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Mr. John Williams

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• (1535)

[English]

The Chair (Mr. John Williams (Edmonton—St. Albert, CPC)): Good afternoon, ladies and gentlemen.

Our order of the day, pursuant to Standing Order 108(3)(g), is the 2004 report of the Auditor General of Canada, referred to the committee on Tuesday, November 23, 2004.

Our witnesses today are from the Office of the Auditor General of Canada: Ms. Sheila Fraser, the Auditor General of Canada; Mr. Hugh McRoberts, Assistant Auditor General; Mr. Ronald Campbell, Assistant Auditor General; and Mr. Basil Zafiriou, principal from the office.

That will go on for about an hour, and we will then move to other business pursuant to Standing Order 81(5), supplementary estimates (A) 2004-2005, vote 20a under finance, referred to the committee on Thursday, November 4, 2004. If we get through that, we will have a motion to adopt it and see how we do. After that, we have a report from the subcommittee.

After dealing with the estimates, we will stay as a public meeting, but we will no longer be televised. The meeting is televised at the moment, but after we deal with the estimates we will cease the television and continue as a public meeting.

Before we start, I would like to acknowledge and introduce our guests from South Africa. We have a delegation from the Standing Committee on Public Accounts of South Africa here in the room. I'd invite them to come forward as members of Parliament and take a place at the table. We will ask the chair of the committee to introduce them.

Could I ask them to come forward and take chairs at the table here with us? As members of Parliament, I think they should be at the table.

Mr. François Beukman is the chairman. They have been here for a week and we met with them on a number of occasions. They were also at the in camera tabling of the Auditor General's report on Tuesday morning. Therefore, they can see how we conduct our business.

We would like to welcome them here.

Mr. Beukman, I would ask you to introduce your colleagues from South Africa.

Mr. François Beukman (Member of Parliament and Chairperson, Standing Committee on Public Accounts of South Africa,

Parliament of South Africa): Thank you very much, Mr. Chairman, and thank you very much for the hospitality and the interaction of this week. We also appreciate the interaction this afternoon with your committee. I think it was very fruitful.

Ms. Louisa Mabe from the ruling African National Congress is with me. Then we have Mr. Ronald Mofokeng, also from the ruling African National Congress, and Mr. Eddie Trent, who is chief spokesperson of our official opposition, the Democratic Alliance.

The Chair: Thank you very much, and again, welcome.

We do hope that you find your visit to Canada is interesting and informative. South Africa is an emerging democracy, which we're proud to see is continuing down the road to a fully fledged democracy. We congratulate you on the work you've already accomplished, and we wish you well as you continue down the path of development. I know that we wish you every encouragement.

I'm going to turn now to our Auditor General, Ms. Fraser, for her opening statement.

Madam Fraser, please.

Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada): Thank you, Mr. Chair.

I am very pleased to be here today to give the committee an overview of the report we tabled this past Tuesday, November 23. As you mentioned, I'm accompanied by Assistant Auditors General Hugh McRoberts and Ronnie Campbell, as well as Basil Zafiriou, who is a principal in our office.

I would like to go over some of the key messages in each one of the chapters.

Chapter 1 deals with internal audit in departments and agencies. I would like to begin by talking about a function of government that is too often overlooked and undervalued—internal audit.

An independent and objective internal audit branch that is adequately staffed with competent audit professionals can help senior management ensure the efficiency and effectiveness of financial, administrative, and operational activities within their organizations and can point to needed improvements. All too often, however, internal audit takes a backseat to other departmental priorities, such as providing services or developing policy, and its potential benefits are not fully exploited.

Despite the injection of additional funding for internal audit in the past four years, we found the same problems that we saw a decade ago. To be effective, internal audit requires clear support from senior management and it should report directly to the deputy head. There is also a need to strengthen and professionalize this function throughout government.

• (1540)

[Translation]

Chapter 2 concerns implementation of the National Initiative to Combat Money Laundering.

In 2000, the government launched the National Initiative to Combat Money Laundering. Financial institutions and other providers of financial services are now required to report certain financial transactions to the Financial Transactions and Reports Analysis Centre. The centre analyzes these reports for links to money laundering or terrorist-financing activities.

Our audit found that restrictions on information-sharing and insufficient coordination among the initiative's partners limit the effectiveness of Canada's strategy. Privacy concerns limit the Analysis Centre's ability to disclose intelligence to the police. As a result, law enforcement and security agencies usually find that the information they receive is too limited to justify launching investigations. There is a delicate balance between privacy right and the information needs of law enforcement. Determining the right balance is up to Parliament.

I hope our findings will be useful to parliamentarians when they review the Proceeds of Crime (Money Laundering) and Terrorist Financing Act in the coming months.

[English]

Chapter 3 deals with the upgrading of the CF-18 fighter aircraft. The Department of National Defence recognized the need to upgrade its CF-18 fighter aircraft during the first Gulf War in the early 1990s. Completing the upgrade by 2009, as planned, is important, because DND expects that the CF-18 will have reached a maximum flying time in 2017. Any delays will reduce the amount of time DND can benefit from the improved capabilities resulting from the \$2.6 billion investment.

The CF-18 project team has worked hard to overcome problems and keep much of this complicated project on track and within contract costs. Thirty-three upgraded fighter jets have been delivered, are now being flown, and are meeting expectations. If DND is to get the maximum return on its investment, it needs to ensure that it has enough qualified pilots, maintenance technicians, spare parts, and funding to keep the fleet of CF-18s operational until the end of its useful life.

Chapter 4 concerns the management of federal drug benefit programs. When we looked at the management of federal drug benefit programs, we found that the government is paying tens of millions of dollars more than necessary each year because it does not take advantage of some well-known cost-saving measures. More than a million beneficiaries, including veterans, members of the armed forces and the RCMP, inmates in federal correctional facilities, and members of first nations communities, received drug

benefits through programs managed by six federal departments. The total bill for prescription drugs was \$438 million in 2002-03.

We also found that the programs failed to provide pertinent information about prescription drug use to health care professionals, information that could benefit clients. Prompt action is in the interests of people who depend on these programs, and it is also in the best interests of taxpayers. Sharing best practices among federal and provincial drug programs could result in improvements. This is the third time we have raised this issue with Health Canada, and I am disappointed that these issues have not been resolved.

[Translation]

Chapter 5 concerns the education program and post-secondary student support. Indian and Northern Affairs Canada has made little progress in improving educational opportunities for First Nations communities since the last time we looked at this issue in 2000. There's a large gap between the proportion of high school students in First Nations communities and in Canada as a whole. If current trends continue, it will take 28 years to close the gap.

The First Nations population is young and growing. Education is critical to improving opportunities for individuals and strengthening the socio-economic situation of First Nations communities.

We recognize that this is not a problem that can be fixed overnight, but I am concerned by the lack of progress in closing the education gap between people living on reserves and other Canadians.

Despite a commitment made in 2000, the Department has still not clarified its role and its responsibilities for improving the educational achievements of First Nations. Real progress depends on taking this important first step.

Chapter 6 concerns the resolution of disputes and encouraging voluntary disclosures to the Canada Revenue Agency. We also looked at the Canada Revenue Agency's systems for resolving disputes with taxpayers and for encouraging taxpayers to correct past errors and omissions.

I am pleased to see that the Agency is resolving taxpayer disputes impartially, but too many are not being resolved in a timely fashion. We found some inconsistencies in the way the Agency administers its Voluntary Disclosures Program. This program allows taxpayers and GST registrants to correct past errors or omissions without penalty or prosecution, and sometimes with reduced interest.

I am concerned, however, that those who make a voluntary disclosure are not being treated consistently. Canadians have a right to expect equal treatment under the program.

I'm also concerned about the way the program's legislative authority is being used. Parliament was told that the authority to cancel or waive penalties and interest would generally be used in extraordinary circumstances that were beyond taxpayers' control, but many cases relate to income that was intentionally not reported.

[*English*]

Chapter 7 deals with the process for responding to parliamentary order paper questions. Last February the Governor in Council asked me to audit the answer to a written question on the parliamentary order paper and to assess recent reforms to the process for responding to such questions.

