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Mr. John Williams

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• (1540)

[English]

The Chair (Mr. John Williams (Edmonton—St. Albert, CPC)): Good afternoon, ladies and gentlemen.

Pursuant to Standing Order 108(3)(g), we are dealing with chapter 1, “Internal Audit of Departments and Agencies”, of the November 2004 *Report of the Auditor General of Canada*, referred to the committee on November 23, 2004.

Our witnesses today are, from the Office of the Auditor General of Canada, Mrs. Sheila Fraser, the Auditor General of Canada; Mr. Douglas Timmins, Assistant Auditor General; and Mr. Bruce Sloan, Principal. From the Treasury Board of Canada Secretariat we have Charles-Antoine St-Jean, Comptroller General, from the Comptroller General's Office; and Madam Basia Ruta, Assistant Comptroller General, Internal Audit Directorate, also from the Comptroller General's Office.

We're hopefully going to suspend the meeting at about 5:10 p.m. and see if we can get through the draft report on the *Public Accounts of Canada* so we can get that wrapped up and presented to the House.

Before we start, there are two little things. Last week Mr. Murphy was handing out pins when I was talking about something else, and I didn't realize the importance and significance of those pins, which are veterans pins.

Mr. Murphy, do you want to tell us about them?

Hon. Shawn Murphy (Charlottetown, Lib.): Mr. Chairman, I want to thank you very much for the opportunity.

When the associate deputy minister, Verna Bruce, appeared before the committee last week, she intended to do it herself, but the opportunity did not present itself. She had a number of pins that acknowledged the international Year of the Veteran. So I handed them out on her behalf, on behalf of the department.

Unfortunately, I was short a few pins. I'll personally request an additional few and hand them out to those who didn't get them last week. It is a very significant pin, as you mentioned.

I should point out that they were made in Canada.

Thank you.

The Chair: Thank you very much, Mr. Murphy. As I say, we certainly always appreciate recognizing our veterans and the contribution they made to the development of this country.

On the other announcement, the Auditor General has some visitors this week from Tanzania. There's Mr. Frank Mhilu, and Mr. Edwin Rweyemamu. Mr. Mhilu is the Deputy Comptroller and Auditor General, and Mr. Rweyemamu is the head of the training unit.

Welcome, gentlemen.

Some hon. members: Hear, hear!

The Chair: We hope you will find that your visit to Canada is rewarding. We have great respect for and faith in our Auditor General and her staff. So I'm quite sure you will have many things to learn and take back when you return to Tanzania.

The issue at hand is internal audit.

Madam Fraser, you have an opening statement.

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

Thank you for the opportunity to present the results of chapter 1 of our November 2004 report, entitled “Internal Audit in Departments and Agencies”.

As you mentioned, I'm accompanied by Doug Timmins, the Assistant Auditor General, and Bruce Sloan, principal, both of whom are responsible for this audit.

I am a keen supporter of strong internal audit in government. It is a function of government that is too often overlooked and undervalued. In the current environment, it is more important than ever that this function be robust and adequately resourced. Internal auditors play a key role in providing senior government managers with the assurance they need that departmental systems and controls are working well, or if they're not, then signalling the weaknesses in providing recommendations for addressing them.

Despite the injection of additional funding for internal audit in the past four years, we found the same problems as we saw a decade ago. These include a lack of support from senior management, difficulties in attracting and retaining qualified staff, and a limited number of assurance audits being conducted.

[Translation]

Overall, the quality of the internal audit function varied widely in the organizations that we audited. The audit assessed the extent to which six internal audit groups had met professional standards and complied with the Treasury Board Policy on Internal Audit.

The audit concluded that this varied across government: two internal audit groups, namely Public Works and Government Services Canada and the Royal Canadian Mounted Police, generally complied with the standards; three groups partially complied and one group did not meet many of the standards.

The chapter listed a number of factors that, if implemented, would have a positive effect on the quality of internal audit. These include clear support from senior management; audit committees that include external members, independent of management; a clear human resources strategy aimed at strengthening and professionalizing the function; an increased focus on audit rather than on management consulting; and a strategy to ensure internal audit coverage and capacity in small entities.

[English]

In conclusion, I believe considerable work remains to be done to achieve the objectives established by the policy on internal audit. The Comptroller General has announced a number of initiatives that are designed to strengthen internal audit, and the committee may wish to ask the Comptroller General to elaborate on these initiatives and the timeframe within which these steps will be taken.

[Translation]

Mr. Chairman, we would be pleased to answer any questions the committee may have. Thank you.

[English]

The Chair: Thank you very much, Madam Fraser.

Mr. Christopherson.

Mr. David Christopherson (Hamilton Centre, NDP): I have a point of order. I understand that it's the responsibility of the Treasury Board Secretariat. But obviously some of the more pointed questions are for the individual ministries that are mentioned in the Auditor General's report, and I was curious as to why representatives from each of those ministries aren't here, at least a couple of them, especially the ones who have a poor performance record to defend.

The Chair: The chapter deals with the concept of trying to improve the effectiveness of internal audit. The Office of the Comptroller General is a new office within the Treasury Board Secretariat. Mr. St-Jean has been in his position since last June. So this is a new thing that's getting going. If we feel that we aren't making sufficient progress, then we certainly could bring in the departments and hold them accountable for the problems identified in the internal audit. But we're trying to focus on strengthening the internal audit rather than going back to the departments on an individual basis and saying they've come up short.

However, if that's what the committee would like to do, then bring it up with the steering committee. We'll be more than glad to discuss it and see if that's the way we want to go forward.

• (1545)

Mr. David Christopherson: That's fair.

Thank you, Mr. Chair.

The Chair: Mr. St-Jean, as I mentioned, your office is new and you're new to the position. Therefore, as you've just heard, we're looking for big things. In fact, Madam Fraser just said that

considerable work remains to be done to achieve the objectives established by the policy on internal audit. So you're on the hot seat. We'll turn it over to you.

[Translation]

Mr. Charles-Antoine St-Jean (Comptroller General, Comptroller General's Office, Treasury Board of Canada Secretariat): Mr. Chairman, I want to thank you for asking me here to discuss with you the chapter on internal audit.

Let me first say that I fully support the Auditor General's recommendations. I want to thank her and her staff for their report. This analysis has helped us considerably to prioritize our actions.

The internal audit function is a key component of effective management. Public and private sector organizations throughout the world are working to strengthen their internal audit capabilities.

Since taking over this position in 2004, I have made the internal audit function one of my priorities. I'm pleased to announce that we have followed up on a series of questions and concerns identified by the Auditor General.

[English]

As you know, last November the President of the Treasury Board announced our multi-year initiative to strengthen internal audit. This initiative will be captured in an updated internal audit policy and includes the following specific actions.

First, rebuild the structure of the Office of the Comptroller General to support the internal audit function. Effective December 12, 2004, our first-ever assistant comptroller general for internal audit, Mrs. Basia Ruta, who's here with me today, took office with a clear mandate to help me implement this multi-year initiative.

Second, centralize responsibility for audits of small agencies and departments and establish capacity within the Treasury Board Secretariat to support forensic, information technology, and horizontal audits.

Third, increase the independence of the audit committees by including external members.

Fourth, promote professionalism through a human resources strategy, including Comptroller General approval of appointments of chief audit executives in all departments and the certification of those chiefs and their senior audit staff.

Fifth, monitor and report on the capacity of the internal audit functions in departments and agencies through a rigorous inspection process, as recommended by the Institute of Internal Auditors.

Sixth, standardize audit practices across government, thereby increasing the mobility of the internal audit community.

Finally, take steps to secure the resources needed to expand capacity in departments and the Treasury Board Secretariat on a sustained basis.

These actions and the others contained in the announcement by the President of the Treasury Board address the Auditor General's recommendations directly and effectively and also respond to the recommendations made by this committee.

[*Translation*]

I am very determined to see to it that the internal audit function is strengthened across the federal public service. Our objective is to make MPs and Canadians increasingly confident in the rigorous way in which public funds are managed.

[*English*]

That being said, I would like to touch on two structural impediments that must be addressed. First is the limited pool of qualified and experienced internal auditors, and a classification system that does not provide the flexibility to attract and retain those professionals. I'll be addressing this issue, working with the internal audit community, central agencies, the public service commissions, and the unions.

Second is the Access to Information Act. I fully agree with the Auditor General about the unintended negative impact of the act. Access to draft reports and supporting working papers hampers the ability of auditors to discharge their duties. I believe internal auditors should work with the same standards of access that now apply to the Office of the Auditor General, and I would be pleased to review this matter further at your convenience.

[*Translation*]

Summing up, I'm confident that we can meet our objective. There are a number of reasons for my optimism.

First of all, we are not starting from scratch. Although our current internal audit capacity is not what we would like, we have made some progress to date. For instance, the number of internal auditors on staff has increased by approximately 15 per cent. In addition, several deputy ministers are actively participating in audit committees.

