



**HOUSE OF COMMONS
CANADA**

**REPORT ON PLANS AND PRIORITIES FOR 2009-
2010 AND DEPARTMENTAL PERFORMANCE
REPORT FOR 2007-2008 OF THE OFFICE OF THE
AUDITOR GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, MP
Chair**

JUNE 2009

40th PARLIAMENT, 2nd SESSION



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

SIXTEENTH REPORT

Pursuant to its mandate under Standing Order 81(4), the Committee has studied the Report on Plans and Priorities for 2009-2010 and Departmental Performance Report for 2007-2008 of the Office of the Auditor General of Canada and has agreed to report the following:

INTRODUCTION

One of the fundamental roles of parliamentary committees is to hold the government to account for departmental administration. This can be achieved through the Estimates process, whereby the government puts forward its spending plans to Parliament for review and approval.

In support of the spending plans included in the Main Estimates, departments prepare Reports on Plans and Priorities (also known as RPPs) in order to explain how they intend to use the funds voted to them by Parliament for the coming fiscal year. Departments are expected to discuss the challenges that they anticipate, how they will address these challenges, the results they intend to achieve, and how they will measure their performance. As a companion to the RPPs, departments prepare Departmental Performance Reports (or DPRs), which are released in the fall. These reports should demonstrate the results departments achieved with the funds that Parliament approved in the previous fiscal year.

In contrast to the other House Committees, the Standing Committee on Public Accounts does not review the Estimates of government departments, but instead reviews the Estimates of the Office of the Auditor General (OAG). The Committee has made a regular practice of reviewing the OAG's Estimates, and its Report on Plans and Priorities and Departmental Performance Report, because the Committee has an important role to play in holding the OAG to account for its performance on behalf of Parliament and the citizens of Canada.

The Committee met on 23 April 2009 to discuss the OAG's 2007-08 Departmental Performance Report and the 2009-10 Report on Plans and Priorities.¹ The Committee met with: Sheila Fraser, Auditor General of Canada; John Wiersema, Deputy Auditor General; Ira Greenblatt, Assistant Auditor General, Corporate Services; and Jean Landry, Comptroller.

¹ House of Commons Standing Committee on Public Accounts, 40th Parliament, 2nd Session, Meeting 16.

OBSERVATIONS

A. Budget

During the 2007-2008 fiscal year, the OAG used \$82.3 million of the \$86.6 million in appropriations available, and employed the equivalent of 608 full-time employees. The net cost of operations—taking into account services provided without charge by other departments and other smaller adjustments—was \$92.9 million. With these resources, the OAG completed 152 audits, including 33 performance audits of various departments and agencies, and 11 special examinations of Crown corporations.

The OAG's mandate and responsibilities have expanded in recent years. The OAG had intended to ask Parliament for an additional \$3 million to \$4 million in 2009-2010 to meet these responsibilities. However, given the current economic circumstances, the OAG decided not to request additional funds. Instead, the OAG will manage its new responsibilities by seeking reductions in some activities and efficiencies in other areas.

As much of the OAG's work is statutory, the OAG will be reducing the number of performance audits conducted from 30 to 25, and tabling reports twice a year rather than three times a year. As well, the OAG has postponed technology projects, reduced corporate services, reduced the use of contract financial auditors, made some cuts to management performance pay, and will be reducing about 20 positions through attrition and secondment to departments' internal audit function.

The Committee believes that the OAG should have sufficient funds to meet its mandate in an effective manner, and hopes that the planned savings do not impair the OAG's ability to continue to provide excellent work to Parliament. Nonetheless, the Committee commends the OAG for its leadership in seeking internal savings in the current economic circumstances.

B. Performance

The Committee has long been disappointed with the quality of Departmental Performance Reports produced by departments and agencies, as historically many of them lacked credibility and balance. While some Departmental Performance Reports have shown improvements, there is still progress to be made. The

Committee believes that the OAG's performance reports could serve as a model for other organizations, and the Committee would like to compliment the OAG on the quality of its reporting to Parliament. The OAG's performance reports are concise and easily understood. More importantly, the OAG includes a number of quantitative performance indicators in its DPR, and it reports on performance against these indicators, along with a target for performance and the previous year's actual performance. This allows the reader to easily determine whether performance has met expectations and whether performance has improved from the previous year. It takes courage to monitor and report on indicators that may expose the organization to criticism, especially as some of the performance indicators have shown areas where the OAG needs to make improvement, such as the number of audits and special examinations completed on budget.

In 2006-2007, the OAG began reporting on the extent to which its work is delivered on time and on budget. While these are not indicators that relate to the intended results of the OAG's work, they are important indicators of management performance. They also indicate areas where the performance is below expectations. The percentage of audits or special examinations completed on time improved from 2006-2007, but the percentage of audits or special examinations completed on budget, that is, within 15 percent of the budgeted hours, continues to be a concern. The OAG set a target of 70 percent of its audits completed on budget, but only 48 percent of performance audits were completed on budget, with similar results for financial audits. The result for special examinations was even lower, with only 25 percent completed on budget.

The Auditor General told the Committee that the OAG is taking action to address this issue, and the results for 2008-2009 should show a significant improvement, especially with respect to performance audits. The Committee supports the OAG in its efforts to improve performance in completing audits on time and on budget. This is an instance where a publicly reported performance indicator has led to increased management attention and focus on an issue. Nonetheless, the Committee believes that the OAG should not become overly focused on the indicator itself, and should ensure that its audits have sufficient budgets that are relative to the importance

of the issue, the complexity of the audit, and the nature of audit's findings. It is important that the budget remains a management tool and not a constraint upon conducting a complete and thorough audit.