The question concerned the amounts of grants, contributions, contracts, and loan guarantees awarded to companies listed in the blind management agreement of the former Minister of Finance. We found that the government's January 2004 response to the question, which put the amount at \$161 million, was reasonably complete with respect to grants, contributions, and contracts, except that port authorities were not asked to respond—as is consistent with past practice—and the response did not include a loan guarantee of \$10 million.

To assess the government's reforms, we looked at four other questions on the order paper, two asked before the January 2004 reforms were announced and two after. The audit concluded that the responses to all four questions were incomplete.

The right of a member of Parliament to ask questions of the government and the right to hold the government accountable are two fundamental principles of our parliamentary system. We have made recommendations that we hope will improve the system for responding to MPs' questions, especially complex ones.

• (1545)

Chapter 8 contains three audit observations. One is a new issue related to Telefilm Canada. We report that the majority of the activities of Telefilm Canada are not consistent with its act. The remaining two observations contained findings that we have reported on in the past.

The public accounts committee has requested that we continue to bring to Parliament's attention previous observations that have not been resolved. Therefore, we have once again reported on two outstanding unresolved issues: the transfer of Downsview lands and the financing of Downsview Park's future operations, and the surplus in the employment insurance account.

In conclusion, I would note three matters of special importance that I raise for the new Parliament's consideration, and I elaborate on these in the introduction to my report. They are the need to clarify the accountabilities of ministers and senior public servants; the need for greater parliamentary scrutiny of government spending plans; and the need for parliamentarians to follow closely the government's ambitious reforms to transform and strengthen public sector management.

Mr. Chair, that completes my overview of the report. We would be pleased to answer any questions the committee may have.

• (1550)

The Chair: Thank you, Ms. Fraser.

Mr. Fitzpatrick, please, for eight minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Thank you, Madam Fraser.

I want to deal first of all with the parliamentary order paper question and some background on that. It's my understanding that the first response from the government to that request was something in the region of \$130,000, and then subsequently replies came forward that moved the figure rather dramatically up to the amount of \$161 million. You were asked to review the whole process that went on there and determine if they were truly responsive to that kind of request and covered the ground.

I note that you picked out three areas the government didn't really deal with. Any contracts that might have been given through the port authorities, any dealings with Canada Post, and maybe government guarantees would be areas that weren't covered. But I'm curious about whether another area showed up in your review, and that's dealings between a firm called Lansdowne Technologies, which I see as being part of the Prime Minister's family network of businesses and closely affiliated with Canada Steamship. They did, in my view, a fair amount of extensive government procurement work in Ottawa and so on. I'm curious whether that name showed up in your review or not.

Ms. Sheila Fraser: Thank you, Mr. Chair.

Yes, I would perhaps refer the member to an exhibit that is in our report, exhibit 7.5, which is on page 18. It shows that the first response, which was tabled in February 2003, was in effect \$137,000, and then it indicates the amounts that were not taken into account in the first response and the reasons for the differences between \$137,000 and \$161 million. You'll see that a large portion of that difference relates to using different time periods. In fact, the second response covered a longer time period than the first.

Also, if you go down a couple of lines, we indicated that there were contracts given to one of two companies that had been omitted by error from the 2002 public declaration. That was Lansdowne Technologies. That company was omitted from the public declaration through an administrative error, I understand, so those amounts were not included when the first response was done. That was subsequently corrected for the second response, and any amounts for contracts to Lansdowne were included in the second response.

Mr. Brian Fitzpatrick: I'm also curious if your review would also show or indicate if some of the Prime Minister's family of companies would have been involved in subcontracting on main contracts. Would that review identify subcontract work as well?

Ms. Sheila Fraser: It is my understanding that the departments would look at the registers of transactions, and those transactions would be with the primary contractor. I'm not sure they would have a way of knowing who the subcontractors could possibly be or how even to get that information. I think we have to realize that, even in giving this response, there are limitations inherent in systems and complexities in going back ten years in time to try to identify all of these transactions. To ask all government contractors who they have subcontracted with would have been, I think, an almost impossible task, quite frankly.

Mr. Brian Fitzpatrick: It's not uncommon with a main contract with the government for the main contractor to have extensive subcontracts with other organizations.

Ms. Sheila Fraser: That is obviously possible, but I'm not sure that it can be expected that the government would know all of the subcontractors that contractors would have dealt with in the millions of transactions that go on every year with the government.

• (1555)

Mr. Brian Fitzpatrick: It would be a massive investigation to get to the root of that.

Ms. Sheila Fraser: They would have to go back to every contract and ask every contractor who all the subcontractors were over a ten-year period. I think we have to recognize that this would be an enormous undertaking.

Mr. Brian Fitzpatrick: Moving to a different area, the education issues you raised in respect to first nations people, everybody in government would like to see the lives of first nations people improve dramatically in this country. We all identify that maybe a starting base for getting a much higher participation rate and allowing first nations to fully optimize all of the talents they have in Canada would be through education.

I am a little bit dismayed. Maybe I've misinterpreted your report on this, but it looks to me like the gap between first nations young people on our reserves and the population at large is getting larger; it's not getting smaller. Is this a correct analysis or reading of the report?

Ms. Sheila Fraser: That is correct. There are more first nations people today with high school education, and even with post-secondary education, than there have been at any time in the past. But the reality is that this population is also growing very fast, much faster than the Canadian average. When we compared the education gap in this audit with the numbers we had from 2000, when we did the last audit, we found that the time required, given current trends, to close that gap has not improved. In fact it's worsened. It's gone from 27 years to 28 years.

Mr. Brian Fitzpatrick: I'm from the school of thought that if you aren't getting results, the first place you look is the system and you try to fix the system. Quite often I think the approach of government is just to throw more money into a system and expect better results simply by spending more money. That, to me, is a very bad habit of government.

Do you find any attempt by the government here really to fix the system, so we can get some real results on this matter, or is it just making promises? Can you see any systematic changes to the way it is trying to deliver educational services to first nations youth?

Ms. Sheila Fraser: No. In fact, we're quite clear in the report that nothing substantive has changed. The systems are very much the same as they were in 2000.

I don't know that we have the exact numbers. I would suspect that the amount of money has not increased significantly, certainly not in relation to the number of students anyway. We come back to some of the commitments that were made after the 2000 audit, one of which was that there would be a clear enunciation of roles and responsibilities. There is confusion even within the department about what its role is.

The department committed that this would be done by the summer of 2002. We're now in November 2004, and that is not done. That is, we think, an essential first step to being able to move. What is the department's and the government's responsibility in this area? Then you have to put the systems and the information in place. We talk in the report about lack of cost information, lack of performance measures, lack of adequate monitoring.

I would hope that the committee will take interest in this. It is very disappointing to see that so little has been done on commitments that were made to our last audit.

The Chair: Thank you very much, Mr. Fitzpatrick.

Monsieur Sauvageau.

[Translation]

Mr. Benoît Sauvageau (Repentigny, BQ): Good afternoon, Ms. Fraser, and good afternoon to your associates. Thank you for being with us here today.

With your permission, I'll try to describe the philosophical framework of your report. I won't just take one chapter in particular. At the end of that, I'll ask you some questions. Correct me if my perception of your report is incorrect.

As the end of your presentation, you say that one of the three matters of special importance that you submit to us is "the need to clarify the accountabilities of ministers and senior public servants". In Chapter 7, you refer to the quite deficient process used to answer parliamentarians' questions on the Order Paper. In Chapter 1, you address internal audit in the departments and agencies.

When I read all that, I see it still concerns general accountability. When parliamentarians ask questions, they're not getting answers that you consider satisfactory. When Parliament asks questions indirectly, through internal audits, it's not getting sufficiently satisfactory answers. When questions are put to ministers, even senior officials, as you mentioned in your priority matters, parliamentarians and Parliament are not getting satisfactory answers.

Is the gist of your audit report, that there's a widespread accountability problem in this government?

• (1600)

Ms. Sheila Fraser: I don't think I can answer that question. That's not the message we wanted to give.

A number of questions were raised with regard to the application of traditional accountability. Is the tradition that the minister is ultimately responsible and accountable for everything still applicable today? What is the responsibility of officials? Aren't deputy ministers accountable for the administration of their department before a committee? These are questions that a number of academics and persons studying government are asking. Furthermore, the committee heard a number of professors ask these kinds of questions last spring. So people are asking these questions. The government is conducting a study on the issue and it's time for there to be some thinking, a thoughtful debate on the subject, to clarify the issue once and for all.