Secondly, over the past three months, I've met with audit chiefs from various departments on numerous occasions. Without question, they want this initiative to succeed. They have worked diligently, often under difficult circumstances, to achieve progress since 2001. They are clearly determined to perform their job with due diligence.

Lastly, after consulting with the Auditor General, with deputy ministers, international counterparts and representatives of organizations like the Canadian Comprehensive Auditing Foundation and the Institute of Internal Auditors, I am confident that we are on the right track.

That concludes my presentation, Mr. Chairman. We will be happy to answer any questions committee members may have for us.

Thank you very much.

• (1550)

[*English*]

The Chair: Merci beaucoup.

We will start the first round with Mr. Kramp for eight minutes, please.

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

I have a very similar question for both the Comptroller General and the Auditor General. I don't want to belabour going back to the sponsorship scandal—in and done, over, per se. However, it appears that many of the internal audit results were actually toned down, and none of the facts came out.

How many audits did we have? In 1993 we had assessments of the internal audits. We had them in 1996, 1998, and 2001. Everybody suggested what we had to do to fix the problem. In the last committee report of the 37th Parliament, I noticed the previous audits pointed to these shortcomings—not in the policy, because everybody says, “We know how to fix it now. We'll just appoint a new man at the helm. He'll just go in and make a lot more recommendations. We'll just adopt those recommendations”. But the problem is that nothing happens. They don't get implemented to their fullest extent. The recommendations are not fully accepted.

I don't wish to compare the business of government with my business per se, but if I had a number of little businesses and did not listen to my auditors and the people responsible, I would be out of business. Government seems to feel that it's almost impervious. “We're so large, we're so departmentalized, we can lose a little bit here or a little bit there”. But when you're dealing with billions and billions, a little bit, 1% or 2%—all of a sudden the mistake is huge.

The reason I say that, particularly when I take a look at the sponsorship, is that the results were toned down. How can they be toned down? Why can they be toned down? This just doesn't seem to make any sense. If they were toned down then, how can we prevent a repeat of the same situation? What assurances can you give, Mr. St-Jean, that they will not be “toned down” in the future?

Rolling over to Madam Fraser, you gave Public Works and Government Services a fairly good rating. Is that relative to the abysmal ratings of the rest of the departments? How could you give them a good rating and then, subsequent to that, have the sponsorship situation take place? That's my concern.

Perhaps I could just start off with either Ms. Ruta or Mr. St-Jean, and then go to the Auditor General with that question.

Mr. Charles-Antoine St-Jean: Thank you very much, Member, for the question.

In terms of what can change and what will change to prevent the dilution, as you mentioned, of a certain report, there are a couple of things I'd say we're looking at to strengthen the internal audit. One is the inclusion of external members on the audit committee to make sure we have a thorough review and oversight of the function of internal audit. External members should be able to ask questions and challenge the internal auditors to make sure everything that needs to be known is known.

Second, the other aspect is also the independence of the chief audit executive of a department. In the future we'll make sure, the policy will make sure, that the chief audit executive reports directly to the deputy head of the department. On top of it, they will also have a functional relationship with the Comptroller General. If there are some issues about which they are not comfortable about the way they are addressed, they can, they should, consult with the Comptroller General.

• (1555)

Mr. Daryl Kramp: Fine. But what level of independence would we be looking at here? As an example, if we have an independent addition to the staffing, what proportion, 2%, 5 out of 50, 10 out of 100? What independence are you bringing into this audit status? How many? Where are you going with the independent people coming in to be able to give you a hand with this?

Mr. Charles-Antoine St-Jean: I'm not too sure if I understand the question from the member. In terms of the independence of the function, the chief audit executive of the audit function of a department would be independent from all the operations of the department. They would be reporting directly—

Mr. Daryl Kramp: I may have used the wrong word. Instead of “independent”, “external”. In other words—

Mr. Charles-Antoine St-Jean: As for the external members of the audit committee, I would say these people would be totally independent from the public sector. They would be providing expertise to the deputy ministers in terms of knowledge of how to manage internal auditors and that kind of thing. Also, they would have knowledge of the public sector, but they would be totally independent of the department. They would not be employees or civil servants.

Mr. Daryl Kramp: Why wouldn't they report to you instead of the deputy minister?

Mr. Charles-Antoine St-Jean: If I may respond to this, this is a fundamental question in terms of the accountability of deputy ministers. If we have internal audit and the audit committee reporting to the Comptroller General, then we say we've weakened or we've blurred the accountability of the deputy minister.

What we're proposing is that we will have standardized processes by which internal audit will be conducted. We'll also have inspection to see that all these internal audit functions are well done. We're going to be doing that on a regular basis. We'll be reporting on the health of the internal audit.

Mr. Daryl Kramp: Granted, but again I go back to my question. When we have deputy ministers and we have staff who run through the situation, you build up relationships, you build up levels of trust, you build up circumstances whereby you learn to depend on one another. Impartiality, then, typically...we're human. You don't have the level of independence that you would have if you had a totally external reporting mechanism.

That's why I'm wondering why we would not have our internal auditing reporting to an external source. Why would we have internal auditing report to internal sources? Why?

Mr. Charles-Antoine St-Jean: As I said, this model of having internal auditors reporting to an external source then begs the question, are they internal auditors or external auditors? In the way

the internal audit is done in both the public and the private sector, to a large extent the internal audit is done by an internal auditor who works for the organization.

However, we're going to be putting in some really tough safeguards in terms of standardization, inspection process, external members on the audit committee, and functional relationships.

Mr. Daryl Kramp: Thank you.

I'd like to hear from Madam Fraser on the one response on the sponsorship then, please.

Ms. Sheila Fraser: Thank you, Mr. Chair.

You will see in our report, in paragraph 1.20 in the exhibit just above, that we detail the kinds of professional standards that we would look to in evaluating whether the function was operating well and meeting those standards. Public Works and Government Services Canada did meet most of the standards, so there were professional standards there. There was organizational independence, there was strong support from senior management, and the internal audit group reported directly to the deputy head. This was all at the time of our audit, conducted in 2004. We reviewed their working papers. We made sure the audits were being conducted according to professional standards and using due professional care. We are of the opinion that they generally conform to the standards for internal audit.

It will link back to the question you were asking, Mr. St-Jean. Auditors can only report what they find; the responsibility to take action is management's. It is important, we believe, that the internal audit should report to the deputy head of the department, because it should be the deputy head who initiates the action to make the improvements—not, for example, the Treasury Board Secretariat. So the deputy head should be the one who puts in place the mechanisms to have strong internal audit and then, where areas in need of improvement are detected, makes the necessary improvements within the department. It is a very important management tool for that deputy head to get assurance that the processes and procedures in the department are working in the way he or she would expect.

• (1600)

The Chair: Thank you, Mr. Kramp.

[*Translation*]

Mr. Sauvageau, for eight minutes.

Mr. Benoît Sauvageau (Repentigny, BQ): Thank you, ladies and gentlemen, for coming here today.

Mr. St-Jean, allow me to congratulate you on your appointment. I wish you the best of luck in your duties.

Madam Auditor General, rarely do I preface my remarks at any length, but today, I will. You state the following in paragraph 1.3 of your report:

We found that the Treasury Board Secretariat has yet to establish and fund a strategy that will enable it to meet the requirements of the Policy on Internal Audit and the expectations of the Internal audit community.

This is what you found. Fortunately, the Treasury Board Secretariat responded thusly:

The Secretariat agrees that improvement is required. The government has directed the Secretariat to establish a more effective government internal audit function.

Therefore, the Secretariat says it has heeded your advice.

With your permission, I'd like to quote from another of your reports. The following is noted in paragraph 7.3:

Thirty years of effort to establish effective internal auditing have not resulted in a uniformly high standard of internal audit throughout the government. All the major stakeholders — central agencies, departmental management and departmental internal audit units — need to change their views on internal audit and to look for more innovative and effective ways of using the resources associated with it before the full benefits of internal auditing can be realized.

This quote is taken from the AG's 1993 report. The feeling at the time was that the call for change was warranted. Eleven years later in 2004, you're hearing the same tune. Why do you believe your efforts will succeed this time around?

[*English*]

The Chair: Was your quote from the 1993 Auditor General's report?

Mr. Benoît Sauvageau: The second one was, yes.

The Chair: Thank you.

[*Translation*]

Ms. Sheila Fraser: I can give you a partial answers and I'm sure Mr. St-Jean will want to add something as well.

According to the 1992-1993 report, approximately 700 persons performed internal audit functions. Subsequently, a range of program review and workforce reduction operations took place. Although I haven't looked into this specifically, I would assume that internal audit services were scaled back because they were perhaps perceived to be less essential, in terms of the direct services provided to Canadians. The number of employees assigned to the internal audit function even continued to decline up until 1999-2000, to the point where they totalled 400. These functions were therefore scaled back considerably across the government. However, as Mr. St-Jean mentioned, we have seen a 15 per cent increase in the number of internal auditors in the past two years.

