



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

**MAIN ESTIMATES 2014-15: REPORT ON PLANS
AND PRIORITIES FOR 2014-15 AND
PERFORMANCE REPORT FOR 2012-13 OF THE
OFFICE OF THE AUDITOR GENERAL OF CANADA**

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

**David Christopherson
Chair**

MAY 2014

41st PARLIAMENT, SECOND SESSION

Published under the authority of the Speaker of the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Standing Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the Parliament of Canada Web Site
at the following address: <http://www.parl.gc.ca>

**MAIN ESTIMATES 2014-15: REPORT ON PLANS
AND PRIORITIES FOR 2014-15 AND
PERFORMANCE REPORT FOR 2012-13 OF THE
OFFICE OF THE AUDITOR GENERAL OF CANADA**

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

**David Christopherson
Chair**

MAI 2014

41st PARLIAMENT, SECOND SESSION

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIR

David Christopherson

VICE-CHAIRS

John Carmichael

Yvonne Jones

MEMBERS

Dan Albas

Malcolm Allen

Jay Aspin

Ted Falk

Alain Giguère

Bryan Hayes

Stephen Woodworth

CLERK OF THE COMMITTEE

Joann Garbig

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Daniel Benatuil, Analyst

Alex Smith, Analyst

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

SIXTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Main Estimates 2014-15: Report on Plans and Priorities for 2014-15 and Performance Report for 2012-13 of the Office of the Auditor General of Canada and has agreed to report the following:

MAIN ESTIMATES 2014-15: REPORT ON PLANS AND PRIORITIES FOR 2014-15 AND PERFORMANCE REPORT FOR 2012-13 OF THE OFFICE OF THE AUDITOR GENERAL OF CANADA

INTRODUCTION

The Office of the Auditor General of Canada (OAG) has an important role to play in helping parliamentarians hold the government to account for its use of public funds. It performs this role by providing independent and objective analysis through financial audits, performance audits and special examinations of Crown corporations.

In turn, the House of Commons Standing Committee on Public Accounts (the Committee) is responsible for holding the OAG to account for its spending plans, also known as its estimates, past performance, and future plans and priorities. The Committee reviews the OAG's performance report and its report on plans and priorities in conjunction with its annual consideration of the OAG's main estimates. All three of these documents are considered to be components of the Estimates.

The Estimates is comprised of three parts:

- Part I, called the Government Expense Plan, provides an overview of the federal government's spending requirements for the coming fiscal year;
- Part II, known as the Main Estimates, supports appropriation bills by outlining the estimated spending and authorities being sought by each federal organization; and
- Part III consists of two components—the reports on plans and priorities, which set out planned performance expectations for the coming year, and departmental performance reports, which report actual performance achieved as assessed against expectations.¹

The Committee held a hearing on the OAG's 2014–2015 Main Estimates, 2012–2013 Performance Report² and 2014–2015 Report on Plans and Priorities³ on 31 March

1 Office of the Auditor General of Canada (OAG), 2014–15 Report on Plans and Priorities, Ottawa, 2014, p. i.
2 OAG, 2012–13 Estimates – Performance Report, Ottawa, 2013.
3 OAG, 2014–15 Report on Plans and Priorities.

2014.⁴ The Committee heard from Michael Ferguson, Auditor General of Canada, and Lyn Sachs, Assistant Auditor General. The Committee presented its report on the 2014–2015 Main Estimates to the House of Commons on 2 April 2014. This report represents the Committee’s observations on the OAG’s Departmental Performance Report and its Report on Plans and Priorities.

PAST PERFORMANCE

According to its 2012–13 Estimates – Departmental Performance Report, the OAG had set three strategic priorities for 2012–2013:

- to implement its Renewal of Audit Methodology (RAM) project;
- to implement its Strategic and Operating Review (SOR) proposal; and
- to manage the transition to a new Auditor General.⁵

The OAG reported that the RAM project was fully implemented by 31 December 2012; that it expected to achieve the full amount of its planned budgetary and staffing reductions, in accordance with its SOR proposal, by 2014–2015; and that the transition to the new Auditor General, Michael Ferguson, was completed smoothly.⁶

During 2012–2013, the OAG conducted 29 performance audits and one study, 114 financial audits, and three special examinations.⁷ In this period, the OAG completed all of its planned audit work, except two financial audits and two special examinations. Of those two special examinations, one was cancelled due to the winding-up of the Canada Employment Insurance Financing Board and the other was postponed due to significant organizational changes in Canada Lands Company Limited.⁸

A. Committee Review

An ongoing objective of the OAG is that: “key users of [the OAG’s] reports are engaged in the audit process.”⁹ The OAG measures its performance in meeting this objective by the percentage of audits that are reviewed by parliamentary committees and by the number of parliamentary hearings and briefings that the OAG participates in relative to the number of sitting days. In 2012–2013, the OAG participated in 27 committee

4 House of Commons, Standing Committee on Public Accounts, Evidence, 1st Session, 41st Parliament, 31 May 2014, Meeting 19.

