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Chair

Mr. David Christopherson

Standing Committee on Public Accounts

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• (1535)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I call to order this meeting of the Standing Committee on Public Accounts.

This is meeting number 10. The purpose of today's meeting is to study chapter 3, "Internal Audit", of the 2011 Status Report of the Auditor General of Canada, which was referred to this committee on Thursday, June 9.

We have quite an ensemble of guests with us today. I will ask them to introduce themselves. I understand that everyone but one has an opening statement.

With that, as is my custom, we'll begin with the Auditor General and go through the ranks of our guests from there.

Mr. Wiersema, you have the floor, sir.

[Translation]

Mr. John Wiersema (Interim Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chair.

My name is John Wiersema. I am the Interim Auditor General.

[English]

I'm joined today by Nancy Cheng, assistant auditor general, and Bruce Sloan, principal. Nancy and Bruce were the auditors responsible for the chapter you mentioned.

The Chair: Mr. Ralston, introduce yourself, please.

Mr. James Ralston (Comptroller General of Canada, Treasury Board Secretariat): I'm Jim Ralston, Comptroller General of Canada.

The Chair: Thank you.

Mr. Aiken.

Mr. Brian Aiken (Assistant Comptroller General, Internal Audit, Treasury Board Secretariat): I'm Brian Aiken, Assistant Comptroller General of Canada, responsible for the internal audit function.

The Chair: Thank you.

Mr. Yves Vaillancourt (Chief Audit Executive, Department of Foreign Affairs and International Trade): My name is Yves Vaillancourt. I'm the chief audit executive for the Department of Foreign Affairs and International Trade.

The Chair: Very good.

Welcome.

Mr. Jorge da Silva (Chief Audit Executive, Canadian International Development Agency): Good afternoon. My name is Jorge da Silva, and I'm the chief audit executive for the Canadian International Development Agency.

The Chair: Excellent.

Welcome to all of you.

I'm sorry. There are more. I apologize. Go ahead.

Mr. Dennis Watters (Chief Audit Executive, Royal Canadian Mounted Police): Hello. My name is Dennis Watters. I'm the chief audit executive for the RCMP, the Royal Canadian Mounted Police.

Mr. Don Love (Director General, Audit and Evaluation Division, Department of Veterans Affairs): I am Don Love. I'm the chief audit executive with Veterans Affairs Canada.

The Chair: That's great. Is there anybody else I've overlooked?

Okay. Then it's back to Mr. Wiersema for the first of the opening statements.

Mr. Wiersema.

Mr. John Wiersema: Good afternoon, everyone.

Thank you, Mr. Chair, for the opportunity to discuss chapter 3 of our 2011 spring status report on internal audits.

Mr. Chairman, we found that satisfactory progress was made in the area of internal audit. I'm very pleased to say that the government has significantly strengthened its internal audit capacity since we last reported on this issue in 2004.

[Translation]

We noted a number of factors that contributed to the improvement. First, we noted that the government had established an independent audit committee in each of the 24 largest departments and agencies. These committees include individuals from outside government who have impressive qualifications.

We also noted that internal audit activities are reporting directly to the deputy head. This direct reporting has strengthened internal audit's independence within departments.

[English]

Mr. Chair, we found that departmental internal audit groups are looking at the right things when they develop their audit plans, that is, they are developing risk-based audit plans for their work.

Last fall we reported on how internal auditors were adjusting their plans in response to the economic action plan, and in completing that particular audit we were able to rely on the work of internal audit in several instances.

We noted as well in our report that the Office of the Comptroller General has provided good direction and guidance to departmental audit groups and departmental audit committees.

As we indicated in our report, while there has been considerable progress, few departmental internal audit activities have undergone an external quality assessment, as required by professional standards. In response to the one recommendation we made in this report, each department committed to undertake such an assessment by a certain date.

Your committee, Mr. Chair, may wish to ask departments if they're on track to meet this commitment.

The government, Mr. Chair, has made a significant investment in strengthening its internal audit capacity. In my opinion, it's important that the government maintain that investment. We would encourage government not to repeat past decisions to reduce funding for internal audit in an attempt to save money. Internal audit is an important management tool, particularly in times of fiscal restraint.