I remain optimistic, because of Mr. St-Jean's level of commitment and because of the fact that a position has been specifically created for someone to oversee the internal audit function and standards. I also think that after a few recent incidents, people are beginning to appreciate the importance of the internal audit function.

Mr. Benoît Sauvageau: A few scandals, you mean.

Ms. Sheila Fraser: I'm encouraged by what I see. Of course, we'll know in three or four years if the action plan has in fact been developed and implemented, but I nonetheless see a commitment on the part of the Secretariat and the Comptroller General to restore internal auditing and to professionalize the function. Fundamentally, we cannot ask for much more than this right now.

Mr. Benoît Sauvageau: Mr. St-Jean, Ms. Fraser suggested that we ask you to clarify some of the initiatives you plan to put in place, your timetable and the various stages involved. I'm sure you can oblige us, to help us understand why this time around, your efforts will prove successful.

Mr. Charles-Antoine St-Jean: Let me start by answering your first question, namely why things should be any different this time around? When I took office, I consulted with present and past stakeholders. I even met with the Auditor General and with the then

Deputy Auditor General who had drafted the report to ask them to report on what had happened in the interim and to give me their reasons for the current state of affairs.

The climate has changed somewhat since 1993 and in some respects, circumstances then were less conducive to the internal audit function. Mention was made of program review, an exercise that had a definite impact on internal auditing. Nevertheless, that is all in the past. As for the future, of greater concern to me is how to ensure that this doesn't happen again and that the internal audit function remains strong in the coming years.

A number of points bear mentioning at this time. First of all, the Comptroller General function has been fully reinstated. For the first time as well, we have an Assistant Comptroller General for Internal Audit. Efforts are already under way to build a team that will focus exclusively on internal auditing. The first ever Chief Executive in charge of policies and procedures has been appointed. Another chief executive will be hired shortly and assigned exclusive responsibility for auditing small agencies and departments. We are currently in the process of setting up a group that will concentrate on IT, forensic and horizontal audits. All of these initiatives are underway, along with some recruitment activities.

On numerous occasions, I have had discussions with the government with a view to identifying the required resources to put a strategy in place. As you can well understand, I'm not in a position to disclose the tenor of these discussions. The highlights will be unveiled when a budget is brought down. Nevertheless, I did receive some very encouraging signs.

Another important consideration is the hands-on approach that we're seeing. Contrary to the way things were done in the past, we now favour a hands-on approach to internal auditing.

Mention was made earlier of creating a function that would involve inspecting all internal audit groups. Some 25 departments account for 95 per cent of all federal government expenditures, which explains why one of our priorities will be to ensure that the internal operations of these 25 departments are audited periodically. We'll conduct audits annually, or every second or third year, depending on how the departments perform. One way or another, our approach will definitely be more hands-on. Consequently, when the Auditor General gets back to us in two or three years, she'll have...

• (1605)

Mr. Benoît Sauvageau: Excuse me, but I have only one minute left. I'd like you to talk to us a little about your budget. In 1993, your office had a budget of \$56.6 million and 700 employees on the payroll. I would imagine that you're asking for the same amount, or at the very least, for an equivalent amount in constant dollars. I'm not exactly clear about that, because we haven't heard much about it. Nevertheless, I do have a question for you.

If you meet all of your objectives and that subsequently, someone asks a minister to explain how the Firearms Program money was spent, then he should be in a position to answer their question.

Mr. Charles-Antoine St-Jean: The internal audit function will specifically address questions such as compliance. It will also ensure that money is well spent and that reports are properly drafted. As for determining how funds are spent, the aim here is to ensure accurate reporting. It will then be up to MPs to ask questions. Regardless, we'll ensure that the facts are accurately reported and fully disclosed to ministers and deputy ministers.

[English]

The Chair: Merci beaucoup, Monsieur Sauvageau.

Mr. Carr, please, eight minutes.

Mr. Gary Carr (Halton, Lib.): Thank you very much to both of you. As usual, this is very helpful and very thorough. It's always really enjoyable to learn when you come forward.

My question is to the Comptroller General regarding the issue of senior management. The Auditor General said in point four that she thought some of the reason was lack of support from senior management. I was just wondering what your thoughts were, as you've been involved. What is the support coming from senior management like? Is it good support that you receive from senior management?

Mr. Charles-Antoine St-Jean: Thank you very much for the question.

I would say I had the pleasure of interviewing many of the deputy ministers over the first four or five months. I probably talked to 20 or 25 of them individually or in groups at different presentations, at advisory committees and the like, about the function of internal audit. I would therefore say the support is there and is growing.

In some of those discussions that we had with deputy ministers, they were really looking at what could be done to help them manage better. The internal audit will last a few years. You see that also in the private sector. This is becoming a very big focal point of attention for executive management. The deputy ministers say they've never managed an internal audit shop in the past. They ask what 20 questions they should be asking their internal auditors and how they should be keeping their accounting on a monthly basis or quarterly basis.

So the support is there, the interest is there. I'm quite pleased about the reception we've received from the senior management committee on the initiative that we're proposing. They're really looking forward to receiving some support and help.

• (1610)

Mr. Gary Carr: Thank you. That's good to hear.

One of the things that surprised me a little bit in your comments came when you talked—and I guess the auditor did as well—about difficulty in attracting and retaining qualified staff. You mentioned the limited pool of qualified, experienced internal auditors, a classification system, and so on. These are very well paid, highly skilled jobs. Is it the same in the private sector? Is there's difficulty finding those people? Do we need more people in this area? Or are we just not attracting them to the public sector?

Mr. Charles-Antoine St-Jean: I would say there are probably two issues. One is internal to the public service. We touched on the classification issue, which has made the internal audit profession less

desirable to join. It's difficult for people to see a career for themselves when they join the internal audit stream, so we need to make it an attractive place for people to join and to learn in so that they can become much better at it. By attracting and retaining those professionals, it's going to be much easier for us to build on capacity.

On the question about whether it's the same in the private sector, as you know, in the last few years, Sarbanes-Oxley came into place in the U.S. Last week there were also some announcements that all the large-cap companies were going to ask for certification of internal audits and internal controls, and that is creating a big demand for internal auditors in the private sector. I know the firms are hurting; they cannot keep their people because industries are coming to attract those people. I know many of our colleagues in the civil servants are called by headhunters who are asking those civil servants to help them in internal audits.

So there's a big demand at the moment for internal auditors in the private sector, and we're having difficulty creating an environment in which our people see that they are valued and can really develop. These are two aspects we have to look at, and I've already had a number of discussions with all the players in this field.

Mr. Gary Carr: That's very helpful to know. It seems to be a good time to be in that profession if everybody is pulling for you. One of the problems, though, is what you mentioned: the classification system. I was wondering if you could be a little bit more specific. You said it isn't working. Is there anything specific that we should be doing regarding classification so that we can retain these people?

Mr. Charles-Antoine St-Jean: It would be my pleasure.

I had a number of discussions with the Public Service Commission and the agency. We have to have a discussion with the unions in terms of different models that we could work with. One of the difficulties, as I said, is that the internal auditors don't have a classification themselves. We have what we call AS, we have ES, we have FI, PM, and a full slate of classifications. When people try to move up from manager to senior manager of auditors or to chief auditor executive, though, there is no easy stream. They have to jump from different classifications, and that makes it very difficult.

So we have to streamline these classifications and maybe create a new one. I don't know, but we're looking at different models.

Mr. Gary Carr: Forgive me, because I'm not aware of it. Would you need to negotiate that with the unions then?

Mr. Charles-Antoine St-Jean: We have to work with all the players, be they the Public Service Commission, the agencies, the central agencies, the unions, or the internal audit community itself. As I say, this is a big change management initiative, so we need the support and the collaboration of all parties. Unions are full members, and I've had many discussions with them on the FI side, and I'm looking forward to having similar discussions with the audit community.

• (1615)

Mr. Gary Carr: I notice you said—which I think is probably the case too—promoting professionalism through the human resources strategy as well.

We also have this situation at the senior levels, with deputies. They're always switching and moving around, for a number of different reasons. Is having these changes also affecting the situation at the senior management level? I know one of the difficult things is that we have deputies coming here—and I was pretty hard on one of them, but he was only there for a year. So for a lot of the problems that went back, that the auditor brought in, he or she has to come before us, and it was he or she who came before them who did it.

I'm just wondering whether you see the movement around of the deputies as a problem with senior management as well.

Mr. Charles-Antoine St-Jean: Thank you.

If I may say so, this is a much larger issue to deal with. Continuity is key, though. Knowledge of the files, knowledge of the management framework, and knowledge of the issues are key, as I say, to ensure we have a good internal audit and good exercise of the audit. This is not optimum from an internal audit perspective, so we have to find different ways to accommodate it.

