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# **Standing Committee on Government Operations and Estimates**

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**Thursday, March 10, 2005**

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**Chair**

**Mr. Leon Benoit**

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## Standing Committee on Government Operations and Estimates

Thursday, March 10, 2005

•(1535)

[English]

**The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):**  
Good afternoon, everyone.

Today, this is the 24th meeting of our committee. Pursuant to Standing Order 108(2), we're dealing with the review of chapters 4 and 7 of the Auditor General's report, which deal with the foundations and the crown corporations' governance.

We have, as witnesses, from the Office of the Auditor General of Canada, John Wiersema, deputy auditor general, and Tom Wileman, principal.

Gentlemen, if you could make your presentations on these two chapters, then we'll go directly to the questioning after that. Thank you very much for coming today.

**Mr. John Wiersema (Deputy Auditor General, Office of the Auditor General of Canada):** Thank you, Mr. Chairman. We thank you for the opportunity to meet with your committee today to discuss two chapters from our February 2005 status report: chapter 4 on the accountability of foundations and chapter 7 on governance of crown corporations. Our status report consists of follow-up audits of issues raised in previous reports, issues that we believe are of the most interest to Parliament.

With me today, as you said, is Mr. Tom Wileman, a principal in our office.

Mr. Chairman, the Auditor General was planning to be here today, but unfortunately she had to attend a funeral out of town. She sends her apologies.

I will speak about each chapter in turn.

Since 1997, foundations have received more than \$9 billion from the federal government. The foundations carry out government programs but are independent corporations not accountable to Parliament through a minister. The money is paid in advance of need, and in fact most of it—\$7.7 billion—is still sitting in foundation bank accounts and investments.

Chapter 4 followed up on our 2002 audit, and despite improvements in areas such as reporting, we found that overall progress in the accountability of foundations was unsatisfactory. One concern was the lack of a provision for performance audit.

[Translation]

At present, our office does not have access to any foundation. Yet many foundations are active in areas also covered by government

programs. For example, both Technology Partnership Canada, a special operating agency within Industry Canada, and the Canada Foundation for Innovation, distribute public funding to improve Canada's innovation performance.

We believe that the Office of the Auditor General should have access to foundations to conduct performance audits. We recently provided a letter to the Public Accounts Committee in this regard and would be pleased to provide a copy of the letter to this committee.

Another concern relates to ministerial oversight. There are many reasons why the government could want adjustments to be made in foundations, including major policy shifts and federal-provincial agreements directly affecting foundations. However, no action has been taken on our recommendation that ministers be able to make adjustments where circumstances have changed considerably.

[English]

We also found that exemptions to the Treasury Board policy requiring that payments not be made in advance of need had been freely given for the transfers to the foundations. We recommended that the Treasury Board Secretariat review these exemptions. The secretariat has planned the review of the overall policy. However, it is not clear to us whether this review will also deal with the use of those exemptions.

As in earlier years, our observations on the government's financial statements in the 2004 Public Accounts raised concerns about the accounting for these transfers to the foundations. These concerns are summarized in the chapter. The government has recorded these transfers as expenses, although most of the funds remain in the foundations' bank accounts and investments accumulating interest.

I note that the accounting and the accountability issues are linked. At issue is whether the foundations are controlled by the government. If they are, then payments to them cannot be recorded as expenses, since the foundations would be within what's called the accounting reporting entity. Accountability improvements that increase government control may call more attention to the question of consolidation within the accounting entity under the accounting standards set by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Turning now to the crown corporations, another area where we had hoped to see more improvement is the governance of crown corporations that manage billions of dollars of taxpayers' money. However, overall progress in addressing recommendations from our 2000 audit has been unsatisfactory.

The chapter assesses the progress that the government and crown corporations have made in strengthening the governance of crown corporations since 2000. It also discusses recent developments in corporate governance elsewhere and their possible implications for the governance and accountability framework of crown corporations. At the time of writing the chapter the Treasury Board Secretariat's review of the governance of crown corporations was still under way and therefore our report does not reflect the measures proposed by the government. I will, however, address the government's report later in my statement.

Improvements that we recommended to strengthen the overall governance and accountability framework have not progressed as quickly and as far as we had expected. The government took more than three years to begin to address the key recommendations of our audit.

The timeliness of the government's appointments of board members, chairs, and CEOs is still a major issue. At the time of our audit in the 15 largest crown corporations, more than one-third of board members' terms had expired, some for more than a year. Four major corporations were operating without a permanent CEO. In fact the situation was worse than when we raised this concern in 2000.

The terms of board members are not staggered to ensure continuity of the functioning of the boards. One crown corporation was in the process of replacing or renewing the appointments of 8 of its 12 directors in 2004. We also identified 12 corporations in which the terms of the majority of their directors will expire in the same year.

In our chapter we also stress the need to clarify the relationships and expectations of the government regarding crown corporations. We found that there is no formal process for setting out high-level expectations of the responsible minister before the corporation's corporate plan is developed. We also found that there has been little progress in assessing the capacities and skills needed by the government to review corporate plans and ensure the continuing relevance of crown corporation mandates.

We did, however, find a number of improvements. Individual crown corporations have improved their governance practices since our last audit. The most notable improvement is in the area of audit committees. In general, audit committees now have stronger financial skills and abilities and consequently have been more effective in carrying out their responsibilities. We also found that some audit committees have improved their oversight of corporate risk management and the internal control environment.

[*Translation*]

We noted that most Crown corporations now have director profiles that reflect the skills and abilities needed to oversee the affairs of the corporation. It will be important to ensure that a rigorous appointment process is in place to meet the needs identified in these profiles.

Finally, recent developments in the private sector continue to focus on corporate governance. Expectations in this area are increasing and will require more attention in the public sector.

• (1540)

[*English*]

The emerging private sector practices that we think are the most relevant to crown corporations are the following: first, ensuring that the board plays a key role in its own renewal and in particular in the selection of the chair and the CEO; second, strengthening the independence of boards and audit committees; third, requiring that the mandate and operations of the board be defined; fourth, strengthening corporate values and ethics practices; and finally, improving the quality of reporting and disclosure.

Two days after we tabled our report the Treasury Board Secretariat tabled its report on the governance of crown corporations. Overall, many of the proposed measures in this report are aimed at addressing issues we also raised in our follow-up report. Some of these proposals will require legislative changes.

The committee may wish to examine both the proposed measures and the government's implementation plan and timetable to ensure that they are addressed on a timely basis.

That, Mr. Chairman, concludes my opening statement. We would be pleased to answer any questions the committee may have.

**The Chair:** Thank you very much for your presentation.

We will go to questioning. I have some questions of my own, but I'll wait till later in the meeting and see if they're asked by others.

Mr. Preston, you have seven minutes.

**Mr. Joe Preston (Elgin—Middlesex—London, CPC):** Thank you very much, Chair, both for waiting with your own questions and for allowing me to go first.

Thank you for coming here again today and visiting with us. I have some questions from your report, but let me start off on the crown corporation side. That's where we've spent a fair bit of time in the last little while.

You mention in your report of 2000 that you requested or asked for the strengthening of the appointment process in crown corporations. This year there's been a plethora of the strengthening of appointments to crown corporations. On March 23, a set of guidelines came out, followed in April by a similar set of guidelines, somewhat weaker; then the Treasury Board report came out and revamped that procedure again—I say it is somewhat weaker again—leaving out some fairly strong clauses that were in both the March and April reports.

Can I have your opinion on that?

**Mr. John Wiersema:** Mr. Chairman, with the particular appointment process the government uses, ultimately it's a decision of the government, subject to a review by Parliament. When we did the audit work behind chapter 7, the appointment process you refer to, announced in March of 2004, was still in the process of being implemented. We said in the chapter it had not yet been fully implemented.

As I said, I think the final appointment process the government wants to use is up to the government, but anticipating this question, I thought I'd describe what I thought would be the essential characteristics of such a process. I identified a number of them.

First, it should be a rigorous process. The process should be respected for all appointments; exceptions should be properly justified, and the reasons therefor made public, in our view—and that's something we said in the report. We believe the board profiles we talk about—the profiles of the skills and abilities required by boards of directors—are key to that process. We believe board involvement in its own renewal is important; the board should play a key role in the appointments process and in their own role.

We think the appointments should be timely, and there should be continuity in the appointments. As I mentioned in my opening statement, there are some problems presently with the timeliness of the appointments and with appointments that have expired, in some cases for more than a year.

Finally, and perhaps quite importantly, with respect to the CEO appointment—in our view, the board should play a lead role in the appointment of the CEO of a crown corporation, to reinforce the accountability of the CEO to the board of directors.

**Mr. Joe Preston:** I'll ask you a direct question then. You mean it should not be a governor in council appointment, but a board's search project, and it happens through the recruitment process of the board?

**Mr. John Wiersema:** I didn't go so far as to say it shouldn't be a governor in council appointment, but we think there should be a lead role for the board in the appointment of the CEO.

**Mr. Joe Preston:** Okay. As I read the report, the Treasury Board is asking that the government play the role of both the shareholder and the boss in this situation. I think it's a conflicting one, so I agree with you that the board of directors might be a better place for the search process to happen.

If I can also ask, or show, that between the two processes—the very strict one in March and then the weaker one in April—and now we've talked about defining selection criteria for members of boards and CEOs... I find it incredible that one sentence in the original harsh ones, talking about how the personal suitability could include attributes such as ethical character and sound judgment, has somehow gone missing in the latest selection criteria. I would think it might be an important criterion to have on our crown corporations, but somehow it's been left out.

You talked about the number of vacancies in our crown corporations right now. You're talking about a full one-third of all the positions on our crown corporations currently being empty. Could you give me some thought process as to why, in your opinion, we're sitting here with so many vacancies?

• (1545)

**Mr. John Wiersema:** Why? No—

**Mr. Joe Preston:** Might I suggest we're waiting for an appointment process making it a little easier to get people in?

You also suggest in your report...and I'll question the Treasury Board report also, since it followed the Auditor General's report—the Treasury Board report makes these as suggestions, and makes them as criteria to be followed, but with no real timeline. It doesn't say we're going to start using these things tomorrow. I've followed up, and I've read again, and although they're guidelines, it doesn't say to start using them. Are you worried by that?

**Mr. John Wiersema:** Yes, Mr. Chairman. As I indicated in my opening statement, I think the member raises a very good point. In one of the paragraphs of my opening statement, I suggested that the committee may wish to follow up with Treasury Board Secretariat on the implementation plan behind the President of the Treasury Board's report, including the timelines for the implementation of all the measures described therein.

**Mr. Joe Preston:** Great.

Onto foundations for a quick question, if I could, and then someone else may follow up on some of the crown corporation stuff.