5 OAG, 2012–13 Estimates – Performance Report, p. 11.

6 Ibid., pp. 11–12.

7 Ibid., p. 8.

8 Ibid., p. 3.

9 Ibid., p. 16.

hearings, involving 30% of its performance audit reports, compared with 48% in 2011–2012 and 62% in 2010–2011.¹⁰

Michael Ferguson, Auditor General of Canada, distinguished the results between hearings by this Committee and by other Committees, stating:

[T]he number of hearings we have had with this committee has stayed stable for the last three years at about ... 13 or 14. Where we've noted a particular drop off has been with some of the other committees. Now if you go back further, even for this committee the number of hearings was higher, but over the last three years that has been more stable. But if you go back to 2010-2011 it was significantly higher.¹¹

When asked whether the Committee was studying the most important audits, he replied that all of the OAG's audits are important and that "it would be our preference for more and a larger percentage of the reports that we produce to have hearings."¹² Mr. Ferguson commented on the value of Committee hearings, stating, "I think there's no question there's nothing that sort of focuses the mind of departments like having to come in front of a committee and explain what they are going to do in terms of some of the things we noted [in a performance audit report]."¹³

Mr. Ferguson explained that while the OAG brings its audits to the attention of relevant committees, the decision to examine audits rests with committees and "[t]here's not much more that we can do other than make people aware that they exist."¹⁴ With respect to the audit reports prepared by the Commissioner of the Environment and Sustainable Development, Mr. Ferguson noted that "We haven't seen any uptake in terms of the [Standing Committee on Environment and Sustainable Development] holding hearings on those chapters."¹⁵

Mr. Ferguson indicated that the Public Accounts Committee has a role to play, even if a hearing is not held on a particular audit, noting:

I think that if the departments believe that they have to submit an action plan to this committee—which I understand they do—on each and every audit that we perform regardless of whether there's a hearing or not, I think certainly that sends the right message to the departments. ... We can't follow up on all audits, but any input that we get from the committee in terms of chapters that would be of interest to the committee for follow up, that could help as well.¹⁶

10 Ibid.

11 Meeting 19, 1615.

12 Ibid., 1555.

13 Ibid., 1615.

14 Ibid., 1545.

15 Ibid., 1700.

16 Ibid., 1630.

The Committee agrees with the Auditor General with respect to the importance of parliamentary review of the OAG's performance audits and commits to continuing its practice of holding hearings on performance audits, as well as asking for action plans from audited departments. The Committee also encourages other standing committees to hold hearings on the OAG's performance audits, as they provide useful objective information and advice on the management of government programs.

B. Implementation of Recommendations

As part of its ongoing objectives, the OAG also seeks to ensure that key users of its reports and the organizations audited respond to audit findings.¹⁷ For performance audits, the OAG measures, in follow-up audits, the percentage of recommendations examined for which progress is assessed by the OAG to be satisfactory. In 2012–2013, the OAG found that departments had made satisfactory progress in addressing 72% of the 25 recommendations reviewed, which is up from 62% in the previous year.¹⁸

Mr. Ferguson noted that the 25 recommendations examined in 2012–2013 are not necessarily a representative sample of all recommendations, but relate to issues that the OAG concluded were important to follow up.¹⁹ He did not attribute the improved result for this performance indicator to any specific change, but commented, "I think that departments, if they feel they are going to be held accountable for putting the recommendations in place, and the more they feel the pressure to put the recommendations in place the better that compliance rate is going to be."²⁰ When asked whether there is a difference in implementation based on whether a department appeared before a parliamentary committee, Mr. Ferguson replied that the OAG had not examined this issue.²¹

Mr. Ferguson also informed the Committee that the OAG is currently examining its performance indicators "to see whether they are still relevant, to see whether we are covering everything, and to see whether it's necessary to make any changes."²² The Committee believes that the OAG should continue to measure whether its recommendations are addressed by departments, but it may also be useful to examine what factors contribute to successful results and, on the other hand, what factors impede departmental progress.