In Chapter 7, we said that there were problems in management systems. The process for answering questions has been around for a long time, but I don't believe it's been given the attention it deserves. I dare hope that, if the government implements the recommendations we've made, members will have better answers.

As for accountability, I would put greater emphasis on chapters such as the one on the management of drug plans—this is the third time we've raised this issue—and the one on education, which we've raised twice. The departments say they agree and promise to develop and action plan, but, four years later, we see that little has been done. I think that, in the accountability process, departments should be invited to explain to parliamentarians why they haven't done what they promised to do.

Mr. Benoît Sauvageau: All right. Thank you.

In Chapter 1 of your report, you state, on page 11:

The Policy on Internal Audit is silent on this matter, although a Treasury Board Secretariat reference document does not recommend that deputy heads consider appointing suitably qualified external members to audit committees.

That sentence is taken out of context, but by this you mean that this isn't being done, that there are no external members. You've studied six organizations, the Royal Canadian Mounted Police and the Canadian International Development Agency in particular, whose audit committees had no external members.

In the case of the sponsorship scandal at Public Works, the internal audit committee had sounded the alarm, but nothing was subsequently done. You didn't audit all government organizations, but isn't it disturbing that none of the six organizations you audited had any external members on its audit committee? That's six out of six.

Ms. Sheila Fraser: Indeed, but I should point out that Treasury Board has only recently suggested having external members. There really used to be the departments' management committees. Since then the audit has been completed. At CIDA, for example, there's an external member. We can see that there are increasingly external members. Furthermore, the Comptroller General is currently working on a series of policy reforms, and the emphasis will be placed more on the participation of external members in audit committees. It may be a good idea to invite him to come and tell you about the changes he proposes to the policy. We think that's a good way to ensure that internal audit work receives all the attention it deserves, that the recommendations of internal audit committees are implemented and that progress is made in improving management.

● (1605)

Mr. Benoît Sauvageau: Today, if an internal audit committee alerts a deputy minister or minister to a problem situation within the department, is concrete action taken or is the situation the same as it was at the time of your previous report on the Department of Public Works?

Ms. Sheila Fraser: It's hard for me to answer generally. The concern we expressed in this report is that we observed a trend in the departments toward less audit and more consultation. The internal audit service was not conducting audits; instead it was assisting in the context of other functions in a consultation role. So there's was no audit or report. That's what concerned us most.

The Chair: Thank you very much, Mr. Sauvageau.

[English]

Mr. Holland, please, eight minutes.

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Mr. Chair, and thank you, Madam Fraser, for your presentation and for your ongoing work.

I'll start with your conclusion. I put a lot of weight in the three items that you mention at the end. I guess I would take those almost as recommendations for this committee to take as the key items we're going to be dealing with in our work plan. That's something I certainly feel strongly about. I wonder if I could probe them a little bit as time allows.

First of all, I think there probably is—and I think Mr. Sauvageau got into this a little bit in terms of the relationship between the internal auditing process and accountability.... I'll first touch on accountability and then come back to the internal audit.

The Treasury Board, right now, as you've referenced, is preparing a report with respect to governance and accountability to address some of the issues you've raised. I'm wondering at this point, have you had an opportunity beyond your reports to directly input into that process?

Ms. Sheila Fraser: Yes. We have seen drafts of it and we have given our comments to the Treasury Board Secretariat.

Mr. Mark Holland: I don't know whether you want to comment on how you feel that's addressing it.

What I'll get to first is with respect to our committee. We're looking as well at the issue of governance and working on that particular issue. I'm just soliciting your opinion here. Do you think it would behove us to do it? Because we've talked about really two contexts: one context is more global, taking a look at the issue of governance and accountability globally; the other is to take a look at it in a specific example, namely the whole sponsorship issue, and make a report relating to governance in that particular context.

Would you have a feeling in terms of which would be more beneficial for this committee to spend its time on?

Ms. Sheila Fraser: I think the government.... I'm not sure there's a timeline; in fact, I think there isn't one on when it will be coming out with its paper. I don't know if it's going to have recommendations or what it's going to have in its paper. I think it would be worth while for the committee to review that and to see what work it has done, and really to go back to some of the documents.

We had a study that came out in the November 2003 report that was tabled in February. It looked at many of the issues, the lack of clarity on certain terms and the understanding of accountability, answerability, and all of that, and what the roles of public servants are, senior public servants like deputy ministers in particular.

It would be worth while for the committee to hold hearings or to have panel discussions or some forum on that. Perhaps the sponsorship case could be a case study, if you will, to ask how does this apply in a case like that. There are, I would suggest, other audits as well that might also be case studies. I guess it's to show the practicality, and I'm sure the committee has heard testimony that might point to some of the questions of accountability that may need to be clarified.

● (1610)

Mr. Mark Holland: First of all, it's my understanding that the report's coming sometime in the new year. At least when I've asked a question, that's sort of the timeline I've been given, sometime in January, maybe early February.

Do you think it would behove the committee to take a look now at some of the work already existing and some of the work you've done, spend our time on that, wait for the government's report, and then begin those types of discussions after we've had an opportunity to review both of those particular documents?

Ms. Sheila Fraser: I think that would be worth while. The committee has also heard testimony from certain people...Professor Franks was here, and Professor Kernaghan as well. There are several people who have already appeared before this committee—and perhaps even other committees—who have discussed issues in the committee. It would perhaps be worth while to go back over some of that material in preparation for the government paper that's coming.

Mr. Mark Holland: On the issue of internal audit, which was referenced in chapter 1, one of the things you noted in your statement today was that despite additional funding there were still problems. I'm wondering, in light of the fact that funding perhaps hasn't solved it, do you see accountability as the principal problem with respect to internal audits?

You say, for example, that you need to strengthen and professionalize this function throughout the government and that there should be direct reporting to the deputy head, which sort of speaks to accountability. What do you think is the main thing holding back the internal audit function from working effectively?

Ms. Sheila Fraser: We say in the report that where we see strong senior management commitment to and understanding of the role of internal audit, we see successful internal audit functions. I would use the case of the RCMP. The RCMP has a very strong internal audit function, and we note this in the report. We also note that it was created in a very few short years. It was really a commitment by senior management, and a recognition of the importance this role played within the management function.

That's why we say that when we see that the deputy head is committed to internal audit, gives it a priority, then it's successful. It's one of the key elements.

The other element we note, too, is the whole issue of human resources challenges, the level of professional recognition that this function has within government. I don't want to get into discussions of classification, but if they don't have the classification as being auditors, they have a classification as being support. Salary scales are therefore tied to this classification, so they can't compete. The salary scales for auditors are less than those for people in the financial category in government, so it loses people. There needs to be more recognition of the professionalism of that group. It needs to be recognized as a professional group.

There are also difficulties that we noted with the centre of excellence at the Treasury Board Secretariat, who should be, if you will, the kind of base and motor for this function in giving the methodology support, and promoting the excellence of that within government. There's been an enormous turnover in people, a lot of temporary funding in there, and the funding's all been sunseting. There have been a lot of difficulties just in getting a stable function established.

I know that the government is working on a number of reforms or proposals that will be coming in the next few weeks, and I would hope that will give more stability to this function.

Mr. Mark Holland: I appreciate that.

Very quickly, on the voluntary disclosure program and the discrepancies, I'm wondering if you could account for the nature of those discrepancies and what's underpinning that. Is it simply a personnel issue, that as different people are dealing with it they're coming at it from different perspectives? What's accounting for those discrepancies?

Ms. Sheila Fraser: A lot of the resolution of these files is really a question of the judgment of the individual handling them. We recommend clearer guidelines and more training. There should be better guidelines given to these people as to what the rules are.

For example, if somebody comes in to disclose undeclared income, you can go back six years, but you can also go back much further than that. How far back do you go? Some will only go six, some will go further, some will waive. There is a bit of a negotiation in this whole process, obviously, but we saw too much inconsistency generally across the country. People should be treated in a fairer, more equitable manner across the country.

● (1615)

The Chair: Thank you, Mr. Holland.

