

Innovation and Risk Taking in the Federal Government

The Role and Perspective of the Office of the Auditor General of Canada Background Paper for a Round-table Discussion October 6, 1999
Office of the Auditor General of Canada 18 Sept. 1998

Auditor General Act

The ADM Working Group Report on Risk Management:

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1. Mandate, Role and Responsibilities

The primary focus of this paper is on the "value-for-money" audits that are carried out in federal departments and agencies pursuant to the Auditor General Act (see Appendix 1).

In essence, the Act sets out a mandate that is essentially negative. It does this by requiring the Auditor General to call to the attention of the House of Commons any cases in which he has observed, for example, that money has been expended other than for purposes for which it was appropriated by Parliament, or that money has been expended without due regard to economy or efficiency.

As Parliament's servant, we are obliged to meet its directions. Within these directions, however, we have the freedom to select our audit issues and to determine how and when we will report them. The Office has developed a Strategic Framework that sets out statements of its vision and mission to guide all dimensions of its work.

Visio:

We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government.

Missio:

The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

With their references to such matters as economy, efficiency, effectiveness, best practices and productive government, our legislative mandate as well as our vision and mission statements are supportive of a public service environment and culture that values innovation and sensible risk-taking.

We believe that innovations should occur, and reasonable risks need to be taken, but in ways that respect the requirements of parliamentary control and the need to protect the public purse. In this regard, we have an obligation to draw attention to significant deviations from the wishes of Parliament.

In our audits we particularly emphasize the need for transparency and accountability to Parliament. Public opinion surveys show that the Canadian public is also concerned that the

actions of government be carried out transparently and with integrity, and that there be good accountability for the results achieved with public funds. It is worth noting, however, that public servants demonstrate considerable ambivalence about full transparency because of perceived negative consequences to their ministers and, ultimately, to themselves.

2. The Evolution of our Audit Work

The nature of Canada's political system is such that the government operates in a virtual fish bowl. Within Parliament, opposition parties challenge the government and attempt to embarrass it by pointing to inappropriate or poor performance. Some of the information to fuel the debate can be, and is, drawn from our audit reports.

Although we have to take the existence and the form of the debate as givens, we do strive in our reporting to:

- avoid the simple "horror story"; point out areas of systemic problems;
- focus increasingly on results;
- provide a degree of balance;
- give departments and agencies ample opportunity to discuss reports and respond to our recommendations; and
- provide the opportunity for corrective action to be taken before our reports are tabled.

In the early years of value-for-money auditing, much of our work paralleled the government's own concern with the implementation of adequate management systems and practices and compliance with external controls. We acknowledge that systems-based and compliance-orientated audits have the potential to inhibit innovation and risk-taking. Indeed, our recent Performance Reports to Parliament have publicly recognized the possibility of negative consequences arising from some of our audit work.

By the mid-80s we had begun to shift our focus toward the results of government programs. Some of our chapters began to note that the vast array of rules, regulations and controls might, in fact, be impeding the achievement of desired results.

In this vein, we have published a number of chapters over the past 15 years that are directly supportive of sensible risk-taking and innovation. These include, for example:

Constraints to Productive Management in the Public Service - 1983

Attributes of Well-Performing Organizations - 1988

Values, Service and Performance - 1990

Innovation Within the Parliamentary Control Framework - 1991

Change and Control in the Federal Government - 1992

The Learning Organization - 1992

An Innovative Society and the Role of Government - 1994

Moving toward Managing for Results - 1997

Explicitly or implicitly, a number of consistent threads run through these audits and studies:

- The rate of change is accelerating, and all change involves risks.
- Risk is not a purely negative concept - the flip side is an opportunity to benefit.
- Risk should be identified and managed, not ignored. There is an important distinction to be made between risk management and risk management.
- Effective risk management depends on good quality information including information on results.
- The parliamentary control framework provides substantial scope for innovation and sensible risk-taking.
- Openness and accountability are important components of an environment that supports innovation.

Despite shifts in the government environment and changes in audit emphasis over time, the core expectations that have guided our value-for-money audit work have remained fairly constant. These include:

- effective accountability to Parliament;
- meeting parliamentary control requirements;
- identifying and managing key risks;
- adopting best practices;
- clear delegation of authority;
- measuring and monitoring program performance; and
- effective central agency leadership.

As the question of ethical conduct in public administration has gained greater visibility in recent years - perhaps as a key expectation in an environment of greater empowerment -we have weighed in on this issue as well.

3. Current Developments

As the Public Policy Forum's discussion paper points out, the environment within which public servants live and work is changing rapidly, continually and profoundly for a variety of reasons. These include economic, technological and demographic developments, the government's financial condition, a decline of public trust in government and growing demands by Canadians for government services to be delivered more competently, flexibly and cheaply.

Canadians want public servants to focus more on the results to be achieved than on how things get done. They also want to be better informed about what they are getting for their tax dollars. Although the public is challenging the government to spend less, it is not willing to give up cherished programs or accept a lower quality of service.

The government has responded by examining its programs to determine where its involvement is most needed and by seeking more cost-effective means for their delivery. These new means for delivery frequently involve such characteristics as greater delegation of authority and a sharper focus on clients and results. However, often not sufficient attention is paid to putting these

elements in place. Increasingly, these delivery arrangements also involve a variety of collaborative or partnering arrangements with other levels of government and the private sector.

