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—
Chair

The Honourable Shawn Murphy

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• (1100)

[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): I'd like to call the meeting to order.

Welcome. *Bienvenu à tous.*

Today, colleagues, we have before us the Auditor General. She is accompanied by Lyn Sachs, the Assistant Auditor General. Welcome, Ms. Fraser. Welcome, Ms. Sachs.

We are reviewing the estimates, the departmental performance report, and the office's report on plans and priorities.

If I may, just before we hear from the Auditor General, as we all know, the public accounts committee is that committee of the House of Commons that provides oversight of all government spending. In other words, we ensure for Parliament, and through Parliament the Canadian people, that all government spending has been done with regard to economy and efficiency and is in compliance with all laws, regulations, and policy directives. In fulfilling our mandate we rely very heavily on the work of the Office of the Auditor General and the staff who work there. There wouldn't be a week that goes by that the Auditor General is not before this committee.

In addition, colleagues, the public accounts committee also provides oversight of the Office of the Auditor General itself. In other words, it's our job to ensure that the budget and the moneys allocated to the Office of the Auditor General are spent economically, efficiently, and again in compliance with all governmental laws, regulations, and policy directives. Each year we meet with the Auditor General at around this point in time to review and examine her office's departmental performance report—in other words, that report to Parliament on how the office has spent its allocations, how it functions, and how it has met its objectives. In addition, we review the office's report on plans and priorities and how it looks to fulfill its mandate in the upcoming year, or sometimes three years. Also, we approve its estimates, the moneys allocated by Parliament to operate the Office of the Auditor General.

Having said those opening remarks, I want to again welcome Ms. Sachs and Ms. Fraser.

Ms. Fraser, I understand you have some opening remarks. I will turn the floor over to you.

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

We are pleased to be here today. We would like to thank you for giving us the opportunity to discuss our 2006-07 performance report and our 2008-09 report on plans and priorities.

As you mentioned, I'm accompanied today by Lyn Sachs, Assistant Auditor General, who is responsible for our corporate services.

Each year we are privileged to contribute to Parliament's oversight of government spending and performance with the objective information, advice, and assurance that result from the audits we conduct. As you know, we conduct three types of audit: financial audits, special examinations of crown corporations, and performance audits. All our audit work is conducted in accordance with the standards set by the Canadian Institute of Chartered Accountants. Our work is guided by a rigorous methodology and quality management framework and is subject to internal practice reviews and external reviews by peers. All of this provides assurance that you can rely on the quality of our work.

• (1105)

[Translation]

During the 2006-2007 fiscal year, the period covered by our most recent performance report, we used \$77.8 million of the \$78.6 million in appropriations available to us and employed the equivalent of 610 full-time employees. Our net cost of operations—taking into account services provided without charge by other departments and other smaller adjustments—was \$88.1 million.

Using these resources, the Office provided Parliament with 30 performance audits of federal departments and agencies; provided territorial legislatures with two performance audits on territorial matters; provided more than 120 financial audit reports to financial oversight bodies—including those of the Government of Canada, crown corporations, the three territorial governments, and to international organizations; provided four special examinations of crown corporations to their boards of directors; assessed the performance reports of three federal government agencies; assessed the actions of 21 federal organizations in implementing selected commitments from their 2001 and 2004 sustainable development strategies; and monitored 37 environmental petitions.

Our 2006-2007 performance report contains a number of indicators of what the impact of our work is and what our performance measures are. The tables containing our targets and actual performance for these measures are attached to the statement.

In the 2006-2007 fiscal year, performance highlights included the following:

Parliamentary committees reviewed 63% of our performance audit reports—a significant increase from the previous two years. We participated in 64 committee hearings and briefings over the course of the 130 parliamentary sitting days, a record number for our office.

Departments reported they had fully implemented 46% and had substantially implemented 26% of the performance audit recommendations made in the reports we tabled four years ago.

When we surveyed users of our reports, 94% indicated that our findings were reported in a fair and objective manner and that our reports were clear and concise.

This was the first year that we surveyed members of select parliamentary committees on their assessment of our work. We would like to thank you for your responses and are pleased that so many of you found our reports to be valuable.

The indicators however reveal that we need to improve our performance in terms of budget versus actual cost of audits. We are taking a number of steps to improve the way in which we establish budgets and the management of individual audits.

[English]

Our 2008-09 report on plans and priorities has just been tabled in the House of Commons. Appendix II to this statement provides you with an updated list of our planned performance audits and special examinations for the coming years. Let me take a moment and draw your attention to our priorities for this year.

For a number of years to come, we will face challenges related to the core of our auditing and accounting practices. Recent decisions by standards-setting boards of the Canadian Institute of Chartered Accountants to adopt international standards on auditing in 2010 and international financial reporting standards in 2011 represent changes on a scale that is unprecedented in our profession in Canada.

We will need to determine how the changes in auditing standards will affect the way we conduct audits and what impact the changes in financial reporting standards will have on the financial statements of the entities we audit. We will need to adjust our methodology to take these changes into account, to train our staff, and to ensure that our audit tools continue to help us do our work efficiently.

To respond to these challenges, the office is developing a multi-year plan that will prepare us to carry out our work in this new environment.

In that regard, I am pleased to inform the committee that I have been designated as the official representative of the International Organization of Supreme Audit Institutions, known as INTOSAI, to the International Public Sector Accounting Standards Board of the International Federation of Accountants. I have also been named as the chair of INTOSAI's professional standards subcommittee on accounting and reporting.

While I am very pleased to accept these positions, I do regret that they will cause me to be absent more often than usual.

●(1110)

[Translation]

We will continue to work to sustain our most precious asset—our staff. I am pleased that our office has been selected as one of Canada's top 100 employers and one of Canada's top 10 family-friendly employers for 2008. We hope to build on this success to retain and attract qualified employees. We are dedicating resources to ensure that effective recruitment and retention plans are in place. We are also focusing on compensation issues and on providing our staff with greater access to a variety of challenging opportunities.

The ongoing retirement of a significant percentage of our staff means that, like other organizations throughout the public sector, we face the loss of corporate memory.

In our 2008-2009 report on plans and priorities, in addition to these priorities, we also noted a concern that we want to address this year. Presently, management and other policies that government central agencies issue apply to officers of Parliament in the same way they apply to government departments and agencies. This is a concern to us and other officers of Parliament. It does not recognize the independence of officers of Parliament and the management autonomy needed to protect our independence.

For example, these government policies often provide a role for ministers or central agencies in the management and oversight of departments and agencies that are inappropriate for officers of Parliament. We are working with government officials to resolve the matter.

[English]

As most of you are probably already aware, we have recently announced the appointment of Mr. Scott Vaughan as the new Commissioner of the Environment and Sustainable Development. Mr. Vaughan is an environmental economist who has more than 20 years of experience working on environmental and sustainable development issues for international organizations, such as the Organization of the American States, the North American Commission for Environmental Cooperation, and the United Nations Environment Programme. He will be joining the office on May 5, and I look forward to presenting him to the committee at a future hearing.

Finally, Mr. Chair, today you're being asked to approve our estimates for the 2008-09 fiscal year.

We are seeking an additional \$1.2 million to become the sole auditor for VIA Rail—for both its financial audits and special examinations, as the result of a recent order in council—and to undertake the audit of the International Labour Organization. It should be noted that we will recover the costs of the latter audit. This amount of \$1.2 million also includes the technical adjustment of \$700,000 required to cover the cost of the employee benefit plan for increases to our staff over a number of years. A table summarizing the request is provided in appendix III to this statement.

We appeared before the panel on the oversight and funding of officers of Parliament in November 2007. The panel unanimously recommended the approval of this additional funding to the Treasury Board.

In conclusion, Mr. Chair, my staff and I appreciate your ongoing interest in and support for our work, and we look forward to continuing to assist you in holding the government to account for its use of public funds.

That completes my opening statement. We would be most pleased to answer any questions that committee members might have.

Thank you, Mr. Chair.

The Chair: Thank you very much, Ms. Fraser. *Merci beaucoup.*

We're now going to start the first round of seven minutes each with Mr. Wrzesnewskyj.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): Thank you, Mr. Chair, and thank you, Madam Fraser, for appearing before the committee.

I thought I'd use this opportunity to thank you for the work your office does. Without your reports and your office, we certainly could not hold the government to account. It is especially encouraging in paragraph 17 of your statement that notwithstanding the challenges all government offices seem to be facing with regard to staff retirement and replacing that staff, you've been noted to be one of Canada's top 100 employers and a family friendly employer.

But our role is not to laud here. Our role is to hold offices to account, and I would like to zero in on a couple of problematic areas. The first is crown corporations and the special investigations of crown corporations that were done. I understand that only one out of four of the special investigations were delivered on time. That's problem number one.

I also note that in the last six years, the cost has gone from \$3.8 million to \$7.7 million. So the cost of doing these special investigations has more than doubled, and zero percent, or none of them, actually met their budgeted number of hours.

Can you explain what problems your office is having with these special investigations of crown corporations? I think it would also be helpful to use specific examples.

• (1115)

Ms. Sheila Fraser: Let me start by explaining that special examinations of crown corporations are required under the Financial Administration Act. A crown corporation has to undergo this review every five years, and we have to give an opinion as to whether the systems and practices of the crown corporation ensure that its operations are managed efficiently and effectively and that assets are safeguarded.