You request, in your report, the ability to do performance audits on the foundations, on that amount of money, that \$7.7 billion that's sitting around and is not being used. I know what a financial audit is, having been in business, but a performance audit is something different. You're not asking for the ability to always do the financial audit on these foundations, you're asking for the ability to do performance audits. Please describe, as succinctly as you can, what the difference between the two is.

**Mr. John Wiersema:** The member is exactly correct, Mr. Chairman. The key point for us is the ability to be able to do performance audits on these organizations, particularly in situations in which the foundations are involved in areas of government programming that other government organizations are involved in.

One of the unique features the Office of the Auditor General can bring to its work, in addition to the fact that we serve Parliament, is that we can also provide a whole-of-government view in our audit work, as I mentioned in my opening statement. For example, in innovation, if the Office of the Auditor General were to do some audit work in the area of government programs on innovation, then given that one of the major tools or organizations delivering innovation programming right now is the Canada Foundation for Innovation, we think it would be appropriate for the Auditor General to be able to audit the Foundation for Innovation's programming in this area.

On the question about the essential differences between the financial audit and a performance audit, the financial audit focuses on the financial statements of the organization. There are balance sheets, there are profit and loss statements, and income statements, which are also called statements of cashflows. The financial audit provides assurances to the users of those financial statements that those financial statements are reliable, have been properly prepared, and can be used for decision-making.

The performance audit goes beyond the numbers. The performance audit asks if the program is being well managed. The words in our legislation talk about it being managed with due regard for economy and efficiency. Are there measures in place to be able to determine the effectiveness of those programs?

**The Chair:** Thank you, Mr. Preston. Your time is up.

Mr. Sauvageau, for seven minutes.

[Translation]

**Mr. Benoît Sauvageau (Repentigny, BQ):** Good afternoon, gentlemen.

I am going to talk about foundations straight away, because I am particularly interested in that. In April 2002, it was recommended, in the Auditor General's report, that the Office of the Auditor General be the external auditor of foundations. The Public Accounts Committee, in May 2003, made the same recommendation. In its February 2005 report, the Office of the Auditor General reiterated its request. Last February, the conservatives tabled a motion in the House—which was carried—that the Office of the Auditor General be the external auditor of foundations. You say, at point 5 of your statement today:

We believe that the Office of the Auditor General should have access to foundations to conduct performance audits.

That seems clear to me. The government response to that is:

With respect to the appointment of their external auditor, the government believes that the independence of these not for profit organizations and the requirements of their incorporation, demand that this decision be left to the membership.

I'd like to hear what you have to say about the independence of foundations and the "interference" that an external audit by the Office of the Auditor General would entail. How could a performance audit by the Office of the Auditor General interfere with operational strategic decisions in the mandate of foundations? I don't understand. Can you explain it to me?

• (1550)

**Mr. John Wiersema:** Thank you, Mr. Chairman.

I apologize, Mr. Sauvageau, for answering in English, but I want to be very clear.

[English]

First, the member is quite correct in pointing out that there has been an evolution in the office's thinking with respect to the audit of foundations. Previously we took the position that the Auditor General's office should be the auditor of these organizations. Our position has evolved, partly in response to ongoing discussions with the government and partly in recognition of the fact that the Auditor General has no concerns with the financial audits that are being done on those foundations. We believe the private sector auditors following professional standards are quite capable of performing the financial audits in those organizations.

We think in particular, though, because of the Auditor General's unique role in serving Parliament, and the Auditor General's unique position of being able to look at the whole of government, that the Auditor General should be able to get into those foundations in order to do audits in areas of government programming where the

foundations are involved. The performance audits are what we have in mind there.

On the issue of the independence of the foundations and the fact that an audit by the Auditor General's office might somehow or other impair the independence of those organizations, I share the member's concerns. I don't understand how an audit by Parliament's auditor would somehow make those organizations less independent. That would probably be a better question for government.

[Translation]

**Mr. Benoît Sauvageau:** I fully agree with you. I sent a letter today to all of my colleagues and I'll give it to you later. On Monday, March 21, the House will debate Bill C-277, an Act to amend the Auditor General Act. I'm the one who put forward this bill to enable you to be the external auditor of foundations and Crown corporations. My conservative and NDP colleagues have said they would support Bill C-277, and Mr. Reg Alcock said in his speech that he would like to have a committee consider it, but that he had some amendments to make to it in order to improve it. I'm completely open to that, because I don't think I drafted a perfect bill on the first attempt. I also think that the Office of the Auditor General should give us some guidance on that.

I'm sure you've seen Bill C-277. Do you think it's a step in the right direction and that the committee could improve on it so as to satisfy the Office of the Auditor General?

[English]

**Mr. John Wiersema:** We are aware that Bill C-277 is scheduled for debate in the House on March 21. I expect after that it'll be referred to the public accounts committee for detailed study.

We are quite looking forward to appearing before the public accounts committee to present our views on that bill. We think it's a step in the right direction. We're hopeful that in working with the public accounts committee, the House, and government, we will be able to resolve this long-standing issue.

The Office of the Auditor General is quite prepared to work with that bill as a basis for going forward—or any other bill that might be put forth—as long as we can get to the ultimate objective, as I explained in my opening statement, that the Auditor General has access to those foundations for the purpose of doing performance audits. There are various vehicles for doing that, and one would obviously be Bill C-277. We look forward to having a discussion.

[Translation]

**Mr. Benoît Sauvageau:** Thank you very much.

[English]

**The Chair:** Thank you, Monsieur Sauvageau.

Mr. Szabo is next for seven minutes.

**Mr. Paul Szabo (Mississauga South, Lib.):** Thank you.

How many foundations are there?

• (1555)

**Mr. John Wiersema:** It depends on one's definition of foundations.

**Mr. Paul Szabo:** Give me a rough number.

**Mr. John Wiersema:** The Treasury Board's report on crown corporations and other corporate interests identifies 141 shared governance organizations. Some of them are pretty small. But the foundations of interest to the Office of the Auditor General—

**Mr. Paul Szabo:** That's okay. There are approximately 140.

**Mr. John Wiersema:** That's right.

**Mr. Paul Szabo:** That's my understanding as well.

You reported in your statement that foundations—corporations are also here—are not accountable to Parliament through a minister.

Can you very briefly identify the essential elements that constitute accountability? What does accountability mean?

**Mr. John Wiersema:** Mr. Wileman has done some work on the essential elements of accountability to Parliament.

**Mr. Paul Szabo:** Give me just two or three of the principal items that would demonstrate accountability.

**Mr. John Wiersema:** I'll ask Mr. Wileman to respond to that question, Mr. Chairman.

**Mr. Tom Wileman (Principal, Office of the Auditor General of Canada):** Thank you very much, Mr. Chairman.

In our audit report, we put together our criteria for identifying accountability issues in the form of a framework. I'll touch on the main headings of that framework. It's reproduced, by the way, as appendix C to our 2005 audit report chapter.

The main headings are: reporting to Parliament and the public; external audit and evaluation regime; and ministerial oversight. There are details within those, if the member would like me to elaborate.

**Mr. Paul Szabo:** You said “ministerial oversight”?

**Mr. Tom Wileman:** Ministerial oversight, yes.

**Mr. Paul Szabo:** That's accountability.

**Mr. Tom Wileman:** We have suggested, Mr. Chairman, that these are the essential elements for accountability to Parliament.

**Mr. Paul Szabo:** To Parliament. I asked you about what accountability is.

**Mr. Tom Wileman:** We have a larger framework, Mr. Chairman, that we used in a previous audit—

**Mr. Paul Szabo:** That's all right. I have to move on.

External audits include, among other things, an internal control memorandum that deals ostensibly with safeguarding of assets; it makes sure the systems are in place to safeguard those assets. They also include a management report. The management report would deal with such matters as the legality of your operations and how you conduct them, waste areas, risk areas, governance issues, and also how you are performing in conformance with the mandate from the board or the contract under which you are operating, or basically the objects and mandate of the organization. Is that correct?

**Mr. John Wiersema:** Mr. Chairman, I'm quite familiar with both the documents the member refers to because we in the Office of the Auditor General issue similar documents in the context of our financial audits. I would point out to the member, though, that those documents, both in the public and private sector, include disclaimers.

They include only the matters that came to the auditor's attention during the course of the work for purposes of—

**Mr. Paul Szabo:** That's universal to all auditor opinions, though.

**Mr. John Wiersema:** Well, it's universal to the work involving auditors' opinions on financial statements.

**Mr. Paul Szabo:** They can opine only on things that they have become aware of, not on things they didn't become aware of. I understand that.

So an external audit covers a lot more than just preparing or checking the balance sheet, and the PNL. There are other things you must do as an external auditor.

**Mr. John Wiersema:** I would disagree, Mr. Chairman. The objective of an annual financial audit is to express an opinion on the financial statements. Other matters coming to the auditor's attention during the course of that audit might be communicated in the form of an internal control memorandum. The audit isn't designed to find those matters. It's only designed to give an opinion.

**Mr. Paul Szabo:** Under the practices of the Canadian Institute of Chartered Accountants and the handbook on all other good things, you do have to do an assessment of internal controls—

**Mr. John Wiersema:** You have to assess the internal controls.

**Mr. Paul Szabo:** —as part of the financial audit, right?

**Mr. John Wiersema:** You have to assess the internal controls that you intend to rely on, sir.

**Mr. Paul Szabo:** So we agree.

That all happens in external audits. What different things happen in a performance audit that may not happen in the audit by an external auditor?

**Mr. John Wiersema:** Fundamentally, Mr. Chairman, the objectives of the audits are different. The objective of an audit of financial statements, the external audit the member refers to, is to give an opinion on the financial statements.

**Mr. Paul Szabo:** What are you going after in a performance audit that is not covered by the external audit?

**Mr. John Wiersema:** In a performance audit, the objective of the audit is to determine whether the area subject to audit is well managed. It's a much broader objective, as opposed to just determining whether or not the financial statements are fairly presented. So fundamentally, the audits are quite different by virtue of the fact they have different objectives.

**Mr. Paul Szabo:** Okay. You are trying to determine whether they're well managed.

Now, are the foundations that we have right now all required to have an external audit?

**Mr. John Wiersema:** The ones of interest to the Office of the Auditor General are.

•(1600)

**Mr. Paul Szabo:** Actually, all 300 are, except for, I think, two minor ones that I've seen on the list that report to this committee. Ostensibly, virtually all of them have external audits, and they produce annual reports. Do those annual reports all have to go to the minister?

**Mr. Tom Wileman:** My understanding is that some of them do and some of them don't. Not all of them have to go to the minister. All of them, however, are made public, of the ones that we looked at, sir.