Mr. Gary Carr: Good.

I thank both of you again.

The Chair: Madam Fraser.

Ms. Sheila Fraser: I'd just like to add one more point for the committee. When we're talking about the whole human resources strategy, what we noted in the report was that much of the funding that was given for the internal audit functions was sunset or temporary. So many of the positions are temporary positions, and it's very difficult to attract someone in if they don't have any assurance that it's a long-term position as well.

So that's another issue that needs to be looked at.

The Chair: I'm glad you raised that, because it's not just in internal audit but right across the government that we have a problem with hiring people on a permanent basis and offering them a satisfactory career, to attract the people to apply. So your point is well taken.

Mr. Christopherson, please, eight minutes.

Mr. David Christopherson: Thank you very much, Chair, and thank you all for your presentations, and welcome back.

As an opening comment, I would just say to Monsieur St-Jean that your appointment and the creation and building of your department provide a good fig leaf for the government in terms of most of what's in here, because everything switched over to you and you're the focal point for all of this. So it'll be interesting to see what happens when we get back around to see what you've been able to do and how successful you've been at herding this group of cats.

The first thing I would want to do, obviously, is to take us back—and I know we've visited it once, and I'm going to revisit it—to the whole issue of the sponsorship program. That ministry in general received a fairly good report from the Auditor General and yet within that lies certainly the biggest scandal in many decades.

I would be curious to hear from you about what changes you're seeing or that you're making or that you're overseeing that would ensure that sort of thing didn't happen again, recognizing that overall they seem to have done a fairly good job in that ministry, and yet in

the heart of that was this major issue that we're now spending a lot of time and a lot of money on, trying to get to the bottom of it.

So perhaps you could give me a sense of that, please.

Mr. Charles-Antoine St-Jean: Thank you very much to the member for the question.

What we're proposing to do, as mentioned before, to strengthen the internal audit is to put more independence in the audit function by having external members on the audit committees. I don't know how many external members we will have in those audit committees; these are issues we are still looking into at this point in time. I am looking forward to having external members on those committees who will be asking the hard questions on a quarterly basis, or every time there are audit reports being tabled by the audit committees.

In the private sector they have what they call “in camera” sessions at the end of every audit committee in which the members, with no management around the table, ask the question, “Is there something else I should know?” So I'm looking forward to seeing an audit committee that will be able to ask those questions to ensure us that the independence of the function is maintained.

I was talking also about inspections. Inspections will be carried out systematically in all the functions, and if we see some audit reports that are not acted upon on a timely basis, we will deal with that. They will not be taken by surprise.

I have just one last point I'd like to make on this.

Internal audit can help, it can provide a lot of comfort and support; however, I would not like to give the impression to members that internal audits will give you a 100% guarantee that no problem will ever happen again. That would be improper for me to say, and it would also be irresponsible. So things will go wrong, I'm sure, in the future, but we're going to be doing our very best to minimize those incidents and give us all the chance possible to make sure those issues come to light on a timely basis.

● (1620)

Mr. David Christopherson: Thank you.

You certainly have the support of this committee and, I suspect, every member of the House, because ideally, as much as we love the public drama and it's good politics, at the end of the day we are all here to make the system work better for the people of Canada.

Staying on this particular subject, we're into this issue again of roles and responsibilities. If you'll recall, chair, we got into this with the Department of Indian Affairs and the fact that they hadn't carried out a roles and responsibility analysis. So I'd be interested to know, when you see that coming, is that going to be a blanket policy from your office that affects everybody, and if so, at what point would we get a chance to see it? Will you be attaching timeframes to the ministries to incorporate it, or will you just set a deadline and say, “Here's the new corporate governance policy for roles and responsibilities of internal auditors. That's it. You've got until next Monday to get this thing in place?”

I'll break it into two pieces. Maybe you can answer that one.

Mr. Charles-Antoine St-Jean: On the first question, how to implement it across the system, we're working at this time on a revised internal audit policy. I'm quite impatient to see it drafted and enacted as soon as possible. We're doing the due process right now in terms of doing the internal consultation. I would like to see it in place in the next three or four months, five at the most. That will establish the new *modus operandi* for internal audits throughout the Government of Canada.

In terms of timelines, as we mentioned before, we have some capacity issues, also some demographic issues in terms of our community of audit leaders at this point in time. So it's going to take some time to put it in place.

When I came in I asked the senior officials who were looking at my appointment if they were looking for someone who was just going to come in and fix it in three months and then go home, or if they were looking at somebody who was going to be fixing it on a sustained basis. If we're going to fix it on a sustained basis, it's going to take three to five years to do it—recruiting the people, staffing the positions, giving them the tools, putting the inspection process in place. It's going to take some years.

In probably the next two to three years we can do a good chunk of it, but to do it on a sustainable basis, to make sure this problem doesn't happen again in the future, it's going to take a few years.

Mr. David Christopherson: I'm surprised. I could understand a couple of vacancies might take a while to fill, but years to develop...? We're not inventing the wheel here.

Mr. Charles-Antoine St-Jean: I referred to policy. As I was saying, I'm quite impatient to see developments in the next three or four months. But as I say, for the actual implementation, for chief audit executives to all be certified internal auditors, for their staff to all be certified internal auditors, a number of them will need to go back to school, go back to training and the like, so it's going to take time.

Mr. David Christopherson: I only have a minute.

It's a little disappointing to hear it would take that long. I would hope, though, that we would be getting some kind of plan with timeframes to show us what will happen in six months, one year, three years, so we can make sure it takes no longer than the number of years you're mentioning.

On these internal committees, when we talk about an external person, are we talking about somebody from another ministry or somebody completely and totally external to the process and answerable to you or the AG?

Second, what role is the AG playing in developing your plans? Is she agreeing with those plans? If there's disagreement, how does it get resolved and who becomes aware of it?

• (1625)

Mr. Charles-Antoine St-Jean: On the first question, in the six-, twelve-, and eighteen-month plans we're currently finalizing what is called the RPP, the report on plans and priorities. That should become a public document over the next few months. You'll see a six-month, twelve-month, and eighteen-month timeline for different actions. You should be reassured by these actions.

On the external members, they will be external members completely outside the civil service. They will not be from another department. They will not be from a central agency. These will be people who are financially literate—probably at least one of them will be a financial expert. One of the members will also be very knowledgeable on the public sector environment. They will be able to ask the tough questions and to gauge the answers. They will be totally independent.

Mr. David Christopherson: What about the role of the AG in developing the plan?

Mr. Charles-Antoine St-Jean: On the role of the AG, I work closely, as I said, with the Office of the Auditor General on a variety of files. We do consult with the office.

For example, on the audit of the small department agencies, I believe it was 10 days ago that the Assistant Comptroller General and I had an afternoon meeting to discuss how we can synchronize and coordinate the audit of all the small departments and agencies to make sure that we don't have the bureaucracy coming down on the small departments and agencies on Monday mornings. We can work together to optimize this idea. We're working with the Auditor General.

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

Now to Mr. Allison, please, for eight minutes.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you. There's never a shortage of questions, just time.

I want to thank you for coming out today. It looks as if you're into a pretty exciting time. As we move forward, your department can really make a big difference.

With that said, I have three questions. We'll try to break this down to about three and a half minutes for each section.

First, I do want to talk to the Auditor General, Ms. Fraser, on CIDA as one of the agencies. The second line of questioning will be to both of you in terms of access to information. The third question will be in terms of initiatives and obstacles to overcome. We'll go right to the first question.

You talked about CIDA being one of the agencies that did not comply. Is this something we as a group need to go back and look at, and what were those non-compliance issues?

Ms. Sheila Fraser: Thank you, Mr. Chair.

There were a couple of what we viewed as serious issues with the internal audit function in CIDA. It was mainly a question of documentation of the files of the audits that they were conducting. We couldn't get evidence that they were doing that in accordance with professional standards.

There has been, as you would expect, in all of these audits a very extensive debriefing with the department. I have met with the president of CIDA and with the minister as well; both assured me that they are taking this seriously and have started to address the issues there.

We have indicated to them that if they wanted it, we would go back to do a quick follow-up to see that the issues we were concerned about had been addressed. I'm pretty optimistic that they are taking the issues seriously and are working to address them.

Mr. Dean Allison: Would that be something, then, that we could recommend as a committee, that you do a follow-up as opposed to bringing them here? What would the protocol be in this situation?

Ms. Sheila Fraser: You can recommend that. We're waiting for the department. They are changing the organizational structure as well. I just had a note about it. Before, internal audit didn't report directly to the president; now it will, and in the future.

We can certainly go back and look. I would just like them to have a little time to get things in place and to have actually done a few audits so we can actually be able to see the working file papers. It's all very well to say we're going to do this and going to do that, but it's better if we have audits that have been completed. It'll take a year or two before we have enough material.