Until very recently, reports of these special examinations were provided to the boards of directors and there was no requirement that they be tabled in Parliament or made public. In Budget 2004, the government indicated its intention to require that they be made public. That is still not a requirement, but the crowns are complying voluntarily.

I am sure that members will be interested to know that in the report we will be tabling next week, we will be giving a summary of special examinations over the last five years, but also publishing these summaries of specific special examinations that we have done during the last two years. That, we expect to do every year, to provide parliamentarians with this information on the crowns.

Mr. Borys Wrzesnewskyj: So what you're telling us is that in two weeks' time, besides the actual reports, we'll receive the information on the budgeting for these special investigations, because your costs have more than doubled in doing these investigations.

Ms. Sheila Fraser: If I could just continue, we will be providing the summaries of the results of those special examinations.

Our costs have increased for a number of reasons. First, the number of crowns has increased. The number of special examinations that we are doing has increased. There are several new crowns—for example, CATSA is a relatively new one that we have just completed about a year ago. As well, in the legislation in 2005, there were a number of crown corporations that had been exempt from having special examinations that now have to have them done—I believe there were another seven. As well, we are joint auditors of Canada Post, so we are now undertaking a special examination of Canada Post. As well, the complexity of some of these crowns has increased quite significantly.

Mr. Borys Wrzesnewskyj: Thank you.

Especially in mind of what you just said, that the number of audits is increasing, these are crown corporations, and we should be recovering those costs of audits from them. That's just a quick suggestion, because I'd like to move on to another problematic area.

I'll just note quickly that in paragraph 22 you're saying you're seeking an additional \$1.2 million. You gave two examples. One of the two examples was VIA Rail, and the second was an audit of the ILO, the International Labour Organization, but you note that you will recover those costs. So I'm not quite sure why you're seeking additional moneys to audit when you in fact will be recovering those audit costs.

But let me move on, because I've been told—

• (1120)

The Chair: You should allow an answer to your question.

Mr. Borys Wrzesnewskyj: I was hoping I could just put a couple of questions in a row.

Ms. Sheila Fraser: Well, I already have a couple of questions that I haven't answered.

The member brought up earlier the fact that we had not respected deadlines for special examinations. That is very troubling to us, and I can assure you that the results will be much improved this year. We are actually planning, in all of the special examinations, to finish six months before the statutory deadline.

On budgets, I think we were actually far too aggressive in setting some of those. We need to go back and be more realistic about budgets, though there are some special examinations and some audits that get into issues that we had not foreseen and become much more difficult and require more time.

On the recovery, we do charge for all the audits we do for United Nations agencies, but all those revenues go into the consolidated revenue fund. We do not have re-spending authority. So because it goes into the consolidated revenue fund, we need to have an appropriation to have that money come to the office.

Mr. Borys Wrzesnewskyj: I'm being told I can ask a brief question.

Last fall, there was a very problematic headline in the *Ottawa Citizen*. It said, "Audit catches auditor general shirking rules; Internal review finds Treasury Board guidelines on expense claims not followed".

In the text of the article, it said:

...meal-allowance limits were not always being respected, social events were possibly being paid for by taxpayers outside of government policy and documented pre-approval of expenses of more than \$5,000 was not being obtained, as specified in Treasury Board policy.

I understand that this particular internal audit was not posted. Could you tell us what has been done to rectify this situation and whether this particular internal audit on hospitality could be tabled with our committee?

Ms. Sheila Fraser: Mr. Chair, I will check, but I believe it is posted. It should be posted. All of our internal audits are posted on our website. If it's not, I can assure you it will be immediately, and I would be more than pleased to provide a copy to the committee.

One of the issues raised in that internal audit refers to the point I was making about the application to agents of Parliament of certain Treasury Board policies, which we believe is inappropriate. One of the examples is that in government, a minister has to approve all hospitality expenditures over \$5,000. The office, as the auditor of government, has always taken the position that a minister should not be approving expenditures within our office. The largest expenditures we have are, for example, lock-ups around the tabling of our reports, staff training, and those types of issues. We believe it would be totally inappropriate for a minister to have the authority to influence whether or not that expenditure occurred.

That's one of the issues being raised.

To my mind, there is no expenditure on social events that is not appropriate. Obviously, when we have conferences or people are out of town, we have to pay for meals. But beyond that, there is none of that.

All that has been reviewed and dealt with. The rules have been, I would say, reinforced by our internal finance people. But to us, having a minister approve hospitality expenses in our office is inappropriate.

Mr. Borys Wrzesnewskyj: Thank you.

The Chair: Thank you, Mr. Wrzesnewskyj. Thank you, Ms. Fraser.

Monsieur Laforest, seven minutes.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chairman.

Good morning, Ms. Fraser and Ms. Sachs.

First, Ms. Fraser, I congratulate you on your nomination. This is basically a tribute to the quality of your work and, in some way, it is an international tribute. I think that we can count ourselves lucky, at the very least, for having a competent person like yourself.

During the past year, we spoke of accrual accounting and of the implementation of a harmonization process among the departments and the government in order to adopt accrual accounting, which is something you have been asking for for several years. Meetings were held with Treasury Board. You attended one of those meetings and you expressed the desire that the Office of the Auditor General of Canada be an active partner in this process, at the very least.

Regarding budget priorities for the coming year, have you anticipated anything or do you think that this will not necessarily lead to any additional costs? How will you integrate this?

• (1125)

Ms. Sheila Fraser: This issue has to do with parliamentary appropriations. The government's accounting and financial statements are formulated according to the principles of accrual accounting. The same applies to the supplementary estimates. However, parliamentary appropriations are always calculated following the cash accounting method rather than the accrual accounting method.

We worked together with a subcommittee consisting of representatives from this committee along with representatives from another committee. We shared our concerns regarding the government's approach. The government recently gave an answer that indicates that it does not seem to want to adopt the accrual accounting method for parliamentary appropriations.

Of course, we will be monitoring this issue very closely. We will continue voicing our opinion and perhaps we will even include it in our observations on public accounts and other matters. However, we do not feel that this is a very exhaustive task or that it requires extra funds. It is part of our daily work.

Mr. Jean-Yves Laforest: This is a part of our job, this concept is already included.

When you audit various departments, you can see what works and what does not work. You often raise the issue of strategic planning; you say that it needs more work. Strategic planning has not been integrated with the other data in certain departments.

Does your office use a form of strategic planning that takes into account the various constraints that you have to face? You spoke of human resources, as I noted. Do your findings with regard to other resources help you to improve or to develop better plans?

Ms. Sheila Fraser: Yes, we have a strategic plan that we update every year. Of course, as I said, the world is constantly changing. Accounting and auditing standards are changing and will change substantially over the coming years, and this will affect us quite strongly. Human resources also present challenges. We set our yearly priorities on an annual basis. Of course, such priorities can often span several years. In addition, we have a specific plan for human resource recruitment, and for retaining personnel. This plan extends about five years into the future, to keep track of the turnover, because we know that at this time many people are about to go into retirement.

Mr. Jean-Yves Laforest: Another topic that often comes up, when we hear you speaking or when some of your assistants come to see us, is the whole issue of implementation. I am referring to the fact that you often carry out an audit in a department that has already been audited during the previous years, perhaps four or five years in the past, and often we notice that recommendations were made but absolutely nothing was done to follow them. The departments give the answer that they agree with the recommendations, but ultimately, nothing gets done.

Do you think that, very generally, the government should take some steps to remedy this? Do you think that it should have more stringent measures? If so, from whom could they originate? Would they be the outcome of a legislative process, or would it involve giving more power to the Auditor General? I think that these problems arise again and again.

• (1130)

Ms. Sheila Fraser: The entire issue has to do with priorities and with the resources allocated to them. Often, the issue is with resources. I can also say that priorities change. With a turnover of personnel at the upper levels which has been quite high during the past years, it often seems that there is no thread of continuity for the ongoing activities. Some things remain unfinished while new things are undertaken.

Mr. Jean-Yves Laforest: Do you find this situation frustrating? I am convinced that since you have been in your position, you have already made recommendations and audits only to note subsequently that nothing was done. Does not this make you feel helpless and frustrated? You say things that everyone agrees with, but ultimately, nothing ever changes. No, I would be exaggerating if I said that nothing ever changes.

Ms. Sheila Fraser: Perhaps I am more optimistic because I see that things are changing. As I look at the way in which the recommendations are implemented either fully or substantially, I consider that nearly 75% of them are being followed. Of course there are certain elements that I would like to see completed, but we do see that the departments are responding to us. This may sometimes take a bit longer than we would like, but there are certain departments—I will not hide the fact—that are not moving ahead very quickly. Often this has to do with the attention paid to these matters by upper management. It would also be due to a lack of resources.

Mr. Jean-Yves Laforest: Thank you.

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

Thank you very much, Ms. Fraser.

[English]

Mr. Sweet, you have seven minutes.

Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC): Thank you very much, Mr. Chairman.

Welcome, Madam Fraser and Madam Sachs. It's great to see you both here, and of course it's always a pleasure to be able to sample your work.

I just have a few questions, and I'll just go to your opening remarks.