Mr. Chair, that concludes my brief opening statement. We would be pleased to answer the committee's questions.

• (1540)

The Chair: Thank you very much.

Mr. Ralston, you're up next.

[Translation]

Mr. James Ralston: Thank you, Mr. Chair and members of the committee. Thank you for the opportunity to speak to you about internal audit, and how we have strengthened it in recent years.

I have with me today Brian Aiken, Assistant Comptroller General, Internal Audit. I will make a brief statement, and we would then be pleased to answer any questions you may have.

[English]

The Office of the Comptroller General of Canada works to strengthen the stewardship of taxpayer dollars and government assets across the federal public service and thereby support the overall effectiveness of public administration in Canada. We are responsible for providing functional direction with respect to financial management, internal audit, investment planning, procurement, project management, and the management of real property and materiel across the federal government.

To focus on internal audit: it is the professional appraisal function that looks at management systems, processes and practices, and the reliability of information. As such, it provides deputy heads with information on how well government's risk management and control processes are working in their departments.

[Translation]

This allows deputy heads to: exercise oversight and control; manage risk in an informed manner; and give attention to areas that need improvement.

Mr. Chair, to support the government's accountability agenda, we implemented the Policy on Internal Audit in April 2006. This policy includes: the clear assignment of accountabilities and roles and responsibilities; improvement in the independence of internal audit through changes to reporting relationships; the inclusion of a majority of members from outside the government on audit committees; and the adoption of professional auditing standards and practices.

[English]

Thanks in large part to this policy, significant strides have been made in improving internal audit in the government. For example, we have considerably increased the focus of internal audit on areas of higher risk and significance, and we have increased the credibility and professionalism of the function through community development efforts championed by my office and supported by chief audit executives across the Government of Canada.

As a result, deputy heads have confidence in the independent assurance that internal audit gives them, and they are increasingly relying on it to support them in their role.

[Translation]

Five years after bringing in the policy, we did an evaluation of the implementation—and the results have been extremely positive. They demonstrate that the policy has helped to improve risk management, governance, internal control and the stewardship of resources in departments and agencies.

[English]

The Auditor General's audit of the economic action plan in the fall of 2010 praised the work of internal auditors in supporting the successful implementation of this major government initiative. Moreover, the Auditor General comments at length on the progress made in the government's internal auditing function in the 2011 June status report.

[Translation]

We thank the Auditor General for this report, and recognize the value it brings to the continuous improvement of the management and operations of the Government of Canada. Finally, the establishment of departmental audit committees has received attention from academic experts in public administration.

[English]

To conclude, we in the Office of the Comptroller General, together with the entire internal audit community, are proud of what has been accomplished, and we are delighted that our efforts have been recognized.

However, we continue to make further strides and welcome the recommendations of the Auditor General, the independent evaluators, and academics as possible directions for future improvements.

We would now welcome the committee's questions.

Thank you.

• (1545)

The Chair: Thank you, Mr. Ralston.

Now we go to Mr. da Silva.

You have the floor, sir.

Mr. Jorge da Silva: Good afternoon, Mr. Chairman and members of the public accounts committee. Thank you for the opportunity to appear before you today.

We are pleased with the assessment of the Canadian International Development Agency in this report. For us, the observations made by the Office of the Auditor General represent an acknowledgement of the effectiveness of the work undertaken by management to implement the requirements of the Treasury Board policy on internal audit.

It also acknowledges our efforts to ensure that the internal audit practices followed by the organization meet the standards of the Institute of Internal Auditors' international professional practices framework, which has been integrated by Treasury Board into its policy and directives.

In sum, the Auditor General report confirmed that CIDA's internal audit function has implemented the Institute of Internal Auditors' standards, applies them effectively, and achieves their stated objectives.

Chief among them is the establishment of an independent audit committee, which held its first meeting in May 2009. The agency's audit committee is composed of five members, four of whom come from outside the federal public administration. One of the individuals is the former Auditor General for the Government of Manitoba. Collectively, these members have the skills and experience required to provide the president of the agency with objective advice and recommendations.