Mr. Christopherson, please. You have eight minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you, Chair, and thank you, Madam Fraser and gentlemen, for your presentation.

It won't surprise you to know that chapter 5 is an area I wish to comment on. The other day the chair presented to us your report—we did it in camera—and I had a few things to say about that.

Normally when one reacts to something, after you think about it for a little while and talk to people, you can sort of calm down a bit. I have to tell you, I'm just as angry, if not angrier, over this particular chapter, and the reasons are self-evident in your report.

First of all, your report makes the case, as we all know, and you make it right here in today's presentation, that "Education is critical to improving opportunities for individuals and strengthening the socioeconomic situation...", and I'm going to stop there, because you could say that about just about any Canadian, in any part of the country. It applies. I think it's a working assumption for all of us that education is that important, going into the future. In this case, the sentence ends, "of First Nations communities", which we're dealing with specifically. You make the case that it can't be fixed overnight—fair enough; no problem like this can be.

The anger starts to set in when we start dealing with the fact that in 2000 your department did an audit review of Indian and Northern Affairs Canada and determined it was going to take 27 years to close the gap in terms of the percentage and proportion of first nations students who graduate as compared to the rest of the population—27 years. You made a recommendation, a series of recommendations, in an audit report in 2000.

This committee—I suspect still under your chairmanship, Mr. Williams—decided to take that up, given its importance and the centrality of education.

Again, coming back to that, this is serious. And we have a Prime Minister, I might add, who says that first nations issues are one of his top priorities. That should worry people, if this is their idea of dealing with a top priority.

After this committee deals with it, it makes a number of recommendations, and it goes back to the department. My understanding is that the department acknowledges and in fact says, "We accept virtually all the recommendations."

Okay. One of the primary issues you've raised is that they need to state, to codify, put it in writing, enunciation of the roles and responsibilities of the department. In other words, what are you going to do, how are you going to do it, and what do you hope to achieve at the end? Without that, how can you possibly have any idea whether what you're doing is making any bit of difference at all, if you don't even know what it is you're supposed to do, let alone what the outcomes are, so that you can measure whether you're achieving those outcomes?

Fair enough. The department is smart enough not to fight that. They come along and make a commitment that by June 2002—and please correct me if I'm wrong on any point of my facts, Madam Fraser—they will have done this. We now have this report, in November 2004, and it's still not done, and now it's going to take 28 years, instead of 27, for the gap to close.

How serious is the government about dealing with this issue when we have reports like that in front of us that virtually say they don't care?

I'm going to go on, if I can, and point out some of the things that are in the actual report.

In just a quick cursory examination of your report, we can look at page 6, which identifies the things I just spoke about. On page 7 is a subheading of one of the parts of the report: "A large education gap remains", and then there's the information about 2002. On page 11, the subheading reads: "The Department has not yet defined its roles and responsibilities". We go on, and on page 14, subheading of the next part reads: "Appropriate performance and results indicators are still lacking".

This is not the first go-round. We all know that audits find things that are wrong. Fair enough. Nothing is perfect. But to find those mistakes and then do nothing about it is exactly why this committee is here and is exactly why I'm so angry.

The next page states, "The Department still does not have good cost information", and at the bottom of that page, "Issues concerning tuition agreements persist".

This is all in the past tense.

"School evaluations need to be completed", meaning they were supposed to be done before and they aren't. Other subheadings read: "Management and accountability framework is deficient"; "Discrepancies in the information provided to the Treasury Board", and we go on about that; "Parliament is not receiving a complete picture"... It just goes on and on and on, and it's absolutely outrageous.

• (1620)

One of the recommendations coming from the subcommittee is that we bring in representatives from this department and put the questions to them. If the committee accepts that, before they get here, Madam Fraser, I'm willing to listen to any reasonable argument about why these things are in the state they're in and there is so little attention not only to the issues of this department but to commitments that have been made.

If there is anything at all you can say to help me understand how we get into a situation like this, it would sure be helpful, Madam.

Ms. Sheila Fraser: Mr. Chair, I don't have an explanation for that. I think you'll have to ask those questions to the department.

Mr. David Christopherson: Very good.

You know, it says something, when it's a very fair Auditor General.... I've heard you say in response to earlier questions that what one of the members was asking was maybe a little over the top. I think that answer says a lot: there are no answers at this level. It seems to me, Chair—although I'm a rookie on this committee, I'm not a rookie to the notion of public accounts and how they work and what they're meant to do—we're the safety measure. We're the safety net to make sure the things Parliament says government can do, vis-à-vis the expenditures we've approved, they actually do—and do in an efficient way. And when they aren't done, this is the group that hauls them back in before this committee to get some answers.

What we don't want to do is go off on a witch hunt or a fishing expedition or go after people for the sake of throwing weight and power around. This is about accountability, and this report and this chapter are just so blatant that somebody had better be doing a lot of scurrying right now, figuring out what answers are going to come to this committee, because there is going to be hell to pay for the fact that nothing has been done here, and this committee, I would hope, Chair, is going to be the instrument that makes sure this changes.

Thank you.

The Chair: Thank you very much, Mr. Christopherson.

You've heard me say that if the department has a choice between coming here or going to the dentist, they should take the dentist: it should be less painful. With the presence of Mr. Christopherson, whom I welcome to the committee, I think, given the choice between coming here and having your molars pulled, it would be preferable to have your molars pulled.

I do welcome you to the committee, Mr. Christopherson. We are a committee of accountability. We are the people who demand answers on behalf of Canadians, and we are the committee that is supposed to effect change. As you pointed out, sometimes the departments think they can ignore us, so I welcome you here and hope together all of us can effect change. I'm glad you put the departments on notice, and we'll see what happens.

We're now on round two.

Mr. Allison, you have five minutes.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair.

The chapter I'm going to spend some time on is the one on the national initiative to combat money laundering.

The Chair: I'm sorry, you're still on round one: you get eight minutes, Mr. Allison. My apologies.

Mr. Dean Allison: Thank you. I thought that was the case.

I applaud the initiative of the government to look at money laundering and where we are in terms of terrorism and how money flows. My concern with this chapter is the lack, once again, as my colleague mentioned, of accountability, and with what's required.

It's my understanding, from reading the chapter, that over \$140 million has been spent on FINTRAC to try to gather information. Is that correct?

Ms. Sheila Fraser: That's correct.

Mr. Dean Allison: Thank you.

The next thing I understand is that this initiative has actually collected over 10 million pieces of data or information. Is that correct?

• (1625)

Ms. Sheila Fraser: I believe it's 10 million a year. Yes, it's 10 million in the most recent year—10 million transactions.

Mr. Dean Allison: My question is, then, if we're collecting over 10 million pieces of information a year, how many prosecutions have actually resulted since this has been launched?

Ms. Sheila Fraser: There have been no prosecutions to date.

Mr. Dean Allison: So we've spent \$140 million, we collect over 10 million pieces of data every year, and we don't have one prosecution to show for it. Is that correct?

Ms. Sheila Fraser: That is correct.

Mr. Dean Allison: My next question, then, is what exactly are the criteria for performance? What exactly are they? Obviously collecting data is a wonderful thing, but what are the criteria for performance of this organization?

Ms. Sheila Fraser: Mr. Chair, that is one of the issues we raised: that the agency needs to develop better measures for measuring its performance and its effectiveness. But we also raised questions about restrictions on their effectiveness, in that there are restrictions on the information they can share with law enforcement agencies.

If we go back to the broader question of accountability, what is interesting in this act is there is a parliamentary review, which is required within five years of the law coming into force. It has to be done by next July. That will be the opportunity for parliamentarians to look, I hope, at some of the questions we've raised here as well as other questions, to see if the initiative can be made more effective.

Mr. Dean Allison: I also understand in reading the report that there's information that could be contributed to ongoing investigations. But my next question is, how many new leads have actually been established as a result of collecting this data?

Ms. Sheila Fraser: We have the statistics on how many transactions have actually been reported.

Mr. Dean Allison: I know we have the numbers, but as a result of collecting the numbers, how many are there?

Ms. Sheila Fraser: What we report in here from the audit is that the law enforcement agencies indicated to us that because of the restrictions put on the sharing of information they only receive what we call the tombstone data—the specific data around a transaction—but FINTRAC doesn't share with them the context, doesn't tell them why they think a transaction is suspicious. They told us it would be very rare that they would start a new investigation on the basis of the information they receive.