**Mr. Paul Szabo:** Yes, the 54 that come to this committee all have annual reports. They all have to go to the minister and all have to be tabled in Parliament. Some of them are a little different.

Now, lastly, we have the term "well managed". If there is, for instance, the Millennium Scholarship Fund, and there is some administration involved, obviously, in discharging the program but the mandate is fairly clear, would the Auditor General, in performing a performance audit, go in and try to figure out whether or not there might be a better way to do what you're doing? Or would they be there trying to determine whether what you're doing is reasonably well managed?

Management consultants can go in and say they can find a new technology that could have you do it a little bit better. Are we talking about whether you are appropriately managed, whether you are in the range, or whether you could do something to get better value for the dollar?

**Mr. John Wiersema:** Fundamentally, the performance audit would not question the policy decisions that were made in deciding what particular activity is being delivered here. We won't go back to question the policy decisions. We will focus primarily on whether the programming as designed by the department is being effectively carried out.

In some situations, we might ask whether the department or the organization has considered alternatives, whether they are able to demonstrate that they've considered alternatives, and that the particular programming they've chosen is effective.

This gets me back into the measures to determine the effectiveness part of the Auditor General's mandate. We, ourselves, will not determine the effectiveness, but we'll ask the department or the organization itself how they know its programs are effective.

**The Chair:** Thank you, Mr. Szabo.

Mr. Lauzon, for seven minutes.

**Mr. Guy Lauzon (Stormont—Dundas—South Glengarry, CPC):** There are a lot of questions.

First of all, thank you for coming. We appreciate your presence here.

I'll start with the crown corporations. You say in your presentation that in the 15 largest crown corporations, more than one-third of board members' terms had expired. What kind of effect would that have on a company or, in this case, a crown corporation?

**Mr. John Wiersema:** I think, Mr. Chairman, it puts at serious risk the continuity and the effective functioning of the board if they are

dealing with a large number of turnovers or with instability as to the ability of some board members to continue to serve.

Exhibit 7.1 in chapter 7 of the report identifies the specific corporations where board members' terms have expired. I might call a couple of them to the committee's attention. Export Development Canada has 11 directors. At the time we did our audit work, six of those directors were serving and their terms had expired, in some cases for over a year. Export Development Canada is a huge corporation.

**Mr. Guy Lauzon:** Did you say that for the six that were serving, some of their terms had expired?

**Mr. John Wiersema:** Yes.

**Mr. Guy Lauzon:** Out of 11.

**Mr. John Wiersema:** For more than half of the board, their status was uncertain in continuing as a director of the corporation.

**Mr. Guy Lauzon:** But they were still there.

**Mr. John Wiersema:** In a \$20 billion-odd company.

•(1605)

**Mr. Guy Lauzon:** If this were a board of directors and we had a full board here, I think it would be important to keep the whole board intact because I would think each of us would bring some expertise to that board. So would you think that these crown corporations, if they're missing a third of their members, would be managed less effectively than if they were at full complement?

**Mr. John Wiersema:** Under the Financial Administration Act, directors, except for the chair of the board, continue to serve until they're replaced. Our report says that at Export Development Canada, the average length of time for those six members whose terms had expired was 439 days. What kind of effect does that have? I think that potentially seriously impairs the ability of that board to operate as an effective governing board.

**Mr. Guy Lauzon:** Are you prepared to suggest why that might be?

**Mr. John Wiersema:** That's a question best directed to the government, Mr. Chairman.

**Mr. Paul Szabo:** Or to the board.

**The Chair:** Order, please.

**Mr. Guy Lauzon:** We'll ask that of the government.

You say here that one crown corporation was in the process of replacing or renewing eight of the 12. Can I ask which corporation that was?

**Mr. John Wiersema:** Yes, you can, Mr. Chairman. It's the Canadian Broadcasting Corporation.

**Mr. Guy Lauzon:** That is interesting.

**Mr. John Wiersema:** I should point out, Mr. Chairman, that those board member appointments are governor in council appointees. Ultimately, it's the governor in council that has to appoint the members of the board, based on recommendations and input, obviously, from the boards themselves.



**Mr. Guy Lauzon:** Switching gears here, because, as I said, there is a lot to ask about, I'd like to turn to the foundations. Large amounts of money, in the neighbourhood of \$9 billion, were transferred to these foundations. Am I right in assuming that \$7.2 billion is sitting there in these foundations collecting interest?

**Mr. John Wiersema:** As at March 2004, Mr. Chairman, the amount was \$7.7 billion.

**Mr. Guy Lauzon:** So that money is just sitting there. You also say that Treasury Board is not supposed to put the money in there unless it's required.

**Mr. John Wiersema:** The Treasury Board has a policy on transfer payments. That policy states that transfer payments should not be made in advance of need. In order to transfer the \$9 billion to the crown corporations in advance of need, the government had to seek exemption from the Treasury Board policy.

**Mr. Guy Lauzon:** Why would they put it in if it wasn't needed? Why would \$7.2 billion be sitting there?

**Mr. John Wiersema:** Another question, Mr. Chairman, that I would suggest is better directed to the government.

**Mr. Paul Szabo:** Or an independent—

**The Chair:** Order, please, Mr. Szabo.

Continue, please, Mr. Lauzon.

**Mr. Guy Lauzon:** Let's say, if I were to assume...it would be pretty much like a guy hiding money from his wife, wouldn't it? You know, that slush fund we have over on the side. Would it be a way of hiding...? For example, let's say the government had a \$9 billion surplus and there was another \$7 billion tucked away in these foundations, for all intents and purposes that would mean there was \$16 billion that we could say the taxpayer was overtaxed for, unnecessarily brought into the coffers.

**Mr. John Wiersema:** I don't think it would be appropriate for the Office of the Auditor General to go quite that far, Mr. Chairman.

What we have said is that those transfers to the foundations do affect the reported surplus in the year in which those transfers are made, and I should point out, too, that the \$9 billion was transferred over a considerable period of time, since 1997.

**Mr. Guy Lauzon:** Five years.

**Mr. John Wiersema:** So when those transfers are made they do reduce the government surplus in the year in which the cash is actually transferred, or shortly thereafter in some cases. It's recorded as an expense. And in our observations on the public accounts of Canada for a number of years now we have questioned that accounting treatment. We've questioned whether or not the substance of the transaction might be better accounted for as an increase in government expenses and therefore a reduction to the surplus in the year in which it's actually used for the ultimate intended purpose. We've mentioned that concern a number of times.

The public sector accounting board, the standard setter for government financial statements, has recently issued a new accounting standard on the government reporting entity, which takes effect, in the case of the Government of Canada, for the year ending March 31, 2006. We are at present and we will continue to be in active discussions with the government on the implications of

applying this accounting standard and how it might affect how the transfers to the foundations are accounted for.

**The Chair:** Thank you, Mr. Lauzon.

Seven minutes, Monsieur Godbout.

**Mr. Marc Godbout (Ottawa—Orléans, Lib.):** Thank you, Mr. Chair.

Thank you for being here today.

Would you say, in your evaluation, that the government going into foundations is not a sound practice? Are you against government putting money in foundations? Basically, that's what I'm asking.

• (1610)

**Mr. John Wiersema:** Not at all, Mr. Chairman.

The Auditor General has repeatedly said that we don't question the merits of the use of foundations as a vehicle for delivering government programs. We don't question the integrity or the legitimacy of the business of these foundations. They may be doing good things; we don't know because we can't audit them. They may in fact be a good vehicle for delivery of government programs.

We have suggested, I believe—and Mr. Wileman can help me here—that the government might wish to do an evaluation of its cumulative experience with the use of foundations as a delivery vehicle to see what aspects of that particular vehicle are functioning well and what might need improvement. I don't believe the government has taken us up on that recommendation yet.

**Mr. Tom Wileman:** No.

If I may, Mr. Chairman, we recommended in 2002 that the Treasury Board Secretariat develop an evaluation framework and undertake a government-wide evaluation of the use of arrangements such as foundations as instruments of public policy and that the results of this evaluation should be reported to Parliament.

The response we received to that recommendation from the government indicated that they did not wish to pursue that.

**Mr. Marc Godbout:** In your evaluation of the whole-of-government accounting, have you found in some instances that in fact foundations have saved the government quite a bit of money by going in that direction? I know you can't audit the foundations, but you are aware of what certain of these programs cost before.

Have you undergone that exercise?

**Mr. John Wiersema:** No, Mr. Chairman, we haven't.

**Mr. Marc Godbout:** I have another question.

You're saying you're surprised that \$7.7 billion is sitting in the foundations. I've been involved in many foundations in the past, and some were alumni foundations. It made sense that these organizations did not spend the capital investment, because they were using the interest to subsidize their operations. If I understand what a foundation is about, usually this is what we're talking about.

So why are you surprised to see that \$7.7 billion is still in the foundations? Are you talking about the interest they're not spending, or the actual initial investment for them to pay their operations?

**Mr. John Wiersema:** Mr. Chairman, the member raises a very good issue. Some of the funding agreements for some of the foundations require that the operations of the funding should only be paid for out of the investment income earned. I believe the Pierre Elliott Trudeau Foundation is one example of that. Others contain no such provisions. They are expected to use the money over some specified period of time.

**Mr. Marc Godbout:** Of the \$7.7 billion, how much would you say is identified money that should not have been spent?

**Mr. John Wiersema:** I would suggest it's probably a pretty small amount, Mr. Chairman.

**Mr. Marc Godbout:** I think you should find out, because this leads us to believe these moneys should have been spent when they actually were not even authorized to be spent. That's my point.

**Mr. John Wiersema:** I should clarify, Mr. Chairman, that our point is not the fact that the moneys are sitting there and are perhaps available for use as foundations might use them; our point on the \$7.7 billion is that it is paid in advance of need and requires an explicit exemption from Treasury Board policy.

Some of the foundations are expected to spend the interest and the return on the investment, as well as the initial capital fund over, let's say, a ten-year period. I believe that's the case for the Canada Foundation for Innovation. It has been funded up front for that ten years of operation. The question we're raising is about the funding in advance of need and the need for exemptions from Treasury Board policies, which suggest or which require that the funding not be provided in advance of need.

**Mr. Marc Godbout:** So it actually depends on the nature of the foundation.

You were talking about performance audits. Performance audits and financial audits are two different things. You've explained that, and I fully agree with what you're saying.

They do need, however, different expertise and some expertise on the particular nature of these foundations. Would the Auditor General have that particular expertise in all of the various spectrums of foundations, or would you have to rely on external expertise to help you do these performance audits?

**Mr. John Wiersema:** The mandate of the Office of the Auditor General presently extends to all of the federal government, and the federal government's areas of business are quite diverse. We have various experts available on staff in the Office of the Auditor General. We have management experts, economists, sociologists, and engineers, who we bring to bear on the audits when necessary. Where we identify the need for a particular skill set on an audit and do not have it available on staff, we arrange for that on a professional services contracting basis.