Since its inception, the audit committee has deliberated on a number of internal and external audit reports, accountability reports, and the financial statements of the agency. In accordance with the Treasury Board's internal audit policy, the audit committee presented annual reports to the president on their assessment of the agency's governance, risk management, and control practices.

The agency has also engaged a fully accredited certified internal auditor as its chief audit executive, who reports directly to the president. The Office of the Chief Audit Executive prepares a robust, risk-based audit plan focusing on all of CIDA's management systems, practices, and processes, including the integrity of financial and non-financial information.

To ensure its continued adherence to recognized international audit standards, the office will continue to promote the necessary rigour in its internal audit activities and maintain the professional capabilities of its audit team.

I look forward to addressing any questions you may have regarding CIDA's internal audit practices.

Thank you.

The Chair: Thank you, Mr. da Silva.

And now to Mr. Watters.

[*Translation*]

Mr. Dennis Watters: Mr. Chair, thank you for this opportunity to discuss Chapter 3 of the Auditor General's Report on Internal Audit, tabled in Parliament in June 2011.

I am here representing the Royal Canadian Mounted Police. I fully agree with the findings and I agree with the recommendations of the Auditor General's report.

Prior to joining the RCMP in April, I was Director General of Internal Audit at the Department of National Defence. The Department of National Defence was also subject to the Auditor General's audit. The internal audit function was rated as generally conforming to the Treasury Board policy on internal audit and the Institute of Internal Audit Standards.

[*English*]

The report of the Auditor General has been a useful tool and starting point for me since being appointed the RCMP's chief audit executive.

The mandate that I have been given by the Commissioner of the RCMP is to stabilize and improve the internal audit function. The objective is to overcome the challenges identified by the Auditor General.

We have used her findings and recommendations to develop an action plan for returning our internal audit function to a rating of "generally conforms". The action plan has been shared with the departmental audit committee and the Office of the Comptroller General. Both have indicated that they are satisfied with our progress.

More specifically, we have now completed a comprehensive review of our quality assurance and improvement program, which includes all internal audit policies, procedures, and practices.

We have initiated a process whereby all ongoing audits will be subject to an internal quality assurance review at the end of each phase of the audit, whether it's planning, conducting, or reporting. We are planning for another external quality assurance assessment within the next 18 to 24 months.

I am committed to returning the RCMP internal audit function to a "generally conforms" rating. We have the full support of our departmental audit committee and the senior management of the RCMP.

Mr. Chair, this concludes my opening statement. I will be pleased to answer the committee's questions.

Thank you.

• (1550)

The Chair: Very good. Thank you, Mr. Watters.

Last, but certainly not least, Mr. Love.

Mr. Don Love: Mr. Chair, thank you for this opportunity to discuss the Auditor General's status report on internal audit.

As a recently appointed chief audit executive, I found the Auditor General's report to be very informative. I support the Auditor General's overall conclusion that the function of internal audit is now stronger and plays a larger role than it was providing in 2004.

I believe that departmental audit committees are making significant contributions to the overall governance, risk management, and control within departments by providing outside experience and independent perspective.

I would also like to acknowledge the vital contributions that the Office of the Comptroller General has made through the development of various guidance documents. Guidance provided in such areas as core management controls, risk-based audit plans, and departmental audit committees has been very helpful and promotes consistency across government.

The successful implementation of the new human resources strategy for internal audit should further strengthen the function by unifying the internal audit group and increasing development opportunities.

During this time of fiscal restraint, we are contributing a critical service, providing deputy ministers with strategic advice, assurance that the appropriate controls are in place, and opportunities for improved efficiency.

Now more than ever, the Government of Canada requires a strong function of internal audit, and we need to continue to build on the progress that has been made since 2004.

Mr. Chair, this concludes my opening statement. Thank you.

The Chair: Thank you, Mr. Love. I appreciate that.

Colleagues, we will now begin questioning through our regular rotation process.

With that, Mr. Saxton, you have the floor first.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

Thanks to our witnesses for being here today.