You mentioned, in point number 4, that your work is guided by rigorous methodology and a quality management framework, and it is subject to internal practice reviews and external reviews. When was the last external review?

Ms. Sheila Fraser: Our last external review of our performance audit practice was the report released in early 2004. We do have reviews by the provincial institutes of chartered accountants on the financial audit practice almost every year, because we are accredited to have students for the various professional accounting organizations. But the last one was in 2004, and we're actually preparing.... I would like to have an external peer review done before the end of my term, which would not be practice-specific—up until now it's been financial audit or performance audit—and it would cover the whole office. So we are working to get that under way.

Mr. David Sweet: That was going to be my next question, so that's good.

Will that review be of the same magnitude and complexity that your departmental performance audits are on other departments?

Ms. Sheila Fraser: Essentially. What has happened in the past when we had the review done of both the financial audit practice and the performance audit practice is that the teams of auditors reviewed our quality management framework to assess if it was adequate and complete, and then they assessed if it was actually operating as intended.

So it would be the same kind of thing, yes. But this time it will be broader, because it will cover all the practice areas, and it could get into more of the issues, like human resources or finance or those kinds of issues as well.

Mr. David Sweet: Okay. On the same subject but going to a different document to talk about it, on pages 26 and 27 of your performance audit—congratulations, by the way, on your quality management framework, that it is working—I would be delinquent if I didn't ask you this question. There were three internal audits that were slated and then cancelled. What was the reasoning behind that?

Ms. Sheila Fraser: It was a question of resourcing. The priority goes to reports to Parliament, and when we have staff turnover or people leave, other things have to be cancelled in order to complete the audit work we have scheduled.

Mr. David Sweet: Okay.

I was going to ask you a different question, but now that you've answered in that way.... Again in your opening remarks you were talking about substantial changes that are going to be required in order to meet international standards, and you already have quite a full slate.

You've asked simply for \$1.5 million. I take it you've taken it into account, but it concerns me—and a quick look at \$1.5 million alone, when there's already been a couple of other issues discussed where there's a lack of resources—that you may find yourself running tight again.

• (1135)

Ms. Sheila Fraser: I should remind the committee that last year we did ask for additional funding in order to increase what we call our professional practices group, which is methodology and quality review. We have staffed up that group and are actually still in the process of increasing the staffing in that area.

The other thing we have to do is, of course, wait to see what the impact of all of this is going to be. It's not affecting us right now. We have begun discussions with some of the national firms and are considering going out for a request for proposal to have a strategic alliance with one of the national firms that would provide us with training in methodology development, because quite honestly, we're too small to do it all ourselves. That is in the works and will be under consideration this year. That will be a major initiative. That is, if you will, for the auditing standards.

The accounting standards that are coming in are going to involve our staff, but are really much more of an effort on the part of the crown corporations, who are going to have to adopt all of this. We have already begun information sessions with them to try to sensitize them to the fact that they have to be moving on this quite quickly.

I do see that we will be needing additional resources going forward. There is another initiative, too, that is going to begin this year—it's very small—and that is audited departmental financial statements.

There will be a pilot this year. If all goes well, that department will be audited and an opinion will be issued next year. But we see the number ramping up quite significantly. So what we want to do is get a sense of it this year to be able to better assess what this will entail from us, and then we will come back with I think a more reasoned and articulate request for additional funding for that.

Mr. David Sweet: Okay. Does your department do the surveying on follow-up for departments in implementing your recommendations? Is it staff in your office who do that?

Ms. Sheila Fraser: We actually ask the departments to indicate to us what they have done, and then our departmental audit team assesses that for reasonableness, but we don't go out and audit, for example, if those responses are correct. We use the information we have, either from our follow-up audits or from just the knowledge of the department as to how they're going about that.

Mr. David Sweet: Do you ask them directly from your department, or is it a paper survey? When you're asking them about the value of your audit for their purposes, do you do that directly? Do you have a third party do that?

Ms. Sheila Fraser: We do that directly, though that is a specific group in the office. The responses come to me directly.

Mr. David Sweet: Have you ever had a third party do it, just to audit whether there would be a significant difference between having an independent organization asking the questions compared to having your office do it?

Ms. Sheila Fraser: I would certainly be glad to look at that. We haven't done that yet, but we could certainly consider doing that.

Mr. David Sweet: I'm just wondering if their responses might be somewhat different if we—

Ms. Sheila Fraser: The responses are not always positive, as you can imagine. Departments can be pretty blunt in their assessment of our work at times—

Mr. David Sweet: I can't imagine.

Ms. Sheila Fraser: —so I don't know that it would be very different.

We, of course, use an outside firm to do the surveys of parliamentarians, because we think we need to have that objective, independent person doing that review, but for the departments and all the crown corporations, we do it internally. But that's something we could consider for sure.

Mr. David Sweet: Thank you.

The Chair: Thank you, Mr. Sweet.

Mr. Christopherson, you have seven minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Chair.

Thank you very much, Auditor and Assistant Auditor. For the record, let me just say that I, as the NDP representative, continue to respect and support you, as does our caucus. You do an excellent job, and as opposition members we need the tools that you provide us. I think there's a good relationship there, and I just want to compliment you again on the work you do. I think you're serving Parliament and Canadians well.

Having said that, let's look at where we can make some improvements. I note in your opening statements that you said, "Departments reported they had fully implemented 46 percent and had substantially implemented 26 percent of the performance audit recommendations". That means that 54 percent haven't been fully implemented, and over a quarter have not even been substantially implemented. I have to tell you, Auditor General, that's not a good number. I don't find that over half failing at what we've set out to do is anything to brag about.

I know that this committee, for the first time in the history of Parliament, has taken the initiative to put in place an accounting procedure whereby we now have staff people report back to us over a period of time on who is making gains and recommendations and who isn't and why not. In the past, as you know, those recommendations were made and they just went out there into the darkness, and they might or might not—and probably not—come back ever to be seen again.

So we both have an interest in ensuring that we have a better uptake, but I don't see this as anything to say that we're there. So in light of this failure on both our parts, where half the recommendations have not been fully implemented, what else do you think we can do? Or are you expecting that our new tracking mechanism and some changes you've made are going to give us some results in the next couple of years? We really can't go around continuing to pretend that half a failure is anything to be happy with.

• (1140)

Ms. Sheila Fraser: I agree, Mr. Chair, that the number should be much higher. I must admit I was a little disappointed, because the Treasury Board Secretariat at one point did a whole analysis or supposedly conducted a review as to why the numbers were not higher. We never saw a copy of that review, nor, I believe, did this committee.

Yes, it's in part our responsibility and in part the responsibility of the committee, but it really is up to government to be asking, if they agree with these recommendations, why departments aren't doing them. I would have expected the Treasury Board Secretariat, quite frankly, to have been more active in that.

I am hopeful, going forward with the introduction of departmental audit committees with independent external people on them, that they will also be tasked with looking at implementation of recommendations and following up with departments. That too might bring more focus to this. But to be quite honest, there are some departments that are very difficult, which do not put recommendations into practice, even though they have agreed to do so.

We have tried, at least in one of our audits, to focus on why some recommendations are put into practice and others are not. In many cases, it's simply senior management's attention. It can also be resources and changing priorities.

I guess I'm at a bit of a loss to say what more we can actually do. We are going to try to work very closely with the departmental audit committees to raise this as an issue and to ensure that they do the follow-up that we would expect.

Mr. David Christopherson: Good.

I know certainly this makeup of the committee is determined that the number is going to go up. You go to all that work, we spend all that taxpayers' money, we do all that work, and we hold all the hearings. I think we do some good, non-partisan work here. We have our moments, but mostly we try to be non-partisan. And then nothing happens. So I'll remain positive that we'll get there, but it's going to be a continuing challenge.

Chair, could I ask the clerk to make a note that at the appropriate time I'd like to make a motion that we request that particular Treasury Board report that the Auditor General referred to? That will come up at the end.

Next, congratulations on being the official representative—I love the name of this organization—of the International Organization of Supreme Audit Institutions. You would be their representative to the International Public Sector Accounting Standards Board of the International Federation of Accountants. Wow. It's a good thing you don't have to wear that on a re-election button, let me tell you. And then, further, you've been named as another chair, and I won't get

into that acronym. But you do acknowledge that you'll be away a little bit as a result of that, which twigs my question.

Number one, I'm pleased you're there. I think that's important, not so much for you personally, although that's a part of it, but more importantly Canada needs to be there. How we interact with the world is different from the rest of the world in terms of our needs because of our geography, our economy, and the fact that we have people from virtually everywhere on the planet. And Canada tries to be seen as a country that is helpful to the world in terms of developing civil society, etc., so I'm big on our being there. We need to be out in the world, if Canada is going to be as successful as it can be.

Having said that and having served at three orders of government, I do know that from time to time senior managers join so many provincial, national, and international organizations that their main job starts to become a smaller and smaller part of the work they do; they're out there doing great, grandiose things, but they're not ambassadors, and they've sort of become that.