•(1615)

**Mr. Marc Godbout:** Could that not be performed by these foundations through external audits? Would they have to be by the Auditor General?

**Mr. John Wiersema:** I think the difference between having the work done by the private sector and the Office of the Auditor General is primarily twofold. One, the Office of the Auditor General is a servant of Parliament, and we enjoy a unique working relationship with Parliament and an ability to report directly to Parliament on a regular basis. Two, the Office of the Auditor General, as I mentioned before, is able to provide a perspective on the whole of government. We are able to audit government programs and initiatives—IT security is an example that was included in this report recently—from a whole-of-government perspective.

I used the example of innovation earlier, Mr. Chairman. The Office of the Auditor General could do audit work on the government's innovation agenda from a whole-of-government perspective. We think that perspective should also include foundations that are involved in innovation programming.

Another area that is relevant, Mr. Chairman, is climate change. I know the Commissioner of the Environment and Sustainable Development is contemplating work in the area of climate change. Many of the foundations are involved with climate change. In order to effectively audit climate change, we think it would be helpful if the Auditor General could also audit the programming delivered by foundations involved in this area.

**Mr. Marc Godbout:** I'm not finished, Mr. Chairman.

**The Chair:** Thank you, Mr. Godbout. You'll probably get another opportunity if you'd like.

There was a question asked earlier on the amount of the \$7.7 billion that is sitting in foundations now and is in endowment funds. It's exhibit 4.2 of the Auditor General's report, and it's \$416 million out of \$7.7 billion—and I thank the researchers for that information.

**Mr. John Wiersema:** Me, too. Thank you.

**The Chair:** Just as a follow-up on this questioning about the \$7.7 billion that's sitting in foundations, is there anything that would prevent a government, should it start running deficits down the road, from pulling that money out and using it to balance the budget?

**Mr. John Wiersema:** That's a good question. I'll ask Mr. Wileman to elaborate, but I think there are provisions in the funding agreements that provide for recovery of unspent funds upon the wind-up of a foundation. I'm not aware—Mr. Wileman can clarify—of any provisions in the funding agreements for the government to recover unspent moneys if it changes its mind.

**Mr. Tom Wileman:** Mr. Chairman, there are indeed provisions with respect to matters that are extreme in nature, for example, default or wind-up. Wind-up would be a condition of default, for example. There are other conditions of default. Should that arise, there are provisions in funding agreements for the recovery of the funds paid, the federal moneys paid to the foundations.

Other than that, there are not provisions for the money to be returned.

**The Chair:** Does that mean if the government decided as a policy change that these foundations should end at any time, then as a matter of wind-up the money could be withdrawn? Is that what you're saying, or not?

**Mr. Tom Wileman:** To the question of wind-up, I think it would arise, for example, in the context of finding of default of some nature. That's a typical provision in funding agreements.

Given the funding agreements, unless there is a condition that causes a default to occur, the government unilaterally cannot wind up a foundation. A wind-up could occur for a number of reasons, of course, and should that occur, having to do with a failure of some sort in the operations of the foundation, then the government could recover the money.

**Mr. John Wiersema:** Perhaps, Mr. Chairman, to more directly answer your question, the funding agreements do not contemplate the return of funds in the event the government's fiscal situations were to change.

**The Chair:** Okay. Thank you.

Does that mean it couldn't happen?

**Mr. John Wiersema:** It's not contemplated in the agreements—

**The Chair:** Unless there's some type of a default. What's the terminology used?

• (1620)

**Mr. John Wiersema:** If I may, Mr. Chairman, indeed if there is a default of some nature.... The funding agreements differ. In some cases, if there's a default and there's a disagreement as to whether there is a finding of default or not, it can go to arbitration. These are also provisions in some of the funding agreements.

It can be fairly complex, depending on the foundation and depending upon the funding agreement, but certainly if there was a sustained finding of a default, then the government could recover the money.

**The Chair:** For the committee, could you just put together some reference information where we can go to look at that issue and really determine whether in fact this money could be gotten at in some way, let's say?

**Mr. John Wiersema:** I think the point Mr. Wileman is making, Mr. Chairman, is that in the event of a default, yes, the money could be gotten at. In the event of the government changing its mind as to the use of the funds or the recovery of funds—that goes to Mr. Wileman's point, and we made it in the opening statement as well—we think there should be a mechanism for ministerial intervention and correction. For the minister to say, okay, we have changed our plan for climate change or we have changed our strategy for innovation, we want you to now spend the moneys differently, or we want to recover those moneys.... We think such a mechanism should exist. It does not presently exist.

**The Chair:** Oh, very interesting. I can see where that could cause a problem.

For the next five minutes, starting a second round of questioning, Mr. Preston.

**Mr. Joe Preston:** Thank you very much.

I have one quick question on what we were just discussing. Do any of the foundations have a wind-up date, or are they all set in perpetuity?

**Mr. Tom Wileman:** Yes, some of them have, for example, a term. I'll give you an illustration. The genome foundation, Genome Canada, has a five-year term. It's indicated, for example, in recent budget papers that they will do an evaluation of Genome Canada. The five-year term comes to an end, as a matter of fact, this March 31, 2005, coming up right now.

Other foundations have a longer term, and in some cases, Mr. Chairman, there is no clear indication of what the term is.

**Mr. Joe Preston:** You mentioned in your opening statements today a couple of points, and one you touched on was ministerial oversight. You said your concern relates to ministerial oversight. There are many reasons why the government could want adjustments to be made in the foundations. Have they not put this ministerial oversight clause into the set-up of the foundations, or have they, and you don't like that it's there?

**Mr. John Wiersema:** We don't think there's a sufficient mechanism in the existing funding agreements for the government to intervene—

**Mr. Joe Preston:** To control funds it's given to—

**Mr. John Wiersema:** —in the event of a change in policy or in the event of wishing to recover the funds, for example.

**Mr. Joe Preston:** Can this ministerial oversight statement be put in after the fact?

**Mr. John Wiersema:** It would have to be negotiated in the agreements on a go-forward basis.

**Mr. Joe Preston:** The other one that troubles me, and I think, as you said, it troubles you, is payments being made in advance of need. I'm pretty good with, if it's due, let's make the cheque. But if it's not due, as Mr. Lauzon said, why is it being stashed away someplace? Why are we making these payments ahead of need?

You stated in here that this has been given freely to the foundations to do. Do you want to follow up on that a little bit more? You'd like to take that ability away or...

**Mr. John Wiersema:** We think, Mr. Chairman, that the Treasury Board policy prohibiting payments in advance of need is a sound policy. Bills should be paid when they're due. There have been a number of exemptions from the policy in order to make the transfers to the foundations. We have encouraged the secretariat to review the use of those exemptions and the reasons therefor and to tell us if they're justified.

**Mr. Joe Preston:** In a performance audit, is some of this stuff what we'd be looking at also? If we were doing a performance audit of a given foundation, we'd be looking at payments in advance of need and those types of performance criteria.

**Mr. John Wiersema:** The issue of payments in advance of need, Mr. Chairman, deals more with the government's operations with the foundations, as opposed to the foundations' delivery—

**Mr. Joe Preston:** Rather than the operation of the actual foundation?

**Mr. John Wiersema:** Yes.

**Mr. Joe Preston:** All right.

If I can revert back to crown corporations, one of my favourite subjects is the appointment of directors and chairs and such.

I'll go back to April 23, which of course was the softening of the March recommendations, but it talks about reappointments. Since we're dealing with fully a third of all positions that are open in some of our crown corporations right now, reappointments may be the way we'll get around some of this. But it's stated in there that in the case of reappointments, the nominating committee will ensure that the person still fits the role that's needed and has the competence. They'll name the individual and submit the name to the responsible minister, and then "The appropriate parliamentary committee may then review the candidate recommended by the minister". It's standard practice as people are brought onto boards.

However, surprisingly enough, in a document that's called "Meeting the Expectations of Canadians", we lower the standard, and no longer is committee oversight of reappointments in here at all. Do you feel there's a danger here? We may be getting to the point where reappointments may be the only way to fill all of the vacancies we have. By leaving out the committee review of those people, are we opening ourselves to danger—or are we softening the rules, I guess, is a better way to put it?

•(1625)

**Mr. John Wiersema:** Well, frankly, I wasn't aware that the committee review process did not apply to reappointments. This would be in the President of the Treasury Board's report.

**Mr. Joe Preston:** It just seems to be missing from there. It was in this one, but it doesn't seem to be in that one.

**Mr. John Wiersema:** That I wasn't aware of.

I guess I could suggest, Mr. Chairman, that if the board is satisfied with the performance of a particular board member, and it submits that name for reappointment, there's probably a lower risk associated with that than there might be with a new appointment.

But again, as I said earlier, I think the particular appointment process chosen really is a matter for government. I described before what I thought were some of the essential characteristics of that process, including the use of board profiles, active board involvement, and respect in the process.

**The Chair:** Thank you, Mr. Preston.

For five minutes, Monsieur Sauvageau.

[Translation]

**Mr. Benoît Sauvageau:** If you don't mind, I'll start by correcting two misconceptions. When Mr. Szabo asked you how many foundations there were, you said there were 147 of them, I believe. You're probably right. I haven't counted them.

However, Bill C-277 and your request do not cover all 147 foundations, if I'm not mistaken. A faulty argument should not be used to oppose a bill. Am I mistaken in thinking that you want permission to audit nine foundations? I can name them: The Canada Foundation for Innovation, the Canada Millennium Scholarship Foundation, Canada Health Infoway, the Endowment Fund, Genome Canada—it's not to clear whether that's a foundation—, the Aboriginal Healing Foundation, Sustainable Development Technology Canada, the Canadian Health Services Research Foundation, and two other foundations that have under \$125 million.

When you say that the Auditor General and the Office of the Auditor General want authority to audit certain foundations, you're mainly talking about those nine foundations, not all 147 existing foundations. Am I mistaken?

[English]

**Mr. John Wiersema:** Thank you very much for the question. I'm very glad, Mr. Chairman, because it gives me an opportunity to clarify this.

The reference earlier to what I believe I said were 141 organizations was based on the government's report on crown corporations and other corporate interests. It includes a report on all crown corporations the federal government has, as well as four other categories of organizations, which are called mixed enterprises, joint enterprises, international organizations, and shared governance corporations. The foundations fall under the category of shared governance corporations. In the President of the Treasury Board's report on these corporate interests, there are 141 such entities existing. However, some of them are very, very small and the federal involvement is minimal. I can quote you some examples from the report.

