

A Comment on "Effectiveness: Reporting and Auditing in the Public Sector"

Guy Leclerc*

*Deputy Comptroller General, Program Evaluation
Office of the Comptroller General of Canada*

In Canada, public expenditures are very large, accounting for some 40 per cent of its gross domestic product in recent times. The government is more than a government of people; it has developed into a major economic agent; it has also become a major intervener in the market place. The government, as the largest employer, employs a sizeable portion of the Canadian labor force. It owns some of the largest industrial and commercial enterprises in the country. It redistributes national income on a massive scale through a maze of economic and social mechanisms. On its own, the government is a financial intermediary of international scale. Further, it is the largest buyer of capital goods. And it dispenses services collectively or individually to each citizen in the country.

By virtue of the place it occupies in the life of all Canadians, the government has an immense fiscal responsibility that has to be paralleled by accountability. Much of this accountability has traditionally been based upon the government's wide array of financial statements (the public accounts and the estimates), economic statements (the national accounts and the budget) as well as auditing activities by the Office of the Auditor General and more latterly, program evaluation by government departments and agencies.

By international standards, Canada has been well served by such accountability practices in the past. There have been some rather important innovations put in place in the past decade. Most of current accountability practices, precepts and emphasis are, however, reflective of earlier times. Such mechanisms or accountability links have in recent years grown gradually more deficient in proportion with the increasing size and complexity of government. A focus on probity, integrity, and related monetary virtues, while entirely justified, has distracted from discussion, in an accountability context, of the substantive activities of government. The concern of elected bodies has rarely moved beyond the traditional focus, and the sophistication of the public service has not been such as to embrace naturally the precepts of accountability for program performance.

Issues of probity, integrity and associated attributes are easier to circumscribe because they relate to actions that can be controlled. Deviations can be observed, measured and reported on. In contrast, responsibility for effectiveness, doing the right thing and doing it right as the cliché goes, is more obscure, more diffuse and badly understood.

* These comments are made in response to the invitation of the Editor of the Canadian Journal of Program Evaluation. Areas alluded to are selective; the analysis is preliminary; and the comments do not constitute a "position" of the Office of the Comptroller General.

Largely contributing to the elusiveness of the effectiveness issue is the unclear interface between the political and the technical. The specialized and technical knowledge acquired by managers at the executive level does not necessarily add up to comprehensive assessment at the political level. Objectives pursued at that level, often unstated, are not necessarily those pursued at the working level. Furthermore, in assessing program performance, there are problems of measurement, and adequate and accurate data are often hard to come by. Analytical processes of the ex-post evaluation or comprehensive audit variety, while quite appropriate and adequate in many respects, may be, as instruments of accountability, somewhat cumbersome, ill-timed and not particularly enlightening with respect to the real dynamics, political and substantive, of a policy problem.

In contrast, in the private sector, accountability is seen as natural, and as emerging automatically out of practice. This, by no means, signifies that it is complete and devoid of any shortcomings or problems. The fact remains, however, that the market system creates its own system of information and links; thus, attainment of performance goals is seen as immediately transparent and in a manner of speaking, as an uninterrupted process. What makes life easier in the private sector is the use of profit or so-called bottom line, as the principal, when not the sole, criterion of effectiveness. But this is changing and this simplicity can no longer satisfy accountability requirements among the large entities at least.

The Canadian Comprehensive Auditing Foundation report on *Effectiveness: Reporting and Auditing in the Public Sector* is already a landmark in this very contemporary debate over effectiveness and accountability relationships between public sector management and their governing bodies. As a matter of fact, much of the debate owes its prominence to the initiative of the Foundation and the manner in which it drew and continues to draw views from an impressive array of concerned Canadians, elected people, senior administrators, senior civil servants, professionals, etc.

The report is the result of a deliberate approach designed to seek the views of a multitude of stakeholders as well as practitioners. Most of the views known to me have been collected, considered, and found their niche in the report. The study is thus a very thorough attempt at bringing coherence to a rather difficult area and at seeing if one could not consolidate and transform all such opinions into a meaningful framework for effectiveness measurement, reporting and auditing.