17 OAG, 2012–13 Estimates – Performance Report, p. 16.

18 Ibid.

19 Meeting 19, 1655.

20 Ibid., 1635.

21 Ibid., 1655.

22 Ibid., 1605.

FUTURE PLANS

The OAG noted in its 2014–15 Report on Plans and Priorities that through a review of its strategic plan it had identified a new set of strategic objectives, which involve:

- articulating the value of its audits;
- reviewing its governance and decision-making practices;
- being efficient in the conduct of audits; and
- empowering its staff.

To achieve the first objective, the OAG will:

- prepare an annual summary report on its financial audit practice; and
- articulate more clearly the anticipated value of each performance audit.²³

In 2014–2015, the OAG expects to complete 95 financial audits, 27 performance audits and four special examinations. At the request of the Senate, the OAG is currently conducting an audit of the Senate of Canada.²⁴

A. Budget

In the 2014–2015 Main Estimates, the OAG requested an appropriation of \$67,947,936, as noted in Table 1, which also outlines the OAG's 2013–2014 Main Estimates and 2012–2013 expenditures. The total cost of the OAG's operations in 2014–2015 is expected to be \$95.2 million. This amount is higher than the main estimates; due, in part, to the inclusion of statutory employee benefits and services received without charge, such as office space.

23 OAG, 2014–15 Report on Plans and Priorities, p. 8

24 *Ibid.*, p. 1.

Table 1: Auditor General of Canada, 2014–2015 Main Estimates (\$)

	2012–2013 Expenditures	2013–2014 Main Estimates	2013–2014 Estimates to Date	2014–2015 Main Estimates
Budgetary Voted				
1 Program expenditures	78,095,897	74,100,653	74,100,653	67,947,936
Total Voted	78,095,897	74,100,653	74,100,653	67,947,936
<i>Total Statutory</i>	10,113,875	10,232,880	10,232,880	9,793,894
Total Budgetary	88,209,772	84,333,533	84,333,533	77,741,830

Source: Treasury Board of Canada Secretariat, 2014–2015 Estimates—Parts I and II, Government Expenditure Plan and Main Estimates, Ottawa, 2014, p. II-11.

Lyn Sachs, Assistant Auditor General at the OAG, provided a break-down of the components of the OAG’s budget, stating, “We spend about \$72 million in salary; about \$12 million in non-salary, which is generally professional contracts, IT-related purchases; and then another approximately \$12 million, which is services we’ve received that we don’t have to pay for.”²⁵ Ms. Sachs explained the main purposes of professional service contracts at the OAG, stating:

The general rule for having a professional contract is that on an audit, for example, there has been an assessed need for an expert. ... A percentage of our professional contracts are to help us during the peak season. ... Part of the \$12 million is also for transportation. ... For [all professional service] contracts, we follow very stringent rules for whether we go through an RFP, and we have various standing offers.²⁶

B. Strategic Objectives

Mr. Ferguson informed the Committee that the OAG’s review of its strategic plan had identified 12 areas of importance, from which four priority objectives were selected for implementation.²⁷ Mr. Ferguson elaborated on the priorities relating to employee empowerment and governance practices:

[W]e have a very high rate of our employees being proud of the work they do and where they work and I think that’s critical to what they do. Though we don’t want to rest on that and what we are doing is going through a process now of determining if there are other

25 Meeting 19, 1540.

26 Ibid., 1655.

27 Ibid., 1605.

ways that we can increase that level of engagement and empower our employees in the work that they do, again, to increase that level of engagement. In terms of the overall governance structure, what we are doing there is looking at the structure of the office at the most senior levels and also looking at how we go about making decisions within the government and are there ways of streamlining the process by which we make decisions.²⁸

When asked to prioritize the objectives, Mr. Ferguson responded:

I think the first thing we are doing is looking at the governance of the office, so that's probably the first thing we're doing, but probably more because it is a prerequisite for the others. Certainly the thing that is of most value to us is to make sure that what we do is adding value to parliamentarians. Understanding that value proposition that we bring is probably the most important of our four objectives.²⁹

The Committee supports the OAG's efforts to make its governance and audit practices more efficient, as well as to empower its employees. The Committee also believes that there is merit in assessing and articulating the value of the OAG's audits, and looks forward to reviewing the OAG's information in this regard.