[Translation]

**Mr. Benoît Sauvageau:** Excuse me, I only have five minutes.

So we're basically talking about nine foundations.

[English]

**Mr. John Wiersema:** The Office of the Auditor General would not be seeking regular access to 141 of these organizations.

[Translation]

**Mr. Benoît Sauvageau:** Thank you very much. That may take one argument away from them.

Now, I'd like to know whether the Auditor General's audit authority implies mismanagement.

Bill C-277, which I put forward, would give you authority to audit those foundations, but nowhere in my speeches or notes have I suggested that it was because they were mismanaged. If they're well-managed, and I believe they are, why would there be any objection to showing you the books?

•(1630)

[English]

**Mr. John Wiersema:** I can't speak for the foundations, Mr. Chairman, but I think again the member raises an excellent question. The Auditor General's Office is not seeking access to the larger foundations because it presumes there are problems therein. In fact we have some anecdotal evidence to suggest that some of them are managed quite well. We believe part of our role in serving Parliament is to provide it with assurance, and if we're able to provide Parliament with assurance that some foundations are well managed, we'd be pleased to do so.

[Translation]

**Mr. Benoît Sauvageau:** So it's not about annual audits prescribed by law, it's about the authority to audit those nine foundations. They're not considered to be mismanaged; we are talking here about only nine foundations.

It was also felt that the Auditor General should not have authority to audit the five excluded Crown corporations—namely Canada Post and VIA Rail—because they were well-managed.

When the latest policy on Crown corporations was tabled, the President of the Treasury Board, Mr. Reg Alcock, said that legislation would be enacted to provide the Office of the Auditor General with authority to audit the five currently excluded Crown corporations.

In my opinion, if that is how the five Crown corporations are to be treated, in a totally clear, honest, open and transparent manner—and I know you can't answer because it's a government matter—the same philosophical thinking should apply to foundations, especially since Mr. Alcock said, and I quote him for the benefit of my colleagues:

[English]

“We'll be prepared to support the movement of Bill C-277 to committee.”

[Translation]

The fact that he said that to us is both interesting and very encouraging.

I just wanted to correct the perception that it had to do with 147 foundations. Furthermore, we're not talking about private foundations like the Coaticook Cancer Foundation, right? That's obvious to me, but it's worth pointing out because that's something I've heard said.

Is the federal government the main source of funding for the foundations listed in exhibit 4.2?

[English]

**Mr. John Wiersema:** Yes, Mr. Chairman, we have verified for the larger foundations to which the member is referring that the vast majority of funding is from the Government of Canada.

If I may, Mr. Chairman, very briefly comment on the member's other points, I find it very difficult to argue with his logic. I think his logic is good. But I have one small point of clarification with respect to the five crown corporations not presently audited by the Office of the Auditor General.

The President of the Treasury Board's recent report proposes that the Office of the Auditor General will become the auditor of all crown corporations except two. One is the Bank of Canada. The President of the Treasury Board's measures do not apply to the Bank of Canada. The other one is the Canada Pension Plan Investment Board. There are federal-provincial issues that have to be dealt with there. I just wanted to clarify the record on those two points.

**The Chair:** Thank you very much.

Next, for five minutes, we have Mr. Boshcoff.

**Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.):** Thank you very much.

Aren't these organizations, whether foundations or crown corporations, subject to any form of audit now by any other professionals? I assume it would be some major firm or someone with a competency approved by the CICA.

**Mr. John Wiersema:** Mr. Chairman, the Office of the Auditor General is already the auditor for all but five parent crown corporations. We already audit—either solely or jointly with the private sector—all but five of the crown corporations. We do not have a mandate to do audit work in the foundations. The foundations have private sector appointed auditors who apply, as was mentioned earlier, the same professional standards as we would in the course of our work.

**Mr. Ken Boshcoff:** That is my question. Essentially, a surgeon is a surgeon in terms of doing this type of work. They are putting their reputations and firm names on the line when they do these types of things.

**Mr. John Wiersema:** I think that's quite true, or more true in the case of the annual financial audits. In the case of the performance audits, we think that first, as I mentioned earlier, the Auditor General, as an officer of Parliament, is uniquely positioned to serve Parliament with respect to those performance audits. We are also able to provide a whole-of-government perspective.

**Mr. Ken Boshcoff:** So the Office of the Auditor General really prides itself on its expertise in performance auditing.

•(1635)

**Mr. John Wiersema:** We think we are pretty good at financial audits as well, Mr. Chairman.

**Mr. Ken Boshcoff:** Okay. There has to be some difference between the numbers in financial auditing and the subjectivity of a performance audit.

**Mr. John Wiersema:** There is quite a difference between the financial audit and a performance audit. In the case of financial audits, the standards under which financial statements are prepared are generally prescribed by the Canadian Institute of Chartered Accountants. We all follow the same accounting standards.

In the case of performance audits, the generally accepted standards of management practice don't yet exist. So we have to develop audit criteria for each particular audit engagement.

**Mr. Ken Boshcoff:** With regard to the board replacements and the fact that they don't seem to be staggered, would that be done by a general legislative process through Parliament to ensure that all crowns have staggered board appointments and uniformity? Is that the solution?

**Mr. John Wiersema:** I believe that is part of the solution. I believe the President of the Treasury Board's report on crown corporation governance proposes to extend the term of board members from three to four years. A longer term for board members provides more opportunity for staggering. And that would require a legislative amendment.

**Mr. Ken Boshcoff:** To fill those, how would you envisage accelerating the process of replacement if there is a vacancy rate of one-third?

**Mr. John Wiersema:** I don't know that it necessarily requires a change in the process. I think that all players, as part of the process, have to understand the time constraints they're working under and respect the limits.

The fact that a particular board member's term is about to expire doesn't come as a surprise to someone. We generally know that at the time the individual is appointed, so this should be planned for and dealt with on a far more timely basis than has in fact been happening.

**Mr. Ken Boshcoff:** To do the other audits for the other organizations, what kind of staff expansion would that mean for the Auditor General?

**Mr. John Wiersema:** It depends on what the member means, Mr. Chairman, by the other organizations.

**Mr. Ken Boshcoff:** We are talking about five more to start and more if we were going to expand that to the foundations. Do you have any idea?

**Mr. John Wiersema:** The three additional crown corporations that are currently contemplated are Canada Post Corporation, the Public Sector Pension Investment Board, and a small crown corporation called the Canadian Race Relations Foundation.

Canada Post is a fairly large operation. If we were to become the auditor or joint auditor of Canada Post, we would want to do that on a joint basis initially, and perhaps on a continuing basis.

Race Relations is pretty small, so I don't think there would be justification for a joint audit there. The Public Sector Pension Investment Board is relatively small as well. We could take those on without a huge impact on our resources.

With respect to auditing foundations, it would depend on the particular mandate we received. If the mandate was largely a performance audit mandate and we audited foundations as part of government-wide audits of particular programs, once again I don't think that would have a significant impact on the resources required by the Office of the Auditor General.

**Mr. Ken Boshcoff:** In section 9 you talk about the issue of whether the foundations are controlled by government. Is there not some philosophical question that if they are arm's length, they do their jobs better, and if they're controlled by government, they're back to being political again? We always seem to be trying to straddle these two rails.

Are you offering an opinion that they should be more government controlled than arm's length?

**Mr. John Wiersema:** We raised the issue of whether or not they are controlled by government in the context of the accounting issue. The accounting issue says that if you transfer money to an organization you control, it doesn't count for accounting purposes because you can't give money to yourself. You can't recognize the expense.

That's the way the accounting standard has been written to deal with the issue of control. That's the test that has to be met to determine how the expense is recorded.

I don't think it would be for us to have a particular view on the degree of government control of these organizations except to say that ultimately we have to be mindful of the fact this is taxpayers' money.

**Mr. Ken Boshcoff:** Do I still have time?

**The Chair:** No, you're actually out of time, Mr. Boshcoff. You may get another chance.

Mr. Lauzon is next, followed by Madame Marleau.

**Mr. Guy Lauzon:** I want to give him 10 seconds of my time, but I won't.

In point 15 of your presentation, Mr. Wiersema, you mentioned there was a need to clarify the relationship and expectations of the government regarding crown corporations. In the first bullet you say there is still no formal process for setting out high-level expectations of the responsible minister before the corporate plan is developed. Can you explain that?

• (1640)

**Mr. John Wiersema:** Thank you for the question. I think it's a really important question, in the context of governance of crown corporations. In our original audit in 2000 we encouraged the government to develop a formal protocol between the minister responsible for the corporation and the corporation setting out the government's expectations.

In our 2005 follow-up audit we say there basically has been no progress on that. I would point out, though—

**Mr. Guy Lauzon:** Excuse me, was that in 2000?

**Mr. John Wiersema:** The original audit was in 2000.

At the time we published this report, there had been no progress on that. Subsequently, in the report the President of the Treasury Board tabled two days after our report came out, they indicated a measure to communicate formally, in a letter from the minister, what the high-level strategic expectations of the minister were of that corporation. So we think the government—perhaps more slowly than we would have liked—has responded to that recommendation, and we're looking forward to its implementation.

**Mr. Guy Lauzon:** So until this time the crown corporation was basically developing its strategic plan without really knowing what the minister expected, or without guidance from the minister.

**Mr. John Wiersema:** Until this time there was no formal mechanism, other than relying on informal consultation, for the corporation to get ongoing direction from the shareholder as to their expectations.

**Mr. Guy Lauzon:** What corporation did you mention earlier?

**Mr. John Wiersema:** Export Development Canada.

**Mr. Guy Lauzon:** Yes. What was the amount of their business per year?

**Mr. John Wiersema:** They have a balance sheet, and I was referring to the balance sheet number, their total assets. We audit the annual financial statements of Export Development Canada as well. Their assets exceed \$20 billion.

**Mr. Guy Lauzon:** I wouldn't say they were flying blind, but until recently you said they certainly weren't getting ministerial guidance as to which direction they should be going.

**Mr. John Wiersema:** I should clarify that we're arguing for a formal ongoing protocol. That's not to say the corporation—

**Mr. Guy Lauzon:** How many vacancies are there on their board?

**Mr. John Wiersema:** I can refer you to chapter 7 of the report, exhibit 7.1. There were 11 board members, and the terms of 6 of them had expired at the time of our audit.

**Mr. Guy Lauzon:** What sort of alarms me is that when you're dealing with this size of corporation you'd like to think there was a little more direction and governance from the board.

You went on to say there has been little progress in assessing the capacities and skills needed by the government to review corporate plans and to ensure the continuing relevance of crown corporation mandates. Could you explain that?

**Mr. John Wiersema:** This too was an issue we first raised in 2000. Crown corporations cover a very broad range of activities. They are very specialized and in some cases highly complex businesses. The corporation we've been referring to, Export Development Canada, is a very sophisticated lending organization. It's an insurance business, a guarantee business. It is a very complex and sophisticated business.