Not that it is terribly important, but the study is not the product of traditional academic research. It could nevertheless be seen as a research study. Alternatively it will be seen as an advocacy report. In my view, it is both. It has the courage of taking a position and that position is inspired by the evidence gathered in its preparation.

While someone of my persuasion might wish the report would have used considerably more space to acknowledge the development in recent years of program evaluation as a principal instrument for measuring program effectiveness as well as the emergence of individual departmental expenditures plans at the federal level (Part III of the Estimates) to report on it, the fact remains I welcome the CCAF report in its attempt to nail down

the accountability links to governing bodies. What the report essentially says is that the way to deal with effectiveness in reporting to Parliament or governing bodies is through a set of "management representations", such representations being designed to help governing bodies form judgments about effectiveness.

I agree with the Foundation that management, rather than the external auditor, should evaluate or assess performance and report on it. The auditor should be concerned with providing opinions on the adequacy and balance of these reports. This conclusion, formulated by the Foundation ought to be appreciated. If this means that the Auditor, in the provision of opinions on the fairness of representations, is only concerned with the *basis* on which representations are made, I fully agree.

To me, management representations on effectiveness as an approach is an interesting technique extending the usefulness of the Treasury Board policy initiative of 1977. In the Federal Government the principal instrument for measuring program effectiveness has been departmental evaluation. It has been practiced for almost 10 years and departments are expected to periodically—over a 5-year cycle—reconsider their programs for continued relevance, cost-effective implementation, alternatives to service at lesser costs, or getting more for the same cost.

The management representations technique may offer earlier, more regular, and more flexible channels of accountability. Indeed one can conjure up easily the possibility that management representations might be an annual event, and be tailor-made for a variety of stakeholders in spite of the fact the report argues that these representations are likely to be formulated over longer periods of time not unlike the timeframe of the federal evaluation cycle. What is really harder to imagine is what will the form of such representations be. Program evaluation as presently practiced is often a very elaborate and disciplined process. It can be comprehensive. It is a powerful measurement tool. It generates a lot of relevant information, and can be a basis for accountability on program performance. Because it deals with large chunks of programs over time, as a simple and regular accountability instrument it may be seen as more cumbersome than other contemplated means. Program evaluation has in recent years been exploited as a source of accountability statements through Part III of the Estimates. Indeed, the particular section (in Part III) on program effectiveness constitutes, in some fashion, a set of management representations albeit not conceived in the manner being suggested by the Foundation. In much the same vein, program evaluation could feed any approach based on making representations on program performance. At this point, we know how management representations as a tool of accountability would flow, but we still know very little about their content.

The CCAF report is not a guide to an already agreed upon process. It is an idea that is being promoted, an idea that has been launched, challenged, tossed about and finally massaged in a sufficiently coherent fashion that the report, as the independent panel intended it to be, can be viewed as a starting point for implementing management representations with audit assurance.

The report's conclusions are very appealing. In the difficult area of effectiveness, the Foundation does not seek to displace elaborate and increasingly useful approaches such as program evaluation and comprehensive audits, but tries to build on this capacity. Such approaches are considerably more than accountability instruments. On the other hand, management representations that are too simple cannot pretend to divulge but a fraction of the richness of information about programs arising from evaluation and audits.

Management representations as an approach is being promoted as a direct accountability link. The opportunity for managers to make representations directly (not through third parties) at a level meaningful to them and their governing bodies in a manner they do understand is seen as a comparative advantage. The total involvement of managers is a main feature. The concept is encouraged not so much because it is novel but rather as an extension of something which already exists namely reporting and auditing financial information through periodic financial statements. At the federal level, the Part III Estimates do constitute a set of representations, as a matter of fact both managerial and ministerial. Explained that way, the new process should appear to be very seductive. My purpose at this point would be to try to move the discussion a little further by raising particular issues about the two central features of the CCAF approach—the representations and the audit.