We are pleased that the Auditor General has recognized the significant progress made to improve the quality of internal audit across government. Internal audit is an important management function to ensure sound decision-making and the good stewardship of taxpayer dollars.

My first question is for the Auditor General. On your audits of the internal audit function, comparing what was found in 2004 to the positive developments in the follow-up audit this spring, do you consider this to be an important achievement by the government?

Mr. John Wiersema: Absolutely, Mr. Chair. This is very significant.

In 2004 the internal audit function in government was not what it should be, and that's what we reported in 2004. What you've heard about from all the witnesses today are the significant efforts that have been put into professionalizing the function, with the active support of the Office of the Comptroller General and the establishment of independent departmental audit committees, with some very impressive people from outside the public service involved.

This is a success story. I'm very pleased to give credit where credit is due, and I congratulate all of my colleagues at the table.

Mr. Andrew Saxton: Thank you.

Can you share with us what challenges remain for the internal audit function and the internal audit community?

Mr. John Wiersema: Well, as I indicated in my opening statement, Mr. Chairman, one of the challenges might be—and this is somewhat speculative on my part—that in a period of fiscal restraint.... When the Government of Canada was looking at savings opportunities in the 1990s when we were facing the fiscal challenges we faced at that time, one of the recipients of those savings opportunities was significant cuts to internal audit.

So I believe that one of the challenges will be maintaining the momentum that has been established in internal audit, that we do not repeat decisions of the past to look for easy opportunities for short-term savings but weaken what I consider to be an important management tool.

That's one challenge: it's fundamentally the importance that's attached to this and the funding. The second challenge will be to maintain the momentum that has been developed over the past few years.

Mr. Andrew Saxton: Thank you.

The Office of the Auditor General has looked at financial management a few times, and to be more specific, in 2003, 2006, and more recently in 2010. We all agree that sound financial management is key to effective governance. Can you tell us what government measures have been particularly important to the improvements you've found?

That question could be for the Comptroller General or for you, Mr. Auditor General.

• (1555)

Mr. John Wiersema: This question, Mr. Chairman, goes a little bit beyond the scope of this particular chapter. As you know, we did another status report in the spring on financial management and control, which I would be pleased to discuss with this committee should it choose to have a hearing on it.

In that area, there have been improvements, but it's not as dramatic as it is, frankly, in the area of internal audit. I think there are still significant challenges, as outlined in that other report, to strengthening financial management in government. That's still a work in progress. I think there are significant challenges there.

Some of the recent accomplishments of the government in this area, though, are, again, the professionalization of the function—the requirement that the chief financial officers of the large departments have the necessary requisite professional qualifications. The majority of those chief financial officers are now professional accountants. That was not the case some time ago.

But in the area of strengthening financial management in government, I believe there is a considerable amount of work that needs to be done.

Mr. Andrew Saxton: Thank you.

Finally, have the improvements that you described in internal audits contributed, in your opinion, to more transparency and accountability in government?

Mr. John Wiersema: Yes, Mr. Chairman. The improvements in internal audit have absolutely contributed to better accountability in government. I believe that deputy ministers are now well served, for the most part, where there are internal audit functions, and they are also well served by their departmental audit committees. So this is clearly a success story.

What I would say, though—and Mr. Ralston perhaps might have some comments in this regard—is that the entire internal audit community in the core federal public service comprises some 400 or 500 people, who I believe are now functioning well for the most part. There are always opportunities for improvement, but it's important to keep that in the context of a core public service with over a quarter of a million people involved. So this is an important function, but it's a relatively small function, and I believe it's largely functioning well.

The Chair: Thank you. The time has expired.

Thank you, Mr. Saxton.

Mr. Caron, you have the floor.

[Translation]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you, Mr. Chair.

I would like to thank you all for being here. It should come as no surprise that we are going to ask questions about some of the concerns raised by the report.

The first question deals with two concepts: internal audit and internal control, which should be connected to the first. According to the definition on the Treasury Board website, internal control is “generally recognized as a set of means that organizations put in place to mitigate risks and provide reasonable assurance” in terms of effectiveness of programs, reliability of financial reporting, and compliance with regulations and policies. Internal audit is defined as a “professional, independent appraisal function that provides objective, substantiated conclusions as to how well the organization's risk management... processes are designed and working”.