Mr. Dean Allison: You're not overly concerned that we need to bring them in right now. You're content that they're moving forward.

Ms. Sheila Fraser: That's right.

Mr. Dean Allison: Great.

The second question, and it's to both of you, is about access to information. It seems that everywhere we turn at this committee this wonderful thing called access to information seems to be slowing up the whole process of being able to figure things out and get things done. We've experienced that with some of the people who have come before us already.

The comment was made by you, Mr. St-Jean, that the work hampers the ability of the auditor to discharge their duties. You believe that auditors, in turn, should be worked to the same standards of access that now apply to the Office of the Auditor General. How do we go about resolving this issue?

• (1630)

Ms. Sheila Fraser: There was a study done on access to information legislation. There was a report tabled, which actually made a recommendation as regards internal audit working papers and draft reports. It is up to government to decide if they want to introduce the legislative changes that would accomplish that.

For example, the Office of the Auditor General is not subject to access to information. We've taken the position that we see no difficulty in being subject to access to information for what are our administrative functions. We voluntarily comply with all of that.

When it comes to actually releasing working papers, notes of interviews, all those sorts of things, I don't think a lot of people are going to be talking honestly to auditors if all these notes are out, made public. So it really does hamper the ability of the audit function.

I think government has indicated in that recommendation that the reports will continue to be posted on websites. It's just more a case of protecting the actual working papers and draft reports, because we will write reports and there will be new information or context given to us that will change the report. It could be damaging if an incorrect report is made public, especially in the public sector environment.

So we are strongly of the view that there are changes that should be made to access to information as regards internal audit working papers and draft reports. Government, I think, certainly agrees with that as well.

Mr. Charles-Antoine St-Jean: I would like to add to the Auditor General's response. The Access to Information Act on the working papers and the draft reports is really adding a chill effect. I conducted many interviews and asked, what are the structural impediments to conducting an internal audit at the moment? ATIA is very much an impediment when you have draft audit reports that have not been reviewed by audit managers or senior audit managers. It's the old principle that ensures you that the findings are fair.

Also, you end up with a very much anesthetized type of environment in which you conduct audits. If you want the audit to be vigorous and rigorous, so that all of us can rely on the working papers, they need to be protected.

I am proposing to ensure that there's no misunderstanding. We're not trying to get a blanket protection from ATIA. All the audit working papers will be kept. They will be subject to review by the Auditor General's office at any time. They will be available at any time. The Auditor General and her office can make professional judgments of what makes sense or not. To release them when they're still in draft, the pervasive negative impact it has is very severe.

Mr. Dean Allison: That's fair within that stage.

So what am I hearing, then, is that we need political will for this to happen. Does this need to be legislation that's passed, or what exactly is the process for...?

Ms. Basia Ruta (Assistant Comptroller General, Internal Audit Directorate, Comptroller General's Office, Treasury Board of Canada Secretariat): Mr. Chair, there's a group of people already working at this. In order to make this happen it's a legislative change. It's really with the folks responsible for bringing those changes that we need to work.

I think there's a lot of attention being given to the whole issue of access to information. Within our office we're working with our legal folks in the justice department to see that we can make our views known as quickly as possible. It is an important area, and we certainly are tagging that and keeping a record of how we might be able to get that in the process.

Mr. Dean Allison: Okay, thanks.

We talked about some of the changes and initiatives. You've outlined a few of them. Specifically, since I'm almost out of time, on clear support from senior management, what exactly is happening there, and where are we at in terms of our initiatives timeframe for that, in terms of whether it's buy-in or support? What exactly is meant by that? What's going on with that?

●(1635)

Mr. Charles-Antoine St-Jean: There are a couple of points on this. There is no doubt that the internal audit has gained a lot more visibility over the last year or two for a very different reason, both in the private and public sectors. I have interviewed and discussed this thing with many deputy heads, to ask them to have the chief audit executive report to them or to suggest looking at it. I was quite pleased to see that within two weeks, after various meetings, I was starting to get letters from deputy ministers saying, "Thank you very much for your comments. As of today, the chief audit executive now reports to me".

So I have seen concrete action on that basis, but also support from the secretary and the president to focus the attention and the resources in an internal audit. It's moving in the right direction. I'm quite pleased with it. Support will become more evident in the coming months.

Mr. Dean Allison: Thank you.

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

Mr. Murphy, please. You have eight minutes.

Hon. Shawn Murphy: Thank you very much, Mr. Chairman.

I just want to follow up on the whole issue of the structure of internal audit in the federal public service. Both the Auditor General and you, Mr. St-Jean, have stated that you believe the internal audit department, from an administrative line department, should be answerable to the deputy minister, but I want to explore this a little deeper.

I'm not an expert on internal audit structures, but it would appear to me that this does not give the necessary independence to the function. When you look at the private sector, you have the internal audit. There is a...I don't know if it's a direct reporting relationship, but it's a very close relationship to the audit committee of the board, and the board reports directly to the shareholders, the owners of the company. In actual fact, I believe that's how most of the federal crown corporations operate.

Here I see a situation where you have the internal audit... And I really don't see these internal members of a committee being much help, because they are not there all the time, but it would seem to me that the internal audit department—administratively still under the ambit of the deputy minister, but from an audit function—would be better reporting to a separate agency, such as the Comptroller General or the Treasury Board Secretariat.

I'll follow up and get you to address two more points. What is the view of the Canadian Association of Chartered Accountants, and what are the international standards in the other major countries?

Ms. Sheila Fraser: Mr. Chair, there are in effect two models you could take. One could be to have all the internal audit function report to the Comptroller General. They would conduct the audits, and then the Comptroller General would have to go to tell the deputy head that he has a problem in his department.

The model we see is that the deputy head should be responsible and accountable for the management of that department. The internal audit should be a tool for that manager in order to ensure that things are working well and that, if there are problems, he or she has them

addressed. Many of these are very large, complex organizations. To expect the Comptroller General to manage all this is putting a lot of burden on the Comptroller General.

Now, I do see a functional responsibility for internal audit. I think the Comptroller General has indicated already that they will be involved in ensuring the qualifications of the people there, that they will be doing the professional development for them, and that there will be some sort of quality review function. So I see the role of the Comptroller General more properly as ensuring that they are professional. They will, I presume, continue to receive copies of all the reports.

So there is a kind of supervisory mechanism, but I think it's important that it be a function of the deputy head in his or her management of the department. To my knowledge, I don't think that the Institute of Chartered Accountants has said anything specific on the issue. The Institute of Internal Auditors has set the criteria for an effective internal audit function. I don't know that they've addressed it in the public sector.

Perhaps Mr. Sloan could answer that.

●(1640)

Mr. Bruce Sloan (Principal, Office of the Auditor General of Canada): The Institute of Internal Auditors has adopted a position that internal audit should be reporting administratively to the chief executive officer or, in our case, the deputy head. Functionally, they should have direct reporting to the audit committee, but the ideal is that independent members on the audit committee will strengthen the position of internal audit within the organization.

Hon. Shawn Murphy: That's my very point. I agree with that statement. I don't see independence with this so-called committee. I think there would be more independence if it were reported administratively to the deputy head of the department. I agree with that. There's no way around it. Functionally, it should go to the Comptroller General.

If I can make another point, Madam Fraser, we've seen a glaring example in the sponsorship case. The deputy head will not want a negative audit on the website, for obvious reasons that are understood by everyone in this room. He or she will do anything to water it down.

We had a situation with the sponsorship thing. Ernst & Young went in there and did a very negative audit. I don't know if it was the deputy head or somebody in government in the administrative bureaucracy, but somehow someone got to Ernst & Young, took them to the woodshed, and had the audit completely changed.

When it went to the website and we saw the final copy, it identified a few problems, but it was generally fairly positive when it was on the website. I would think that if the internal audit was reporting to an independent department, such as the Treasury Board Secretariat or the Comptroller General, this would not have happened. This is the point that I'm making in my question.

Ms. Sheila Fraser: Actually, the whole question of who the audit committee is in the public sector is an interesting one. Some could in fact say that this committee is the audit committee of government.

Hon. Shawn Murphy: But we don't have the resources to get into internal audits.

Ms. Sheila Fraser: When you look at audit committees within government, quite frankly, I'm not sure that the Treasury Board Secretariat and the Comptroller General are going to be independent. I don't want to cast aspersions, but they are part of government too. To what degree is their independence? How do you ensure that?

I think you need good professional people and deputy heads who understand the role of internal audit, use it appropriately, take the audit seriously and, with the Comptroller General, the Secretariat, and the President of the Treasury Board, would also push that.

I'm not sure how to do it. Even if you brought an audit committee into a department with independent people, do they have the levers to do it?

I'm not sure. I think it's an interesting discussion to have: who is the audit committee in government?