If there is an ongoing investigation, then it might be helpful to them, but it would be very unusual for them to start a new investigation simply on the basis of that information.

Mr. Dean Allison: The next but not the last question is, what exactly are the measurements...? We talked about the fact there really aren't criteria for performance, but what is the measurement they report to Parliament? What is the reporting to Parliament of what is done by this organization?

Ms. Sheila Fraser: I can ask my colleague to respond, but I understand it is pretty much basic data: how many transactions they have they looked at, and those kinds of things.

Perhaps Mr. Zafiriou could offer more information.

Mr. Basil Zafiriou (Principal, Office of the Auditor General of Canada): To this point the reporting is essentially the number of disclosures they've made and operational measures as to the number of MOUs they've signed with other financial intelligence units internationally, and the reports they receive that you just noted. The measures of effectiveness, in terms of the outcomes of these disclosures, are still to come.

Mr. Dean Allison: So we have an organization that has spent \$140 million—which we all agree in principle, I think, we need to look at in terms of trying to establish where we're at with money laundering—we collect over 10 million pieces of information every year, and yet we don't have one prosecution, we don't have any criteria for performance, we have no way of measuring or talking to Parliament about what happens in that case, and we haven't found any new leads. So what exactly is this organization...?

Ms. Sheila Fraser: Mr. Chair, I think we have to be fair. The act came into force less than five years ago. FINTRAC was created from zero. It is up and running; there is an organization that does handle 10 million transactions in a year. I think we have to realize that it is a young organization. Growing pains are inevitable in this area, and prosecutions would take a long time. I don't know if it's reasonable to expect that there would have been prosecutions by this point in time, but I think those are the kinds of questions that should be looked at in the parliamentary review, and in particular the whole restriction on information sharing, which it would appear to us really limits their effectiveness.

• (1630)

Mr. Dean Allison: What is the level of cooperation between, say, the Department of Finance, the Canada Border Services Agency, the RCMP, CSIS, the Department of Justice, the Canada Revenue Agency, as it relates to these kinds of things?

Ms. Sheila Fraser: This is a common issue we have found in many of the audits we have done—I would point to the national security audit we did in April—that there is a problem of coordination and cooperation among all of these agencies in information sharing. I would venture that for many of the law enforcement agencies it is not perhaps within their culture to share information very freely; they tend to keep it to themselves. There has to be much more coordination.

Systems were not designed to communicate well with each other, so you'll see there are backlogs with the Border Services Agency. There are a number of issues with Revenue Canada. They haven't clearly defined which transactions get reported to the revenue agency for possible tax evasion.

So there are a number of issues on coordination and cooperation that have to be resolved to make this effective as well.

Mr. Dean Allison: I have two more questions, and I may only get the first one in here. There seems to be a huge gap in terms of the international standards for the way we look at money laundering that revolve around lawyers and around privacy laws being able to exempt them.

It says right here that the task force recommended that the international standard include the whole issue of lawyers being able to report. Can you comment on why as a country we haven't looked at the international standard?

Ms. Sheila Fraser: The legislation initially included lawyers as being subject to these conditions, but there were legal challenges that were successful that excluded them. It was because of court challenges that they were excluded. We raised this. It is a gap. I know we indicated as well that the Department of Finance is working to try to resolve that.

Mr. Zafiriou might add if they are excluded as well in other countries.

Mr. Basil Zafiriou: I don't know about all the countries, but I know that they had a similar problem in the U.K. but I think it's been resolved. So it is an issue that's shared by other countries.

The Chair: Thank you, Mr. Allison.

Mr. Carr, please. Eight minutes.

Mr. Gary Carr (Halton, Lib.): Thank you very much once again.

In number six you say that to be effective, internal audit requires clear support from senior management. In light of some of the concerns you have with replies not coming back, what is your assessment of the support from senior management? Is it relatively strong, or is it lacking? How would you assess this, senior management support?

Ms. Sheila Fraser: Unfortunately, I can't generalize across government. We looked at six departments and we saw there was varied support in those six departments. But I think we did see in our audit that where there was strong support there was a strong internal audit function.

Mr. Gary Carr: Also, and we talked about this last time, I sat in the public accounts committee in Ontario, as I mentioned, and in Ontario we had an NDP government and the same problems kept coming back, and then under the Conservative government. I wasn't there with the Liberals, but I'm sure it was similar. So it's an ongoing problem on public accounts.

Public accounts duty as representing the legislative branch is to hold the executive branch accountable, and what I said to you when we were in camera is what I thought would be important. It's very frustrating in those days because the public accounts committee—the government members were the NDP and the Conservatives were on there—never called any of the ministries in and they had two or three times when ministries would come back, just like we have here.

I said to you at the time, our function is to.... I think Mr. Christopherson is right: if you have one occasion and there are some problems, that's fine, and maybe two occasions, but by the third time I think it's our function to call in the minister and the deputy and say this is the third time the Auditor General has brought it up, so please kindly explain.

In light of that and in light of the fact that there are a couple of circumstances—and we may not have time to get to all of them, and this may be difficult to try to get you to classify—if you were in our position and you could call one ministry in to ask them to explain why they haven't done the recommendations in your report, which ministry would that be?

• (1635)

Ms. Sheila Fraser: Do you want me to point the finger?

I probably shouldn't be doing this, but I sense a certain frustration myself. I would call in Health Canada.

Mr. Gary Carr: That is helpful, and I appreciate it. I don't mean to put you on the spot, but as a newcomer, I look at it and I ask, which one?

Ms. Sheila Fraser: It's the third time for Health Canada. That's why. And I think DIAND would probably be a close second to that, but those two, to me, are the ones that have had issues raised with them, have committed to take action, and from which we have seen little progress.

Mr. Gary Carr: Thank you very much for your candour. I really appreciate it. I didn't really mean to put you on the spot, but it is very difficult, because it is very frustrating, and I think you may have sensed it. And again, to be fair, it's something that public accounts are dealing with. I don't know if our friends from South Africa deal with it, but I've seen it in Ontario as well. I sat on the public accounts, and we never got to the meat of it.

Having said that, we talk about accountability and changes, but it didn't need any changes to the way we operated. What it really needed was the political will. And, as you know, we're now in a minority situation, which may change that, so there isn't the best of interest.

Having said that, I think the responsibility of the public accounts is that you're legislators first, rather than government members, and it's your responsibility to do that. So we'll see if it does come in.

I don't know if I've left any time. If I did, my colleague—

The Chair: You actually did. You did indicate to me, Mr. Carr, that you were splitting your time with Mr. Tonks, and there's just about four minutes for Mr. Tonks.

By the way, we'll be dealing with the steering committee report, and you may find Health Canada and Indian and Northern Affairs Canada figuring prominently there later on.

Mr. Tonks, four minutes.

Mr. Alan Tonks (York South—Weston, Lib.): Thank you, Mr. Chairman, and thank you to the Auditor General and colleagues for being here.

On the general point with respect to the audit provision, an internal audit not having the time to work on program analysis and management issues, what role do audit committees play in the various departments?

From my experience, they have been a part of the accountability loop that allows for not just internal audit functioning in a reactive way but as a more progressive tool. Perhaps you would like to comment on that, and on whether in your recommendations that

particular mechanism would provide a little bit more substance to the role of the internal audit.

Ms. Sheila Fraser: Audit committees in departments are very important, critically important. They fulfill some key functions. One is, first of all, to review with internal audits their plans for audit, what areas they are looking at, are they picking the areas that are the most important and the highest risk. The plan should be based on a risk approach and they should be focusing their efforts where they think there is the highest risk. The audit committee should be reviewing those plans, assessing how the various subject matters were picked, what level of resources is being put to it, and is the plan actually being done. One of the things we saw in some departments was that the plans weren't being completed and years were going by and the audits weren't being done that the plan had said would be done.

The internal audit committee should give that rigour to the planning and then should also ensure that the reports that come are dealt with, that there are recommendations made that management has an action plan and they should be tracking that action plan to make sure that the implementation is going smoothly and going appropriately. They are really the conscience, if you will, in a way, of the organization to make sure that the internal audit function is able to operate effectively, that it gives it as well a certain independence from the management, and having external members is a way to bring more of that independence to the internal audit function and to show the support for it as well.