You have a unique position in that there is no one individual you report to, being an officer of Parliament. May I have your thoughts not on you personally but on how we gauge this, as the accountable body to the person in your position? And I would extend this even to deputies and senior managers, although they have ministers responsible. But what kinds of criteria do you think there should be in terms of how a senior person like yourself divides up their time between their main responsibilities and some of these more external ones, recognizing that as politicians we do that all the time, too, as we're delegates to various bodies? What are your thoughts on that, please?

• (1145)

Ms. Sheila Fraser: I can only speak for myself and the office. And certainly any activity that we undertake internationally, or even within Canada, has to clearly align with our international strategy. We have developed an international strategy—

Mr. David Christopherson: I'm sorry, when you say “our international strategy”, do you mean of your department or the country?

Ms. Sheila Fraser: The office. Obviously certain elements of that are related to the policies of the government. When we decide to bid on an audit of an agency of the United Nations, for example, that is clearly done in agreement with, and actually often at the suggestion of, Foreign Affairs. We do not go off and do this on our own.

So we have different components to our international strategy. One is to assist Canada's efforts in building governance structures abroad, and on a very limited basis we will do that. For example, we are helping in a project that CIDA is undertaking to establish an auditor general in Mali. I actually had some of our communications people there just a week ago to help them. But those tend to be fairly small, limited activities.

The other big activities would be the UN audits. We are down now to one, whereas we have had two in the past.

And then we have as a strategic objective to be involved in standard-setting, given the importance of international standards to us. So that is why I went onto that board and why we have people involved in standard-setting within Canada.

That's pretty much it, except, for example, INTOSAI, which has a congress every three years, or the Commonwealth auditors general, who have a congress every three years. Other than those, that's pretty much it.

It has to be directly related to the work. I cannot accept to be on boards or organizations outside Canada without going through the Ethics Commissioner, and I can tell you, quite frankly, I don't have the time to do it. So it's very strictly limited to that.

Mr. David Christopherson: Great. Thank you.

Thank you, Chair.

The Chair: Thank you, Mr. Christopherson, and thank you, Ms. Fraser.

I want to deal with Mr. Christopherson's request before I forget it. It's a motion from Mr. Christopherson requesting from the Treasury Board Secretariat their review report of departmental implementation of the Auditor General's recommendations.

This was moved by Mr. Christopherson. I assume everyone is in agreement with it. I'll put it to a vote.

(Motion agreed to)

The Chair: Thank you very much.

Mr. Holland is next, for seven minutes.

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Mr. Chair.

Thank you, Madam Fraser, for appearing before the committee again.

I want to start with this notion that there's a failing grade. I want to go into those numbers. You have 26% that were significantly implemented, which is a decrease and a concern, and you had 46% of the recommendations that were fully implemented, so 72% of the recommendations were either fully implemented or implemented to a significant degree.

You had mentioned through questioning, and I think rightly, that departments don't always agree with your recommendations. I know that in previous appearances at committee you have acknowledged that you have recommendations that may or may not be agreed with, and that there may be ways of explaining why they disagree with your recommendations that are legitimate.

I think what gets this committee upset are agencies or departments that come before us having agreed with your recommendations, but not having done anything when they come back. Those are the ones I'm concerned with.

If we take a look at that number to see more specifically those that say the auditor is completely right and they have to do these things and they have to engage it, how many are we dealing with that aren't following even their own agreement with your recommendation that

change needs to occur? How do we go after those? They are the ones that frustrate us, to be really honest about it.

● (1150)

Ms. Sheila Fraser: Could I clarify? The statistics are for recommendations with which departments agreed.

Mr. Mark Holland: I'm sorry...?

Ms. Sheila Fraser: They are recommendations with which departments agreed. We would not expect a department to implement a recommendation with which they didn't agree. The basis of this is to say how many have been implemented or substantially implemented four years after the recommendation was made.

Over the past four years we have all become much more rigorous in asking departments, when they agree, to produce an action plan, to be specific about how they're going to deal with the recommendations, and to say who is responsible for it and what the timeline is. With some of those changes and with the committee also doing the follow-up and tracking, I am hopeful we will see an improvement over time.

I think we have to recognize that we'll never be 100%. It's impossible for it to be 100%, but I would like to see the percentage actually implemented go up. I find that 46% is too low.

Mr. Mark Holland: Of that 72%, you can understand the 26%. Although a decrease of 9% is a concern, some of them have significantly implemented them.

How many have not implemented anything at all? I didn't see that statistic. Are there any? Over that four-year period, what percentage of those that agreed with your recommendations didn't do anything?

Ms. Sheila Fraser: I don't know if we actually know about "didn't do anything". We say "neither fully nor substantially".

Mr. Mark Holland: Let's say it's nearly nothing.

Ms. Sheila Fraser: It's about 25%.

Mr. Mark Holland: About 25% may have done something, but it may have been cosmetic or small.

Ms. Sheila Fraser: Yes.

Mr. Mark Holland: You're right in saying we can't expect 100%, but I certainly think we should be able to expect all the agencies or departments that agree with your recommendations to be on the path to meeting their own commitments. To have 25% of them not doing so is deeply concerning.

Aside from bringing them back and asking them tough questions and presumably and hopefully embarrassing them by their lack of action, what do you think needs to be done by committee, by yourself, or by Parliament to hold people to a different standard? While we can't expect 100% to have fully implemented recommendations, we should expect 100% to be well on the path to implementing what they accepted as your recommendations.

Ms. Sheila Fraser: I agree. As I mentioned, I would hope that these departmental audit committees would help to focus attention on it.

The government as well, I think, or perhaps central agencies, will have to assume more responsibility on doing the tracking and why some are.... There actually are probably a few areas that are more problematic than others. Honestly, I think in some cases it's a question of senior management attention. It's also a question of resources. I don't think we can completely ignore that. That comes back to government policy decisions about which departments are going to get funding and which aren't, which issues are going to get attention and which aren't. Those decisions and priorities change over time.

Perhaps we can try to give more analysis to the committee when we do our departmental performance report this year on which areas are perhaps more problematic. I would rather do it in broader strokes, because I hesitate to point to specific departments. At times there's maybe only one audit, and that's maybe not representative of the progress they're making in a number of areas. But I think there are a couple of areas we can see where progress is not as good as we would like.

Mr. Mark Holland: I would agree with your assessment that, generally speaking, the issue would be with the management team within a department not paying adequate or sufficient attention to the recommendations you made and they accepted, and they promised to fix. You didn't mention anything in there about maybe what we would do with that management team.

If somebody makes a commitment to undertake to make the changes that obviously you deemed important enough to write a report about and they deemed important enough to say, yes, it's a problem and we're going to fix it, and they don't do anything, should there not be a consequence to that? Do you feel there should be some consequence to that if the problem rests with the management team and with their lack of will to move forward?

• (1155)

Ms. Sheila Fraser: Often the question is more complex than simply that. Obviously it's the attention the management team gives, but we have to understand that they may have been given other priorities. Have they been given sufficient resources to be able to resolve the issue that is before them? That's perhaps a question, when we do our follow-up audits and we come before the committee, the members might want to ask them: did you have enough resources to fix this issue, and what other priorities did you have?

I mean, we have seen it in some cases that there were other priorities that came—

Mr. Mark Holland: That's fair. I guess the point I'm getting at is that certainly, if there are legitimate reasons, one wouldn't hold that against the management team. It's just that there are those occasions—admittedly rare, not the rule but the exception—when it's just extremely frustrating, I'm sure as much for you as for the committee, to see individuals come in who've completely ignored it. They haven't taken any action. If you don't have a cause-and-effect relationship, it's hard to see how it's going to change.

My last question—I realize that time is running short—has to do with something within the supplementary information of the performance report. It lists the performance audits that were completed in 2006 and 2007. It notes that five performance audits

were cancelled. I didn't immediately see why those audits were cancelled.

More generally, what would be some of the reasons why a performance audit, once undertaken, would be cancelled?

Ms. Sheila Fraser: You have to recognize that even in the list we gave you today, these are, in some cases, broad areas that we want to look at. We haven't gone down into the actual scoping of the audit. At times we decide, when we actually do more detailed work, that it's not an area we should look at; we should perhaps be looking at another area. We will change the focus of the audit. It may be the same department or it could actually be another department. Or the timing may not be right; there may be legislative changes coming, or regulations that are going to change, or changes within the department. Any of these could make the timing of the audit not appropriate.

Quite honestly, at times there can be issues with resourcing. We have the skills to do it at a point in time, when initially we planned it, but those people may have left the office, or we may be rebuilding a team. Or we may decide that we are going to shift resources from one area to another area given that something has happened.

Obviously we try to stay as close to these plans as we can, but at times two committee requests will come up. We'll say, yes, we should be doing more work in this area, and we'll move a team from one area to another. The plans will change. Even the list of audits that we are presenting here today—I'm not guaranteeing that those will all be done within the timeframe we've put forward.

The Chair: Thank you, Mr. Holland.

Thank you, Ms. Fraser.

Mr. Fitzpatrick, for seven minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Good morning.

I'm going to try to get into how you pick your special projects. I was looking through some of the special projects, and one that I was looking for but it wasn't there was the CMHC and the mortgage insurance side of things in Canada. I think we're all quite aware that when the train wrecks happen in the economy, we find out whether or not systems work. The U.S. has no end of problems right now with their equivalents, their Fanny Maes, and so on.

