executive Responsibilities in Policy Formulation

(1) Policy Determination

Cabinet ministers when determining policy are limited by the structural nature of the B.N.A. Act. Responsibility for policy is divided between the federal and provincial governments.

Through the British North America Act of 1867, the federal government was assigned: (a) the general responsibility for Peace, Order and Good Government; (b) specific responsibility for 29 enumerated classes of subjects under Section 91, including classes of subjects expressly excepted from exclusive provincial authority in Section 92; and (c) the authority under Section 95 to make laws regarding Agriculture and Immigration in all or any Province.¹

What this meant was that the federal government would be responsible for policy determination that led to national security and development.

Against the structural background the actual determination of policy is a complex phenomena. In essence, it involves converting the general needs and desires of the people into a policy of action, and

1 Jacques M. Des Roches, "The Evolution of the Organization of Federal Government in Canada" C.P.A., Vol. V, No. 4, (December, 1962), p. 410.

action necessitates making choices; our choices, in turn reflect philosophical outlooks and a multitude of competing pressures from the material world. In the politics of democracy choices are continually being made at many levels, under varying conditions with the expectation that there is sufficient consensus within the community to produce or support decisions regarded by the members as comprehensible and tolerable.²

Interpretation and use of constitutional responsibilities coupled with the "competing pressures from the material world" had a profound impact on the determination of Canadian policy goals.

The character of public finance system depends on what governments are expected to do. What governments are expected to do depends on the prevailing political opinion and stage of development of the economy of the time.³

(a) Nineteenth Century Policy Determination

At Confederation national development was construed to be a policy of producing increased transportation facilities necessary for expansion of the rural Canadian economy which was based upon extractive industries. To achieve this end, the expenditure programme of government had to be balanced with the anticipated revenues which were obtained from customs and excise revenues. However, custom and excise

2 J. E. Hodgetts and D. G. Corbett, Canadian Public Administration, (Toronto: The Macmillan Company of Canada, 1950), p. 438.

3 Donald V. Smiley, (ed.), The Rowell-Sirois Report, (Toronto: McClelland and Stewart, Limited, 1963), p. 43.

were subject to wide fluctuations due to their dependence upon foreign trade and world-wide economic conditions. As a result, the 19th century expansion policy of Canada was closely linked to external economic conditions. Periods of favourable economic activity were followed by expanding governmental services in transportation and a subsequent contraction when economic activity soared. The resulting political philosophy as exemplified by John A. Macdonald was one built around protective tariffs and transportation development.

(b) Twentieth Century Policy Determination

Determination of policy in the early twentieth century was first affected by the great wheat boom of 1896 to 1913. Once again an aggressive policy of national development, which emphasized increased railway construction, was possible. However, the prosperity which resulted from the period saw a marked shift in the composition of the nation with a movement of the populace from a rural setting to an urban setting. Therefore, new policy objectives of the executive had to take into account the growing collective needs of the urban population. This meant a gradual shift away from the traditional laissez-faire view of government to a more positive interference in specific areas of economic and social activity.

The trend was accentuated by the great war of 1914-1918 when the national security responsibility of the federal government for assistance in organizing Canada for the war effort. Yet at the same time, there developed a growing awareness in the provinces that their spheres of responsibility were being drastically affected. At the conclusion of hostilities that awareness, made evident by the rulings of the Privy Council, coupled with the crushing debts of the post war railway programme and the financial burdens of the war effort caused a retrenchment in federal activities. The period of the twenties found the federal government following a policy of contraction both in objectives and extent. The period was short lived.

The depression of the 1930's saw the federal government thrust once more into the fore front, and policy objectives had to display a greater emphasis towards regional discrepancies and the need for welfare and collective activities made mandatory by the depression.

The second world war, as the first, acted as a catalyst for increased governmental activities in all areas of endeavour and a heavy commitment followed into post war years for increased aid in "hospitalization and public health services, in welfare, in amateur athletics, in

university education, in the promotion of the arts and letters and so on".⁴ This, together with the growing integration of the Canadian economy with its southern neighbour and the constant threat of the Cold War, brought federal government policy into a position whereby it touched virtually all of the activities of the Canadian people at a time when the provinces, particularly Quebec, were growing restive under growing federal responsibilities.

(2) Policy Preparation

Both the form of the estimates and the actual estimate process are a valuable asset in a responsible government system.

Form, that is the way the proposed expenditures are organized, is important to both the executive and the House. It not only allows Parliament to scrutinize executive policy beforehand, but also the estimates serve as a basis for later comparison and evaluation of the policy authorized. Additionally, the form of the estimates aids the executive in both policy formulation and management. An accurate and comprehensible estimate form assists the executive in determining priorities by serving as a basis for cost comparison of

⁴ Ibid., p. 5.

intended services as well as developing general guide lines which can be employed by Ministers in managing their respective departments.

It is not enough, however, to have an adequate framework built around a proper form of estimates if the estimate process itself is inadequate. Both the form and the estimate process must be so co-related to achieve the ultimate ends for which they were conceived. That is, to furnish the executive with a means by which to build policy and control it, and to allow Parliament to hold the executive responsible for their policy roles.

(a) The Form of the Estimates

From Confederation until 1938-1939, with only a minor modification appearing in 1923, the form of the estimates remained fundamentally the same until the 1960's.

During the period up until 1938 the estimate form exhibited several glaring inadequacies.⁵ Due to the unsatisfactory form both the executive and Parliament found the estimates barely comprehensible because of their ambiguous and incomplete nature.

Remedial action was taken by Order-in-Council which transferred to the Treasury Board responsibility for form of

5 See A. E. Buck, Financing Canadian Government, (Chicago: Public Administration Service, 1949) pp. 61-63.

the estimates. The improved form, by dividing the estimates into two parts, attempted to alleviate the weakness found in the former system. The first section arranged expenditures by departments followed by the item or "votes" to be included in the supply bill and listed statutory appropriations. The second section, called appropriately "Details of Services" contained the details which showed on what particular area of the service the vote was to be spent.

(b) Estimate Development

(i) Departmental Estimates

Procedures and offices necessary for the compilation of the estimates has evolved gradually since Confederation. The intention of the Financial Administration Act was to give statutory recognition to the Treasury Board for procedural direction in estimate formulation.

Prior to recent change, an establishment review of each of the departments was conducted by a Committee. This Committee reviewed the number of personnel necessary for each department to fulfil the service it would be responsible for in the forthcoming year. Committee recommendations were then submitted to the Treasury Board for final approval.

After personnel requirements had been established, the formulation of estimate expenditures could be compiled.

Each year at a designated time, the departments were requested, either through the Minister of Finance or Secretary of the Treasury Board, by letter to prepare the estimates for the next fiscal year. In 1956, for departmental guidance, the estimates were to be compiled in the form and manner prescribed by the "Manual of Estimates" as prepared by the office of the Treasury Board. Following these instructions the estimates were then prepared under the direction of the Deputy Minister of the department with assistance from branch and divisional heads, and often with Treasury Board officers acting in an advisory capacity. Once the estimates had been assembled, they went to the Minister of the department who reviewed them, and he could either accept or revise them. When each department's estimates had been assembled, they went to the Treasury Board for its deliberation. Departmental requests were then reviewed by the Board in the dual context of revenue available and general policy objectives. Deliberations were aided by consultation with appropriate Minister and departmental officers when needed. Unresolved differences of opinion were submitted to the Cabinet for final decision. However, since most of the Board members held the important cabinet portfolios when they reached agreement, estimate approval was usually assured in Cabinet.

When estimates had obtained Cabinet approval, they were sent back to the Treasury Board which assembled and had them published for the benefit of Parliamentary members.

(ii) Recent Developments in Policy Preparation

While on the surface departmental estimate preparation appeared to be satisfactory, in actuality both procedure in estimate development and estimate form concealed several deficiencies in the determination of policy. "In general the estimates were prepared on the basis of what a department might expect to receive,"⁶ rather than orientated toward specific departmental policy goals. As a result, continuing programmes within a department were frequently neglected as both the department and Treasury Board concentrated on the additions to existing department functions. Furthermore a hurried appraisal of estimates by the Treasury Board, necessitated by the relatively short span of time within which estimates were considered by the Board compounded the problem of policy determination.

In 1962, to improve determination of policy, particularly in the selection of priorities, the executive required that the departments in their estimates submission

⁶ J. Strick and W. L. White, Politics, Policy and the Treasury Board, University of Windsor, unpublished manuscript, p. 157.

to the Treasury Board include a three year forecast of expenditures. Increased stimulus to improved estimate development was also given by the Royal Commission on Government Organization.⁷ Both management improvement and estimate development were aided by the establishment of the Bureau of Government Organization,⁸ which became in 1964 a part of the Treasury Board secretariat responsible for implementation of the Commission's recommendations. One of the major recommendations was program budgeting. "A principal characteristic of program budgeting is the classification scheme by which expenditures are prepared, that is, on the basis of functions, programs, activities and projects."⁹

The new format has required a resultant change in the procedures needed in estimate development. Treasury Board now conducts two annual reviews. In the late spring

7 The Royal Commission on Government Organization was established by Order-in-Council in September 1960 to "inquire into and report upon the organization and methods of operation of the departments and agencies of the Government of Canada and to recommend therein what they consider would best promote efficiency, economy and improved service in the dispatch of the public business." Canada, The Royal Commission on Government Organization, Vol. I (Ottawa: Queen's Printer 1962)

8 Originally established as an office of the Privy Council in 1963.

9 J. Strick and W. L. White, Politics, Policy and the Treasury Board, op.cit., p. 264

the Board first conducts a program review where the department's long range plans are reviewed. Estimate review takes place in the autumn of the year and

this review will concentrate on the detailed requirements for the next fiscal year in accordance with the estimates manual. The establishment review will be conducted at the same time as the estimates review, thus doing away with the separate establishment review that has been practised in the past. ¹⁰

(c) Crown Corporation Estimates

Control of Crown Corporations through a detailed estimates process is not an executive goal. Indeed, the cardinal asset possessed by a public corporation is found in its financial autonomy. As Hodgetts states: "Release from the normal departmental process of estimating financial needs for one year in advance is, of course, the main freedom sought by incorporation."¹¹ Rather than through a rigid estimating process, executive control necessary for formulation of policy has developed into a more general process dependent upon the particular type of corporation involved. It was not until the Financial Administration Act that Crown Corporations were brought under some degree of order, limited as it may be. Corporation classification was specified according to

¹⁰ Ibid., p. 203.