Mr. Alan Tonks: My question was going to be on that, but I think this will just be an observation from that answer. It would be interesting to have the Auditor General look at that function and also report to the extent she feels it is very important, the extent that it's actually happening in the various departments.

• (1640)

Ms. Sheila Fraser: What I would suggest, because we've just done this audit, is that we wait to see the reforms the Comptroller General is going to put in place. He has a number of reforms that he wants to bring forward. Then we will go back at some appropriate time in the future to determine if they've actually taken hold.

Mr. Alan Tonks: I have one other question, and it's on that line.

As a case study, let's look at the next one. I was going to look at the one with the federal drug benefit program and so on, but would you outline for the committee—I think this would be interesting, Mr. Chairman—the role the Privy Council Office has in terms of when these kinds of issues emerge? I think that would be interesting for the committee. What is its responsibility to activate the organization, to deal, for example, with the concerns you have raised, let's say with respect to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, where there is a balance between freedom of information and right to privacy and there's an initiative that's required from Parliament.

How, through the Privy Council Office and the Comptroller General, let's say, would it be flagged that remedial action would be required? Who activates that in terms of corrective action?

Ms. Sheila Fraser: I'm not sure that I can really respond to this. It is my understanding that there tends to be a lead department. For example, on money laundering, it's the Department of Finance that would be the one responsible for it.

On the drug benefit programs, one of the difficulties is perhaps there hasn't been enough coordination, and every department has been doing its own thing. That's probably too harsh. Some have worked together collaboratively. But certainly Health Canada has the largest program. It's about three-quarters of the annual spending, so one would expect it to perhaps be the lead department.

I'm not sure that Privy Council would necessarily coordinate. It would look more to the departments that are actually running the programs.

Mr. Alan Tonks: Thank you, Mr. Chairman.

The Chair: That brings to a close round one. As I mentioned at the beginning, I would like to try to wrap this up early.

Mr. Anders has indicated he has some pressing questions he would like to ask, and if anybody who hasn't spoken has some pressing questions, we'll try to get two or three or a few of them in and then we'll wrap this up, because we have to deal with the estimates and we also have to deal with the report of the steering committee.

Mr. Anders first, then Mr. Gagnon.

Mr. Rob Anders (Calgary West, CPC): Thank you, Mr. Chairman.

There are three things I'd like to raise. First, in reading through your report, on page 31, chapter 7, it just strikes me as incredibly strange that the Paul Martin group of companies, Canada Steamship Lines, or the CSL Group, as he listed it here, was subject to a loan guarantee from 1993 to 1996. Then, we also have a secondary mention—and I think my colleague went into this, Mr. Fitzpatrick—with regard to Lansdowne Technologies not being a declared asset. Shocking.

We've already known quite a bit about Mr. Martin and his financial dealings and what not. It's like an onion: it just continues to unravel with all the permutations. Anyhow, it's incredible.

It's something I'll get on the record, just for the sake of it. I don't know how any Liberal candidate could possibly have competed against the Prime Minister for a Liberal leadership race when he was receiving this many millions of dollars from taxpayers.

The Chair: Keep personal comments off the record, Mr. Anders. Questions are to be directed to Ms. Fraser.

Mr. Rob Anders: I understand.

The Chair: And to your understanding of the issues, I don't think comments like that are helpful at the public accounts committee.

Mr. Rob Anders: Understood, Mr. Chairman. It's very frustrating.

The second thing I would like to raise is with regard to Telefilm Canada. The Auditor General has mentioned here that there has been a bill recently introduced to expand Telefilm's mandate.

My guess of what's going on, and I'd like the Auditor General to comment on this, is that because Telefilm was exceeding its

mandate—and your report, I'm sure, would have been written and circulated and sent off to the department a few weeks ago, if not a couple of months ago—this bill that we have had brought to the House by the government in the last few weeks is, in a sense, what many people would call a “cover your keester” exercise. Because Telefilm has been grossly exceeding the mandate provided to them under legislation, they in a sense have just introduced legislation to cover over the multitude of sins that Telefilm Canada was doing in violation of its own mandate. That's the second question.

The third question, just to make sure I get it on the record, is that in the year 2000 this committee heard from Lorraine Stonechild, whose son and brother overdosed and died on prescription drugs. Mrs. Stonechild begged this committee and Health Canada to fix the problem, and now this committee, in a sense, has a responsibility. You've issued a very scathing report, yet we find now, four years later, that nothing has changed at Health Canada. It's interesting you mentioned that if you have to point a finger, that's the department you would point it at. I think this merits it.

In your opinion, why haven't they taken this seriously, when people are killing themselves at taxpayers' expense?

• (1645)

Ms. Sheila Fraser: On the first question, on Bill C-37, let me just clarify the two points that were raised.

First, the contracts of Lansdowne Technologies were omitted from the first response. They were included in the second response. The reason they were omitted from the first response was there was an administrative error and Lansdowne Technologies was dropped off the public declaration of assets in one year. So it had been there, I think, for several years, and for some reason it was dropped inadvertently. Then when the companies were circulated, that company's name did not appear on the list of companies the departments were asked to respond to.

That's why that happened, and that's why we've made a recommendation that the Ethics Commissioner should require the trustee or the managers of these blind trusts and blind management agreements to actually certify. It's not up to the Ethics Commissioner to certify if these are correct, either. That's the first one.

On the question of the guarantee, the guarantee was for a company called Canartic. The majority shareholder was the Government of Canada. CSL had a minority interest in it. It was a \$10 million guarantee that was in existence, I believe, from 1993 to about mid-1994, and there were never any moneys paid under that. It was sort of like co-signing at the bank, but there were never any funds disbursed under that loan guarantee.

On the second question, about Telefilm, I can only make a supposition as to why that bill was introduced, but at the end of the day, what we would hope from audits is that things get corrected and improved. Whatever the reason that mandate is being clarified, all I can say is bravo that it is being clarified.

On the third part, on Health Canada, I think it's much the same answer as I gave to Mr. Christopherson. I don't know why things have not.... I mean, you will hear from the department issues of privacy concerns and trying to get consent letters. They spent a lot of energy and there was a lot of difficulty, I guess, around that exercise. Still, we think there are things that can be done, and we'd be glad to discuss them with you and with the department—things that can be done that would not require consent letters and would not require personal information on patients. There are ways of identifying pharmacists and doctors, and the department has done that in the past.

So I think there are things that can be done that would avoid some of the difficulties the department has had.

The Chair: I think we'll be quite interested in soliciting some real answers from them this time.

[Translation]

Mr. Gagnon, you have five minutes.

Mr. Sébastien Gagnon (Jonquière—Alma, BQ): Thank you.

I want to ask the auditor two questions on the modernization of the F-18s. This comes at the right time because, a few months ago, citizens of my region were on the alert. There was a rumour that the military base where the F-18s were stationed would be closed. Today I see in the report that some problems have been identified, in particular the staff shortage, delays in approvals and deficiencies in risk management and project management. Don't you think that those risks, which are nevertheless significant, could affect the cost-effectiveness of the project itself? We're nevertheless talking about a major \$2.6 billion project.

With your permission, I'll immediately ask you my second question. Don't the problems currently threatening these investment plans prove that it's time National Defence adopted a policy? The reasons why we bought the F-18s in 1980 are no longer the same today. We shouldn't use them in the same way in 2004, particularly since the entire international policy has changed since the events of September 11.

● (1650)

Ms. Sheila Fraser: Indeed, Mr. Chair, one of the most important audit findings is that the first modernization phase was well managed through the efforts of Defence staff, but it is very important that the second phase be very well managed as well. It's anticipated that the second phase will end in 2009, and the economic life of the aircraft will terminate in 2017. The more time is spent modernizing the aircraft, the less time we'll have to recover the investment, which is a big one. We reported a certain number of concerns, such as the shortage of pilots, the shortage of technicians and operating funds. Those problems will have to be overcome if we want it to be a success.

As to defence policy, that's really a policy question, but a number of people say it's necessary to clarify the country's defence policy. One of the questions we've often raised is the discrepancy between the expectations of our military forces and the funding that is allocated to them. We should either increase funding or reassess expectations based on the funding granted.