Mr. Charles-Antoine St-Jean: If I may answer in terms of the models, centralized or decentralized, there are two very viable models. Around the world we see these two models. It really depends on the nature of the governance of the unit. It is believed that the best model for the Government of Canada, given that we want to keep the deputy heads accountable for their management, is when they have control over their internal audit.

That being said, the functional relationship when we're talking about the nomination of the chief audit executive will be done by the Comptroller General, as will the removal of the chief audit executive. It will be not only the nomination but the removal of the chief audit executive, with the agreement of the Comptroller General. That would provide the independence that you are looking for from that perspective.

You mentioned the Institute of Chartered Accountants. They have not pronounced on either model as to which one is the best one. For international standards, they say it really depends on which department or which government you look at. As part of that proposal, they have looked around to see what they do in the U.S., the U.K., France, and Spain. There are all kinds of varieties of models. They all have pros and cons. We see that decentralization is very often the case.

The Chair: We might as well have a Canadian model too if we're going to have all these different ones.

Anyway, that brings the first round to an end. We're now into five-minute rounds.

Mr. Benoit, please.

• (1645)

Mr. Leon Benoit (Vegreville—Wainwright, CPC): Thank you, Mr. Chair.

Thank you all for being here today.

To follow up a little on the discussion, Mr. St. Jean, in your opening statement, you said, "This initiative will be captured in an updated Internal Audit Policy, and includes the following specific actions...Centralizing responsibility for audits of small agencies, and establishing capacity within TBS to support forensic, IT and horizontal audits".

There has actually been a lot of discussion over the past few years on whether internal audit should be centrally located in the Treasury Board or whether it should be within each department. What will happen with that in the future?

Mr. Charles-Antoine St-Jean: On the small department agencies, they have a unique dynamic. Many of them are very small: 10, 15, 20 people. Some of them have 500 people.

When you take, universally, the small departments and agencies, you have about 60 to 65 of them, about 10,000 employees out of the 400,000 in Canada, and about \$3 billion worth of spending. It's a fraction and so many entities that it is impossible to get a really good internal audit function on a sustained basis.

There are some rules of thumb in internal audit saying that you need at least four or five internal auditors as a group to get something of substance and who can have access to all the appropriate resources and functionalities.

So because of these special dynamics of the small departments and agencies, we're proposing to create a unit within the directorate of Mrs. Ruta that will be conducting the audit of the small departments and agencies. I see probably 20 or 25 people who will be doing this on a full-time basis, working with the various small departments and agencies with an audit committee to guide the work of the small departments and agencies.

Mr. Leon Benoit: In terms of the government departments, though, do you want to see the internal audit function stay within each department?

Mr. Charles-Antoine St-Jean: For the other, let's say, 25 or 40 departments, with 95% of the spending, we're proposing to have this in the departments, to keep the deputy ministers accountable for their management.

Mr. Leon Benoit: You don't want to see it centralized within the Treasury Board.

Mr. Charles-Antoine St-Jean: Not for the 40 or so larger departments.

Mr. Leon Benoit: You believe that it will stay in the departments?

Mr. Charles-Antoine St-Jean: Yes.

Mr. Leon Benoit: Great.

There's the internal audit function, which is what we're talking about today, and there's also internal program evaluation. There are different purposes for each, of course, but it seems to me it would be helpful if the two groups worked together in some fashion.

In fact, I'd like maybe from each of you some comment on whether that has been happening and whether you believe that will happen in the future, maybe better than it has in the past.

Ms. Sheila Fraser: We haven't done any specific work on program evaluation capacity in government, at least certainly not in the recent history. So I would be reluctant to make any comments about it.

Mr. St-Jean might know it better than I do.

Mr. Charles-Antoine St-Jean: Thank you.

In regard to the question of program evaluation and audit and the synergy between those two groups, it's evident there's some synergy, there's some complementarity, between the two groups.

This is one issue we're looking at now within the secretariat in terms of how to ensure we have a strong internal audit function and strong program evaluation function. As for program evaluation, I'm not as familiar as I'd like to be with that file, but we're really looking into it over the next three months to four months to focus more attention on it.

Mr. Leon Benoit: Yes, it does seem to me that the program evaluation function hasn't received proper attention, maybe, in the past. So are you going to attempt to make sure that the synergy you've talked about between the internal audit and program evaluation is improved?

Mr. Charles-Antoine St-Jean: As I mentioned before, the Treasury Board Secretariat is conducting an analysis, a review, of program evaluation activities at this point in time. I'm not in a position yet to say what will be the conclusion. However, these are all scarce resources. So we can leverage the boat from both sides. No question, that will be the intent.

• (1650)

Mr. Leon Benoit: I look forward to having a discussion with you on this issue in the future. Thank you.

The Chair: Mr. Benoit's a chair of the government operations committee, so I think you may be going over there one day soon, too.

Thank you very much, Mr. Benoit.

Mr. Holland, please, five minutes.

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

Thank you, Madam Fraser and Mr. St-Jean, for the opportunity to speak to you today.

I have a quick question first before I get to the main thrust of what I want to talk about. One of the documents we had, and I think it has come out through the course of discussion, stated that in internal audit committees, in the case of the federal departments and agencies, the committee members come from within the organization. It notes that there's an exception. The specific exception that's referenced here is Public Works and Government Services Canada. Can you tell me what that exception is and why that exception exists?

Ms. Sheila Fraser: Actually, in the departments that we looked at, there was one exception. Public Works and Government Services Canada decided to have an external member on its audit committee. That member probably came in within the last year to six months. Since the report, I think other departments have also had external members. For example, we've had an external member on our audit committee now for three or four years.

So there are some departments and agencies that do have external members, but it wasn't current practice. What we're hearing is that it will become current practice.

Mr. Mark Holland: Right.

The question I had goes to the process around the internal audit. Something comes to the attention of the deputy minister as a potential problem area. There is a decision to initiate an internal audit of a particular function. That audit report comes back and details if there is a problem and what potentially can be done. That internal audit is posted immediately, if I'm not mistaken, and is immediately made public.

Picking up on some of Mr. Murphy's comments, he referenced the fact that this becomes less desirable particularly in our current context, in an environment that is very hungry for any type of wrongdoing or anything that might be the slightest bit juicy or salacious. How do we deal with that? How do we make it such that there isn't that fear? There may be some things going wrong that can be corrected, but to have an almost overzealous fear of finding anything wrong turns one away from that. How do we manage that? What can we do within the provisions of the internal audit process in order to address the fact that there is a real fear there right now in terms of finding anything?

Ms. Sheila Fraser: You're absolutely correct in saying there is a fear that the reports will cast aspersions on departments.

If I could just go back, the audit to be done should be based on some sort of risk analysis of departments. You would hope there would be a program established, that it would be discussed at the audit committee, that people would ask if these were the right audits that they were doing, and that the audits would be carried out over a period of time. You would also hope that when an audit is conducted and shortcomings are found or improvements are needed, the department would put in place an action plan that would be addressed and would be posted at the same time. So you have the audit, but you also have the commitment to fix things, and then there would be regular updates to show that progress is being made.

At the end of the day, the objective is to make the management of the departments better. It's important that audits be able to point to shortcomings and that there be written reports.

I think we note in here that we see a lot of activities moving to consulting assignments rather than to the audits and the assurance assignments, so it is an issue that has to be addressed. Hopefully some changes to the Access to Information Act, if they were to be made, would certainly protect some of it. Departments would then post or make accessible the completed report, with an action plan that could be updated afterwards.

Mr. Mark Holland: I appreciate that answer.

As a follow-up, one hopes this is never the case, but let's say a deputy minister is involved in some of the mismanagement of a particular area and therefore is not going to be inclined to cast the spotlight of an internal audit on that particular area. How does one ensure that those areas that a deputy minister may be actively trying to conceal get audited through the process? Is there any such way to deal with that? What are your thoughts and recommendations around any such circumstances that might arise?

•(1655)

Ms. Sheila Fraser: Again, it comes back to the risk analysis and the plans for the audits that are to be conducted. Those plans should be reviewed with the committee, and if there are areas in which the internal auditors think there are risks and those areas are not being addressed, the committee should be made aware of them and should be asking those questions. It really comes back to the planning and the active involvement of the audit committee.

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

[Translation]

Mr. Sauvageau, for five minutes.

Mr. Benoît Sauvageau: Thank you, Mr. Chairman.

My first question is for Mr. St-Jean. It may appear somewhat simplistic, but it all hinges on the answers supplied to some of the other questions.

Are you a public servant?

Mr. Charles-Antoine St-Jean: Yes.

Mr. Benoît Sauvageau: Are you an officer of the House of Commons?

Mr. Charles-Antoine St-Jean: No.

Mr. Benoît Sauvageau: Are internal auditors public servants?

Mr. Charles-Antoine St-Jean: Yes.