¹¹ J. E. Hodgetts and D. C. Corbett, op.cit., p. 193

the type of activity engaged in by the Corporation, and this was the criteria upon which the degree of financial control was established. In the three fold classification, departmental, agency and proprietary, the departmental Corporation became subject to the most financial control and the agency and proprietary the least. Proprietary Corporations are "ordinarily required to conduct their operations without appropriations".¹² Agency Corporations, on the other hand, are subject to more control by being obligated to submit an operating budget "for approval of the appropriate Minister and the Minister of Finance",¹³ and a capital budget which is to be "approved by the Governor-in-Council on the recommendation of the appropriate Minister and the Minister of Finance".¹⁴ Further executive control is provided by stipulating that

The Treasury Board, on the joint recommendation of the Minister of Finance and the appropriate Minister, may by regulation prescribe the form in which budgets required --- shall be prepared.¹⁵

12 Statutes of Canada, 1951, (Ottawa: Queen's Printer 1952) c. 12, s. 73(30)II, p. 149. Proprietary Corporations, however, do submit a capital budget to the executive, while some Corporations in this classification are obligated by provisions of their specific act to submit operating budgets.

13 Ibid., s. 80(1), p. 150.

14 Ibid., s. 80(2)

15 Ibid., s. 80(3)

Policy formulation is aided by Section 79 of the Act which fixes the calendar year as the financial year for Corporations unless it is specifically modified by the Governor-in-Council. This has several advantages in that it allows the Corporation's annual report to be laid before Parliament earlier in the year and

as the Government's own fiscal year ends on 31st March, it is a distinct advantage to have the results of the financial operations of the Corporations determined before the Government's books are closed so that operating deficits may be appropriated by Parliament and paid to the Corporation, and operating surplus (if required) paid into the Consolidated Revenue Fund within the fiscal year. ¹⁵

All of which assists in the establishment of policy and the determination of priorities in policy formulation.

(3) Policy Management

(a) Departmental Management

Shifts in emphasis required to meet changing needs in Canada have been displayed in executive policy goals. The underlying principle of a need for control in management, however, has not changed. Ministerial direction of departments should aim for efficiency and economy in the successful implementation of policy objectives. Departmental

¹⁵ H. R. Balls, "Financial Control and Accountability of Canadian Crown Corporations", C.P.A., Vol. XXXI (Summer, 1953), p. 134.

organization and effective control agencies play a large role in achieving this goal. The problem for the Auditor General in management control is, how does he ensure that accountability controls are fulfilled against a background of shifting emphasis in policy goals which influences how the executive performs its management role? An effective audit relies not only upon reporting to the House for parliamentary control but also upon the immediate correction on discovery of misdirected management. His success will require "the co-operation of administrative staffs; therefore auditors should conduct themselves in a way that elicits goodwill and assistance."¹⁷

The conception of national "development" as construed by Canada's early executive was not a policy that envisaged economy or efficiency as the watchword in management. What was executively efficient was judged not by static reference to keeping within parliamentary appropriations, but more so on what it accomplished politically. Balancing of financial rewards in terms of regional development was the political mode of operation. Economy in management during the 19th century was relegated to a low priority in a period when vast amounts of capital had to be obtained for

¹⁷ Audit Office Guide, (Ottawa: Queen's Printer, 1958) p. 2.

transportation construction. Loans were frequently relied upon to supplement the fluctuating revenues of the past century and often the exact terms of the loan obtained were known only within the limited confines of the Cabinet.¹⁸

Ministerial guide lines for departmental management resulting from this conception of policy were extremely limited in scope. Ministers to fit into John A. Macdonald's concept of what a federal system should be, had become regional representatives and the cement that bound Cabinet together was regional patronage. Cabinet portfolios were regarded as havens of ministerial influence and auditing was viewed with suspicion. Organization of departments mirrored ministerial attitudes, and departments were constructed in loose fashion to more readily dispense patronage and financial rewards.

However, the executive still had to stand the scrutiny of the House, and so some method of control in management was needed. The Minister of Finance, being one of several ministers¹⁹ involved in revenue and expenditure transactions, could not alone properly balance and co-ordinate executive political decisions. Those functions were to be

¹⁸ W. L. White, "Treasury Board in 19th Century Canada", op.cit.

¹⁹ Norman Ward, op.cit., p. 44.

collectively assisted by the Treasury Board. The Board, as well as bringing some semblance of order to executive policy, also provided that "political advantage might be judiciously dispensed without attracting undue legislative attention."²⁰

This then was the backdrop against which auditing in the 19th century was performed. Departmental auditing from Confederation until passage of the first Consolidated Revenue and Audit Act of 1878 proved difficult. John Langton who was responsible for the audit of government departments was a member of the Board of Audit and "was not only an Auditor but until 1878 an administrative officer working under a minister, and engaged in the execution of governmental policy"²¹ It is not surprising that his observations and recommendations for improving a lax system of management in departments was shunted aside.

Canada's first Auditor General in 1878, John Lorn McDougall, suffered no better fate than his predecessor. His observations on the general conduct of government was almost a catalogue of what management should not display: careless, dishonest practices by both administrators and ministers,

²⁰ W. L. White, "Treasury Board in 19th Century Canada", op.cit.

²¹ Norman Ward, op.cit., p. 62.

Inadequate estimate form and poor executive departmental reporting, to mention but a few. Not only was management of departments inadequate, but McDougall, who had to organize staff and develop procedures for the audit, frequently complained himself of the poor quality and quantity of his own staff which necessitated at times only a cursory appraisal of departmental activities. He received but little help from the executive control agencies as gradually but with more frequency as the century expired his recommendations were over ruled by both the Treasury Board and Department of Justice. When the scandals of the 1890's displayed the general corruption and mis-management of the departments, McDougall found himself and his own office under attack for the very things that for years he had been complaining about. McDougall re-acted to these attacks by even a more zealous scrutiny of departments and an eventual petition to the House of Commons for aid in audit duties. "Whatever else the petition was, it was a vivid condemnation of one aspect of ministerial policy by a public servant... ." ²² A condemnation that met with even greater hostility by departments until 1896, "the Audit office, for the first time, had been

²² Ibid., p. 100.

defied by two separate departments".²³ The handwriting was on the wall for McDougall, and in spite of later activities, which included writing letters to newspaper editors for support, the pressure and disrespect that his office had sustained, coupled with increased lack of support from the new Liberal regime, made his resignation in 1905 redundant.

In spite of the efforts of both Langton and McDougall, at the beginning of the twentieth century no effective executive control had been established over the management of government departments. McDougall's successor of 1905, John Fraser, was destined to reap the fruits of past futile efforts nourished by the expanding executive activities necessitated by the wheat boom and the later world conflict. Paradoxically it was Fraser's almost passive attitude that helped mend the breach that had developed between the Audit office and the departments, yet the same attitude fostered the growing independence of departments in financial management.

In the first instance, his attitude towards the audit and departments was almost the reverse of his predecessor. Where McDougall had never accepted the Department of Justice as an authority on audit recommendations, "Fraser

23 Idem.

on the other hand, as a general practice, not only accepted the opinion of the Department of Justice but sought them on his own initiative:"²⁴ It was thus possible for Fraser, a former Civil Servant in the Department of Finance, to establish a rapport between his office and that of the executive which had not existed in McDougall's day. As a result and in spite of his early audit findings, the Auditor General was able to enjoy a brief honeymoon with government departments.

However, the honeymoon was soon terminated as departments continued their previous ways, and Fraser's reports began to call attention repeatedly to weakness in methods of placing contracts and tenders, and a defective purchasing system built upon a patronage list. His major criticism, as McDougall had also noted, centered around the practice of departments who, at the end of the fiscal year, predated vouchers before goods or services were provided in order that parliamentary appropriations would not expire and then added any excess expenditures that might result, to the following year's estimates. With the first world war these problems became even more crucial and taken together with a multiplying stores account, which displayed little or

24 Ibid., p. 124.

no executive accounting control, it soon became evident even to the previously disinterested executive that something would have to be done. Once again the honeymoon was resumed with even the Minister of Finance requesting aid from the Auditor in his dealings with the Department of Militia, and the executive collectively pledging its assistance in management control. Yet, just as the first honeymoon was short lived, so was the second. In spite of obtaining some degree of order with the establishment of the War Purchasing Commission in 1915, gradually the increased war effort caused the executive to shift back into its old habits, and the struggle for a co-ordinated management of departments received another set back. But unlike McDougall, Fraser as his days in office grew shorter seemed to resign himself to the seeming inevitable, and the audit itself became lax on several points.