Partnering arrangements with the private sector include community enterprises and non-governmental organizations. Partnering arrangements with other levels of government are increasingly being used, such as those with provinces to deliver labour market training or to enforce certain environmental regulations. In addition, new service agencies are being created, such as the Canadian Food Inspection Agency, or proposed, as in the case of the Canadian Parks Agency and the Canada Customs and Revenue Agency. Within the federal government, alternative service delivery mechanisms range from special operating agencies to "single windows", where several departments even from different levels of government provide services to the public in the same location.

The rapid changes in the public service's internal and external environments underline the need for greater flexibility and a stronger focus on results. They both provide the possibility for, and put the spotlight on, innovation, sensible risk taking and accountability as central elements of best practice.

In the light of these kinds of developments, the focus of our audits has continued to shift by:

- putting even greater emphasis on results-based (as distinct from systems-based) audit.
- taking a "best-practices" approach in our audits by pointing to what works well (auditing for success) as well as what does not.
- making improvements in accountability concepts and practices (including results-based management, performance measurement and reporting) a priority for the work of the Office. For instance, we have developed and championed a more positive and results-focussed view of accountability. Whereas accountability has traditionally been defined as an obligation to answer for the discharge of responsibilities conferred, we now look on it as a relationship based on the obligation to demonstrate and take responsibility for performance in the light of agreed expectations.
- working with the government, where appropriate, to move the yardsticks. For example, we have worked together with the Treasury Board Secretariat to enhance accountability concepts and practices, as well as to improve performance reporting to Parliament.

4. The Bottom Line

The bottom line is that we do support and encourage intelligent risk-taking and innovation that takes place within, and respects, the framework of parliamentary control in place. If innovation cannot take place within this framework, the obligation is to change it.

Given the very nature of an external audit function, there will always be a possibility for our work to have (even if for no good reason) a stifling effect on the willingness of public servants to innovate and to take risks. Although we may still have some way to go, we are trying to do our part to minimize this possibility by what we do and by how we do it. We choose audits that allow us to report matters of importance to Parliament, and we seek to report them in such a way as to promote improvements in government administration, management and accountability. In addition, as described above, our audit practice is evolving in response to changes in the public

service environment. Nonetheless, Parliament will continue to expect us to carry out our traditional role of reporting on whether parliamentary control requirements are met.

We do not believe that risk-taking and innovation automatically means poor management or lack of control. If controls (rules, regulations, procedures, etc.) get in the way of productive government, part of innovation (innovation in public management itself) requires making the necessary and appropriate changes.

What we do believe is that risks need to be explicitly identified, communicated and managed so as to minimize uncertainty and maximize opportunity. We believe that this can lead to a stronger focus on cost-effective outcomes and accountability for results, without undermining either due process or parliamentary control.

5. Some Thoughts for the Future

We - the public, parliamentarians, public servants and legislative auditors - need to work together to break down traditional views and old habits. We need to have the freedom, and the courage, to adopt new approaches. At the same time, however, we must be prepared to provide greater accountability, with greater transparency.

We need to accept that it is necessary to take sensible risks, and acceptable to make some mistakes - as long as learning occurs and the basic parliamentary control framework is not violated. Indeed, we all need to accept that it would be both unreasonable and prohibitively costly for the government to provide 100 per cent assurance on all risks. There needs to be a broader understanding that risk aversion ("the risk not taken") is not a free good.

The Office of the Auditor General of Canada can play some role in that by pointing to the costs. In addition, we can place greater emphasis on the importance of the learning that comes (or should come) from innovating and taking risks. When taking reasonable risks leads to mistakes, it may be more productive to hold management to account for learning from the experience and taking action to prevent the same mistakes in the future than simply to allocate blame. As an example of what is possible here, one of our criteria in auditing performance reporting to Parliament relates to a demonstrated capacity to learn from poor performance and to adapt accordingly.

Many constraints to innovation and sensible risk-taking in the public service have been identified in the Public Policy Forum's discussion paper and other sources. These include, for example, inertia, low morale, lack of authority, lack of leadership, resource constraints, media scrutiny and political caution. However, we believe there needs to be further discussion of the premise that many of the factors that prevent or discourage innovation are unique to the public service. There may be some exaggeration here in that there appear to be equally strong factors in the private sector (e.g., job security).

Whether the constraints are real or perceived, however, we should not underestimate the time, energy and sustained commitment that are required to effect a significant shift in attitudes and practices at the political level, within the public service and within the legislative audit

profession. We believe there needs to be further investigation and good hard discussion to identify sources of greatest difficulty and to identify ways to move ahead.

Among other things, we will need good communication (of risks) to parliamentarians and the public, persistence and continuity in the push to change, many champions, and the willingness and opportunity to celebrate some real successes.

Appendix 1 - Value-for-Money Audit Mandate

The Auditor General Act, the Financial Administration Act and a variety of other Acts and Orders-in-Council set out the mandate, role and responsibilities of the Auditor General and the Commissioner of the Environment and Sustainable Development.

The Auditor General Act requires the Auditor General, in his reports, to call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including, among other things, cases where he has observed that:

- accounts have not been faithfully and properly maintained or public moneys have not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of revenue and to ensure that expenditures have been made only as authorized;
- money has been expended other than for purposes for which it was appropriated by Parliament; money has been expended without due regard to economy or efficiency;
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
- money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

It is these provisions of the Auditor General Act that provide the primary basis for the value-for-money audits that are the focus of this paper.

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