Mr. Benoît Sauvageau: If Bill C-11 is adopted, public servants would be required to enforce the provisions of this legislation governing disclosure of wrongdoings. If the bill is adopted, an internal auditor with knowledge of wrongdoings within a department would be obligated to file a complaint with the Public Service Integrity Office. Correct?

Ms. Sheila Fraser: I'll answer that question, Mr. Chairman.

At present, any public servant who witnesses an illegal or criminal act, or wrongdoing of some kind, or suspects that such an act has been committed, is obligated to report the matter to the appropriate authorities.

Mr. Benoît Sauvageau: The Treasury Board Secretariat currently has a policy in place respecting the disclosure of wrongdoings. Mr. Keyserlingk, the person responsible for the policy on internal disclosure of information, maintains that legislation is needed so that this policy can be administered by an independent officer.

My question is a hypothetical one. The Standing Committee on Government Operations and Estimates, which is chaired by my colleague Mr. Benoit, is now hearing from final witnesses on Bill C-11. The Treasury Board Secretariat seems to be very keen on wasting no time adopting draft legislation on the disclosure of information about wrongdoing. Legislation of this nature would protect whistle-blowers. As Comptroller General, would you encourage auditors to disclose wrongdoings and to enforce the provisions of Bill C-11 if it passes into law?

Mr. Charles-Antoine St-Jean: If I may add to what Ms. Fraser said, as the Auditor General observed, any public servant who has knowledge of an illegal act is obligated to report it; he or she cannot hide behind protocol or argue that disclosure is not possible.

Having said that, let me assure you that I have duly noted your question. I have to review the protocol that applies in such cases. It's important that the right information is conveyed to the right person if we want matters acted upon quickly.

Mr. Benoît Sauvageau: I imagine that this internal disclosure policy was in place several years ago. The person responsible for conducting the first internal audit of the Department of Public Works should have used the legislative tools available rather than merely report on negative things in the internal audit. I call these past examples to mind, so that something like this doesn't happen again. The President of the Treasury Board seems intent on bringing in a truly effective tool for public servants, namely Bill C-11. Of all public servants, you may be the most likely to have knowledge of this type of wrongdoing. That's why I was wondering if you would be putting in place a policy to encourage people to apply the provisions of Bill C-11, if it passes into law.

Mr. Charles-Antoine St-Jean: Your suggestion has been duly noted. This is something that needs to be confirmed and clarified. However, the fact remains that public servants must always report illegal acts or wrongdoings.

•(1700)

Mr. Benoît Sauvageau: I have no further questions, Mr. Chairman.

[English]

The Chair: Mr. Wrzesnewskyj.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): Thank you.

I'm a little unclear about the forensic schemes, the methodology, and how they function. Would they be taking a shotgun approach, where they'd go in and just concentrate by lottery or whatever on certain areas of departments, or would it be a pinpoint approach, where there'd be a problem that had been identified, a forensic team would be sent in, and then the methodology would follow?

I understand the internal departmental reports your group would be preparing in each department are a management tool, so they would go to the deputy minister. In a case where forensic groups were sent in, not as a shotgun approach but because there is an identified problem, would those reports travel that same path to the deputy minister? Would they immediately go to the deputy minister and to you, or would they be then referred across to Ms. Fraser? I'm just curious about that functionality.

Mr. Charles-Antoine St-Jean: There are a couple of points. On the capacity for forensics at the Comptroller General's office, when I was reviewing the current protocol and modus operandi I had many discussions with many practitioners of the internal audit. They mentioned that in a number of cases they didn't know how to deal with this. The objective of establishing a group at the Comptroller General's office is really to provide a focal point when something is suspected. You need specialists to support the audit team of the department. Some departments will have one or two cases a year.

To be really good at forensics you need to know how to protect the evidence and deal with it without damaging the reputation of people who are simply innocent bystanders. What is the approach to take? We're going to be putting a group in place to provide the support and framework for the internal audit of the department and for the departments themselves to conduct the forensic audit. It is the responsibility of the deputy minister of that department to have it done. We will be providing the tools to make sure it's done well.

Mr. Borys Wrzesnewskij: It's a pinpoint approach that's going to be taken. Will the reports strictly travel to the deputy minister, or in the case of a forensic group, will those reports automatically also go to your desk or anywhere else?

Mr. Charles-Antoine St-Jean: All reports must go to the deputy minister, to start with. That's the first thing. All the audit reports will go to the Comptroller General as part of the policy, so we will also be receiving those reports. Obviously if some of our members are working with some internal audit department teams on those files, we'll keep an active look on it, but first it goes to the deputy minister of the department to preserve their accountability.

Mr. Borys Wrzesnewskij: Management tools are most effective when they're timely, especially in this particular function. The 25 departments that comprise 95% of the government expenditures come in various sizes and have very different functions. What kinds of schedules have been put in place for these reports? Will we have an opportunity to take a look at the various schedules? Will certain departments have 13 four-week reports per year? Will others be quarterly? Will some perhaps be yearly? Have we got to the point where we're looking at each department saying, this is the type of schedule by which we're going to provide these management tools, these reports, to the deputy minister to act upon?

Mr. Charles-Antoine St-Jean: There are two points on this.

First, you need to know what's coming. We will be reviewing the audit plans of every department. That's part of our active monitoring of what's going on in all the departments. We'll review the audit plans and know what audit reports are due and when they are coming. The active monitoring will also establish the exact schedule you mentioned. We should be receiving five reports this month, or eight reports next month. We're going to be following up to make sure we get those reports from the various departments. The active monitoring will enable us to do so.

• (1705)

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

You've heard me say before, Madam Fraser, that I believe internal audits should be centralized in the Treasury Board and under the leadership of the Comptroller General. You mentioned the problem in the past of careers, and in the private sector I believe internal audit is fast-tracking to senior management, because this way people see everything.

I'd like to see a regime where the internal auditors are Treasury Board employees, but seconded to the departments for two to three years or a period of time. This way, they can move around and they never become part of the bricks of a department and therefore just go to work in the morning, work all day, and go home at night. They're always thinking about it. They're going to have new issues, new

challenges, and new opportunities and, as I say, new careers if they're being fast-tracked as senior management because they see it all.

You mentioned, Mr. St-Jean, that you feel there's a blurred accountability of the deputy ministers if audits are centralized with you. But deputy ministers are not fiefdoms. They are not there to run with no scrutiny and no supervision. You've talked about audit committees, but they have no shareholders. They do not have profit targets to meet like in the private sector. All these things in the private sector do not really apply, and now you're putting in place an audit committee—and I can't imagine why there hasn't been one around for many years.

I was just reading in *The Economist* today, actually—I guess it was last week's issue—about the supervisory committees in Germany. They have an executive committee and a supervisory committee. Labour usually has a significant number of seats on the supervisory committee. These supervisory committees are just becoming rubber stamps there too, because once they're in place for so many years, they just become part and parcel of the rubber stamp of what the executive wants.

We saw that on the New York Stock Exchange, for example, where the former CEO had a very compliant board and he ended up with a salary of \$157 million one year, which wasn't too bad for him. We always find that where the independence and the separation of responsibilities isn't clear, defined, and significant, it's not collusion, but they tend to just become part of the process rather than a true internal audit or examination process.

You mentioned deputy ministers being accountable, and I'll maybe get an answer from Mrs. Fraser as well as you, Mr. St-Jean. Who are the deputy ministers accountable to anyway? They don't have shareholders. They don't have these other things. Who is the deputy minister actually responsible to, who says "You didn't do a good job; you're fired"? It can't be the minister, because we've just gone through all that, that ministers aren't supposed to get into administration. Sometimes they do, but they're not supposed to. Therefore, you can't say they're responsible to ministers. So for the administration of the departments, who are deputy ministers actually accountable to?

I just want to read this. This is from Mr. Shandro, the chief internal auditor of the province of Alberta, who says, "the independence of the internal audit function could be affected when those who control the budget and audit plan are also senior managers of areas subject to internal audit". So you get this conflict of interest. If I'm a deputy minister and I know things aren't working too well over there, I'll send my internal auditors over here so that I have a bit of a chance to fix that up before they go and check it all out.

I really want to see independence. We have the Sarbanes-Oxley bill in the United States to make sure of independence, responsibility, and accountability. I would like to see that in the Government of Canada—not that we're out there to stick it to people who are coming up short, but we find out who isn't truly competent before they get in a position of things falling apart.

So I'd like your comments, please.

Madam Fraser.

• (1710)

Ms. Sheila Fraser: Well, Mr. Chair, you know we disagree with your opinion. We still believe it's a management tool that should be there for deputy ministers. We think many of the things you wish for can be achieved by the functional responsibility to the Treasury Board Secretariat through the selection, the hiring, the training, and the review of reports. So I guess it's how much do you centralize, and how much do you decentralize?

The Chair: It's not so much to centralize as to remove the conflict of interest. That's what I'm trying to say. The question is, who are deputy ministers responsible to anyway?