With the death of Fraser in 1919, the Audit Office itself went into a period of decline. E. D. Sutherland, Fraser's successor, was never able to fully grasp the intricacies and procedures necessary for a satisfactory audit. To aggravate the problem Sutherland himself was in poor health, and after only a two year span, had to abandon the audit altogether for the sunshine of Florida. In the year that he was absent, his duties were taken over by William Kearn, and

although he tried to bring some control over departments, his effect was just as unsuccessful as all his predecessors. Then from 1919 to 1924, the audit office due to a lack of sustained leadership declined steadily in importance at a time when the executive was solidifying its position. With the death of Sutherland in 1924 the Audit office obtained a new leader, Georges Gonthier, who was to lead the office through the following fifteen years.

Gonthier started out with several severe handicaps. Besides the general deterioration of his office, he was the first Auditor General of French Canadian descent and was viewed with suspicion by a predominately English Canadian department system. He then had a twofold task even before he could actually start to obtain an effective audit. He had to first establish some degree of mutual respect and trust personally with the executive and departments and secondly upgrade his own office to position where it could satisfactorily perform its duties. In the latter goal, he met with some success as the office eventually became more efficient and effective. In relations with departments, however, he was never able to completely overcome his lack of rapport, yet he did achieve a better degree of co-operation than had previously existed. As his predecessors, he

continued to hammer away on weakness in executive management, paying particular attention to the stores accounts and the ineffective letter of credit system which allowed appropriations to be constantly overdrawn. He was quick to point to the inadequacies of the Act under which he worked and finally succeeded with the co-operation and enlightenment of the executive and parliament in the removal of the Act in 1931. As we have already noted earlier, the new Act clarified his position and together with a highly centralized accounting system aided in audit responsibilities. With the addition of Crown Corporations and public stores to his audit duties, he was finally able to bring some control to these previously neglected areas although his audit directions were drastically limited by the Act.

The search for responsible departmental management finally met with success during the term of the new Auditor General, Watson Sellar, who replaced Gonthier in 1940. As both a former Department of Finance employee and Comptroller of the Treasury he was well qualified to understand the objectives of departmental management and their problems in relation to the audit. With the second world war in progress he re-vitalized his office to meet the pressing needs occasioned by the war in employing a continuous audit in

departments, and helped to upgrade departmental internal accounting procedures. Sellar also facilitated parliamentary control by shortening the bulky Auditor General's report into more concise and meaningful document. In the post war period, he plunged even more vigorously into the audit, paying close attention to both Crown Corporations which had blossomed at a phenomenal rate during the conflict and their subsequent supporting accounts. He, as Gonthier, realized the limitations on his audit as prescribed by the terms of the 1931 Act, and constantly drew attention to that fact. As a result correction was finally achieved by the Financial Administration Act of 1951. The new Act enhanced his position and he was able to call even more attention to the Department of National Defence weakness in management, and that fact together with the Currie Report of 1952²⁵ aided in developing a more precise accounting system in that major expenditure department.

The achievements of Sellar in the post war years allowed the new Auditor General of 1960, A. M. Henderson, to inherit an improved audit system built upon a more constructive

25 The Currie Report was the result of an anonymous letter sent to the Royal Canadian Mounted Police alleging dubious financial transactions at Camp Petawawa, one of the government's army camps. These allegations proved to be true and caused considerable repercussions in the Department of National Defence.

relationship with departments. This is not to assert that the audit system itself was a perfect one or the improved relationship with the departments was the sole result of Sellar's activities. Rather, the executive branch of government had moved slowly during the preceding decades to a position where management became a factor of paramount importance in policy. The major contributing cause had not been any sudden grasp of the principle of accountability that underlay responsible government, but rather an awareness that in the modern urban technological age policy decisions had to be based upon reliable information and departments of government were a vital part in this process. Tightening of internal control by the executive in the departments thus facilitated the audit, but the audit still was not yet a perfectly functioning accountability tool. Henderson realized this and moved quickly to plug possible gaps in the audit process in order to make it an even more effective audit. His first consideration was to improve the audit staff itself by increasing both its members and quality. In his mind the only way to realize this goal was to remove the audit office from under the requirements of the Civil Service Act. A supposition he continually repeated to both Parliament and the executive but unfortunately with no success. He also

endeavoured to promote improved management by advocating a better estimate and public accounts format. After 1963 he kept before the Public Accounts Committee and Parliament those recommendations of the Royal Commission on Government Organization that had been implemented by the executive and those which were still to be put into force. In his Report he added a series of appendices which helped follow up his concern for management and by 1966 these appendices included:

- (1) Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with by executive action
- (2) Summary of Employees of the Public Service, by departments, Crown Corporations and other instrumentalities.....
- (3) Summary of Expenditures by Standard Objects for the fiscal year.²⁵

Related to Henderson's drive for better departmental management, however, was in increased concern and interest in the management of Crown Corporations and to which he made a significant contribution.²⁷

²⁵ Auditor Generals Report, 1966, (Ottawa: Queen's Printer, 1966), p. VIII.

²⁷ For a detailed account of the performance of the Auditor Generals since Confederation see H. B. Ward, "The Public Purse", op.cit.

(b) Crown Corporation Management

For many years prior to Henderson's incumbency, Crown Corporations had been a recognized breach in the accountability role of the executive to Parliament. Both Parliament and the executive accepted the general tenet that the purpose of Crown Corporations was to free them from direct ministerial control in order to achieve a supposedly more ideal service than could be obtained under the political influence of ministers. Executive control of the Corporations was to take the form of "appointment and dismissal of members of corporate boards, issuance of ministerial directions, approval or veto of certain corporate actions and ... largely as a supplement to the other powers ... requiring information",²⁸ Yet this control in its essence was a general control and not designed in any way to interfere in the day to day operations of the Corporations. Ministerial responsibility was relegated to a limited supervisory role over Corporations. Reasons for this type of control were fundamentally founded upon two assumptions. First, that Corporations were each a special case and were restricted to a specific purpose so no formal or exact control apparatus

²⁸ Lloyd D. Musolf, Public Ownership and Accountability (Cambridge, Massachusetts: Harvard University Press, 1959) pp. 41-43.

should be established over their activities except those which could be most easily adopted to the Corporation's unique characteristics. The second assumption followed from the first. As the Corporations were formed for a specific purpose, it was possible that the Corporation could find itself in competition with a private enterprise, (a viewpoint which found expression during the debates over the establishment of the Canadian National Railway as a Corporation in 1919), and hence too much control might not only leave the Corporation open to political manipulation but also it was conceivable that its business secrets might be divulged which would weaken its competitive position. As a result the executive found itself in a rather unusual position. It had to exercise some control over the Corporation yet it did not wish to, or have day to day responsibility for their operations. Its relationship to Corporations then was one of limited detachment. Indeed, in a period when departments themselves were their primary concern, they did not relish adding any extra duties that would place them in a more vulnerable position in relation to the House. Expansion of Crown Corporations during the thirties and the rapid proliferation of Corporations during the second World war increased their importance to such a position in the financial life of

the nation that past methods and viewpoints had to be substantially modified. The Companies Act of 1946 was a weak attempt in this direction, but it did serve notice to Corporations that a greater executive control was in the making. The most obvious method, of course, was to increase financial control over the Corporations and this was one of the principal goals of the Financial Administration Act of 1951.

Auditing for Parliament until 1951 was an unimportant factor for Crown Corporations. It was usually performed by an outside auditing firm employed by the Corporation, and was treated as an ordinary business Corporation audit. The Financial Administration Act, however, brought a greater emphasis to some Corporations in the form of a parliamentary accountability audit.

Sellar and Henderson were consequently the first Auditor Generals to possess an adequate legislative framework to examine the financial activities of Corporations. Both were handicapped to some extent by the size and quality of their own staff and the need to establish some type of audit system for Crown Corporations which by their nature required a different audit than that of government departments. Sellar had developed a system of Corporation audit by 1960 and Henderson was able to build upon it.

He stated in regard to Crown Corporations that his intention was to issue

detailed reports addressed to the management of departments, Crown Corporations and other agencies These reports, patterned after those in wide-spread use among professional accountants in private practice, outline the scope of the audit, give a broad summary of the operations for the year under review, analyze the financial results in comparison with those of previous years and make available to the management comments and suggestions regarding weaknesses in internal control, savings that might be achieved and other matters noted during the course of the audit.²⁹

While this was primarily an audit which served a value for Corporations and department management, he followed up his Corporation management report by including in his Report the Public Accounts Committee information on

the origin of the Corporation and the nature of its activities, and . . . comments regarding the Crown's equity in the Corporation, a summary of the operations for the financial year in comparison with the preceding year, and any other matter which it is thought might be of interest to the House of Commons.³⁰

Examples of Henderson's increased emphasis on Crown Corporations audit are readily apparent when comparing the 1960, 1963, and 1966 Auditor General's Reports. In the year 1960

²⁹ Auditor General's Report, 1960, (Ottawa: Queen's Printer, 1960), p. 7.