Our concern was that government officials were not used to working with businesses that operated in commercial environments, in quite sophisticated domains, so they didn't have the capacity to provide an effective review and challenge function. So we encouraged the government to build that type of capacity. To date, there hasn't been much of a response to that recommendation.

On the mandate issue, in 2000 we said that at least once every 10 years there should be some trigger to cause government and a crown corporation to look at the mandate of the crown corporation. Is it still relevant? Has the environment changed? Is it still doing what government needs it to do?

**Mr. Guy Lauzon:** You think it should just be once every 10 years?

**Mr. John Wiersema:** At least once every 10 years.

**Mr. Guy Lauzon:** Would you recommend maybe a little more frequently?

**Mr. John Wiersema:** Well, we are pleased to see that the President of the Treasury Board's report proposes a measure to look

at ongoing mandate reviews of crown corporations, and we're looking forward to implementation of that as well.

● (1645)

**The Chair:** Mr. Lauzon, your time is up.

Madame Marleau, followed by Monsieur Sauvageau, five minutes each, please.

**Hon. Diane Marleau (Sudbury, Lib.):** On the question of foundations, I'm perhaps not as concerned as some of my colleagues are. What you really want to do is follow the money when you want to, to make sure it's being spent in the manner it should be.

**Mr. John Wiersema:** Mr. Chairman, yes, we want to follow the money when we need to, but we have to be selective in where we follow it to.

**Hon. Diane Marleau:** That's right.

**Mr. John Wiersema:** We want to follow it into organizations that are effectively delivering programs on behalf of the federal government. We wouldn't want to be able to follow it into the private sector or into the not-for—

**Hon. Diane Marleau:** But that's what we're talking about when we talk about foundations. Instead of doing the external yearly audit, what you really would like to do, as part of what you do generally across government, is decide to follow.... We'll go into this one and see how it's doing and do a performance audit.

**Mr. John Wiersema:** And it would normally be in the context, Mr. Chairman, of a broader government-wide audit.

**Hon. Diane Marleau:** Okay, but what you want to do is not an external audit. It's not an annual external audit. It's a performance audit, which is what we're talking about.

**Mr. John Wiersema:** In response to the member's earlier question, I have indicated that there has been some evolution in the office's thinking on that.

**Hon. Diane Marleau:** I'm much more concerned with crown corporations. To be really specific here, foundations have a very specific job to do and a certain amount of money to do it.

**Mr. Joe Preston:** An awful lot, by the sound of things.

**Hon. Diane Marleau:** Yes, but nothing like crown corporations. Take it from me. I was the minister responsible for Canada Post and I did a review of the mandate of Canada Post while I was there. No one is prepared, or has the kind of backup you really need when you're doing that kind of work. It's a very big job, and I often worry about these crown corporations. Because we are so busy as MPs, as ministers, I worry there has to be a way of somehow establishing a system to keep reviewing them, as you said.

When I come back here, after having been away for a little while, and get to my apartment in Ottawa, I pick up a card and find out Canada Post is now in the currency business. I don't know how many of you got this, but it suddenly says if you're going away on holidays in Ottawa, visit your local post office; you can get your currency needs met at the local post office. I mean, I don't really care if they're in competition with the big banks, but I didn't think a crown corporation such as Canada Post was really set up to compete with the banks—but, hey, who knows?

When I talk about crown corporations, I talk about each and every one of them, and there has to be a very specific plan for each and every one of them.

**Mr. John Wiersema:** I absolutely agree, Mr. Chairman. The member raises a very good point. These are large, complex, and, in many cases, very sophisticated organizations. Their mandate should be looked at periodically. I'm glad to hear that when you were the minister responsible, we looked at that mandate.

The other thing is that the government's capacity to carry out its role and oversight of those corporations is, in my view, an important issue. These are not small operations. They're sophisticated and complicated. The government officials who are used to dealing with government departments—a completely different type of business—were concerned about their capacity to really oversee what's going on in the crown corporations, which leads to that second recommendation.

**Hon. Diane Marleau:** That's right, because a crown corporation is not like a regular private business. They sometimes behave like it, but their board—I mean, what's the bottom line? If you're on a board of directors of a private corporation, what dictates what you do is how much profit you make—period, that's it. If profit is good, you're a good board; if profit is bad, you get fired. It's pretty standard.

How do you do it with crown corporations? What are your suggestions? I know what you're saying here, but what kind of a structure would you have within government?

**Mr. John Wiersema:** Again the member, Mr. Chairman, is bringing up an absolutely core, central issue. The way we deal with it in our most recent chapter, which reports on crown corporation governance, is we talk about the public policy objectives of the crown corporations and the related commercial objectives and the trade-offs that have to be made between the two of those.

Some crown corporations do a pretty good job of articulating public policy objectives and the trade-offs between those public policy objectives and the commercial objectives. Others do not. In fact, we're concerned that too many of them do not. In order for government to effectively carry out its role, it has to understand what those public policy objectives are, the inherent trade-offs for the commercial objectives, and whether the corporation and the board of directors have found the right balance. It's a key issue.

• (1650)

**Hon. Diane Marleau:** Those are my questions, and you've known of my concern for some time. This isn't new.

Thank you.

**The Chair:** Thank you very much, Madam Marleau. Your background as a minister shows in your questioning. It's much appreciated.

**Hon. Diane Marleau:** I'll try to be careful.

**The Chair:** No, please don't.

Monsieur Sauvageau.

[Translation]

**Mr. Benoît Sauvageau:** First, I'd like to thank Mr. Szabo for asking me for clarification on my bill. That gives me a chance to ask you for clarification too.

I'd like to know whether the current wording is consistent with what you wanted. I'll read you a passage from Bill C-277, An Act to amend the Auditor General Act (audit of accounts): This enactment amends the Auditor General Act in order to allow the Auditor General of Canada to act as auditor or joint auditor of crown corporations...

Is that in keeping with what you want? Mr. Szabo was asking me whether putting “as auditor” didn't make you the auditor of the annual financial statements or something. Is the wording as it stands consistent with what you want—if you don't have it, I can give it to you—or have I written an obscenity?

[English]

**Mr. John Wiersema:** With respect to crown—

[Translation]

**Mr. Benoît Sauvageau:** I can read it to you in English.

[English]

It is firstly “to allow the Auditor General of Canada to act as auditor or joint auditor of Crown corporations”.

**Mr. John Wiersema:** Mr. Chairman, we would absolutely agree with that. In fact, as I mentioned in my opening statement,

[Translation]

we provided a letter to the Standing Committee on Public Accounts.

[English]

**The Chair:** Mr. Szabo, please, order.

**Mr. Benoît Sauvageau:** It's okay.

**The Chair:** Okay, go ahead.

**Mr. Paul Szabo:** The question is, does this make the bill one that's seeking to make the Auditor General the external auditor of the crown corporations and foundations or provide her with an opportunity to do a performance audit?

**Mr. John Wiersema:** The question as I heard it, Mr. Chairman, was specifically with crown corporations and that they appoint the Auditor General as the external auditor of crown corporations.

**Hon. Diane Marleau:** Yes, but it follows through on foundations.

**Mr. John Wiersema:** Yes, well, I was dealing with the specific question of crown corporations. The question, as posed, was crown corporations.

**Hon. Diane Marleau:** Yes, but now it's foundations.

**Mr. John Wiersema:** That question hadn't been posed yet.

[Translation]

**Mr. Benoît Sauvageau:** In addition, the bill would enable the Auditor General to act in the same manner for bodies established by acts of Parliament, like foundations, in respect of which ... the Government of Canada has, either directly or through a crown corporation, the right to appoint or nominate a member of the governing body, and to which the Government of Canada has paid at least \$100 million in money or in kind during any period of 12 consecutive months.



Would that make the Office of the Auditor General the external auditor with authority to audit the situation? Is that consistent with your desire, with what you recommended in the April 2002 report, the May 2003 report, etc.? Did I go astray in drafting the wording of this bill?

[English]

**Mr. John Wiersema:** This wording, Mr. Chairman, would go beyond what I said in my opening statement with respect to appointing the Auditor General as the auditor of all foundations that have received more than \$100 million of funding. If that's what Parliament's wish was, that the Auditor General should be the annual auditor of all foundations that received more than \$100 million in any consecutive 12 months, then obviously we would comply with Parliament's wishes.

We think, as a minimum, that the Auditor General should be given the right of access to do performance audit work in those foundations. This goes beyond what we think is a minimum requirement.

[Translation]

**Mr. Benoît Sauvageau:** Okay, if that goes beyond what you think is the minimum requirement, I'd like—with the Chair's permission—to let Mr. Szabo tell us why he's concerned about the current wording, because I don't see where the problem is.

• (1655)

[English]

**The Chair:** Mr. Sauvageau, are you offering Mr. Szabo the last minute of your time?

**Mr. Benoît Sauvageau:** Yes.

**The Chair:** One minute, Mr. Szabo.

**Mr. Paul Szabo:** Mr. Sauvageau has a bill that effectively calls for the Auditor General to be appointed as the auditor or co-auditor of crown corporations and of certain foundations over a certain dollar value. This is pursuant to a statement that was made in a prior Auditor General's report that says the Auditor General should be appointed as external auditor of foundations, with few exceptions.

Mr. Sauvageau is concerned that maybe his bill doesn't hit the mark of what we're trying to do. If his bill effectively says the Auditor General is going to be the external auditor, that is more.... I think your position is that this is more than you want; you really just want to have the opportunity to do performance audits on a risk basis or on an assessment basis if, as, and when...but not have the annual responsibility. The issue is that his bill seems to call for the Auditor General's appointment as external auditor for everything, with some exceptions, as opposed to just having the authority to be a performance auditor from time to time. That's what your understanding is.

**Mr. John Wiersema:** Yes.

**Mr. Paul Szabo:** So your bill directs them to be the external auditor every year for every foundation.

**Mr. Benoît Sauvageau:** No.

**Mr. Paul Szabo:** That's what this bill says, though.

[Translation]

**Mr. Benoît Sauvageau:** Does my bill say that you are the Auditor General? You may be the Auditor General. It doesn't say that you are the annual auditor of all foundations. In order to enable the auditor...

[English]

**Mr. John Wiersema:** Mr. Sauvageau raises a good point, Mr. Chairman. Bill C-277 is permissive; it uses the word "may"—"The Auditor General may act as auditor or joint auditor"—so it is permissive. I think the point he's making is that it doesn't necessarily require that the Auditor General do the audit every year.