My question is for the Interim Auditor General. Could you briefly tell us how the two concepts are interdependent? Please make your answer as short as possible because I have a second question.

[English]

Mr. John Wiersema: Thank you for the question, Mr. Chairman.

[Translation]

The two processes are in fact connected.

[English]

They are linked, but they are different. The processes relating to internal controls in government, financial controls and others, are largely the responsibility of the financial community, the financial management community. All public servants are involved, but the focus point is the financial management community, which Mr. Ralston is also responsible for.

The internal audit community is separate from that community. Their role is to provide the deputy minister with that independent assurance that those controls, that those risks...that the departments have those fundamental processes in place independently of the community itself. So they are a check and balance, an important management tool, and an important source of assurance for

[Translation]

the deputy minister, letting him know that the department is being managed properly.

[English]

So they're linked but separate.

[Translation]

Mr. Guy Caron: Got it. So the two concepts are interconnected.

Mr. John Wiersema: Yes.

• (1600)

Mr. Guy Caron: That brings me to my next question for Mr. Wiersema and Mr. Ralston. Though we will talk about chapter 1 later, I want to refer to it in the context of this connection.

How do you explain the fact that departments have significantly strengthened their internal audit capacity, as per chapter 3, but that they are not ready to undergo external quality assessments, as per chapter 1, which we will discuss later? If the two concepts are interconnected, I think it would be interesting to put them into context as well.

[English]

Mr. John Wiersema: I'm not sure I fully understand the question. Is the member asking about the relationship between internal audit and the work of my office, external audit...?

[Translation]

Mr. Guy Caron: I am talking about internal audit capacity.

[English]

Mr. John Wiersema: The relationship internally.... The financial management community is responsible for the state and for providing leadership within government for the state of controls and risk management in government. The internal audit community provides, independently from that community, assurance to the deputy minister that those controls are in place.

I've indicated that the internal audit community is responding well and functioning quite well in government. They, then, are an independent source of assurance to the deputy minister on those areas of control within the department that need attention.

[Translation]

Mr. Guy Caron: I don't think you understood my question. I am going to repeat it. Mr. Ralston could maybe confirm it, but it is probably a problem of understanding.

How do you explain the fact that departments have significantly strengthened their internal audit capacity without being ready for external quality assessments, as indicated in chapter 1?

[English]

Mr. James Ralston: I think the one point that may help is that when internal auditors do their work, they follow the standards set by the Institute of Internal Auditors. They declare that their reports are in conformity with those standards.

We do ask, in the policy, that internal audit shops subject themselves to a review by the Institute of Internal Auditors to verify their compliance with standards. It's a way of assuring me, or assuring the audit committees, that what the internal auditors are saying about their own performance and conformity to standards is in fact a reliable statement on their part.

So it's not different. It's reinforcing what audit is supposed to be about, which is adherence to standards. The external review is looking at audit itself and confirming that's in place.

The Chair: Sorry, but the time has expired.

Perhaps, Mr. Wiersema, you can fold that into another answer. I'm sure you'll get more questions.

Mr. Kramp, you have the floor, sir.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair.

Welcome to all of our guests today.

To start with, I want to focus on the internal audit. Going back to 2004 and then fast-forwarding to where we are today, there's a dramatic difference, obviously. It goes without saying that it's basically a glowing report, relatively speaking, in comparison to what we've had.

Of course, I think we should never be content. We should always be looking for a little bit better: the day we stop searching for improvements, that's the day we're going to be slipping backwards.

What I would like to know was framed in the question to Mr. Wiersema, but I'm going to take it to Mr. Ralston now. It's a similar question. Though we've had some phenomenal successes, there are still challenges. What challenges remain, in your mind, for the internal audit function and community in general?