³⁰ Ibid., 1964, p. 77.

the report contained ten pages specifically dealing with Crown Corporations, in 1963 the total had jumped to forty, and in 1966 had edged to nearly fifty pages. In his reports, he listed the Corporations which he audited as well as those Corporations which were not included in his audit. Originally in 1960, there were eight Corporations that were not audited by his office, but in 1961 with the inclusion of "Canadian National (West Indies) Steamships Limited" the total moved to seven. Since that time, he has called attention to this fact and with the Public Accounts Committee in agreement has sought to place the remaining Corporations either completely under his audit or in joint partnership with those auditors employed by the Corporations. In his audit he has dealt with such diverse practices as feather-bedding in Crown Corporations³¹ and the practice of the executive in "treating amounts paid to Crown Corporations, which do not have means to repay them as loans and advances rather than expenditures of the Crown."³²

31 Ibid., 1965, p. 188.

32 Ibid., 1966, p. 229.

CHAPTER III

PARLIAMENT AND THE AUDITOR GENERAL

Parliament exercises a three fold control over executive financial policy: through the process of authorization of policy in the Committee of Supply, a later post examination in the Public Accounts Committee, and finally by the Committee's recommendation to the House. Parliament seeks to keep the executive accountable to it.

Frequently the Auditor General is regarded as only having a role to play in the latter two stages of parliamentary control. However, this view is an incomplete understanding of his function. What must not be lost sight of is, that not only does his Report serve as the initial starting point for discussion of the Public Accounts Committee, but also that the Committee's recommendations should have some beneficial effect on the ensuing stage of parliamentary authorization. This realistically completes the circle of accountability.

If the Auditor's role has been successful, his observations will have found themselves embedded in the Public Accounts Committee recommendations to the House. When those

recommendations are actively pursued and adopted by the whole House, there should be a salutary effect on the Committee of Supply, in that Parliament's members will possess a more knowledgeable understanding of the total government financial policy and be better able to survey the proposed executive expenditure proposals in the committee of supply.

It does not appear that this salutary effect has been evidenced in the Committee of Supply.

Authorization of Financial Policy

(1) Committee of Supply

"The sole function of this committee is to grant, reduce, or refuse the moneys requested by the government."¹ This function is influenced by methods and procedures adopted by the committee. Since Confederation, the Committee of Supply has not substantially changed its methods of procedure although the details have varied, in spite of the enormous increase in government business. On first appraisal, it would appear that the methods and procedures must have been fairly successful in surveying proposed executive financial policy. Yet this is far from the case. The Committee of Supply has suffered from both inadequate internal procedures

1 J. Bourinot, op.cit., p. 48.

and a poor grasp of the underlying principle of accountability by its members.

Presently the parliamentary authorization of supply begins in the early part of the year when the estimates are placed before the House of Commons by the Minister of Finance together with a message from the Governor General. On a motion from the Minister of Finance the estimates go to the Committee of Supply, a committee of the whole House, where they are considered by the members.

Motion to go into the Committee of Supply, however, has been affected by the "ancient doctrine, that the redress of grievances is to be considered before supplies are granted".² This meant, that when the government wished to introduce a motion to establish the Committee of Supply, it was faced with the fact that the motion was debatable and further that when department estimates were to be introduced in the committee, these motions too were debatable.

For the first seven years of the life of the House various formalities were necessary before supply could be voted. The House resolved itself into committee to consider the portion of the Speech from the Throne which related to supply. The committee sat and decided that a supply should be granted to her Majesty. It reported this resolution to the House which then, by resolution agreed. As a final step

2 Ibid., p. 49.

the House agreed to resolve itself on a future day into committee to consider the supply to be granted to Her Majesty. It was this final motion which established the Committee of Supply.³

This practice was so complicated, ineffectual and time consuming that almost unanimously in 1874 members accepted a change in procedure introduced by the Minister of Finance. In 1876, the alteration was made a standing order⁴ of the House and thereafter required that only one motion be made to establish the Committee of Supply.

However, the 1876 procedural reform did not alter the practice whereby each of the departmental estimates submitted to the committee was subject to a motion which could be debated at great length. Indiscriminate usage of this power by the members of the House consumed a great deal of Parliament's time and the opportunity to hamper supply was practically unlimited.⁵ Partial remedies afforded in 1913⁶

3 W. F. Dawson, op.cit., pp. 212-213.

4 Standing Order 55.

5 W. F. Dawson, op.cit.

6 By this rule the committee could go into Supply on Thursday and Friday of any week without a prior motion. However, the government could only submit those departments which had been called for on the other three days of the week.

and 1927⁷ had the effect of only postponing the essential problem of getting on with the business of examining estimates. A rapid increase in governmental activities during the period following 1927, however, compelled a modification in the time consuming procedure involved in debating estimate motions. In effect the ancient prerogative of grievance before supply had to be brought into harmony with the time requirements needed for appraisal of estimates. Yet it was not until 1955 that new rules were initiated.

By the new rule there were to be only six motions made at each session for the Speaker to leave the chair and for the House to resolve itself into Committee of Supply. Now, on the first motion, six departments are called, and on each of the next four motions three departments, until finally on the last motion all remaining departments are called. At the same time, the period when supply could be considered was extended to three days a week. On those days the House may go into Committee of Supply without formal motion and preliminary debate.

But even these belated reforms proved unequal to

7 Because of the growth of third parties after 1920 a revision had to be made in the process whereby a sub amendment could be introduced for the Speaker to leave the Chair and the House to go into Committee of Supply. A point that was long and keenly argued from 1920 to 1927 by minority party leaders.

the task of meeting the time requirements necessary for the consideration of governmental programs necessitated by the modern positive state. Effective parliamentary time allotment became the central problem in government. Subsequently in 1965 procedural reforms were introduced into the House and revised the time allowed for consideration of supply:

By far the most important allocation-of-time rule in the new reforms is the limitation of the business of supply in each session "to" not more than 36 days" This 36 day limit on Supply forces the Opposition to discipline itself -- to allocate time fairly among the Opposition parties in the appropriate issues The 36 day limit does not materially lengthen or shorten the weeks in an average session. It does in fact provide for more hours than the House normally takes on Supply, since the luncheon and dinner adjustments are now abolished. This provides (in pre-1965 terms) 49 days of debate (which) is a substantial amount of time.....⁸

What is even more crucial to parliamentary scrutiny of executive estimate submission is the actual procedure employed within the Committee in examination of the estimates. The Procedural process has remained virtually the same since Confederation with individual ministers usually given the responsibility for steering their estimates, presented on the basis of objects of expenditure, through the Committee and defending and explaining their financial programs to the

⁸ Paul Fox, (ed.), Politics: Canada, (2nd ed.) (Toronto: McGraw, Hill Company, 1966) p. 267.

Committee members.

Explanation of estimates is hindered by the poor form of parliamentary estimate submission, and also on many occasion Ministers have been more interested in defending than explaining their programs to the Committee. As a result, members are frequently left without much information upon which to assess a knowledgeable critique of proposed financial policy as found in the estimates.

Committee members, however, share a great deal of guilt for the state of affairs. As the committee is a committee of the whole House, individual members are given more freedom in debate. Judicious use of the freedom is often not evident as members are quick to use the privilege not to examine the estimates in any integrated fashion but rather to seize upon particular segments which can best be used to further their local constituency support. Coupled with inadequate estimate form, estimate appraisal has been a hit and miss proposition. Furthermore, estimate consideration by members has suffered from an overly zealous oversight of the estimates submitted in the earlier stages of the session with the result that these estimates have dragged on until there is little time left as the session draws to a close for an adequate examination of remaining estimates.

Aggravating the problem of estimates scrutiny has been the increasing use of interim supply and supplementary estimates by the executive. Interim supply was originally introduced in 1891 to allow the executive to have sufficient funds to carry on its programs while the main estimates were being considered by the House. Granting a partial percentage of the funds requested in the main estimates, however, was not to detract from the power of the House to alter the executive estimate proposals. Yet it did in fact lessen parliamentary control over governmental finance as:

if members had a cure for reducing or eliminating any particular amount in the estimates, the case was sensibly weakened by the automatic granting of sufficient funds to carry the relevant service for another month or two at the level planned by the executive.⁹

Supplementary estimates which were introduced to cover the unexpected and unforeseen increase in costs of a particular government activity also have weakened parliamentary consideration of the estimates. The original intention of these additional estimates was that the executive was not to use the funds for expanding services, but it was soon short circuited, as the executive in the 1870's began to rely more and more on these estimates for their programs.