**Mr. Paul Szabo:** But if they are appointed as the auditor—

**Mr. John Wiersema:** No, "may".

**Mr. Paul Szabo:** —they may be so for the appointment period. It might be one year or it might be five years.

**The Chair:** Thank you.

We'll go to Mr. Boshcoff for five minutes, and I will follow up.

Oh, Monsieur Sauvageau, had you not made the point you had asked to? Go ahead.

[Translation]

**Mr. Benoît Sauvageau:** It's too bad this is a public hearing because I would use unparliamentary language. I think there's a bit of ill will on Mr. Szabo's part, and that disappoints me a bit. Does the current wording of Bill C-277 make the Office of the Auditor General the annual auditor general of foundations?

[English]

**Mr. John Wiersema:** My understanding, Mr. Chairman, is that Bill C-277 as currently drafted would allow for the Auditor General to be the annual auditor of the foundations that receive more than \$100 million.

**The Chair:** Thank you very much.

To Mr. Boshcoff for five minutes.

**Mr. Ken Boshcoff:** Thank you very much.

This is with respect to paragraph 11 in the crown corporation section, where you mention you're trying to assess the strength and the progress and those types of things. If there's an issue and it comes to the minister responsible, is that not the first measure of alarm that there might be something that could be done or that needed to be improved? Part of my question is, doesn't the minister receive reports from these organizations?

**Mr. John Wiersema:** Yes, Mr. Chairman, the minister responsible for the corporation receives the corporate plan and the annual report of the corporation, and in some circumstances may also receive special examinations of the corporation done by the Office of the Auditor General.

**Mr. Ken Boshcoff:** So in effect, Parliament would receive that information.

• (1700)

**Mr. John Wiersema:** Corporate plan summaries and crown corporation annual reports are tabled in Parliament.

**Mr. Ken Boshcoff:** I'm just trying to get a semblance of what the nature of the problem is. You mentioned that in terms of governance there's been some strengthening, so are we on track or are we falling behind, in your view?

**Mr. John Wiersema:** Overall, Mr. Chairman, our conclusion with respect to crown corporation governance was that the progress on implementing the recommendations from our 2000 report was unsatisfactory. Frankly, this conclusion was directed more at the government's part of implementing those improvements.

In terms of the things the crown corporations themselves were able to respond to, strengthening audit committees, preparing board profiles, director training and so on, we were satisfied with the progress there. Our concerns relate to, as I mentioned in the opening statement, the appointments, the timeliness of the appointments, the capacity to review corporate plans, the mandate reviews. In those areas, Mr. Chairman, we concluded that progress was unsatisfactory.

**Mr. Ken Boshcoff:** Now, in your observation after all these years, is it the nature of government to not move very rapidly, or is it the amount of time it takes the wheel to come full circle to get through all these things?

**Mr. John Wiersema:** Mr. Chairman, I think it's a question of leadership and will. If the leadership and the will is there to move, government has demonstrated that it can move quite quickly. If the leadership and the will to move is not there then things drag on.

**Mr. Ken Boshcoff:** All right.

Mr. Szabo earlier in the first round talked about the nature of foundations and crown corporations being in their original conception leaner, specialized, and more efficient. So the question thus remains, if we make them more governmental, do we lose this efficiency and those aspects we needed to see in them when they were created in the first place?

**Mr. John Wiersema:** Mr. Chairman, I hope nothing we have reported in our report, or anything that Tom or I have said today, would suggest that we think foundations or crown corporations should be more governmental. I don't think this is what's behind our observations here.

With respect to crown corporations, we want to strengthen governance of those corporations. With respect to the foundations, what we're looking at is better accountability to Parliament.

**Mr. Ken Boshcoff:** It's hard to see that. When we talk about foundations, we know that the establishment of these funds allows several of them, such as those in the innovation sector, to say they actually do have funds. So when someone comes forward with an idea, the foundation itself is going to be able to offer support. This is opposed to the governmental approach, which would be to have people send in their applications, and if they're quick enough, the government might have enough money for them.

Are those fundamental philosophical differences accounted for in your approach to these things?

**Mr. John Wiersema:** I think the member raises a very good issue, Mr. Chairman. Perhaps there are some good, valid policy reasons for making these payments in advance of need. I guess the issue for us is that in some cases it's 10 years in advance of need. That's a lot of pre-funding.

**Mr. Ken Boshcoff:** All right.

That deserves a reasonable answer.

Thank you.

**The Chair:** Okay. I'm going to take the next round for the Conservative Party.

I want to refer to a document, annex 5 of the 2005 budget. It is "The Government's Response to the Auditor General's Observations on the 2004 Financial Statements". There are some questions I have about some of the issues raised in the section on foundations.

Are you familiar with this response?

**Mr. John Wiersema:** Yes, Mr. Chairman.

**The Chair:** I'm looking for your response to this response.

• (1705)

**Mr. John Wiersema:** I'll do my best, Mr. Chairman.

**The Chair:** I put out the offer for you to respond beyond the scope of the questions I will ask. I'd really appreciate that.

The government acknowledges here that there are two issues having to do with foundations, the audit that the Auditor General's office has said it would like to do on these foundations, and the accounting question, because this money is transferred well before it's spent. It could therefore be considered to be decreasing the reported surplus, which means to me that taxpayers are being overtaxed, even more than the necessary amount—but that's not an issue for you to respond to.

What they argue in here is that the accounting procedures really don't have to be changed because "their arm's-length nature, financial stability, and focused expertise allow them to address specific challenges in a highly effective, non-partisan manner". On this idea of their "non-partisan manner", I'm wondering how the boards of these foundations are chosen.

**Mr. John Wiersema:** I'm glad the member has raised the government's response to the Auditor General's observations in the budget. I unfortunately didn't bring it with me, but if somebody has a copy laying around, there are a couple of interesting comments that I might call to the committee's attention.

With respect to the appointments to the boards of foundations, they vary, depending on the foundation. I think the government's response has indicated that it's always a minority of the members of a board. For example, the Canada Foundation for Innovation has fifteen board members, of which the federal government appoints seven. In other cases, the federal government might appoint one of sixteen.

There seems to be somewhat of a correlation between the amount of public money being put in and the number of board members, but it always is a minority of the board. Then what happens is that the board itself is a self-perpetuating board. Those board members appoint the remaining board members, meaning that those appointed by the federal government appoint the remaining board members.

The issue I'm trying to find is a comment about accounting treatment and relating that back to the government's choice of foundations as a vehicle for delivery of programs. We found that interesting, and I thought the committee might find it interesting as well. I just can't find it in this version.

Sorry, Mr. Chairman, I can't put my....

**The Chair:** This isn't a summary; it's the actual document, so I'll just ask a follow-up question. If you find that, though, I'd be interested to hear your response.

At the top of page 2, in their response to your report, they say:

However, for these organizations to provide independent, non-partisan decision making, it is important that the Government not control, or be perceived to control, these organizations. If it was determined that the Government actually controlled these organizations from an accounting perspective, it would have to seriously review this vehicle as an alternative to delivering public policy.

**Mr. John Wiersema:** Thank you, Mr. Chairman. You've found exactly the passage I was looking for.

**The Chair:** Great. Could you respond to that? It seems curious to me.

**Mr. John Wiersema:** Mr. Chairman, in the past audits that we've done on the public accounts of Canada, the Auditor General has expressed the view that we think the vehicles used for delivering government programming should be determined by sound public policy and good public administration of public funds. They should not be determined by a desire to achieve a particular accounting result. So we found that statement to be curious, suggesting that there's a link between the accounting results and the choice of foundations as a vehicle for delivery.

**The Chair:** I'm running out of time, but one other thing I would like you to respond to is on the same page. The government response says:

In fact, since 1997, when it recorded its first budgetary surplus in 27 years, the Government has transferred nearly \$15 billion to the provinces and territories, in most cases using a mechanism comparable to foundations. The Auditor General has not expressed any concerns over these transfers.

They're comparing these transfers to the provinces to transfers made to foundations, and they're arguing that the Auditor General didn't see any problem with that when it came to reporting the budgetary surplus and are wondering why the Auditor General finds a problem with this. I would like you to respond to that.

**Mr. John Wiersema:** I think you've effectively summarized what the argument is here. I think the fundamental difference between transfers to foundations and transfers to the provinces is that when we transfer money to the provinces for programs such as health care, they then are responsible for delivery of those programs. When we transfer money to the Foundation for Innovation, they're still delivering a federal program and a federal initiative.

We see the two as quite distinct. Clearly, the provinces are independent of the federal government, are not related to the federal government. Foundations are, in many cases, created by the Government of Canada.

• (1710)

**The Chair:** Yes, and the difference would seem obvious to me. That's why I found it extremely disturbing, quite frankly, that this statement was in here.

My time is up. I cut myself off.

Mr. Szabo, followed by Mr. Preston.

**Mr. Paul Szabo:** A performance audit can be conducted by almost anybody. You don't have to be a chartered accountant, is that right?

**Mr. John Wiersema:** Performance audits are conducted by individuals skilled in audit and in accordance with the same standards—

**Mr. Paul Szabo:** It could be an engineer, it could be a scientist—someone with professional expertise, but not necessarily a financial auditor.

**Mr. John Wiersema:** A performance auditor isn't performing a financial audit.

**Mr. Paul Szabo:** Yes.

So the Auditor General does not have to be the external auditor of a crown corporation or foundation to do a performance audit?

**Mr. John Wiersema:** Mr. Chairman, that is correct. The Auditor General could, if we had a mandate to do performance audit work in other organizations but we were not the external auditor, separate the two.

**Mr. Paul Szabo:** That would allow you, as you determine if, as, and when necessary, to go in at any particular time to do a review of sorts, which would be called a performance audit.

The reason I raise this is that I sense there is a potential problem in Mr. Sauvageau's bill, which you've looked at, Bill C-277. It's permissive. It says that the Auditor General may be appointed the auditor of a crown corporation or a foundation, but in that context it says "may be appointed"—and that is the external audit, the financial auditor.

There's no question in my mind that if the Auditor General were appointed the external auditor of a crown corporation, for instance, the external auditor could do a performance audit under that appointment as well. They would have to be engaged to do it, but they would be on the inside already and would have access to all that information. The reverse isn't true. If you are authorized to do a performance audit, that does not automatically make you the financial auditor.

I guess the question is—and we'll have to work it out for Mr. Sauvageau—if his bill is for the appointment of an external auditor, and it gets passed at second reading and goes to committee, to amend it so that they could be the performance auditor would be a fundamental change to the bill, which would not be permitted under the rules of Parliament because it would have already passed in principle at second reading as external auditor.

We want to find out whether there's a way we can get around that. That's the concern I raise.

**The Chair:** Mr. Wiersema, if you could respond, please do so.

**Mr. John Wiersema:** If I may, very briefly, on the subject of who does performance audits and so on, I would like to respond to the member's comments.