I know that even though the housing market has been fairly stable in central and eastern Canada, out west I can vouch for the fact that housing has gone up dramatically, almost on a scale equivalent to some markets in the U.S., with 50% increases in one year, and so on.

Maybe you could comment on why something like this wasn't included as a special project, and maybe you could comment on the process you employ to determine what projects you will study.

• (1200)

Ms. Sheila Fraser: I'd be glad to.

We would cover the specific issue you raised with regard to the Canada Mortgage and Housing Corporation in the special examination of that crown corporation. You will see in the list that we gave you that a special examination is now under way, and we will be reporting on that within the next year. So we will certainly look at that issue in the context of the special examination of that crown corporation.

Mr. Brian Fitzpatrick: Do you have any idea when that will come out?

Ms. Sheila Fraser: I believe we have to table that one by.... I can find out and give it to you.

Hon. Mauril Bélanger (Ottawa—Vanier, Lib.): May 2009.

Ms. Sheila Fraser: So that will be coming forward and will be made public sometime next year, and we will be reporting to Parliament on the results of that probably in the spring of 2010.

But for departments and agencies, we go through a risk-based approach to try to determine the major risks to the department or agency accomplishing its mandate. We also do that on cross-cutting issues, be they human resources, IT management, or information management, etc.

The other day we were actually doing one on the Department of Finance and OSFI and the whole financial regulatory system, asking, what are the biggest risks in there and how do we audit those risks? Then we develop a plan over five years, and we have to sit down after that and ask, how many can we actually do in a year? What skills do we have, and how do we stagger them, depending on our resourcing?

That's generally how we pick the audits we do. There are, of course, the committee requests that come in, which we assess and try to accommodate to the extent we can.

Mr. Brian Fitzpatrick: Another area I'm interested in is the status of the crown corporations in the picture. I'm sure you've explained this before, but I'm the type of person to whom you may have to explain things two or three times before they register. In a more simplified world, to me, crown corporations are simply agents of government with a mandate to carry out government mandates or policies. In that sense, as a member of Parliament, I view them very much in the same light I view any agency or department, in terms of accountability and knowing what's going on, and so on.

I guess the question I'm asking you is, are you happy at this stage with the degree of accountability and control that government has over crown corporations?

Ms. Sheila Fraser: That's actually not an issue that we have had particular concerns about, given the governance structure that's been established for crown corporations, which is different from that of departments, in that corporations have a board of directors. We have done a number of audits over the years on the governance of crown corporations, talking about how boards are selected, for example, how the presidents and CEOs are named, and about the corporate plans that are presented to government. We did have an issue with the special examination reports that were not made public and not presented to Parliament, which was addressed in the budget of 2004.

So there will be more information coming to this committee, certainly, about the special examinations of crown corporations—

and we can talk about that, obviously, next week. But I think it would be a good idea perhaps for crowns to have more hearings before Parliament—

Mr. Brian Fitzpatrick: Right.

Ms. Sheila Fraser: —and that parliamentarians be better informed about their operations. They are very, very significant, both in terms of their financial impact and their public policy impact.

Mr. Brian Fitzpatrick: Right. It's rather strange when you have crown corporations that are publicly in dispute with government. You kind of wonder, if you're an ordinary citizen, who's in control. It's probably more complicated than that, but it's still an odd observation to have them publicly feuding over who should be in charge of things. I think Parliament should ultimately be in charge, not crown corporations.

You have something in the order of 600-plus employees. I think a lot of folks across the country would probably figure that everybody in your department is a chartered accountant. I know that isn't correct. Can you give us an idea of the array of personnel you have in your department, the expertise that's in the Auditor General's office?

● (1205)

Ms. Sheila Fraser: With pleasure.

We have about 450 people who are audit staff. Roughly half of those are professional accountants, so they're chartered accountants, CGAs, or CMAs. The other half must have at least a master's degree, so we have people who have master's degrees in public administration, in economics, in sociology, in environmental sciences—the whole gamut. We will also go out and get people as required. At one point, when we were doing a lot of work in health, we actually had a doctor on staff working with us.

In our support group, we include people such as Lyn, who will have responsibility for our finance, human resources, and IT shops. We also have legal services, knowledge management, communications, parliamentary liaison, and all our professional practices training—I hope I'm not missing anybody. In those groups as well, of course, a lot will be people who have come from the audit side and have moved in, or people who have the specific expertise needed for that particular service.

Mr. Brian Fitzpatrick: Thank you.

The Chair: Ms. Fraser, I have a few areas I want to cover.

First of all, I'm going to be asking this committee within the next hour to vote on the recommendation to go to Parliament on the main estimates, which will recommend an appropriation of \$72,239,000, plus statutory admissions of \$9,620,000, which is a slight increase over the previous year, probably less than inflation. In your opinion, are those sufficient resources to operate your office for the 2008-09 year?

Ms. Sheila Fraser: Yes. We are very comfortable with that level of resources.

The Chair: The other area I want to cover off is that in previous appearances before this committee at this time of year—I believe it was the last one—there was an issue regarding labour relations and a dispute between your office and Treasury Board. I guess the word “uncomfortable” would be the term I'd use. Has that been resolved? I don't see it mentioned this year.

Ms. Sheila Fraser: Actually, Lyn and I had a very good meeting with the Secretary of the Treasury Board and his assistant secretary responsible for labour relations to try to clarify the process. The committee may recall that we believed we had a mandate. We did our negotiation, arrived in agreement with the unions, had to go back to have it all approved by the Treasury Board, and they did not want to approve it; it was delayed for a year before it finally got resolved. We've had two cases, I think, where we had to go to mediation, and in fact the employees ended up getting more than what we had settled for, which seemed to me wasn't a very good process. Anyway, the employees were happy.

I think we have reached an understanding of how the process will work. We are about to begin negotiations. I can perhaps ask Lyn to provide a little more commentary on where we actually are with all of that.

Ms. Lyn Sachs (Assistant Auditor General, Office of the Auditor General of Canada): We have worked closely with Treasury Board over the last six months following that meeting to ensure that we were clear on their role and our role. We are now just finalizing our mandate—smoothly, I expect—and will negotiate within the next 30 days, ideally, with our unions for a fairly complex restructuring that I think everybody will be happy with.

The Chair: The third area is more in the nature of a comment than a question. I just want to pass on that I've reviewed the report on plans and priorities and the departmental performance reports, especially in the area of human resources and your turnover rate of 14%.

I know you operate in a brutally competitive environment. There's a North American shortage of designated accounting professionals. That's reflected in turnover, and it's reflected in wage rates. I think if you asked the CEOs of the four or five major accounting firms, they'd say they don't enjoy those figures, and I'd say you're the envy of the accounting profession. So I do want to congratulate you and senior management in this very difficult environment, which I don't think will get any better for a whole host of reasons. Not only that, you're getting competition from within government—

Ms. Sheila Fraser: Absolutely.

The Chair: —because of the internal audit increases we're seeing in all departments and crown agencies. I just want to congratulate you in that regard.

Ms. Sheila Fraser: Thank you.

The Chair: There is another area on which I just want clarification. There was a legislative change a year and a half ago that gave your office authority to go in and audit money that was transferred to third-party organizations. Have you ever used that legislative authority, and do you see yourself using it?

• (1210)

Ms. Sheila Fraser: There were two changes, actually. There was an initial change that allowed us to go into organizations that have received more than \$100 million over five years to perform performance audits, largely to address our concerns about the foundations that had been established by government. We have now audited two or three of the foundations, and hopefully we'll complete the larger ones over the next couple of years.

There was then a subsequent change to expand that legislation to any recipient of a grant, contribution, or loan of over a million dollars over five years. We indicated at the time to government that we were not seeking that authority, that we did not think it appropriate for us to be out auditing individual recipients, that it was really up to the departments or the crown corporations involved to make sure they were doing that, and that we would look at the systems and practices. So we have not gone to any third party outside of government except for the foundations.

The Chair: There is a last point I want to raise with you, Mrs. Fraser. You talked about the international accounting and auditing standards that you see changing and having a dramatic effect on your office. One issue that I have—and I've raised it before, and you probably know where I'm coming from—is the domestic Canadian standards set by the Public Sector Accounting Board regarding the intergovernmental transfers of moneys from the Government of Canada to provincial and territorial governments.

We have a situation—and we're seeing it much more these days—in which the Government of Canada will transfer moneys to provincial governments with absolutely no legislative accountability about how it has to be spent. We've seen it in the Environmental Trust Fund, the communities trust fund that was done a couple of months ago, the infrastructure funds. Funds are transferred to provincial governments with absolutely no strings attached to their being spent on those issues that were voted by Parliament, debated, and/or allocations made on that basis.

I know for a fact that it's not being spent in those particular areas, but you're giving to Parliament an opinion that it is being spent on that basis, and the provincial auditors are in turn giving the very same opinion, that everything is above board and there are no concerns. To me, as a parliamentarian, this is totally contrary to my view of parliamentary government democracy and the Westminster system, so I have a concern with it. Maybe I'm wrong—and I know there's kind of a dispute or fight within the Public Sector Accounting Board—but as chair of this committee, I look at it and I just shake my head. Why is this going on?

Do you have any comment?