9 N. Ward, op.cit., p. 229.

Additionally, supplementary estimates spawned further supplementary estimates until in 1910-1911 "the Liberals offered Parliament no less than seven sets of estimates".¹⁰ That the problem has not diminished is evident by the statement in 1960 of Alan MacNaughton, the Chairman of the Public Accounts Committee:

At one time a request for supplementary estimates, short of an emergency, was considered a black mark against the department and a failure to properly estimate the needs. Today this attitude is changing and the granting of supplementary estimates tends to become more and more routine.¹¹

(2) Select Committee on Estimates

Because of the time problem in estimates scrutiny as noted in the Committee of Supply, the suggestion for a Committee of Estimates has been a subject of interest to most parliamentarians. In 1924, a first cautious step was taken when estimates of the Canadian National Railway and Canadian Merchant Marine were sent to the Committee on Railways and Shipping, Owned and Operated and Controlled by Government. In 1946, estimates of External Affairs were sent to the Standing Committee of External Affairs. Thus it was

10 Ibid., p. 230.

11 Alan MacNaughton, "How the Public Accounts Committee Functions", Canadian Chartered Accountant, Vol. 70, No. 3, (September, 1960), p. 223.

twenty years before the next select committee on estimates was established. The divergence of opinion in forming a Special Committee for estimates can be easily noted. It was a subject of special consideration in 1944 and again in 1947. In 1944, it was the opinion of a parliamentary committee which studied the problem that it "did not think it would be advisable to change the present system",¹² while in 1947 it was felt that parliament "should explore the desirability of establishing a Standing Committee on Estimates".¹³ Again in 1950 the Standing Committee on Public Accounts stated:

This method, Committee on estimates, would not in the opinion of your Committee substantially improve the system we follow at present. Your Committee further considers that it is of vital importance to our system of responsible government not to take any steps that might contribute to decrease the sense of ministerial responsibility and increase the already too large influence and power of bureaucracy, which might well be the result of generalizing the practice of going down to the civil service for information, we have a right to expect from the member of the Cabinet responsible for the administration of a department from his Parliament.¹⁴

In spite of this concern, three Special Estimate Committees were established in the following years. Prior

12 Public Accounts Committee, No. 25, (June 15-16, 1950) p. 952.

13 Ibid.

14 Ibid.

to 1958 all of these special estimates committees were limited by the provision in their composition that "nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply".¹⁵ An expression of what the committee should have been fundamentally trying to avoid.

Along with the rules outlined in 1955 to speed discussion in the Committee of Supply it was proposed that a special committee on estimates be formed to further facilitate estimate examination. The new committee was a miniature of the Committee of Supply, but it had no right to select the estimates for examination or summon witnesses or documents as the British did. In addition, the government kept the Committee's power to a minimum, not only by selecting the estimates to be submitted to the committee, but also by showing a reluctance to submit estimates of the more important departments. Even when the estimates of the more important departments were considered, and indeed even some of the lesser ones, the Minister, if he so felt might come to the committee, answer those questions he wished and tended to dominate the committees. Obviously the new special committees were only a slight improvement in estimate consideration.

15 N. Ward, opcit., p. 260.

(3) Standing Committee on Estimates

Special committees were replaced in 1958 by a standing committee consisting of sixty members. But as its predecessors it examined only those estimates which were submitted to it and had only an advisory role. It was, however, "empowered to send for persons, papers and records and summon outside witnesses".¹⁶ Although the latter power was held by the committee to be outside its purpose and was not used. Yet it did achieve a fairly detailed examination of those departments which were submitted to it. Probably its greatest contribution came in "the breakdown of one huge single vote for national defence into nearly twenty votes... in 1958".¹⁷ Nevertheless, it still did not save a great deal of time for the Committee of Supply because of its advisory nature and was unable to reduce any proposed expenditures in departmental estimate submission. It was obvious that further changes would still have to be made.

(4) Functional Standing Committees

The 1965 procedural reform in Parliament established

16 J. Strick and W. L. White, "Politics, Policy and Treasury Board", op.cit., p. 187.

17 Norman Ward, "The Committee on Estimates", C.P.A., Vol. VI, No. 1, (March, 1963), p. 37.

twenty-one Standing Committees which could examine the estimates of departments. Size of the committees was restricted so that most committees consisted of twenty-two members and it was hoped that this reduction in size would lead to a more thorough discussion and appraisal in the committee. Departmental submission to the committees was to be allocated according to function. This meant that departments such as the Department of Finance and Department of Trade and Commerce would be submitted to the same committee, and it was hoped by so doing to have a more expert body than had existed before in previous committees. These committees were intended to do the main work in scrutinizing estimates so as to free the Committee of Supply from spending unnecessary time in re-examing estimates which had been reviewed in the Committees. This was a substantial and important departure from past practices of former estimate committees.

It is apparent that authorization of supply has suffered from several defects which have not permitted the House to obtain a thorough and systematic review of the estimates. This inadequate scrutiny of executive estimate proposals has hindered the effectiveness of the Auditor General. Employment of poor methods and procedures in the legislature did not permit any concise and meaningful articulation of

what the Commons wishes and intentions were, in relation to estimate proposals. Therefore the Auditor had to rely basically upon his own judgement to ascertain what the intentions of Parliament were when he applied his audit to the later management of departments which embodied those estimates. Consequently the Auditor started with an initial disadvantage he could only fall back upon his interpretation of the intentions of the House rather than point to a clearly outlined viewpoint expressed by the House during consideration of estimates.

Probably the greatest weakness resulting from inadequate estimate review by the House, however, manifested itself in the actual conduct of the three types of audits used by the Auditor General. Appropriation audits suffered because poor estimate review lifted the onus off the executive to formulate precise estimate requirements which are necessary for a proper appropriation audit. Additionally, this lack of precision in estimate formulation tended to make departmental organization much more lax. As a result the Auditor General's audit of authority was much more difficult to obtain. Difficulties in both audits severely hampered the computation of the accounting audit but at least in this instance the executive was in agreement that the

books should be balanced.

The value of the types of audits employed by the Auditor could for the most part be improved only by executive action as long as estimates were being poorly scrutinized by the House. This fact taken together with the previously mentioned policy goals and their methods of implementation by the executive made actual effectiveness of the audit extremely difficult to accomplish.

Yet the trend, in spite of these weaknesses, could be reversed if the Public Accounts Committee performed its function satisfactorily and was willing and able to take up the slack left by the House in authorization of supply.

The Public Accounts Committee and the Auditor General

(1) Government Departments and the Committee

As noted earlier each and all of the Auditors General have pointed to improper executive management in departmental financial policy. If the Auditor is to be successful in stimulating corrections by Parliament in departmental management, he will need the initial co-operation of the Public Accounts Committee. Therefore, it is of no minor importance that there should exist an effective rapport between these two parliamentary agents. There is a shared responsibility between them that must be bound

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together by effective co-operation. Yet the greatest share of the responsibility for keeping the executive accountable rests with the committee as it has the prime responsibility for converting the auditor's observations into a program of recommendations that can be acted upon. Members of the committee should possess a knowledge and interest in the subject before them, and even more important a grasp of the essential purpose of the committee, that of achieving executive accountability. What influences these pre-requisites is both the particular political situation within which it functions and the structural composition of the committee itself.

Except for sporadic efforts the Public Accounts Committee until early in the 1960's had not fulfilled its functions of "backing up the Auditor General and generally to bring about improvements in government accounting procedures".¹⁸ Principally this sorry record has been the result of both the structural composition of the committee itself and the attitudes of the individual members of the committee resulting from the political situation within which they function.

¹⁸ J. R. Mallory, "The Uses of Legislative Committees", C.P.A., Vol. VI, No. 1, (March, 1963), p. 10.

(a) Structural Committee Defects

Membership in the committee has been hampered by two features, size and representation.

Size of the committee is of particular importance in that it is desirable that its size should be limited to such a number that it can effectively scrutinize executive financial management. Unfortunately large committee size¹⁹ has often handicapped this goal. From a relatively compact twenty-one members in 1867 the committee had mushroomed to an unmanageable ninety-seven members in 1892, and even with partial relief afforded in the following year, continued for most of the early part of the twentieth century to remain at over sixty members and in 1911 managed to reach eighty-five.

Added to the unwieldy committee size was the related problem of representation within the committee. From Parliament's early intention of placing experienced members on the committee it moved further a field to a position whereby freshmen members of parliament in 1911 formed a substantial percentage of the committee membership. Also regional representation dealt a further setback to the Committee as Ontario tended to dominate the membership, and in 1882 composed

¹⁹ Even to-day the P.A.C. consists of fifty members.

almost one half of the committee membership. Consequently, specific area representation entered into the Committee and hampered its effectiveness by giving the committee a particular geographic viewpoint that was often seemingly employed to the particular disadvantage of Quebec. A belated side effect of this unfortunate circumstance was that following the election of 1917 the tables were turned and the majority of the Committee came from Quebec, which helped in accenting the demise of the committee as the Quebec members had neither the experience or inclination to deal effectively with the Public Accounts or Auditor General's report.

In addition to the problem occasioned by the large size and representation within the committee competent and thorough discussion in the committee laboured under the weight of inadequate internal procedures. Often considerable time was flittered away in argument and debate over the actual procedures that were to be followed within the committee so that much of the members' energy was dissipated and left little time for actual examination of the Auditor's report. In the periods when procedures were thought to be sufficient, members then used the bulk of their time not to systematically examine the Auditor General's report but rather to delve into isolated areas that could be most suitably

employed for local constituency use or general political advantage.

A contributing factor to the latter habits of members was the procedure whereby the committee sat in public. It appeared to invite individual members to search for "scandalous" activities that could be used to obtain maximum publicity for both the individual and party. This in turn offers much in explanation as to why members were not particularly interested in Auditors' proposals to cut down the size of their bulky reports into a more concise and systematic explanation of executive departmental management.

(b) Political Influences

Many of the structural defects within the Public Accounts Committee were not the result of chance, but rather the result of the fundamental element underlying most parliamentary committees; that of the political atmosphere itself within which they operate.

At Confederation and for a few years thereafter the committee was a non partisan body which was actively interested and concerned with the management of government departments. This was possible because it was a period during which the "executive had not yet assumed control of virtually everything, either direct or through the slavish support of

its majority in the Commons".²⁰ Thus in its early years the committee was a fairly able body that endeavoured to acquaint Parliament with the results and effects of executive financial management. Yet the stress on observing produced the roots of one of the serious weaknesses in the Public Accounts Committee. In pressing its role as an observer, it neglected the crucial function of checking back to see whether its recommendations had been followed by the executive.