The Office of the Auditor General does all of its work, including performance audit work, in accordance with the auditing standards set by the Canadian Institute of Chartered Accountants. The Canadian Institute of Chartered Accountants, the auditing and standards board, also sets standards for assurance engagements, which we use as a minimum standard for all of our audits, including our performance audit work.

With respect to the subject of Bill C-277, I'd point out to the member that subclause 2(3) of that bill reads that when acting as auditor or joint auditor under subsection (2), the Auditor General may make such examinations and inquiries as he or she considers necessary in order to enable a report to be made in accordance with this act—meaning the entire Auditor General Act. I would take that—and I'm not a lawyer—to allow for both financial audit as well as performance audit.

**Mr. Paul Szabo:** I agree.

If you're the external auditor you can do anything.

**Mr. John Wiersema:** Not always, but...

**Mr. Paul Szabo:** You can do performance audits. But the opposite is not true. If you're engaged to do a performance audit, you are not appointed to do the financial audit as well—

• (1715)

**Mr. John Wiersema:** Not necessarily.

**Mr. Paul Szabo:** So that's the problem.

This is also a very important issue for Mr. Sauvageau to know your answer on.

When someone is appointed the external auditor of a body, how often would it be advisable that they turn over the auditor, change it to be somebody else? What is the typical situation once an external auditor is appointed? How long would they normally be there?

**Mr. John Wiersema:** As the member knows, Mr. Chairman, the CICA, the Canadian Institute of Chartered Accountants, does have new independence standards for auditor appointment. The Office of the Auditor General also complies with this in the course of our work. We comply with the spirit and intent thereof. I don't have the independence standards in front of me, but I think they contemplate partner rotation on the audit at least once every five years, so you'd expect to see the partner assigned to the engagement. We do the same thing with our principals; we rotate them at least once every five years.

**Mr. Paul Szabo:** But the firm might be there how many years?

**Mr. John Wiersema:** The firm might be there.... I'm not aware of any standards requiring rotation of the firm.

**Mr. Paul Szabo:** The point is that if the Auditor General is appointed the external auditor of a crown corporation, the Auditor General may have to do the audit each and every year until we change it to a third-party auditor.

**Mr. John Wiersema:** Depending on the particular provisions requiring the audit.

**The Chair:** Thank you, Mr. Szabo.

For five minutes, Mr. Preston, followed by Monsieur Sauvageau. There's nobody else on the list.

Mr. Preston.

**Mr. Joe Preston:** I'll be very quick. I have one question.

The Treasury Board Secretariat's review of crown corporation governance came out two days after your last report. Was it a coincidence? I don't know. It reviews many of the issues that were in your report and has 31 measures to strengthen crown corporation governance.

Mr. Alcock says that in his book the reforms go beyond those recommended by the Auditor General. Was the Office of the Auditor General consulted in the writing of the new report on governance of crown corporations?

**Mr. John Wiersema:** Yes, Mr. Chairman, we were consulted quite frequently by officials from the secretariat as they undertook that review. In fact, we provided to the secretariat a submission on some of our suggestions for the government's consideration in its review of crown corporation governance.

**Mr. Joe Preston:** Do the 31 steps they have followed up on answer all of the Auditor General's questions, as Mr. Alcock says?

**Mr. John Wiersema:** The 31 or 32 measures—I've forgotten how many measures there are—

**Mr. Joe Preston:** There are 31.

**Mr. John Wiersema:** They do respond to most of the concerns we raised in a more recent report. As I recall, there are two issues we raised to which there is no explicit reference in the president's report. The first one deals with the disclosure of executive compensation in crown corporations. The Office of the Auditor General has been encouraging crown corporations to disclose executive compensation, remuneration, and travel and hospitality, for some time. The president's report doesn't deal with those.

The second issue is the one we were discussing earlier with another member, the capacity to review corporate plans so that the government can oversee crown corporations. As I recall, Mr. Chairman, there is no explicit reference in the President of the Treasury Board's report to looking at its capacity to do that, although the president does indicate that he wishes to pursue the mandate letter—the governance protocol to the crown corporations—which will help in a small respect. It will help at least to set out the government's expectations.

We'd like to see the government look a little bit more specifically at its capacity to review corporate plans. I don't think that was in the report.

**Mr. Joe Preston:** Thank you.

I'll defer to Mr. Sauvageau for his questions.

[Translation]

**Mr. Benoît Sauvageau:** I may be ignorant, uneducated and an idiot, but I really don't understand the objection and problems of my friend, Mr. Szabo.

I'll give you an example. If you decided tomorrow morning to audit the Department of National Defence every year, indefinitely, could you do that?

[English]

**Mr. John Wiersema:** Yes, for annual performance audits. We don't presently do an annual financial audit of the Department of National Defence.

**Mr. Benoît Sauvageau:** But if you wanted to?

**Mr. John Wiersema:** If we wanted to, it might be a question I'd have to get legal advice on, whether or not we needed authority to do that or whether or not it's already in the Auditor General Act, but I think it would be quite possible to do that.

[Translation]

**Mr. Benoît Sauvageau:** If you decided to keep going after the same department or Crown corporation every year, for the next 75 years, where you currently have authority to audit, could you do that?

• (1720)

[English]

**Mr. John Wiersema:** There's an important distinction that we should make here, Mr. Chairman, between the Auditor General's

[Translation]

mandate to audit crown corporations and her mandate to audit departments. In the case of Crown corporations, our mandate comes from the Financial Administration Act,

[English]

under which we are appointed as the annual auditor and are required under the legislation to do an annual financial audit.

[Translation]

In the case of departments, our mandate comes from the Auditor General Act.

**Mr. Benoît Sauvageau:** So you could go after the same department for the next 75 years if you decided to?

**Mr. John Wiersema:** Departments, yes, but not foundations.

**Mr. Benoît Sauvageau:** I'd like to ask Mr. Szabo this question, but I don't have the right to: should we abolish this right? That's what he seems to be afraid of.

I'll reread my bill, Bill C-277.

“The Auditor General may act”—in English, it is “*may act*”—“as auditor or joint auditor of the following organizations:” in a), it's says Crown corporations and in b), foundations. I mentioned nine.

I fully understand what I intended to write and what was written: “The Auditor General may act as auditor or joint auditor of the following organizations”.

Just as with the Department of Defence, you may decide to follow up on a particular foundation for the next 75 years. But you have never done so, with either a department or a Crown corporation. The fact remains that currently, the act and the regulations allow you to do so if you are stupid and mean.

So they have the right to do so, Mr. Szabo. If I had written: “The Auditor General must act as auditor or joint auditor”, I would have of had a problem and you would have been right. But “may act”—

Do you agree with what Mr. Szabo is asserting? Am I missing something obvious?

[English]

**Mr. John Wiersema:** I find myself at a bit of a disadvantage here, Mr. Chairman, because I'm not a lawyer, and I may ask our legal counsel to join us at the table—

[Translation]

**Mr. Benoît Sauvageau:** There is one here.

[English]

**Mr. John Wiersema:** —if this is necessary.

As I understand it, Mr. Chairman, Mr. Sauvageau's Bill C-277 would give us the authority we need to do the performance audits. As I indicated earlier, the office's minimum line is that we would have the authority to do those performance audits. It would also give us the authority, should we so choose, as has been pointed out, given the permissive language of “may”, to do annual financial audits.

The Officer of the Auditor General is currently not of the view that's essential. Our minimum expectation is the authority to do performance audits. Regarding the legal expectations of “may act as auditor or joint auditor” in terms of its expectations for the annual financial audit, I will perhaps ask the OAG senior legal counsel if he has any views.

**The Chair:** Yes, go ahead. Could I have your name, please?

**Mr. John Wiersema:** I'm sorry. It's Mr. Jean Ste-Marie. He's Assistant Auditor General and Senior Counsel to the Office of the Auditor General.

**The Chair:** Okay. Thank you very much. Go ahead.

**Mr. Jean Ste-Marie (Assistant Auditor General, Legal Services, Office of the Auditor General of Canada):** If I may, I guess the answer to some extent lies probably in subsection (3), which Mr. Wiersema alluded to earlier, which basically says that we may make such examinations and inquiries as we can under the act.

Now obviously, as you know, under the act we have both mandates. We have the attest mandate, which is in sections 5 and 6, and we also have in section 7 the performance audit mandate. So in fact it is open to both kinds of work we do.

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

Go ahead, please, Mr. Szabo.

**Mr. Paul Szabo:** Thank you. When the bill says “Auditor”, “may act as auditor”, does that mean the person responsible to do a financial audit?

**Mr. Jean Ste-Marie:** That means both, actually, because even if you're doing a performance audit, although you belong to another discipline, you're acting as an auditor.

**Mr. Paul Szabo:** You're acting as an auditor as generally defined, but this thing says the Auditor General may act. So if appointed by the board, the Auditor General is authorized to be the financial auditor. And you've also said that the auditor appointed by the board can, in addition to doing the financial audit under this thing here—and indeed under any arrangement allotted—be engaged to do so-called performance audits.

But the issue here that we have to make sure Mr. Sauvageau is comfortable with is who is responsible for the annual financial audit. Can the Auditor General just duck in one year, do the financial audit and a performance audit, and then get out and let somebody else do it, and maybe come back three years later and do it again? Or do we have an auditor appointed by the board? It might be the Auditor General; it might be some other firm that stays in place year after year after year, until, at the pleasure of the board, it is changed.

• (1725)

**Mr. John Wiersema:** There are two issues here. I'll start and then turn it over to our legal counsel to elaborate.

First, on who would appoint the auditor, the member has mentioned if they're appointed by the board.... I'm not a lawyer, but as I read the current Bill C-277, if the Auditor General may act, it would be up to the Auditor General's discretion to determine if he or

she wishes to act as the auditor. So it would not necessarily be dependent on a board resolution appointing the Auditor General as the annual auditor. I think it gives the discretion to the Auditor General.

This is an accountant interpreting law, with all the risks that go along with that.

On the second point, it is permissive, so different things could happen. It's theoretically possible for the Auditor General to one year be the annual auditor and then go away for the next year. That might be possible under Bill C-277. Would the Office of the Auditor General operate in such an irresponsible way? They wouldn't do that, but it might be possible with this legislation.

**Mr. Jean Ste-Marie:** I want to confirm what the auditor has said.

**The Chair:** Okay. We have a lawyer confirming it. Don't worry about going out of your area of expertise. Politicians do it all the time.

Unless there is one short, final question, I will adjourn the meeting.

Thank you very much. I found this to be an extremely informative meeting. I appreciate all three of you coming today, and we'll see you in the future, I'm sure.

The meeting is adjourned.

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