Ms. Sheila Fraser: I have a comment with two elements. We share the concern about the lack of clarity, I think, over some of these transfers. People may think there are conditions attached to them when there may not be. So we have a report actually coming—you'll see at the end of the list—in November of this year, which is a study of federal government transfers, including certainly all the major transfers, to indicate to Parliament whether there are conditions or not. Then it will be up to Parliament, of course, to decide if it wishes to put conditions in when it votes for these transfers.

The second issue revolves around the accounting for this. The federal government, if there are no conditions when that transfer is made, records the transfer as an expense. The issue has been in the recipient provinces. There is a debate going on now because some of the provinces are actually spreading out these revenues over several years. The debate is as to why, if there is no condition, they wouldn't be recording it as revenue all in the year they receive it. This is a project that has been going on I think for four or five years now. There is great debate in the community. There's a lot of debate, particularly from governments and preparers of financial statements who do not want to see this money come in as revenue, for a number of reasons. There's balanced budget legislation that it could affect. There will be a lot of variability in their finances, but there's a great resistance in the community to this. I'm hopeful it can get resolved, but we may have to wait until there's actually an international standard on all this before it is resolved here in Canada.

The Chair: My only final comment is that with the present system, the accounting treatment does not reflect the true economic nature of the transactions going on.

• (1215)

Ms. Sheila Fraser: That's true.

The Chair: Okay. We'll go to the second round, colleagues, for five minutes.

Mr. Bélanger.

[*Translation*]

Hon. Mauril Bélanger: Ms. Fraser and Ms. Sachs, good afternoon.

In the performance report, the Welch & Company auditor declared that the financial statements, on the whole, faithfully reflect the financial situation, etc.

Ms. Fraser, I think that it is a regular occurrence that an auditor also sends the client a letter which is not a part of the financial statements. Was it the case here? Did the auditor send a letter with observations addressed to the client in a non-public way?

Mme Sheila Fraser: I know that we received some in the past, but not last year.

Hon. Mauril Bélanger: Very well.

When you received these documents in the past, were they public documents?

Ms. Sheila Fraser: No, they were not public at the time.

Hon. Mauril Bélanger: If I made an application pursuant to the Access to Information Act, would I get it?

Ms. Sheila Fraser: I have no objection to that. At the time, we were not subject to the Access to Information Act. We did not provide that kind of information. However, if a parliamentarian or anyone else wants to obtain it, I have no objection to that.

Hon. Mauril Bélanger: This year, there was none.

Ms. Sheila Fraser: There was none for the fiscal year that ended on March 31, 2007.

Hon. Mauril Bélanger: Thank you.

[*English*]

In the estimates, part III, page 23, you list your planned special examinations. This is the list for 2008-09, yet you have one shown for 2010. Is that a typo, or are you anticipating more than two years ahead of time?

Ms. Sheila Fraser: No. As I said, we were not very good about meeting statutory deadlines, so we are working very hard to move some to six months earlier. One of the other things we've tried to do is schedule them so that we balance out the workload. We had a lot of special examinations that came at the same time. So if the crown agreed, we would move some earlier.

The Canada Council, for example, is 2010. This is new. This is one of the crowns that were previously exempt, and now have to have one. So we've been trying to move them earlier so that we can balance out our workload.

Hon. Mauril Bélanger: I have limited time, so I hesitate to tackle complex matters, but I'll tackle one and perhaps come back to this.

You mentioned in your opening remarks, and I find it in part III, the matter of preserving the independence of officers of Parliament. That is a very serious matter. You say in here that you've provided Treasury Board Secretariat with five working principles that you believe would guide the application of government policies to officers of Parliament.

Have these working principles been shared with the committee before?

Ms. Sheila Fraser: No, I believe they were shared with the panel on funding and oversight of the officers of Parliament.

Hon. Mauril Bélanger: Do they all apply to funding?

Ms. Sheila Fraser: It's not only funding; it's administrative policies as well.

Hon. Mauril Bélanger: Would you be prepared to share that document with this committee?

Ms. Sheila Fraser: Absolutely.

Hon. Mauril Bélanger: I think that's very important.

Would you also keep us advised periodically of the progress of your discussions with the Treasury Board Secretariat in terms of the acceptance and application of these principles?

Ms. Sheila Fraser: I would be glad to do that.

I will just let you know briefly that what we have done is gone through all of the policies to determine which aspects—it's not necessarily the whole policy, because there could be specific aspects of the policy—are most problematic. We're doing this on behalf of all the officers of Parliament. So it's a working group of all the officers.

We have identified I think about 20 or 25 policies that we believe are more problematic. What we are doing is discussing with the Treasury Board Secretariat what the issue is, why we think it's a problem, and what we propose as an alternative. It could be more public disclosure. There are different ways of doing it.

So those discussions have begun.

Hon. Mauril Bélanger: Are you keeping parliamentarians involved with those discussions? We have a keen interest in this.

[*Translation*]

Obviously, we are interested.

[*English*]

Ms. Sheila Fraser: I would be glad to. We have been largely working with the panel on funding and oversight, so that's where we've been doing this. But I can certainly give this committee regular updates and share that information with the committee. I'd be pleased to do so.

● (1220)

Hon. Mauril Bélanger: I hope they'll have a chance to come back.

I heard some bells here. Am I allowed to continue?

The Chair: You're out of time, Mr. Bélanger.

Hon. Mauril Bélanger: I wish I'd had as much time as the chair.

The Chair: It's the chair's prerogative. We can go back to you if your colleagues let you.

Monsieur Petit.

[*Translation*]

Mr. Daniel Petit (Charlesbourg—Haute-Saint-Charles, CPC): Thank you, Mr. Chairman.

Good afternoon, Madam.

As the Auditor General, you have a role that I could describe as a policing role. I do not want to use this term, but in the public eye, you are a person who is in charge of surveillance.

I understood the explanations regarding the requested supplementary estimates. This does entail an extra load of work, special mandates, etc. In my riding, people are wondering about this. You're asking for more than a million dollars, but I do not even know if that amount will allow you to carry out all your mandates. One mandate that I find most interesting is the study of federal transfer payments to provinces and territories.

I am from Quebec, and this is a very sensitive issue. As soon as you raise it, people look at you with their eyes wide open as if to say "What are you doing here?" People think that these billions of dollars are now in our hands and that you have nothing more to do with that money.

In November 2008, would you be able to launch a study on federal transfer payments? This would be a very large file.

Ms. Sheila Fraser: We'll simply indicate the largest transfer payments and see whether any conditions are attached to them. We will simply describe the payments and give the amounts. We will not be specifying how the payments are allocated to the provinces or in other ways. Nor do we ask the province to account for the way it spent the money. We are giving this information to Parliament simply because many parliamentarians, when they see the title of a transfer payment...

For example, transfers were made to the provinces for medical apparatus, but ultimately, they were not obliged to use the transfers for that purpose. We want to inform Parliament of the transfers and tell it whether or not any conditions are attached to them. This is more or less what it comes to.

Mr. Daniel Petit: If I understand correctly, you will explain the transfers and say whether or not any federal conditions are attached to them, but you will not go so far as to see whether the provinces really used—

Ms. Sheila Fraser: No.

Mr. Daniel Petit: The people in my riding asked me to put another question to you.

Many people see the government offering money to foreign countries through CIDA. An audit planned for November 2009 is entitled "Assistance to Targeted Countries—Canadian International Development Agency". We suppose that everything is all right and that the study will have to do with the funds.

When the people in my riding find out that \$300 million are being given to a certain agency, it always raises some eyebrows. Are you going to look into this?

Ms. Sheila Fraser: We will study the assistance that is provided, the way in which decisions are made and the accountability process. We will make sure that the rules are being followed, and so on. We will not look at all the CIDA assistance programs, but we will target the largest ones.

Mr. Daniel Petit: Regarding assistance to targeted countries, are you intending to audit all the programs or only certain sectors?

● (1225)

Ms. Sheila Fraser: It is up to us to decide on the scope of the audit. CIDA has not been audited for the past four years. Of course, assistance to targeted countries is a very large file. We will certainly choose a few countries, probably the largest ones, and see how the programs are being managed.

Mr. Daniel Petit: I have one last question for you. Does this look anything at all like the study that you will be doing on transfer payments? You will verify to see whether the transfer was sent to the intended country. Will you also verify whether—and you can guess what my question will be—the transferred money went to the right places? Now we are talking about a third party, and not about the provinces.

Ms. Sheila Fraser: Transfers to the provinces are the subject of what we call a study. So it is simply to provide information. The other study, the one on CIDA, is an audit. We will be auditing whether or not CIDA respected all of its policies and how it knows whether it attained its objectives. This is an audit.

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

Mr. Gaudet.

Mr. Roger Gaudet (Montcalm, BQ): Thank you, Mr. Chairman.

Thank you, Ms. Fraser, for your impartiality, and in particular, your lack of partisanship.

My question follows on my colleague's line of questioning. Who asked you to audit the transfers? Was this your decision or were you asked to do so by the government?

Ms. Sheila Fraser: It came from us. Because of some confusion that we observed regarding the conditions of certain transfers, we felt it appropriate to clarify whether or not there were any conditions tied to the transfers. The decision really came from us.

Mr. Roger Gaudet: Thank you.