Mr. Sébastien Gagnon: Thank you. I'm finished, Mr. Chair.

[English]

The Chair: Thank you very much.

That will bring to a close our discussion on the Auditor General's report, which is now before us.

Thank you very much, Ms. Fraser. We do appreciate the work you have done. Perhaps you can convey back to your staff on behalf of the public accounts committee and the Parliament of Canada how much we appreciate the work you do. Sometimes you cause a stir; nonetheless, it is appreciated. We all believe in accountability, and accountability means that people sometimes have to answer for results that are perhaps less than what we had anticipated.

If you want to wait, we will deal with your estimates and find out if you're going to have some money to keep on paying the bills. After that we will suspend for a couple of minutes to switch off the cameras, but we will remain in public.

I understand that at the last meeting we had discussion on the supplementary estimates. I don't think there's need for any more debate. I'll read the points and call the question on the vote.

Pursuant to Standing Order 81(5), we will now proceed to supplementary estimates (A) 2004-05, vote 20a under Finance, referred to the committee on Thursday, November 4, 2004.

FINANCE DEPARTMENT

Auditor General

Vote 20a—Program expenditures\$2,892,000

(Vote 20a agreed to)

The Chair: Shall the chair report vote 20a under Finance to the House?

Some hon. members: Agreed.

The Chair: At this point in time we will suspend the meeting for two minutes. The Auditor General and her staff may retire. We'll continue on as a public meeting without the television.

We are suspended for two minutes.

● (1653)

_____ (Pause) _____

● (1656)

The Chair: We are now going to continue the public meeting without television broadcast.

You have before you the third report of the subcommittee on agenda and procedure for the Standing Committee on Public Accounts. We'll deal with them basically one at a time.

The first is that the draft report on sponsorship prepared by the researcher during the last Parliament be circulated to the committee members for their consideration with a view to tabling the report. What we're talking about is that it be updated a little bit to present it more in the format of a final report. It will have to come to this committee and it will still have to be debated and approved, paragraph by paragraph. This is how we deal with reports anyway. But the committee is thinking that perhaps on the straightforward investigation, we're really not going to go further down that road because of Justice Gomery's inquiry. And while there are many people on the witness list who have not been called, I'm not sure we really want to get back into that.

So we're looking at the idea of bringing that report forward more as a final report than an interim report, and it will be circulated. Is that agreed?

Some hon. members: Agreed.

Mr. Mark Holland: Mr. Chair, very quickly, the only thing that isn't mentioned here that I think is important from the sessions at the steering committee is timing. I know we had stated we wanted to at least come to an agreement on what might be worked on by our researchers before the Christmas break, to conclude our deliberations, and then use that Christmas break as an opportunity for the researchers to draft the report.

The Chair: That's the next point.

The second point is that the committee undertake a study into governance and accountability in the federal public service with an emphasis on ministerial and deputy ministerial accountability.

Again, the idea is we would wrap this up as quickly as we can. If we can get the hearings wrapped up before the Christmas break, then they can work on the report. We can deal with it when we come back in February. Then we would have the report under number one, and the second report, and we could table them both at the same time. That's the concept we were talking about.

With the issue of getting into studying governance, one has to understand the issues. The Auditor General just mentioned a panel discussion. To really understand what was going on we could bring in maybe two panels of people. One would be from the office of the former Minister of Public Works, Mr. Alfonso Gagliano, some of the people who were working there, to tell us about the flavour, the culture, and what was going on in that office, because it was obviously not the way it should have been, and perhaps the same for people who were working around Mr. Guité and the bureaucracy, to say how things were going on there.

Then we could also bring in Mr. John Mitchell, who I first heard of during the orientation for new members. New members may be aware of him if you recall your orientation. He used to be the deputy secretary for the Privy Council on the machinery of governance, an expert. We've had some work by Ned Franks, professor emeritus from Queen's, who some of us may be familiar with, and as the Auditor General mentioned, there's Mr. Patrick Boyer, who's a professor at Guelph University. If we want to go further, we can.

Didn't you have a name? No?

Anyway, the issue is we deal with governance. We take a look at the problem and we take a look at the solutions. We talk about the academics' philosophy of it, and then we write a report. If we can get all of this wrapped up by Christmas we'll be lucky, but we have to work hard.

Mr. Holland, and Mr. Tonks.

● (1700)

Mr. Mark Holland: On further discussion with my colleagues deliberating on the matter, and also after hearing from Madam Fraser, I have a couple of key points.

First, on the notion of the preparation of the report that's currently the interim report, moving toward the point where we'd have that as the final report, and moving through our deliberations, I think that's very achievable by Christmas, or at least I would think it would be if we were aggressive. We could get it to the point where we could then turn it over to the researchers, and they'd have a clear idea of where we'd want to take that document. They would have the time in the break to—

The Chair: It's the other way around—

Mr. Mark Holland: I'm coming to the governance issue—

The Chair: No, the researchers give us the report. We do it, and when we're finished, it's a finished deal.

So we're talking about two reports: the report dealing with number one—

Mr. Mark Holland: Maybe I misunderstand. Would we not take the interim report, deliberate on that interim report, talk about what we feel needs to be added, omitted, or changed in that interim report, and then direct research staff to bring that report back as a final report with our suggestions, comments, additions, amendments, etc.?

The Chair: Well, you're just not going to get this done by Christmastime, because....

How many pages is that report, Brian?

Mr. Brian O'Neal (Committee Researcher): Mr. Chairman, it's certainly in excess of 50 pages.

The Chair: The idea that we can get through that in one meeting, even two, is optimistic.

Mr. Mark Holland: Which I like to be, but nonetheless it may be too optimistic. The only point is, on that specific issue let's agree to that as a work plan and try to deal with it as expeditiously as possible.

On the issue of governance—

The Chair: We agreed yesterday that we'd table them both together, and that's why we're going to have it circulated now. We've made the changes to make it look like a—well—final report rather than an interim report, but you have it. We'll deal with governance and we'll table them both in February, when we come back. That was what we agreed on yesterday.

Mr. Mark Holland: Right, and on the issue of the sponsorship report I'm saying I concur. I still concur; I still think that makes sense.

During further discussion, deliberation, and also questioning of the auditor on the governance item specifically, there were a couple of things that were raised. What I heard the auditor say today is that the committee would do well to look at the information it has, which is there, but it would also do well to take into consideration the report that's going to be tabled by the Treasury Board sometime in mid to late January, perhaps as late as early February, and include that in its deliberations.

I also asked the question of whether it should be global or specifically tied to sponsorship. The answer I think I heard was that it should be global but should perhaps use the example as a case study of sponsorship. Therefore, I certainly concur and I think we all concur on this side with the notion of pursuing governance as long as, first, it's global, and second, it takes into consideration those items I just spoke of. That may mean we can't table the reports concurrently, but I don't think that needs to be a deal-breaker, as it were.

The Chair: No. I think this will evolve. We're all much and such on the same plan. The technicalities and the minor details may have to be tweaked along the way, but the idea is that we shouldn't table the first report on the sponsorship issue in case there are some things that come to light later on in our governance study we may want to bring forward. So let's just let it sit there.

We'll get them both done. We don't have to table them together, but if we do them both in February.... We only have a few meetings left, and if we spend, let's say, two meetings on the report that's already prepared, then it's almost a guarantee we're not going to get the hearings for the other one done by Christmastime, and then it's all delayed. The idea was to get the work done before Christmas, then the researchers would work on the report, and when we came back we'd be right into it, to be as efficient as possible.

Mr. Mark Holland: I have no problem with that.

The next point addresses the issue of the panel. I expressed in the subcommittee some concern; I've refined that concern to some degree, and I think it needs to be flushed out. My concern needs to be expunged, if you will. That is, if we are going to call witnesses to talk about process, procedure, culture, how we can change, and how we can deal with accountability and if we are to use sponsorship as a case study, we have to be very careful we're not calling the same witnesses who have already been called in front of Gomery. Then we would be running the risk of entering into a situation where Gomery would obviously have infinitely more resources and we could be in contradictory or parallel positions, a situation I think we've all wanted to avoid.