Mr. James Ralston: First of all, it's a professional function, so just the maintenance of a population of auditors who are qualified and up to date and certified is an ongoing challenge. Recruitment, development, and encouraging the certification of new auditors will be an ongoing activity. Similarly, the ongoing verification that standards are being followed will always be required.

Some of the areas we see for improvements are things that would improve the actual efficiency of the audit. We've been exploring things like better use of electronic tools for documenting audits, keeping records of the evidence we use, and better use of computerized analytic tools to make auditors more efficient. We're looking at ways we might gain efficiencies through the reporting process.

Essentially, we would like audit to remain as effective while becoming more cost-effective, if you will.

• (1605)

Mr. Daryl Kramp: That's fine. Thank you very much.

Certainly this wasn't a weakness, but it was identified as an area where there could be at least an adaptation of improvement. I hate to mention the words "accrual accounting", because it was at committee for so many years, and I'm not going to go down that path right now. But I would sure ask you to be mindful of some discussions we've had on that in the past. As we move forward, that might be one of the areas of improvement we could take a look at.

I would like to ask the Auditor General a question right now. Obviously this is a very, very favourable audit, but how does this compare to other nations within the global context and within our provinces as well? How are we doing relatively speaking?

Mr. John Wiersema: Thank you for the question, Mr. Chairman.

This audit didn't specifically set out to do any benchmarking or comparisons, so I will speak anecdotally. This is not something we audited, but anecdotally, my sense is that the internal audit in the Government of Canada compares favourably with those in other sovereign governments around the world, as well as with the provincial governments in Canada.

Mr. Daryl Kramp: Thank you.

The reason I asked is that on a number of occasions we have visiting delegations, from other countries and from our provinces, that are looking for thoughts, advice, or confirmation as to best practices. That's why I asked that question: so that if there are best practices that we apply here and successes we've had, we could generally pass along that information and build upon it. I think we would also do credit to some other areas of jurisdiction, that's all.

Mr. John Wiersema: As the member knows, Mr. Chairman, Canada is frequently a destination of choice for international delegations looking at accountability issues, looking at audit functions. We receive international delegations weekly that are looking to learn from Canada. I believe many of those delegations visit Mr. Ralston as well in terms of learning from financial management and internal audit practices in the Government of Canada.

Yes, we are quite willing to share our practices internationally.

The Chair: Very good. Thank you.

Madame Blanchette-Lamothe, you have the floor.

[Translation]

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): Thank you, Mr. Chair.

My first question is for Mr. Ralston. One of the audit's objectives was to see if the Office of the Comptroller General of Canada was fulfilling its mandate to promote healthy independence of resources to all government departments.

Could you tell me what you mean by "healthy independence" and, if necessary, how could Parliament contribute to this healthy independence?

[English]

Mr. James Ralston: One of the key principles for auditing, whether it's internal or external, is that the auditor must approach the work with objectivity and an absence of bias. Structurally, the way that is ensured is to make sure that auditors effectively don't examine activities or practices that they are themselves responsible for. As John mentioned, in the internal audit world in the federal government, essentially, internal auditors or chief audit executives are meant to be serving deputy ministers.

Perhaps the most important structural feature that we put in place was ensuring that chief audit executives reported directly to deputy ministers.

The Chair: Mr. Ralston, I'm sorry to do this, and I apologize, but I do need to interrupt you. Colleagues are now noticing that the bells are ringing in the House.

Does anybody know exactly what's going on?

Mr. Saxton.

Mr. Andrew Saxton: Yes, Mr. Chair. Thank you.

I understand that the opposition has asked for a vote or forced a vote in the House right now. These are 30-minute bells that are ringing. We are going to have to adjourn and go to the House.

I think that in the interests of time and also the fact that we have so many witnesses here today, perhaps we could continue for 15 minutes. At that time, I would like to put a motion forward that we adjourn and that we have the opportunity to have these witnesses come back to committee at a later date.

• (1610)

The Chair: Both the 15 minutes and have them come back, is that what you're moving?

Mr. Andrew Saxton: Yes.

The Chair: This is not a long chapter. Whether we want to devote a whole—

Ms. Joyce Bateman (Winnipeg South Centre, CPC): A point of order, Mr. Chair.