Ms. Sheila Fraser: Well, it depends, I guess, at what level you see there's a conflict of interest, because the Treasury Board Secretariat is, after all, part of government. So one could even say there's a conflict of interest there as well.

The Chair: Yes, but internal audit always has that inherent conflict of interest, which is why we have you, the external auditor.

Ms. Sheila Fraser: Anyway, on the whole question of accountabilities, we could spend hours discussing accountabilities and responsibilities of deputy ministers and ministers. We would certainly go on the record as saying that needs to be clarified and there needs to be thoughtful consideration on all of that.

I think I'll pass it to Mr. St-Jean.

The Chair: Okay, Mr. St-Jean, your comments, please. I'll let you wax eloquent.

Mr. Charles-Antoine St-Jean: Thank you very much.

As the Auditor General mentioned, this is a very large question in terms of the accountability. I'm trying to focus on making internal audit perform as well as possible within the current context and current environment.

Maybe I could just say that the deputy ministers or the Treasury Board Secretariat go through the management accountability framework review every year, so that could be an element. I know this is one of the elements they review when they do review the performance of deputy ministers.

There's the support for internal audit. This is now a standard question in that review.

In terms of the career of the internal auditors and their mobility, I agree with you that it's important we have mobility of the community of internal auditors. That is a reason I want to make sure we have standardized audit processes, protocols, technology, and methods throughout the Government of Canada.

An audit that comes from Heritage Canada should be the same as what's coming from National Defence or Natural Resources Canada. The auditor should not have to relearn how to do an audit of these three departments. I want one standard for all audits. [*Inaudible*]... chapters 1, 2, and 3, whatever is going to be done will be done the same way.

By having a standardized methodology and practice, we're going to be able to move our people around. I fully agree.

The Chair: You said move "our people" around. Now, if these are line people within the department, they're the deputy minister's staff, not your staff, so how can you move them around?

Mr. Charles-Antoine St-Jean: Well, what we're going to be providing for is the ability for our people, the community of internal auditors, to say, "Well, I'd like to go do maybe two to three years in Heritage Canada. After I've done that, I'd like to learn how they do it in National Defence", and so on.

So it's to provide for some mobility, at their interest. They will become internal auditors—

The Chair: You're coming around to my point of view, that they move around.

Mr. Charles-Antoine St-Jean: Yes, that's the reason I'm saying standardization will be the solution.

The Chair: In another few meetings, you'll be there.

Mr. Charles-Antoine St-Jean: Standardization will greatly help the situation.

The Chair: Okay, ladies and gentlemen.

Mr. Kramp, please, you're next.

Mr. Daryl Kramp: Actually, I have a question for both the Auditor General and the Comptroller General.

To the Auditor General, obviously you're not going to need a staff of—we don't want you to have 5,000 to 10,000 vehicles; you wouldn't want that to handle. However, we have a situation where you made a number of recommendations to countless ministries and organizations within government. My concern is what happens with the continuity of the report that you've made, and is there a method and manner to maintain a contact to ensure that your recommendations are being adhered to, and if you have requested particular instances of information, that is going back and forth? Now, you're onto new projects; you have a number of other duties. But obviously a lot of soul searching and monitoring would have to go on to ensure that the various departments in question have some method to satisfy your demands.

Now, I'm wondering here, is the onus on you to maintain the contact with the various agencies, corporations, and ministries? Or is it on the people who have been the recipients of your demands to maintain contact with you so we can ensure that somehow you don't have to start off from square one? In other words, we've made recommendations—now you've made recommendations—to Mr. St-Jean and he's in the process of accepting them and acting upon them. Quite honestly, I'm very impressed with the level of activity that Mr. St-Jean is exhibiting here. I think it's rather rewarding in comparison to some individuals we've had before this committee. So I commend you and Ms. Ruta for your actions at this particular point.

Hopefully that will be only a fleeting endorsement. I would like to see it a permanent one. Where do you suggest that we go with this so we can establish a working relationship, and can your department handle that, Mrs. Fraser?

•(1715)

Ms. Sheila Fraser: In fact, Mr. Chair, we already do follow-up at two levels. One, each year we do a review with departments of the degree to which they've implemented recommendations, and that forms part of our performance report.

What we also do on a periodic basis, though, is use one of the four reports we can table in Parliament...and in fact the report that will be coming next week is what we call the status report, where we go back after what we think is an appropriate period of time to see if the departments have actually addressed the issues we raised. We indicate in those reports whether they are making satisfactory progress or not. It's not just a quick follow-up; we re-audit the issues to see if they've addressed the concerns that were raised. But we do encourage the committees to ask for a concrete action plan to address the issues and the recommendations with which the departments generally say they are in agreement. That aids us, as well as the committee, to follow up on the specific actions and to see if progress is satisfactory.

Mr. Daryl Kramp: Thank you.

Mr. St-Jean, do you plan on handling Madam Fraser's requests with a carrot or a stick approach?

Mr. Charles-Antoine St-Jean: Obviously we work very closely with the Office of the Auditor General on this file and many other files. One thing I will propose as part of the reporting protocol is to have an annual report of the OCG, the Office of the Comptroller General, to give you a health card in terms of where we are. We will not be at 100% of the health card next year. It's going to take two or three years to bring it to where we want, then a couple of years to make sure it's sustained. But we're very prepared to come back with the annual health card or report card in terms of the status of the internal audit within the Government of Canada. I'll be very glad to be back here and respond to your questions, and hopefully we will have done all that we've said we were going to be doing with the RPP.

The Chair: Thank you.

Thank you very much, Mr. Kramp.

The last word goes to Mr. Murphy.

Hon. Shawn Murphy: I'll just briefly follow up on one of your answers to Mr. Williams, Mr. St-Jean, that you would like to see a situation where people who work in internal audit would be moved around. I can see that being very beneficial and challenging. For a person who chose this as a career, if he or she got into a small department, he or she would have the opportunity to move within the whole federal government organization and move up the ladder and be challenged at each move. But the way it is now—and I think Mr. Williams made the point—these people are hired by, answerable to, and under the direction of the deputy minister. If the person was any good at all, the deputy minister could say, "No, that person can't move, but I'll give you somebody else who is perhaps not as qualified. If you want to move them, I'll allow them to go".

I really think the way the system should work and the only way it really would work is if they were all answerable to some other person who could, every two or three years, move them within the

federal government so they could have a much more challenging and rewarding career.

•(1720)

Mr. Charles-Antoine St-Jean: I appreciate your comments and your approach.

Mobility of the internal auditors is key for me to ensure that we build competencies in the system. So we'll have to make the environment as conducive as possible to get that kind of mobility. I don't have the answers in terms of how we're going to make it happen, but I know this is one thing we must make happen.

Again, I would be very leery about centralizing the internal audit for the very reason the Auditor General mentioned herself. In terms of taking away the responsibility for internal audits of the deputy ministers, it's important that we preserve that. That being said, we can work with the unions and the other players on how we can facilitate it.

It's important that it happens, but I don't have the answers on that today.

Hon. Shawn Murphy: I just have one last question, perhaps to the Auditor General, on your recommendation that access to information applications should not be applicable to the working papers or draft documents, especially before they're reviewed by a senior auditor.

But again, is there not a larger question about the culture of audit? In the government we spend \$180 billion, and when you do an audit of a large department one would expect there to be certain issues that need improvement. Of course, once it's posted, it does raise all kinds of red flags. You do not see this in the private sector; the internal audits for Imperial Oil aren't posted. They deal with them as a management tool, which they should do.

Do you have any comment on this? On the other hand, we're dealing with taxpayers' money that has to be rigidly and prudently managed. But do you have any comments on this culture? A lot of what goes on in the government, as I see it, is to cleanse and dilute it and to downplay what should really be a management tool.

Ms. Sheila Fraser: Mr. Chair, I think Mr. Murphy is absolutely right that the environment in which internal audit in the public sector works has a lot of consequences for the kind of reporting that goes on.

You're right, in the private sector these reports aren't made public. I can assure you that it's probably no worse in government than in the private sector, so it's the understanding of what internal audit is there for—and the responsiveness, I think, of management.

Obviously government has taken the decision that these reports will be public and will be posted. I see no indication they will change that, but I think that when the reports are posted, it's important there be a management response and an action plan as to how to address them. I think people can then take comfort that if something is found wanting or improvements are needed, there is an action to correct it. It's not so much that things go wrong, but they have to be dealt with. So hopefully, over time, the people will appreciate better what the role of internal audit is, that it is to improve government systems and practices.

I'm not sure I have much else to say in response to that. I think it's largely a political environment.

The Chair: Okay.

Thank you very much, Mr. Murphy.

We're going to stop here because we just want to wrap up our report so it can get tabled in the House. Therefore, I would ask the witnesses to withdraw, and the meeting will be suspended for a couple of minutes until such time as we turn off cameras and reorganize.

[Proceedings continue in camera]

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