I for one don't think we have a concern with the notion of entering into panel discussions with a mind to addressing the global issue of governance, using case studies to get us there, whether on sponsorship or, as the Auditor General suggested, on more than just one particular area. I do think we have to tread extraordinarily carefully when it comes to witnesses who may also be called in front of Gomery. Where possible, we should call witnesses who are not going to be in front of Gomery so we can still get the answers and the information we need but not dip our toe into those rather difficult waters.

● (1705)

The Chair: Yes, we were cognizant of that yesterday, and I do caution all the committee members that we can't be seen in the eyes of the public as trying to confuse the Gomery inquiry, muddy the waters, steal his thunder, or whatever. His task is to find the facts. Our issue is, how did this thing fall off the rails and how are we going to fix the culture and the governance? Now, that is not the mandate of Mr. Gomery. He is not going to go there; he's not going to touch that issue. Only Parliament can touch that issue.

In the springtime it was felt it was an issue of such magnitude that, after the statements by Mr. Gagliano and statements by Mr. Ranald Quail, the deputy minister, who said he wasn't in the loop and how did we expect him to take responsibility for this and so forth, governance came out as a thing that had to be addressed. So this is to address governance. It is not the fact-finding inquiry that is ongoing across the street.

Are we agreed on that?

Mr. Alan Tonks: Mr. Chairman, my name's on the list.

The Chair: Sorry about that, Mr. Tonks. My apologies.

● (1710)

Mr. Alan Tonks: Oh, I'm used to being ignored, Mr. Chairman.

The Chair: No, it was not my intention.

Mr. Alan Tonks: I know it wasn't intentional at all.

Mr. Chairman, I concur exactly with your concept of governance. I sat on, as you know, the public accounts committee when we were going through that, and it always occurred to me that what we talked about and what the Auditor General talked about even today was governance relationships and the systemic breakdown that is the essence of the committee's focus.

I was a little concerned when I heard something you said about understanding the culture in Mr. Gagliano's office. What I believe you should be doing is, for example—and I can only relate to this with the chairman or some members who may have been on the committee.... There was a breakdown in the internal audit provisions. One individual who was working on that indicated there was an audit done in 1995 and nothing happened as a result of some of those particular things. The sponsorship report that's being prepared will probably hone in on that breakdown.

You will recall, Mr. Chairman, there were recommendations dealing with the Treasury Board and the cabinet and the role of the Comptroller General to firm those up. My only suggestion, Mr. Chairman—and I feel like an honorary member of this committee—is that I'd like to know, when I come back from time to time, that you're still seized of the essence of the real issues. I also suggest that when you do go through the sponsorship report, you attempt to look at it in terms of how the system broke down, what the analysis is, and what the prognosis is you want to make in terms of recommendations to make sure those kinds of things don't happen again.

The Chair: That's exactly what the governance aspect is.

Mr. Alan Tonks: But I don't think you have to have those people who had the anecdotal kind of testimony. I don't think they were as relevant as the department heads, the Treasury Board head, the secretariat, and so on. I don't think that adds—

The Chair: Because of the Gomery report, we don't want to bring Mr. Quail back. Well, it's up to the committee as we get into it, but I don't think we would really like to bring Mr. Gagliano back or whatever, because these are issues.... Well, maybe we do, but the idea is, we know what Mr. Quail thought and how he was out of the loop. We know what Mr. Gagliano thought, that he wasn't responsible for anything he did but for himself. We also know that his office and Mr. Guité's office were seriously out of control, if I can use that terminology.

I thought it would be good to try to get a feel for what the bureaucracy was feeling under this situation. A number of them have said they had to do it because their jobs were on the line. From there we can look at governance. Can we just try it and see how it works?

Mr. Fitzpatrick.

Mr. Brian Fitzpatrick: I just wanted to make a suggestion for a person we could get in here on the governance issue. A couple of years ago *The Hill Times* interviewed this gentleman, and he had a lot of things to say about what was going on. If I understand correctly, his name is Gordon Robertson. He was the Clerk of the Privy Council here during the fifties, sixties, and seventies, when the office was different from what it is now. If his health is still good and his mind is as clear as I recall it being when I was reading *The Hill Times* article, I think this individual could have a lot of good, solid recommendations on governance in Ottawa.

The Chair: I don't want to belabour this issue.

Monsieur Sauvageau.

[Translation]

Mr. Benoît Sauvageau: Could we prepare our witness list after accepting their recommendation? For example, when we come to recommendation 2, if we accept it, we'll say what we want to talk about and with whom we want to talk about it.

[English]

The Chair: The staff will work on a work plan. Is the general concept agreeable, that staff will work on a game plan? I'll discuss it with the steering committee and we'll move forward. Agreed?

Some hon. members: Agreed.

The Chair: Recommendation 3 is that the committee move to adopt the supplementary estimates during its meeting of Thursday, November 25—we've done that part—and that the decision to call the President of the Treasury Board regarding the lack of response to the Auditor General's request for temporary funding and for a methodology to deal with permanent funding be made at a later date.

Now, the reason I suggested this was because the dispute with the Auditor General and the Treasury Board is for next year. The supplementary estimates we've just dealt with are for this year, and we shouldn't muddy the water by trying to mix apples and oranges. We've dealt with the estimates, and that's been done. The President of Treasury Board has said to me he wants to meet with me to

resolve this issue and resolve it all privately. Therefore, if it is done in the next few weeks on a private basis, we'll just let it sit. *C'est bon?*

Some hon. members: Agreed.

The Chair: Now, recommendation 4 is that four committee members, one from each party, travel to Brisbane, Australia, to attend the 2005 Australasian Council of Public Accounts Committees, as well as to Canberra, Australia, to further the committee's investigation into accountability and governance within the federal public service, from January 31 to February 9, 2005, and that the necessary staff accompany the committee.

We did receive this invitation to go to the Australasian Council of Public Accounts Committees. They quite often come to ours, and we have attended at least two of theirs. We thought that if we're going all that way, if the committee approves that four people go all that way, we should get value for money by going to Canberra at the same time. That was an addition by us. It's not part of the invitation.

Discussion? No debate? Questions?

Monsieur Sauvageau.

[Translation]

Mr. Benoît Sauvageau: We submitted the idea of preparing a report to the steering committee. So this trip would be preceded by a study, which would be completed by a report that we would submit upon our return. Perhaps it isn't necessary to include this, but I simply wanted to remind people here of it. We were supposed to leave with specific things to observe there and to report to the House on our return.

• (1715)

[English]

The Chair: Yes. That would be normal before any visitation such as this goes. We would have a briefing by the Department of Foreign Affairs. We would have a briefing by the Australian high commission. Therefore, we'd go down there prepared, not unprepared, and of course—mandatory—a report would be prepared on what we found, lessons learned, and so on.

Are we agreed?

Some hon. members: Agreed.

The Chair: Recommendation 5 is that a travel budget of \$109,700 be approved by the committee in relation to the trip to Australia, and that the chair be instructed to present the travel budget to the liaison committee for its consideration at the earliest opportunity. That budget was prepared by the staff and I believe has been circulated.

Mr. Carr.

Mr. Gary Carr: As a rookie, I've heard that talk. Maybe you could just tell me, what does that do, the liaison committee? I don't really know.

The Chair: The liaison committee is a committee comprised of all the chairs of committees, so there are approximately 22 to 24 people. They have a budget that is given by the Board of Internal Economy, which they allocate to the committees for travel, for witnesses, for publication of documents, and for video conferencing. They handle the money part. That's the liaison committee.

Are we agreed?

Some hon. members: Agreed.

The Chair: I'm carrying on. Number 6 is that the committee begin a study into the following chapters of the November 2004 report of the Auditor General: chapter 1, "Internal Audit in Departments and Agencies", as part of its study of governance; chapter 4, "Manage-

ment of Federal Drug Benefit Programs"; and chapter 5, "Indian and Northern Affairs Canada—Education Program and Post-Secondary Student Support". We'll get to that as quickly as we can.

As the Auditor General pointed out, Health Canada and Indian and Northern Affairs Canada were her choices. She agreed with us and we agreed with her, whatever way it works, and we added internal audit as well.

Are we agreed?

Some hon. members: Agreed.

The Chair: Ladies and gentlemen, there being no further business, the meeting is adjourned.

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