To determine the best process for arriving at mutually useful and agreed to expectations on management representations is going to be quite a challenge. The mere formulation of reasonably structured representations is going to be a development task or a learning process not unlike the development—years ago—of financial statements.

Program evaluation, in spite of being a relatively young review practice has already acquired a lot of experience with the notion of effectiveness. There are a few lessons that we have learned—and I believe they are relevant to a management representations approach.

Our Office had this to say recently through the testimony of Mr. J.A. Macdonald, Acting Comptroller General of Canada, at a hearing of the Standing Senate Committee on National Finance:

“Single statements and single measures of program objectives, results, and effectiveness almost always are inadequate. Any government concerned with value-for-money must seek to achieve as many objectives as possible with the same resources and activities. For example, funds spent directly in pursuit of the government's regional development objectives are small in comparison to expenditures on other programs which have regional effects. Accordingly, to be effective the government seeks to adjust these other areas of programming to serve regional development objectives as well. This adds an additional dimension to the effectiveness of expenditures in these related programs.

One of the ways we are responding to this difficulty is to articulate a hierarchy of results for programs, including: (a) broad, sometimes government-wide, impacts and effects; (b) more immediate benefits

to program clients; and, (c) specific program outputs produced by a delivery unit within a department. In this way, we believe we can have reasonably reliable measures of the more operational outputs. At the same time, we will still have a relevant context of related effects to provide a solid information base on which to make judgments of effectiveness in terms of overall program and governmental objectives.

To measure effectiveness in this sense, it is important to not limit ourselves to quantitative indicators. Accordingly, we also are relying on qualitative information derived from the analysis of specific performance issues. This approach requires more interpretation and judgment by users of the effectiveness information, but avoids the almost inevitable bias and oversimplification of uninterpreted quantitative measures.

In addition, we are focusing less on *conclusions* concerning program effectiveness and more on relevant and reliable *information* on effectiveness. This provides for the various uses of such information—including Ministers, senior public servants, Parliamentarians, and interested groups and individuals—to make their own judgments about the need for and value of programs, all from their respective vantage points.”

The above nuances are good to keep in mind when comes the time when representations are being formulated. As alluded to earlier, the arrangement of accountability links through the Foundation’s management representations approach gives it a certain advantage in terms of clarity and simplicity. But the real challenge is the content of such representations. Since there is hardly any experience except in Part III of the Estimates at the federal level, in this approach one may wonder who will develop that kind of formulation: the managers themselves? program evaluators in their employ? internal auditors? other members of the ill-defined “measurement community”?

The audit assurance part will equally be a challenge. In line with its tradition, the audit profession may have to develop detailed generic standards unless it wishes to relax its tradition, towards a more pragmatic approach.

I have heard suggestions that auditors who will be called upon to audit management representations might be more in a position to develop the structure of the formulation in a manner that would be auditable. The logic of this particular linkage is very attractive but there maybe some problems. One might submit that the auditor should not participate in the formulation he will be called upon to agree or disagree with later. I suppose that does not preclude the elaboration of some general standards. Another problem is, in relation to the nature and the scope of program activities; the concern of managers has to include not only the actual delivery of programs but also the manner in which the superordinate objectives of the government have been respected. The auditor, whose stock in trade is the so-called “business question”, value-for-money and compliance to rules, may not be as ready to deal with political science questions, macro-economics, social development issues and be forced to reconcile all the con-

traditions of the political process. In short, I am saying that an auditor in the audit assurance role may become a very important participant in the overall process. It would be difficult to see the auditor assume an ex ante role in the process of formulation. The Foundation's report seems to have a similar concern. Alternatively, effectiveness is more the "stuff" of the internal program evaluator; could the latter not become the "program accountant" and assume the development role?

In conclusion, a principal merit of the Foundation's report has been the elevation of program effectiveness as a major concern among the many participants and stakeholders. It is nevertheless my contention that management representations as an approach are at the end of review processes already in existence. In other words, the best representations could only emerge out of a culture of effectiveness reviews. I am almost saying that a good program evaluation culture is a (possibly not the only one) precondition to management representations.