From the Committee's perspective, one of the most important indicators of the OAG's performance is the percentage of performance audit recommendations that are fully implemented four years after their publication. This indicator is important because it demonstrates the extent to which the OAG's performance audits are influencing departmental management to rectify weaknesses. A low result for this indicator could mean that departmental managers do not agree with the recommendations, do not feel that they need to make changes, or the performance audits are not effectively identifying important issues.

The OAG recently changed its methodology for this indicator. Previously, the OAG asked for information from departments about the implementation of recommendations, and then OAG staff made an assessment based on the information provided. Using this methodology, the OAG reported in its 2006-2007 DPR that 46 percent of recommendations were fully implemented and 26 percent were substantially implemented four years after they were published. These percentages had been relatively steady over several years. The OAG now asks departments to self-assess their progress in implementing recommendations. As noted in the OAG's 2007-2008 DPR, departments reported that they believed 55 percent of recommendations were fully implemented and 29 percent were substantially implemented.

While the Committee agrees that departments are responsible for implementing recommendations and should be engaging in self-assessment and monitoring progress through their departmental audit committees, the Committee is concerned that this new methodology may lead to overly optimistic reporting by departments. Departments may not have sufficient motivation to assess their progress critically and may push the implementation rate higher than is actually the case. In large part, the reliability of this indicator will depend upon the effectiveness and independence of the departmental audit committees, which are supposed to provide scrutiny and oversight to departmental operations and the internal audit process. As the Committee finds this to be a valuable indicator of the OAG's performance, the Committee hopes

that the OAG will maintain the reliability of this performance indicator by monitoring and reporting the accuracy of departmental self-assessments through its follow-up audits.

C. Auditing the Auditor General

A common question is who audits the Office of the Auditor General. The OAG's financial statements are audited each year by a firm from the private sector named by the Treasury Board. The OAG also has an internal audit function, which examines a corporate activity each year. For example, in 2008 the OAG conducted an internal audit of its staffing function. The OAG conducts practice reviews of its financial and performance audit practices.

In addition, the OAG has had peer reviews of its operations. In 1999, a major Canadian accounting firm conducted a review of the OAG's financial audit practice. In 2003, the National Audit Office of the United Kingdom led a peer review of the OAG's performance audit practice. The Auditor General told the Committee that, "We are currently preparing for another review, which will no longer involve simply practice areas, but the whole office, including our corporate services."² This review will be led by the Auditor General for Australia and will include other national audit offices that have yet to be determined. The terms of reference for this review are expected to be established by June 2009 and the review itself completed by fall 2010.

The Committee commends the OAG for taking the initiative to have a review of its entire operations. The Committee looks forward to examining the results of this review when completed.

D. The Independence of Officers of Parliament

Treasury Board policies are drafted to apply to a broad range of government organizations, and often include a role for ministers in the management and oversight of departments and agencies. The policies also assign responsibilities to central agencies, such as the Treasury Board Secretariat and the Privy Council Office.

As written, these policies also apply to Officers of Parliament, i.e. the Information Commissioner, the Auditor General, the Chief Electoral Officer, the Official

² Meeting 16, 15:40.

Languages Commissioner, the Privacy Commissioner, and the Public Sector Integrity Commissioner. As these Officers assist Parliament in holding the government to account, they believe that they should be independent from the executive and thus should not report to a minister or to central agencies of the government, as is required in about 20-25 of the Treasury Board's policies. For example, the communications policy requires government organizations to send communications strategies, press releases, and statements to the Privy Council Office for review, and the Auditor General objected to the Privy Council Office vetting her communications.

The Auditor General described the progress made on this issue:

Last year we informed you that officers of Parliament had encountered particular problems with the application of Treasury Board policies to their operations. Many of these policies, which apply to all government departments and agencies, had an inappropriate impact on our independence. I am very happy to say that there have been fruitful discussions with Treasury Board of Canada Secretariat officials over the past year on this subject. While our concerns have not been fully resolved, we are pleased with the progress to date. We look forward to a Treasury Board decision that will amend the application of certain aspects of Treasury Board policies to Officers of Parliament.³

When asked whether the issue had been resolved, the Auditor General replied, "It has. We have worked very hard with the Treasury Board Secretariat staff. I am very appreciative that they have recognized that this is an issue for us and for all agents of Parliament. They are going before the board to have us exempted from those specific conditions that we find problematic."⁴

The Committee strongly supports the independence of Officers of Parliament. The Committee could not function effectively without the vital work of the OAG. At the same time, the OAG, and Officers of Parliament more generally, would be restricted in their ability to assist parliamentary committees in holding the government to account if they did not have independence from the government. The Committee is pleased that progress has been made on this issue and awaits a final decision from the Treasury Board.

³ Meeting 16, 15:35.

⁴ Meeting 16, 17:00.

CONCLUSION

The Office of the Auditor General continues to do excellent work on behalf of parliamentarians and Canadians. The Committee finds great value in the OAG's work, which helps it, and other parliamentarians, hold the government to account for departmental administration. The Committee also commends the OAG for being ranked as one of Canada's top 100 employers. This speaks to the dedication of the OAG's employees and their support for the OAG's vision and values.

The Committee also notes that the OAG has shown leadership by seeking internal savings and through its credible and balanced performance reporting. The Committee hopes that other departments and agencies will be as committed to transparency and accountability when reporting performance to Parliament. The Committee looks forward to continuing its strong relationship with the OAG.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Office of the Auditor General of Canada		
Sheila Fraser, Auditor General of Canada	2009/04/23	16
Ira Greenblatt, Assistant Auditor General, Corporate Services		
Jean Landry, Comptroller		
John Wiersema, Deputy Auditor General		

MINUTES OF PROCEEDINGS

A copy of the relevant Minutes of Proceedings ([Meetings Nos.16, 23 and 25](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, MP
Chair