Why change accounting standards? I was a mayor at the municipal level in a former life and accounting standards were changed. I have always wondered why. I am sure that you will answer this question honestly. I thought that this was done to give more work to the accountants so that they could invoice us for more. I don't know. Community organizations have accounting standards and therefore you just about need a certified accountant in order to do the calculations for a small community organization. I would like to know why you change the standards.

Ms. Sheila Fraser: The purpose of the big change is to harmonize our standards with international ones. It is really to accommodate capital markets so that there is international uniformity in the presentation of financial statements. At one point we wanted to harmonize our standards with those of the United States. Now people are realizing that we have to go even farther. There really are boards that set international standards. That is why we are changing our standards. Many countries in Europe are already doing so. England has done this, and most of the countries are slowly going about doing this.

Mr. Roger Gaudet: This is just an observation that I wanted to make. In Quebec, every time there's a change in government, accounting standards are changed. Everyone complains and no one understands anything any more. My question is simple. Will we experience the same thing?

Ms. Sheila Fraser: I hope that, in time, we will have better information. It is clear that it may be more comparable with other countries.

Mr. Roger Gaudet: When departments fail to follow up on your recommendations, do you have any authority, or can you take any action? Can you address the House of Commons and explain which department has not followed up on your recommendations? What authority do you have in this area?

Ms. Sheila Fraser: We have the authority to make recommendations. We are authorized to follow up on these recommendations, which we do every year. We choose to undertake a certain number of

audits and then we do follow-up to determine whether or not the recommendations have been implemented. That is all.

Mr. Roger Gaudet: I know in the municipal world, when our accountant made recommendations in private, if they were not followed up by the following year, the RMC mayors were reminded about them and reminded that they should be implemented, if not they were going to have their fingers rapped by the government or another agency.

In your case, you're not able to meet the government or the committee and say that such and such a department—we won't name any names—is disregarding the recommendations. Why make recommendations if you cannot follow up on them? There's a problem there.

• (1230)

Ms. Sheila Fraser: We can do a follow-up and we submit a report every year describing the follow-up we have done for a certain number of audits. This report is naturally submitted to the committee. I would say that we have all become more rigorous in following up on the audits. We also expect that the department will prepare a detailed action plan indicating how it will implement the recommendations. As I mentioned earlier, I have every hope the departmental audit committees will also make a contribution in order to obtain better results.

Mr. Roger Gaudet: Since you are accountable to the House of Commons, and not the government, would it not be desirable to have you come back to the House of Commons in order to report on the recommendations that had not been implemented? I am not saying that they need to be implemented entirely, but there must be, from year to year, at least some improvement in the implementation of your recommendations. If you have been making the same recommendations for the past five years, or if 60% of the recommendations never change, that is indicative of a problem within the department. That is my concern.

Ms. Sheila Fraser: The problem we have is that we do not do an audit every year in some departments. Nor do we always study the same issue every year. It is a bit difficult to verify whether a recommendation has been implemented because we do not know what their other priorities, etc., were. We wanted the government to ensure that the follow-up would be done and be able to be accountable for the department's performance.

Mr. Roger Gaudet: Thank you, Ms. Fraser.

The Chair: Thank you.

Do you have another question?

Mr. Jean-Yves Laforest: Ms. Fraser, I would like to go back to the question raised by Mr. Petit earlier. He wanted to know if you would be verifying whether or not the transfer money was well spent. Without going that far, I would also like to ask you whether you will be conducting this audit. Is the money transferred for programs, or is it used in a sector where a province can spend the money under a program in which it has already invested? Sometimes that can look like a refund for money that has already been invested by a province in a program.

Ms. Sheila Fraser: First of all, we do not audit transfers to provinces, because each province has its own legislative auditor. If there are conditions tied to this transfer—and depending on those conditions—we could ask the federal department how it verifies whether or not these conditions have been met. Nevertheless, we will not be going into a province to do this. We would ask the department what it does to provide follow-up. Our work is always tied to the department and the federal government.

Mr. Jean-Yves Laforest: You assess the relevance of a federal transfer.

Thank you, Mr. Chairman.

[*English*]

The Chair: Merci, Monsieur Laforest.

Mr. Lake, you have five minutes.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you.

Thanks, Madam Fraser, for coming today. It's always a pleasure to have you here.

I want to start by following up on what Mr. Holland was asking about. He was talking about the 46% fully implemented and the 25% substantially implemented. Do you track the 28% that are not implemented, in terms of the reasons given for not implementing?

Ms. Sheila Fraser: No, we haven't. We know which ones they are. We obviously have a database of all the recommendations. We go back when we do our follow-up audits, because we know that some of those will follow in our follow-up audits, where we are judging the progress as not satisfactory.

We don't always go into the reasons why. We have done it in one particular case. When we did a pretty extensive follow-up in the Department of Indian and Northern Affairs, we tried to determine why some recommendations were put into practice and others weren't.

Mr. Mike Lake: It would seem that there would be a big difference between someone not following up a recommendation because they didn't agree with it and their not following it up because they're just not doing their jobs.

Ms. Sheila Fraser: In all of these cases where we are following up recommendations, it is because the department has said they have agreed. I guess one could ask the question whether they really agreed. It's easier to say you agree at the time than to say you don't agree.

We are certainly trying to work more closely with departments to discuss recommendations earlier on in the process as well, to make sure they are recommendations that they feel are doable and that they believe will address the question. I would not be honest if I were to say that there aren't recommendations with which government says they agree when probably fundamentally they don't.

● (1235)

Mr. Mike Lake: Right.

Do you ever take a look at the recommendations you have made retrospectively and assess almost a measure of the quality of the recommendations? Do you have a process for that?

Ms. Sheila Fraser: Yes. We had a fair bit of work done about a year and a half or two years ago, because we realized that a part of the issue might be the recommendations themselves. If they are not clear enough, specific enough, or are too general, maybe too sweeping, how can you actually ever implement something like that?

We gave more guidance to the teams as to how they should write the recommendations. That is when we said, too, that we have to start at the time.... It used to be almost at the very end of the audit that we would be working on the recommendations. We said the teams have to move the issue up, and work much more closely with senior management as well in developing the recommendations.

Mr. Mike Lake: When Mr. Sweet was asking questions, he was talking a bit about your external audits, the peer reviews that are done for you. I think you said your last one was in 2004.

Who does those?

Ms. Sheila Fraser: When we did the one on the financial audit practice, it was a major accounting firm, because they obviously are familiar with financial audits.

When we did the performance audit, we went to our international colleagues and had an international team—it was led by the National Audit Office of Great Britain, with the audit offices of France, Norway, and the Netherlands—do the review of our office.

We were the first to actually do that kind of peer review. Since then, it has become a practice that has taken hold. We have done and are actually about to finish the second one.

The review led the review of the GAO in the U.S. We are also leading the review of the European Court of Auditors and have participated in several others. So we will be asking international colleagues to do the review at some future time.

What was very striking to me was how very different the systems of audit actually are. One would expect perhaps that auditors general are all the same. Well, we're not. Even within the Westminster system, the way we operate is quite different from that of our colleagues, say, in the U.K.

Mr. Mike Lake: I guess I have time for one more question. I'll make it a kind of two-part question just to get two in here.

Just taking a look at appendix I here, you show that 92% of parliamentary committee members find that your performance audits add value. I know it's only 8%, but still it adds up to about 24 or 25 members across the whole House who maybe don't find they have value.

Do you have any feedback on what you might improve?

The second question is regarding your target for the number of parliamentary hearings and briefings you're going to participate in. I see that you participated in 64 in 2006-07, but your target is only 40 for 2008-09. I'm wondering how you're going to accomplish that.

Ms. Sheila Fraser: First, on the parliamentary committee members, we surveyed four committees; we didn't do a survey of all parliamentarians. So the 8%, I think, was two or three people.

And we didn't get a lot of feedback on it. It was not only public accounts, for example; we did the Senate national finance committee and the two environment committees. I can understand that some people may not think it's particularly useful to them, if they're studying legislation, or the kind of work may not have lined up with their work plan.

Concerning the number of hearings, 64 was a record. We have never done that many. We think 40 is more in line with what we've done in past years. But in the current parliamentary calendar, I'm not sure we're actually going to meet that. We'll have to see.

Mr. Mike Lake: It depends on what it looks like at that point.

Ms. Sheila Fraser: It depends on whether the committees call us, in part. We will try, obviously, to get committees interested in our work, but whether we attend or not will depend on whether there are other projects that committees are working on.

The Chair: Thank you, Mr. Lake.

Mr. Christopherson, you have five minutes.

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

There is one more area I'd like to follow up on. In your opening remarks, in paragraph 19, you state:

Presently, management and other policies that government central agencies issue apply to officers of Parliament in the same way they apply to government departments and agencies. This is a concern to us and other officers of Parliament. It does not recognize the independence of officers of Parliament and the management autonomy needed to protect our independence.

Of course, the distinction between officers of Parliament and virtually everybody else is that you answer to the House as a whole, to Parliament. You don't answer to the government, and others do. If I'm understanding this, there are edicts being sent out, and your concern is that you're being expected to follow those—"you" being the officers of Parliament—and this is a concern.

Can you expand on that so that I can more fully understand what your concern is?