But after 1878 a gradual change came over the Committee. With the Conservative party remaining in office for the greater part of the nineteenth century, the committee slowly declined in importance. During the era of Macdonald's policy of economic expansion, rooted in patronage, several of the political characteristics of the time found themselves transmitted into the committee. Patronage and expansion as advocated by Macdonald meant loose departmental management and invited opportunities for their exploitation by the Opposition. As a result, Opposition members began to snipe away at the more vulnerable targets of the government departments resting on patronage. But patronage had the converse effect on government members of the committee. They knew that patronage rewards depended upon their support of the

20 N. Ward, "The Public Purse", op.cit., p. 50.

government, and so did not look kindly to attacks on departments in which they might have a stake. The goal of executive accountability then was perverted into a struggle between two opposing factions, and consequently partisanship was rife in the committee by the end of the 1880's.

Even in an era when patronage was an accepted way of life, vague departmental guide lines were bound to manifest themselves in some degree of financial calamity. The outer limit was first reached in 1891 when the full story of departmental corruption rocked the government and ushered in the great scandal hunt. A period made to order for the minority opposition party, yet coming at a time when they were least able to pursue a consistent and vigorous examination due to internal party dissent occasioned by the Riel affair. Since a great deal of the scandals were in Quebec, committee scrutiny was further weakened by the predominately Ontario character of the body which tended to conceal the true nature of their observations behind an anti-Quebec smoke screen. The executive made the most of the divisive character of the committee, and by use of its ministers in the committee hampered and harrassed the body, dampening where possible a thorough scrutiny of executive departmental accountability. By the end of 1896 it was evident that in spite of the

corruption existing in departments, there was no body inside or outside of Parliament that could keep the executive accountable.

At the beginning of the twentieth century the committee then had developed several deficiencies which were to plague it in varying degrees for the next half century. Among the more serious were: it tended to equate scrutiny of the Auditor General's Report and Public Accounts to scandal hunting; scrutiny of the two documents was regarded as an opposition role; ministers could be used to dominate the meetings; and it viewed itself as only a reporting body and neglected any follow up.

Politically, elections affected the Auditor General to the extent that:

when a political party is victorious at the polls after a period in opposition, a zealous auditor at first enjoys something akin to a presidential honeymoon with the U.S. Congress; but as a party's term in office lengthens, and auditor continues to be popular with the ministry in inverse ratio to his zeal.²¹

It might be added that the same effect held true for early Public Accounts Committees.

Except for scattered periods of time such as in 1906

21 Ibid., p. 114.

to 1911 and briefly during the first world war, the committee lagged behind in maintaining executive accountability. The result was that from 1917 to 1921 the committee became virtually dormant.

In the first four years of the 1920's the decline of the Public Accounts Committee was hastened by the fact that for almost one half of the period the audit office itself was vacant. Thus the Public Accounts Committee grew even further away from the Auditor General in a period when the executive was retrenching, and a revitalized committee could have offered much to ensure departmental accountability. Aggravating the decline of the committee was the election of 1921. The newly elected Progressives caused a redistribution in the composition of the committee and the Liberal government found it only had a majority of three members on the body which in itself was reason enough for the government to reduce its activities even further. As it was the executive once more took the principal onus for solidifying its position according to the ground rules that it had itself established. Even with the later appointment of Gonthier, little re-juvenation took place within the committee for the additional reason that he was French Canadian, and therefore suspected by the committee. Indeed, in the period between 1921 and

1939 the committee met only in five of the years and contributed nothing of substantial importance in maintaining executive accountability. The poor relationship that had developed and continued to develop between the two agents permitted in the 1931 Audit Act:

the ultimate transfer to centralized executive control ... a number of functions which in Britain were discharged by the Public Accounts Committee, working either alone or with the co-operation of the Treasury.²²

During the second world war it was not until 1943 that Sellar, the new Auditor General, was able to bring his report before a more vitalized and "revised" Public Accounts Committee. This committee was an important step on the road to executive accountability in spite of the fact that it continued its past practice of neither accepting nor rejecting the Auditor's observations on departmental management. Its importance lay in the fact that

for the first time in more than a quarter of century the committee met seriously with the Auditor General to consider the accounts and for the first time in longer than that did so for two consecutive sessions.²³

From this time forward the Public Accounts Committee began gradually to improve in both structure and

22 Ibid., p. 170.

23 Ibid., p. 199.

and relationship with the Auditor General. With the experience that members gained during the war especially on the "Committee on War Expenditures", it entered the post war years with an understanding and zeal on financial management not before witnessed in parliamentary control of finance. Unfortunately, the post war zeal did not immediately manifest itself in the committee, as for several years between 1945 and 1950 it did not bother to meet. But better days were in store. An acceleration in the process of re-juvenation within the committee is evident after 1950. In 1950 the newly proposed Financial Administration Act was sent to the committee for its study and together with the Auditor General it performed a competent examination of the bill making recommendations pertaining to Crown Corporations which were incorporated in the Act. After the 1952 meeting the Public Accounts Committee was dormant once again for a period of four years, but what is significant is that in spite of these periods of non activity, the committee when it did meet worked together in basic harmony with the Auditor General. In 1958 following the reversal of Liberal fortunes in the preceding election the newly elected Progressive Conservative party, after decades in the electoral wilderness, turned to the committee, and one of its first

innovations was the appointment of the Chairman from the opposition party. That event helped transform the committee into a less partisan body, and alleviated the weakness displayed after post election reversals when the government by virtue of its majority in the Committee sought to embarrass the previous administration. The increased stimulus on non partisan behaviour in the committee taken together with the working relationship that had developed between the two parliamentary agents brought a new spirit into the committee during the 1960's. One example of the new spirit is found in the use of subcommittees. As Balls noted,

Although usually, the Committee meets as a whole to consider the matters referred to it, it has from time to time made valuable use of subcommittees, notable examples being those set up in 1882 and 1909 to study and revise the balance sheet in Canada. Again in 1961 two such subcommittees studied and made recommendations, one on the form of the Public Accounts and the other on the form of the Estimates. In each case, reports based on the work of the subcommittees was presented to the House of Commons and served as the basis for significant improvements in these documents.²⁴

From the preceding it is evident that the Public Accounts Committee for the greater part of the past century was unable to perform its proper role in attaining executive

²⁴ H. R. Balls, "The Public Accounts Committee", C.P.A., Vol. VI, No. 1, (March, 1963), p. 24.

accountability for government departments due to both structural and political defects. A significant shift for better accountability took place in the 1960's and that movement is closely related to the other great area of parliamentary concern, Crown Corporations.

(2) Crown Corporations and the Public Accounts Committee

Passage of the Financial Administration Act gave the Public Accounts Committee its first real opportunity to examine the affairs of Crown Corporations. While some corporations were still to be examined by select committees, the majority of the corporations were placed under the provisions of the Act, and gave the committee a chance to systematically examine the corporations included. Examination was facilitated in 1952 when the previous practice whereby the accounts of proprietary and agency corporations had been scattered throughout the Public Accounts was discontinued and from that date forward formed a separate volume in the Public Accounts. Yet while there was a latent interest in the committee to examine corporation accounts, the committee was handicapped by time requirements. Increased volume of government business still required considerable committee time to be spent dealing with departmental accounts. While the committee members attempted to go through the

section on Crown Corporations, paragraph by paragraph, little depth could in reality be given to their study.

In 1956 roughly two hours was spent in questioning the Auditor General on the section of his report dealing with Crown Corporations, and two officials of the Department of Finance were questioned for an additional hour and quarter.²⁵

Part of this problem was that until 1961 the Auditor General's report itself contained "very little comment upon the affairs of the Crown Corporations"²⁶ but instead dedicated itself to the limited statutory requirements outlined by section 37 of the Financial Administration Act. However, when Henderson was appointed Auditor General, he immediately began to include comments on corporations affairs to supplement the information outlined in the Public Accounts. As a result the committee was able, with the help of the auditor acting as an interpreter of the diverse and complex affairs of the corporation, to spend more time in delving into the operations of these bodies and in considerably more depth than had been accomplished before. In 1960, it examined two corporations at length and touched on a third, and in 1960-1961 was able to maintain surveillance of two corporations,

25 L. Musolf, op.cit., p. 119.

26 C. A. Ashley and R. G. H. Smalls, Canadian Crown Corporations, (Toronto: Macmillan Company, 1965), p. 37.

but increased its over-all examination to seven. In 1962, the committee held only one meeting due to the dissolving of Parliament:

and in 1962-1963 no Crown Corporation was dealt with except that, in the latter session, a special point in connection with the Canada Council was discussed ... In its final report for 1963, the committee requested the Auditor General to report to it on action taken by the various government departments, Crown Corporations, and other agencies towards carrying out its recommendations and in 1964 it discussed with the Auditor General what had or had not been done.²⁷

Parliament and the Public Accounts Committee

As noted earlier, the central issue in executive management accountability to Parliament boils down to whether the committee constructs recommendations that can be acted upon by the executive and whether Parliament will enforce the wishes of its committees. While the Public Accounts Committee has in several instances turned in quite effective reports and recommendations for Parliament, it has been for the most part unsuccessful in having those recommendations implemented. The roots of the problem go back into the committee's early history where it construed its role to be that of an observer rather than an active participant in accountability. Consequently for the greater part of

²⁷ Ibid., p. 79.

the century it has relied upon the good will of the executive for correction of blatant management defects. While occasional rumblings could be heard from within the House on the weakness of this system, it was really only with the 1963 Public Accounts Committee that Parliament united both the observer and participant functions necessary for the goal of executive accountability. This is undoubtedly a pathetic record but it must be remembered that the two functions could not in reality be combined until the Public Accounts Committee performed a constant and systematic observation of total government accounts and Parliament as a collective body was interested and knowledgeable enough to sustain a grasp of executive finance. The two criteria must be present together. The essentials of the latter requirement, interest and knowledge, were reached during the second World war and combined later with the former criteria, an effective Public Accounts Committee in 1963. As a result, in the following year there was added to the Auditor General's report "Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with by executive action".²⁸ Since that time Parliament, the Public

²⁸ Auditor General's Report, (Ottawa: Queen's Printer, 1964), p. 156.