The Chair: Yes, please go ahead.

Ms. Joyce Bateman: As a chartered accountant, I am so honoured to be here. I am so honoured to learn from all these chief audit executives. I really hope we—

The Chair: Well, with that kind of excitement and exuberance, we definitely have to come back.

Voices: Oh, oh!

Ms. Joyce Bateman: It has never been this good for me, never—

Voices: Oh, oh!

The Chair: What was I thinking? What's the matter with me?

Okay. I like your idea. Let's do another one or two people and then adjourn. We'll excuse our guests, if that's what I'm hearing, and then we'll reconvene and have a more fulsome discussion if we can hold Ms. Bateman's excitement intact until then.

I'm sensing that's where the committee is comfortable to go.

Mr. Saxton.

Mr. Andrew Saxton: That's correct. Can we have a motion to that effect?

The Chair: Yes. We'll take two speakers. Do you agree that we'll do two more rounds and then adjourn? Or do you want to adjourn now?

Mr. Andrew Saxton: No.

The Chair: Two more speakers...?

Mr. Andrew Saxton: Yes. I think it's a 30-minute bell.

The Chair: Let me at least get to Mr. Byrne so that all three parties have had a chance.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): That's so generous of you, Mr. Chair.

The Chair: Well, it's fair, not so much generous: you're entitled to it.

Hon. Gerry Byrne: It's generous, truly generous.

The Chair: Do I have that motion? I have a motion that we will go for two more speakers and adjourn, then reconvene at a date to be determined by the steering committee and this full committee. Is that correct? That's the motion. Hearing no further debate, please indicate.

(Motion agreed to)

The Chair: Madame, you may continue and finish your remarks,

Then, Mr. Byrne, you will have your time, and then we will adjourn.

[Translation]

Ms. Lysane Blanchette-Lamothe: Perhaps I could let you finish by summarizing for us what “healthy independence” means and what the government could do to contribute to this healthy independence.

[English]

Mr. James Ralston: Thank you.

The first structural element, as I said, is the direct reporting relationship of chief audit executives to the deputies.

Another important structural element was requiring that departmental audit committees be put in place and that the committees have a majority of members who come from outside the public service, once again the idea being that there's no possibility that the members of the committee would be anything for which they are directly responsible, so that they would be able to support the chief audit executive and, as well, give deputy heads the most frank advice possible.

Those are two very important structural elements.

You asked whether or not parliamentarians would have a role. This particular function is largely internal, as the name suggests. For parliamentarians, it becomes part and parcel of an interest in sound control, sound management, and all of the structures that need to be put in place to achieve that within the bureaucracy.

The Chair: Please take the time, Madame, if you'd like another question.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Thank you.

Mr. Watters, people talk about high turnover in your office. Could you briefly tell us about the potential constraints, the reason for this turnover and the steps you have taken to address it.

Mr. Dennis Watters: That's a very good question.

There were a lot of employees at RCMP before, and it is true that there was a high turnover. But I can assure you that it is no longer a problem. We have 31 auditors and only four have left over the past year. Of those people, three were RCMP members. One of them went on a mission abroad and another retired.

A lot of people are also calling us to join our organization. We offer extensive training. The people seem satisfied. A year ago, we hired a lot of people and the turnover was part of the process. It happened about six months before I arrived. It was all set up. Competent people with a strong auditing background arrived. Since then, staffing has no longer been a problem.

•(1615)

Ms. Lysane Blanchette-Lamothe: Thank you.

[*English*]

The Chair: *Merci.*

As agreed, we'll go to Mr. Byrne. At the conclusion of his remarks and time, we'll move to an adjournment.

Mr. Byrne, you have the floor, sir.

Hon. Gerry Byrne: Thank you very much, Mr. Chair.

Thank you to those appearing before us.

The audit of the audit has produced a very favourable result. I want to say, I think on behalf of all parliamentarians, that when the audit of the audit comes back in a very positive light, it increases the overall confidence and trust that parliamentarians and Canadians have in our system of government and our process of government.

I want to congratulate each and every one of you.