C. Strategic Operating Review

In its Strategic and Operating Review proposal, the OAG committed to a budget reduction of approximately \$6.5 million and a staff reduction of 10%. According to its 2014–2015 Report on Plans and Priorities, the OAG had reached its planned staff levels and planned spending one year in advance of its target.³⁰ Ms. Sachs told the Committee that half of the staff reductions were achieved through administrative efficiencies and most of the rest came from reducing by 25 the number of financial audits conducted each year.³¹ Mr. Ferguson noted that the OAG will continue to do 27 to 30 performance audits each year and that it would need more funds only if Parliament requested the OAG to do more performance audits.³²

Mr. Ferguson informed the Committee on the budget allocation process followed by the OAG to ensure that it can achieve its mandate with the funding available through appropriation, explaining that:

When we are determining our workplan we start with the financial statement audits that we do because we have to do those and we have to do them every year, so they are regular work. The first part of our budget is carved out to complete those financial statement audits. Then we also have a mandate that requires us to do the special exams

28 Ibid., 1545.

29 Ibid., 1540.

30 OAG, 2014–15 Report on Plans and Priorities, p. 1.

31 Meeting 19, 1650.

32 Ibid., 1650.

on Crown corporations and for most Crown corporations we have to do a special exam at least once every 10 years. So we have a schedule that looks out over a 10-year period for each Crown corporation and when we have to do the special examination. That's the second piece that would come into our budget. Meeting those legislative requirements to do financial audits and special examinations would be the first things we take into account. Then with the balance that's left over, that's what we can devote to our performance audits. When we are deciding what we can do in terms of performance audits we do risk assessments of various government-type activities.³³

Mr. Ferguson indicated that the conduct of financial audits “takes up about half of the resources of the office.”³⁴

The Committee recognizes that any additional activities that the OAG may be requested to undertake could have budgetary implications. While Mr. Ferguson was not able to provide information on how much money the OAG would require to estimate the cost to audited departments of implementing its recommendations, he indicated that the OAG discusses its recommendations with departments to ascertain that they can be done reasonably.³⁵ Additionally, Mr. Ferguson commented that when the OAG receives an urgent request for audit work, “we look to see whether there are ways to incorporate those.”³⁶

Mr. Ferguson confirmed that the OAG would be able to meet its program objectives of providing objective information, advice and assurance to Parliament, territorial legislatures, governments and Canadians, as well as assisting parliamentarians and territorial legislatures in their work regarding the authorization and oversight of government spending and operations. The OAG would also continue to comply with professional standards and seek to deliver, to the extent possible, its audits on time and on budget.³⁷

The Committee notes that the OAG will fulfill its functions, meet all of its important objectives, and comply with all professional standards, even though the OAG has reduced its staff levels and reduced its spending by 7.8%, which was achieved ahead of the planned target date.

D. Senate Audit

In June 2013, the Senate of Canada adopted a motion inviting the Auditor General of Canada to conduct a comprehensive audit of Senate expenses, including senators' expenses. Mr. Ferguson informed the Committee that the OAG will be doing a compliance audit of the Senate and will be looking at the spending of each and every senator over a

33 Ibid., 1640.

34 Ibid., 1610.

35 Ibid., 1555.

36 Ibid., 1600.

37 Ibid., 1550.

two-year time period to determine whether senators' spending was for Senate business.³⁸ Mr. Ferguson observed that the OAG will be able to conduct the audit of the Senate with minimal impact on the OAG's other audit activities, that at the time of the hearing only one performance audit had been delayed due to the Senate audit, and that most of the resources required to conduct the audit of the Senate were found internally, in part through changes to the OAG's financial audit plans and through the re-assignment of other available auditors.³⁹

E. International Activities

With respect to its international activities, Mr. Ferguson indicated that the OAG is currently part of a team undertaking a peer review of the Government Accountability Office in the United States, and he has committed to have a peer review of the OAG done during his mandate. The OAG also participates in a Fellows Program that brings performance auditors from developing countries to get training in and work on performance audits in Canadian audit offices for nine months.⁴⁰

CONCLUSION

The Committee believes that the OAG performs an indispensable function by providing objective information and analysis to parliamentarians and Canadians through its financial audits, performance audits and special examinations. The Committee commends the OAG for its continued commitments to achieve the highest possible standard of professionalism in all of its audit work, for its efforts to achieve its mandate within its budgetary plans, and for continuing to look for ways to improve the efficiency and articulate the value of its audits.

38 Ibid., 1620.

39 Ibid., 1610.

40 Meeting 19, 1620.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Office of the Auditor General of Canada Michael Ferguson, Auditor General of Canada Lyn Sachs, Assistant Auditor General	2014/03/31	19

MINUTES OF PROCEEDINGS

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 19, 22 and 24](#)) is tabled.

Respectfully submitted,

David Christopherson
Chair