Accounts Committee and the Auditor General have all been actively engaged in seeing that the observations and recommendations made by the committees are put into practice by the executive, but yet at the end of 1966 there were still forty recommendations that had not been implemented or satisfactorily explained to the House. It does not appear that even to-day the ultimate goal of executive accountability has been fully reached.

CHAPTER IV

POLITICS AND THE AUDITOR GENERAL

It is apparent that the Auditor General has for the most part been unsuccessful in his role as an agent in maintaining responsible government. Indeed, even presently, responsible government is not a complete reality. Reasons for this particular state of affairs are inter-related and intra-connected, but all are the consequence of the unique character of federal politics in Canada. Only by first delineating the political setting can the limitations of the Auditor General in responsible government be comprehended. To achieve this end it is necessary to first clarify the "concept" of "politics" and secondly to observe how "politics" as interpreted and practised in Canada have effected the Auditor General and responsible government. Bernard Crick has postulated that:

Politics can be simply defined as the activity by which differing interests within a given unit of rule are conciliated by giving them a share in power in proportion to their importance to the welfare and survival of the whole community.¹

¹ Bernard Crick, In Defence of Politics, (Harmondsworth, Middlesex, England: Penguin Books, 1964) p. 21.

Canadian politics when interpreted in this light has meant that within the federal structure which limits the "unit of rule", "the welfare and survival of the whole community"² would be achieved by allocating power responsibilities for geographic regions through the use of cabinet ministers.

This interpretation of politics by Canadian governments has affected the practice of federal politics in Canada. Demands from the populace, expressed through their parliamentary members, have been filtered and converted into "inputs" by the executive to obtain regional policy "outputs". By so doing, the governments were able to reinforce specific area support received at the polls and also by dangling prospective rewards to those areas of the country who remained outside of their party, woo future support. Thus party support could be solidified and extended where necessary. Balancing of local rewards was a brokerage function of the parties and it became an important element in Canadian politics.

It was the executive branch of the government which was given the power by the B.N.A. Act to use the brokerage function due to its control of priorities in the determination and formulation of policy. What is significant

2 Idem.

is that the "union of power" principle of the Canadian parliamentary system has been largely negated by this practice. Parliamentary members outside the confines of the Cabinet have been predominately viewed by the executive as participants in a debating society necessary merely for the authorization of policy. Where parliamentarians have suffered is that in having no direct control over priority selection of regional programs they have been forced to opt for indirect control. This has meant that members of the government party by supporting policy advocated by the executive barter their support for regional policies in hopes of obtaining future area support for their own local constituency. The opposition is put into a position whereby, if they protest against government policy too fervently, their stand may be used against them by government supporters as an anti-regional feeling or conversely construed as only a parochial viewpoint. Consequently both the opposition and government members individual voices are muted.

Regionalism has also infected the management of policy. Regional policies as noted earlier are the responsibility of ministers, but the balancing of regional rewards requires a brokerage function within the executive itself. Cabinet collectively determines and prepares the policy, but

the remaining administration of policy must be co-ordinated if the brokerage function is to be successful. Therefore, an executive control agency such as the Treasury Board composed of the more powerful ministers, by balancing the brokerage function between competing government departments sets the standard of administration that will be followed by the government in management of policy.

/ Both the interpretation and practice of politics in Canada have left their mark on the status, nature and extent, of the audit as well as on the Auditor General's relationship with both the executive and Parliament.

Initially the nature and extent of the audit are products of statutory direction. Legislative direction establishes what the Auditor is responsible for and consequently how he performs his role. Yet the statutory directions are themselves the result of the political process. Financial control Acts have been designed primarily to facilitate executive policy goals. Regional policy requires flexibility to adapt to changing conditions, and so these Acts have aimed at some type of centralized executive control in order to meet changing needs. Consequently it must be borne in mind that types of audits outlined by the various financial acts have not been the primary object of

those acts.

Original emphasis on auditing immediately after Confederation was upon an accounting audit due to the Canadian governments obligation to report to the British Crown and the fact that after expenditures were allocated to the provinces as required by the terms of the B.N.A. Act little additional revenue was left for further expenditures. Audits for appropriation and authority were therefore primarily envisaged as subsidiary parts of the total audit necessary for an accurate accounting audit. Increased governmental financial activity however, coupled with the Consolidated Revenue and Audit Act of 1878 enlarged the emphasis for both appropriation and authority audits. Yet conversely government policy goals were aiming for economic expansion through regional development and as noted earlier this gave rise to loose departmental organization which negated the effectiveness of both audits. The end result was the transferring of partial responsibility for the appropriation audit to the Comptroller of the Treasury by the Consolidated Revenue and Audit Act of 1931. The government thus achieved a greater degree of executive control over departments but yet it restricted what should be the prime audit of the Auditor General necessary for executive accountability.

This is not to assert that the accounting audit or authority audit are secondary, but rather with the stress on an appropriation audit the other two audits will be more readily obtainable and give a true meaning to responsible government.

Additionally the audit has been restricted in scope so that it has never covered the whole range of executive financial transactions which makes the goal of executive accountability even more difficult to achieve. The limited nature and extent of the audit taken in tandem with the ascendancy of the executive have resulted in a decline in the status of the audit office, and consequently left a wide breach in the principle of responsible government. /

It would be in error, however, to suggest that by merely improving the structure of the audit office to fill the present structural voids, that responsible government will be reached. Undoubtedly this could facilitate improvement, but in the final analysis the politic atmosphere itself must change with the legislative arm of government asserting itself in the struggle for executive accountability. Only when this is continuous, will the Auditor General's role in responsible government be a fait-accomplis./

APPENDIX A

FINANCIAL ADMINISTRATION ACT AND AMENDMENTS

Chapter 116 of Revised Statutes of Canada

PART VII

THE AUDITOR GENERAL

55. (1) The Governor in Council shall by commission under the Great Seal of Canada appoint an officer called the Auditor General of Canada to hold office during good behaviour until he attains the age of sixty-five years, but he is removable by the Governor General on address of the Senate and House of Commons.

(2) The Auditor General shall out of the Consolidated Revenue Fund be paid a salary of fifteen thousand dollars per annum.

(3) The provisions of the Civil Service Superannuation Act, except those relating to tenure of office, apply to the Auditor General.

(4) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the provisions of the Civil Service Act.

(5) The governor in Council may appoint a person temporarily to perform the duties of the Auditor General during a vacancy in the office of Auditor General. 1951 (2nd Sess.) c. 12, s. 65.

56. (1) Notwithstanding any Act, the Auditor General is entitled to free access at all convenient times to all files, documents, and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

66. (2) The Auditor General may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any such officer so stationed.

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by persons employed in that department.

(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1951 (2nd Sess.), c. 12, s. 66.

67. The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept.
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property. 1951 (2nd Sess.), c. 12, s. 67.

68. The Auditor General shall

- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister may require, and
- (b) when and to the extent required by the Minister participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities, authorized to be destroyed under this Act,

and may, by arrangement with the registrar, maintain custody and control, jointly with the registrar, of cancelled and unissued securities. 1951 (2nd)Sess.), c. 12, s. 68.

69. The Auditor General shall examine and certify in accordance with the outcome of his examinations the several statements required by section 64 to be included in the Public Accounts, and any other statement that the Minister may present for audit certificate. 1951 (2nd. Sess.), c. 12, s. 69.

70. (1) The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

(2) The report of the Auditor General shall be laid before the House of Commons by the Minister on or before the 31st day of December, or, if Parliament is then not in session, within fifteen days after the commencement of the next ensuing session and if the Minister does not, within the time prescribed by this section, present the report to the House of Commons, the Auditor General shall transmit the report to the Speaker for tabling in the House of Commons. 1951 (2nd Sess.) c. 12, s. 70.

71 The Auditor General shall, whenever, the Governor in Council, the Treasury Board or the Minister directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1951 (2nd Sess.) c. 12, s. 71.

72. Any report of the Auditor General to the Governor in Council or the Treasury Board shall be made through the Minister. 1951 (2nd Sess.), c. 12, s. 72.

73. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of such cases to the Minister. 1951 (2nd Sess.), c. 12, s. 73.

74. The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the Inquiries Act. 1951 (2nd Sess.), c. 12, s. 74.

75. An officer of the public service nominated by the Treasury Board shall examine and certify to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the office of the Auditor General. 1951 (2nd Sess.), c. 12, s. 75.