• (1240)

Ms. Sheila Fraser: I'd be glad to.

In the Financial Administration Act there are a number of schedules that list departments and agencies. We and other officers of Parliament are on the schedule we call 1.1, which lists all the departments and agencies, including the Office of the Auditor General and others.

When the Treasury Board Secretariat issues a policy, it will say it applies to all the entities listed in schedule 1.1. They don't think that maybe officers of Parliament should not be subject to some of the conditions or some of the policies.

Recently, for example, there's been a draft communication policy going around that would have all communications strategies, all communications—everything—go through the Privy Council Office. Well, I can tell you, there is no way that my press releases about my report are going to go to the Privy Council Office or that our

communications strategies are going to be vetted by the Privy Council Office.

Government, I think—the Treasury Board Secretariat—recognizes that this is an issue. They recognize now that it's a question of how we resolve it. There has I think been an understanding over many years that you just don't apply it; but then, of course, I have an internal audit that tells me "you should have had all your hospitality expenses signed by a minister", and I'm saying no way.

So I say I want this clarified, and all of the officers of Parliament also agree; we're working together on this.

We have identified, as I mentioned earlier, about 25 policies in which we believe there are certain conditions that are problematic, that have a role for a minister or a central agency that we think is inappropriate. We are working with the secretariat and we hope we can resolve it with them. If not, we will certainly be back to Parliament.

When we brought it up with the advisory panel on oversight and funding, they were very supportive of the officers of Parliament, saying that yes, this was an important issue, that we should be resolving it.

We would like a clear decision by the Treasury Board that these particular items do not apply to us and that we would have some compensating or other mechanism, probably more disclosure, on those items.

Mr. David Christopherson: Is that the unanimous position of all the officers of Parliament?

Ms. Sheila Fraser: Yes.

Mr. David Christopherson: Are there any who are bowing to the edict now and are going to appeal it, or are they all taking the same approach as you, which is that this is not right, I'm not going to do it, and we'll work on...?

Ms. Sheila Fraser: I think they're pretty much not. Some of them are a little different from us, because they are subject to certain procedures or rules that we are not.

For example, the Office of the Auditor General has the status of a separate employer, so we do our own hiring, our own classification. The other officers of Parliament are not, so they have to follow the human resource regime, which poses certain issues for them as well, in addition to us.

But I would say generally that I think we're all on the same page on this, and I sense that the Treasury Board Secretariat certainly understands the issue. How we're going to resolve it may be a bit more problematic.

Mr. David Christopherson: Well, given the fact, Chair, that this is a body of accountability—that's entirely what we do—and that this issue is about accountability, it seems to me this is one we would have an interest in staying very close to.

Perhaps I could ask the Auditor General, through you, to provide us with a briefing note that outlines what she has just said, but also the timeframes expected. Then I would request to her—and if I need to put this in a motion, Chair, I can—that maybe, on a timely basis, she come to us with an update.

If there's a problem with your relationship, then we can extrapolate that to others, and I don't think there's any other body, outside of government itself, that's as well-equipped to deal with the issue of accountability, independence, and the relationship between officers of the House and Parliament itself than this body. Perhaps we are in a position to accept some leadership on this and make sure it is resolved in a way that's acceptable.

• (1245)

The Chair: If the Auditor General agrees to provide that information, she will.

Ms. Sheila Fraser: I'd be pleased to. I've already indicated I would do so.

Mr. David Christopherson: Very good. Thank you.

Thank you, Chair.

The Chair: Thank you, Mr. Christopherson.

Monsieur Bélanger, vous aurez cinq minutes.

Hon. Mauril Bélanger: In the same vein, Mr. Chair, it might be something for the steering committee to consider: that perhaps we ought to dedicate a meeting specifically to this matter, once we have the list and the policies, the five proposed principles, so that this can be aired a bit more publicly. For if we have difficulty in preserving the autonomy of agents of Parliament, then we have a serious problem.

I would suggest, Mr. Chair, that you consider that possibility.

[*Translation*]

Ms. Fraser, I listened to what you had to say carefully. I reread your statement this morning and I'm now looking at the plans that you have presented, the management audit for 2008-2009, the special reviews that have been scheduled, and that goes right up until 2020. One question springs to mind. I see that your office sometimes finds it difficult to complete audits on time, that the workload is quite heavy and onerous.

Could you tell us whether or not your office has the required flexibility to take on work that crops up suddenly or work that has been requested by parliamentarians?

For instance, the people in Public Works Canada have begun selling buildings. On the one hand, they are selling these buildings, and on the other hand, they are signing 25-year contracts with buy-back conditions. Many people are questioning the economic value of this action. I do not know whether or not you have looked into this issue. Personally, I don't think that we should be doing this. This issue could then be looked at objectively and then submitted to parliamentarians.

To what extent are you able to add audits to the workload? And do you have the required flexibility to respond to requests from parliamentarians or do you have to set aside some tasks, so that you

can take on others which, for one reason or another, are likely to become more urgent?

Ms. Sheila Fraser: Fifty per cent of our work is determined by the statutes. I refer here to audits of financial statements and special reviews. Deadlines must be respected and the work must be done every year. To some extent, management audits enable us to gain more flexibility. Usually they take about 18 months, from the beginning to the date that the report is released. If we are really dealing with an emergency, we generally have to reassign staff. We can hire staff on a contract basis, former employees or other individuals, in order to increase our staff for very specific mandates. Nevertheless, we generally have to use people who have the competencies and required knowledge. To some extent, we are limited by our staff and availability.

In addition, we are evolving in a world where this type of employee is in very high demand. We cannot tell these people in my office to wait around and remain available should something crop up. Their time has to be planned; otherwise, that causes problems. They need to know what type of work they're going to be doing and whether or not it is interesting. Everyone is booked.

We can make some changes, but we do not have a great deal of flexibility. However, we can interrupt one mandate to begin another. As for the building issue, we will certainly be studying it as part of the public accounts audit held this year. This issue is part of our audit plan.

[*English*]

The Chair: Go ahead, Mr. Wrzesnewskyj.

Mr. Borys Wrzesnewskyj: Madam Fraser, you had mentioned that there's a schedule of 25 policies that you believe would jeopardize your independence as an officer of Parliament.

Could you table that with our committee as well?

Ms. Sheila Fraser: Yes.

Mr. Borys Wrzesnewskyj: Thank you.

When exactly did this particular edict you mentioned come down, that all departments, including officers of Parliament, have to provide their communications to the Privy Council?

• (1250)

Ms. Sheila Fraser: I believe this is a draft policy, a new communications policy. But I believe it was in the old communications policy, even previous to that. I can certainly provide that information to the committee.

Mr. Borys Wrzesnewskyj: I think perhaps to illustrate how problematic that may be—you mentioned your press releases.... We see trends going in the wrong direction recently. Previously, 19% of recommendations agreed to by departments were not acted upon. That's approximately one out of every five, and presently we're at 28%. We're approaching one out of every three recommendations being agreed to but not acted upon, notwithstanding the fact that you've become more rigorous in requesting action plans. When you connect those two, you can see how problematic this particular attempt at an edict would in fact be.

Ms. Sheila Fraser: I personally don't see a connection between the two. I think the recommendations can vary a lot from year to year, depending on which departments we've gone into and which issues we've looked at. If they were the same issues year after year, one might be able to do a trend line, but I think we have to look at it more globally than that. There should probably be a little more analysis. We can see if we can provide more analysis perhaps in our departmental performance report for this coming year if we see any particular reason for an improvement or a decrease in the implementation of recommendations.

Mr. Borys Wrzesnewskyj: Thank you.

The Chair: Thank you, Mrs. Fraser.

Colleagues, that concludes the second round.

On behalf of the committee, I want to thank you very much, Ms. Fraser and Ms. Sachs, for appearing here today. On behalf of all committee members, I want to thank you very much for your continued excellent work on behalf of Parliament and all Canadians.

Before you leave, colleagues, we have a motion regarding the estimates. But before we put the motion, which shouldn't take very long, I want to ask Ms. Fraser if she has any closing remarks she wants to address to the committee.

Ms. Sheila Fraser: I would very much like to thank the committee for its interest in our work. I truly believe we would not be effective if it were not for the parliamentary hearings and the interest of this committee. Your hearings really do make our work meaningful. I look forward to continuing working with you over the next year.

Thank you.

The Chair: Thank you very much.

Colleagues, to conclude the discussion on the estimates, the chair will now put the vote to the committee. I'll read it to you.

FINANCE

Auditor General

Vote 15—Program expenditures.....\$72,239,000

Shall vote 15 in the amount of \$72,239,000, less the amount of \$18,059,750 granted in interim supply, under the Department of Finance carry?

(Vote 15 agreed to)

The Chair: Shall I, the chair, report this approval to the House? So moved by Mr. Christopherson.

Some hon. members: Agreed.

The Chair: I want to thank you again.

I want to remind colleagues that on Thursday we have a three-hour meeting starting at 11 o'clock. Lunch will be served. We will have, for the first hour, Mr. Kevin Page, the new Parliamentary Budget Officer. From 12 to 2, we have the Greening of Government Operations, and we will have before us the Interim Commissioner of the Environment and Sustainable Development.

Thank you very much.

I will adjourn the meeting.

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