I want to ask Mr. Ralston this question. The report came after many months and years of hard work to get it to this level. Would it have been possible to achieve these results without the extra influx of resources provided to the internal audit function through the process of increased accountability?

Mr. James Ralston: The increase in resources was certainly very helpful. It amounted to something like a 20% to 25% increase. It increased our manpower, if you will.

For many of the structural elements, the focus on the use of standards and certification, and basically the idea that we were now going to fill internal audit positions with people who were professional auditors, as opposed to folks who had never been formally or extensively trained to audit, I think was an even bigger factor.

At the end of the day, the audit is about the quality of the auditors. It's not only a matter of quantity. The quality is very important.

Hon. Gerry Byrne: I'll ask this question and then pass it directly to Mr. Wiersema.

Do you have any concerns that your ability to maintain the professional quality of the internal audit function will in any way be affected by a reduction in resources?

Mr. James Ralston: We know that the entire government is focused on efficiency, and internal audit is no different. We believe there are ways in which we can become more efficient, and we will be working hard to do so. Our goal will be to maintain our effectiveness with the help of that kind of re-engineering.

Mr. John Wiersema: I have no reason to believe that internal audit will be unduly singled out for cuts. I was just trying to offer my gratuitous advice that I think it's an important management tool, and that it's important to maintain the momentum already in place.

If internal audit is able to continue to effectively carry out its role with fewer resources, better yet. The message I'm trying to convey is that it's important to protect internal audit as an essential management function.

There's something—

Hon. Gerry Byrne: Right. I'm sorry, Mr. Wiersema.

Mr. John Wiersema: If I may, Mr. Chair, can I take one minute?

[*Translation*]

I think I finally understood Mr. Caron's question.

[*English*]

There were two separate audit reports.

In our report on financial management in chapter 1 of the same report, we indicated that there still remain to be significant improvements in internal control that are required in government, so yes, that was one of our findings on internal controls. There is still a lot of work to do to strengthen internal controls.

Internal audit is different, and I would be expecting that the internal auditors in each of those departments would be looking at the internal controls in their departments, reaffirming that message to their deputy ministers, and identifying the areas of control that need strengthening.

I don't see any contradiction between the two messages, from my perspective. There's a lot of work to do in strengthening internal control

[*Translation*]

in departments, in my opinion,

[*English*]

and internal audit is an important source of assurance to the deputy minister on what areas need strengthening and how to go about strengthening them.

Thank you for indulging me on that, Mr. Chair.

The Chair: Thank you for covering that ground. We appreciate it.

You still have the floor, Mr. Byrne.

Hon. Gerry Byrne: The government has suggested that for every dollar spent in program review and program efficiency evaluation, it saves over a hundred dollars.

Mr. Ralston and Mr. Wiersema, would your view be that the internal audit function is probably the best and most effective way to determine the efficiency and effectiveness of programs within the Government of Canada? And does your audit function actually help the government achieve some of those results?

I ask this in light of the fact that we're now paying an outside consultant about \$90,000 a day to be able to provide that function. It would be my anticipation that the internal audit function within the Government of Canada would be a very, very sound basis on which to make those decisions instead of an external consultant at that cost.

• (1620)

Mr. James Ralston: Internal audit is fundamentally about asking whether a department is aware of its risks, whether it's aware of the extent to which its risks are controlled, and whether the verification of those controls is working. Audits can be oriented towards cost

savings, but more often they're oriented towards whether risks are being mitigated. They are often preventative. They're not primarily or exclusively focused on cost savings.

That's why we recommend that audits be based on a risk-based audit plan. In other words, focus first on whether current controls are necessary and effective. There are other mechanisms that are equally suited—and in some cases better suited—to pursue other kinds of questions, but control is really a focal point for an audit.

The Chair: Thank you. That is our time.

Thank you, Mr. Byrne and Mr. Ralston.

I thank all our guests. Please be on standby. We'll get back to you on the date for the rescheduling of this meeting.

I can't think of anything further. Therefore, the decision that this committee made earlier to adjourn upon conclusion of our discussion is now in effect. This meeting now stands adjourned.

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