APPENDIX B

REPORT OF THE AUDITOR GENERAL TO THE

HOUSE OF COMMONS (1935)

The 1935 Report was submitted to Parliament but was not examined by the Public Accounts Committee. In this section of the Report, Gonthier makes reference to several deficiencies that had weakened his audit. In particular they are, the audit office staff itself, volume of the audit report, non-meeting of the Public Accounts Committee, dealings with the Treasury Board, departmental accounting regulations, stores accounts, and House of Commons aid.

AUDIT OFFICE ADMINISTRATION

Office Staff - the number of employees on the staff of this Office in March, 1935, was 216 as compared with 212 in March, 1934. Of these 113 were men, an increase of three over March, 1934. Of the five separations from the permanent staff three were retired under the Superannuation Act. In regard to absences, the sick and special leave with pay decreased from 3.49 percent of the total number of working days in 1933-34 to 2.29 per cent in 1934-35. There has been a decrease in this leave in each of the last four years. The comparatively large decrease in the past year was due in part to the amendments to the leave regulations.

With the expected restoration to my organization of most of the positions that were abolished in the past three years and the filling of them on a permanent basis, it is hoped that a more extended examination of the revenue accounts and activities of the various departments will result.

Annual Report - Under the Consolidated Revenue and Audit Act, provision was made for the appointment of an officer (the Auditor General) "for the more complete examination of the accounts of Canada and the reporting thereon to the House of Commons". He is also called upon

to report annually to the House of Commons the result of his examination and audit of the accounts in such a manner as will exhibit the true state of each account and in section 50(2) specific information is called for in respect of these accounts. Not only has this information been given each year but additional information supplied regarding the actual expenditure and sources of revenue in each department. From time to time the amount of this supplementary information was reduced, fewer details of expenditure, particularly, being given. For example, since 1923, my report has been reduced in size from 3,372 pages in 1923 to 1,157 in 1934 with a corresponding reduction in the total cost of printing from \$21,932 to \$7,980. No objection so far as I am aware has ever been made by the House to the elimination of these details. I am anxious to supply all the information desired concerning the public accounts, nevertheless, I feel that, without impairing the value of my report for its intended purpose, the cost thereof should be reduced to the lowest possible minimum. If the public accounts were subject to review by a Committee of the House, as in England, the publication of the details, to such an extent as in the past, might not be necessary, as any additional information requested by the Committee could readily be furnished by me. I purpose giving further consideration to this matter during the coming year.

GENERAL

The examination and audit of relief expenditures is a duty imposed upon me under the Relief Acts. In this connection I would call attention to the fact that my application for an increase of staff to properly perform that work was not granted by the Treasury Board, which has deprived me of the means of accomplishing important and useful work in the interest of the Treasury and of Parliament.

Attention is also called to the observations made by me, under the chapter "Operation of the Consolidated Revenue and Audit Act" in my reports for 1933 and 1934, regarding what I consider to be the duties of the Auditor General.

In my 1932 report, I submitted "that an early and earnest consideration could with profit be given to the question of promulgating new regulations more in accord

with present day requirements" regarding the receipt, entry and accounting of public moneys. The regulations date back to the year 1860.

The appointment of the Committee by the Treasury Board to inquire into the use of motor vehicles will doubtless be an important factor in accomplishing a better control over the purchase and maintenance of this equipment.

Serious consideration should be given to the question of better safeguarding of stores and equipment by a closer administrative control thereof by all departments. This matter was very fully dealt with on page xxxii of my report for 1933 and in previous sections of this report. I also recommended the recording and control of all real properties administered by departments.

I would again call attention to the desirability of action by the Treasury Board in the matter of writing off uncollectible accounts, as referred to also in previous reports, and I reiterate the remarks made in the chapters on "Capital Expenditure" and "Non-Active Assets" of my reports of 1925, 1926, 1927, 1930, 1933 and 1934, in which I advised the revision of the valuation placed upon certain capital assets in the Balance Sheet.

On page xxix of this report, reference is again made to the unsatisfactory conditions encountered in the administration of the Old Age Pensions Act and the various remedial suggestions contained in my inspection report to the Department of Finance.

As my audit is made on behalf of the House of Commons, I desire to again emphasize the fact that it would be of great assistance to this Office in the fulfilment of its duties and of benefit to the whole service if the House were to indicate its wishes by giving directions concerning the various matters brought to its attention in my annual reports.

I hereby express my appreciation of the valuable services rendered by my staff during the year, particularly in view of the increased burden placed upon it by new legislation.

GEORGES GONTHIER

Auditor General.

Ottawa, December 30, 1935

APPENDIX G

REPORT OF THE AUDITOR GENERAL TO THE

HOUSE OF COMMONS (1960)

The 1960 Report was submitted to and examined by the Public Accounts Committee. In this section of the report the Auditor makes reference to his audit approach, Crown Corporation audits, Public Accounts and Form of the Estimates.

The Audit Approach

6. My examinations were conducted on a test basis during the year in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of the internal control. The tests were supplemented by a general review of the accounting procedures in the departments and other agencies under examination -- which comprised all departments, Crown corporations and other instrumentalities of the Government of Canada, excepting those listed in paragraph 113, whose accounts were examined by other auditors.

During the course of our examinations, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were provided with all supplementary information and explanations required during the course of their work. I should like to express my appreciation for the co-operation so readily extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies. Their co-operation greatly facilitated the audit work.

7. The Audit Office is developing what may be termed the comprehensive audit approach. This involves little change in the basic auditing program followed heretofore. Broadly speaking, it continues to require that in undertaking an examination of the financial affairs of a department, Crown corporation or other agency, the auditor must

make a complete study of the governing legislation and obtain an understanding of the agency's basic function. In addition, he must study the organization with which its management is carrying out that function and understand the policies under which it operates.

As a result of his detailed knowledge of the operations of the agency obtained during the course of his audit, the auditor is in a position to work constructively with its management in evaluating the effectiveness of its internal control procedures, and in improving the cost controls. This aspect of the work is being extended as circumstances permit.

8. In approaching its work in this manner, the Audit Office is fulfilling an important function by helping its clients to improve and develop their efficiency through the medium of effective periodic accounting statements and financial reports, the basic tools necessary to control costs.

Government departments and other agencies by their very nature do not possess the profit incentive to control costs such as exists in private enterprise. They must accordingly develop their own efficiency yardsticks in administering public funds, not only to ensure that expenditure is adequately controlled but that "built-in costs", which can so often escape the notice of the best intentioned managements, come under constant scrutiny and revision.

9. Detailed reports addressed to the managements of departments, Crown corporations and other agencies are currently being issued by the Audit Office covering the results of its examinations. These reports, patterned after those in widespread use among professional accountants in private practice, outline the scope of the audit, give a broad summary of the operations for the year under review, analyse the financial results in comparison with those of previous years and make available to the management comments and suggestions regarding weaknesses in internal control, savings that might be achieved and other matters noted during the course of the audit.

The Public Accounts

10. Pursuant to Section 63 of the Financial Administration Act, the Minister of Finance is responsible for the manner in which the accounts of Canada are maintained, and Section 64 requires that an annual report, called the Public Accounts, be laid by him before the House of Commons.

The Public Accounts constitute, in effect, Canada's Annual Financial Report to its shareholders, the general public. As such, it should conform to the highest standards of financial reporting in the country and be presented in a clear and concise manner without being encumbered with unnecessary detail. Only in this way can Parliament and the public be expected to give the accounting the attention it deserves.

Progress has been made during the past several years and again this year towards achieving this objective which is a matter of continuing study by the Department of Finance. However, much still remains to be done. For example, the listings of suppliers and contractors receiving \$10,000 and over through each department might be eliminated from the Public Accounts in favour of simply providing the information on specific request. On the other hand, additional information might be given in some areas, for example, comprehensive audited financial statements could be included for certain departmental operating activities as suggested in paragraph 148 of this report.

Form of the Estimates

15. The form of the annual Estimates, a responsibility of the Treasury Board, is important from the accounting point of view because it determines in large measure the manner in which the subsequent accounting for expenditures is maintained and reported in the Public Accounts. This in turn is important to the Auditor General because of his responsibilities to Parliament.

16. Informed consideration of the Estimates by the House of Commons before the money is voted is all-important. For this reason, consideration should be given to the Form of the Estimates presentation with a view to providing more

meaningful information, for example, by:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered, in relation to the costs incurred);
- (c) including both operating and capital budgets of Crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

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VITA

Family

Marvin Robert George Krause, son of Mr. and Mrs. M. Krause of Windsor, Ontario, born January 12, 1936 at Windsor, Ontario. Married, wife Dorothy Anne.

Education

1942-1955

Elementary and secondary education at John Campbell Public School and Kennedy Collegiate, Windsor, Ontario. Senior Matriculation, 1955.

1955-1956

Graduated London Teachers' College, London, Ontario.

1956-1962

Registered as an undergraduate extension student at Assumption University of Windsor. Received Bachelor of Arts degree in October, 1962.

1965-1967

Registered as a post-graduate student at University of Windsor, September, 1965. Admitted to the Faculty of Graduate Studies and candidate for the degree of Master of Arts in Political Science, 1966. Paper submitted May, 1967.

Other Activities

1956-1965

Employed as an elementary school teacher for the Windsor Board of Education.

1966-1967

Received Ontario Graduate Fellowship.