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Mr. John Williams

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• (1535)

[English]

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

Today, televised, our orders of the day are, pursuant to Standing Order 108(3)(g), the February 2005 report of the Auditor General of Canada, referred to this committee on February 16, 2005.

Our witnesses today are from the Office of the Auditor General of Canada: Ms. Sheila Fraser, the Auditor General of Canada; Mr. Ronald Campbell, Assistant Auditor General; Mr. Richard Flageole, Assistant Auditor General; and Mr. Douglas Timmins, Assistant Auditor General.

Of course, Madam Fraser's report was tabled in the House of Commons yesterday. Now it is automatically referred to this committee, the Standing Committee on Public Accounts, and she is now going to present that report to us.

The floor is yours, Madam Fraser.

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

I'm very pleased to be here today to present my third status report to Parliament, which, as you mentioned, was tabled yesterday. I am accompanied by Assistant Auditors General Richard Flageole, Ronnie Campbell, and Doug Timmins.

We introduced this report in 2002 as a way to tell parliamentarians and Canadians what the government has done in response to recommendations made in our past audits. Over the years, members of Parliament, and in particular members of this committee, have let us know that they want a more thorough follow-up of how well departments are doing in implementing our recommendations.

[Translation]

This status report follows up on a previous audits, and focuses on issues that are likely to be of most interest to parliamentarians. I am pleased to say that in half of them, overall progress has been satisfactory. I'll talk about each in turn. But first let me explain how we decide whether progress has been satisfactory or unsatisfactory.

A few years after an audit, we follow up to see how much progress has been made in implementing our original recommendations. We look at selected issues that are still relevant and at any new issues that may have emerged since our last audit.

[English]

We recognize that some recommendations are clearly more difficult to carry out than others, and some issues are more important, such as those that involve protecting the well-being of Canadians or saving large amounts of money. So we take into account both the significance of the issues and the difficulty of implementing the recommendations when deciding whether or not progress has been satisfactory.

Let me start with the good news. The Canadian Nuclear Safety Commission, the Canadian International Development Agency, and Transport Canada have all made satisfactory progress in addressing issues raised in our previous audits, and I'm pleased to see that the early stages of implementing the government's new Public Service Modernization Act are on track as well.

[Translation]

Chapter 6 deals with the Canadian Nuclear Safety Commission.

Canadians rely on the Canadian Nuclear Safety Commission to regulate nuclear energy and materials in order to protect health, safety, national security, and the environment. The CNSC has made significant progress in acting on the recommendations we made in 2000 on the licensing and regulating of nuclear power reactors. The Commission stands out as an example of an organization that took our recommendations very seriously and prepared a detailed action plan in response. The plan, along with timelines, was posted on its website and updated regularly. The Commission has taken a consistent approach to planning and conducting inspections of power reactors. It has developed a new scale for rating how power reactor licensees performed in meeting regulatory expectations. It has also issued key regulatory documents that were needed.

[English]

Chapter 5 deals with the Canadian International Development Agency. CIDA is responsible for some \$2.6 billion in international development assistance, so it is vital that its contracts and contributions be well managed. I am pleased to see that CIDA has taken action on a number of the recommendations we made in 1999 and 2000. It has improved its project management and is paying more attention to the long-term viability of its development projects.

CIDA has made satisfactory progress in reducing the total value of sole-source contracts it awards and decreasing the unjustified sole-sourcing of contributions.

[*Translation*]

Chapter 2 deals with the oversight of the National Airports System by Transport Canada.

Back in 1992, Transport Canada began to transfer the management of 22 airports of the National Airports System to airport authorities, while retaining ownership of them. Our 2000 audit raised concerns about the transfers and about the oversight of the system.

I am pleased to see that the department has made satisfactory progress and is now assuming its role as owner and ensuring oversight of the National Airports System.

• (1540)

[*English*]

Chapter 3 deals with the modernization of human resources management. With the passage of the Public Service Modernization Act in 2003, the government has launched far-reaching changes in the way it manages human resources. Although the full impact of the reforms won't be apparent for several years, in my view the government has laid a solid foundation for modernizing its management of human resources.

With so many other competing priorities, managing such a long-term project is a big challenge. If these reforms are to be successful, the government will need to maintain its momentum. Given the significance of the reforms, I also encourage parliamentarians to monitor their progress closely.

[*Translation*]

Now let me turn to areas where we found that progress was unsatisfactory—the security of the government's information technology, the governance of Crown corporations, the accountability of foundations, and the improvement of government financial information.

Let's begin with Chapter 1, which deals with information technology security.

I'm disappointed that the government still does not meet its own minimum standards for IT security, even though most of them have been well-known for more than a decade. It means that government systems and the sensitive data they hold are vulnerable to security breaches.

I urge senior managers and departments to pay more attention to identifying threats and risks, to develop action plans for correcting weaknesses, and to ensure that their departments are fully compliant with IT policy and standards.

[*English*]

Chapter 7 deals with the governance of crown corporations. Another area where we had hoped to see more improvement is the governance of crown corporations, which manage billions of dollars of taxpayers' money. The government has taken more than three years to begin to address the key recommendations of an audit we conducted in 2000.

The timeliness of the government's appointments of board members, chairs, and CEOs is still a major issue. At the time of our audit, in the 15 largest crown corporations, more than one-third of board members' terms had expired—some for more than a year—and four were operating without a permanent CEO.

The terms of board members are not staggered to ensure continuity in the functioning of boards, and there is no formal mechanism for communicating government expectations to crown corporations.

I am pleased that some crown corporations have improved their governance practices since our last audit. However, recent developments in the private sector have raised the bar for corporate governance, and this area will require much more attention.

[*Translation*]

Chapter 4 deals with foundations.

For some years now I have been concerned about the lack of adequate accountability of foundations to Parliament—and I am still concerned.

Since 1997, the government has transferred more than \$9 billion to various foundations in advance of needs, and \$7.7 billion is still sitting in their bank accounts.

Transferring funds to these foundations continues to place public money beyond the reach of effective scrutiny by Parliament.

In its 2003 and 2004 budgets, the government committed itself to improving the accountability of foundations. And it has since made a number of improvements in reporting. These were important steps in the right direction.

I urge the government to close the remaining gaps in foundations accountability to Parliament. For one thing, the government cannot make adjustments to foundations when circumstances change significantly. And for another, there is no provision for providing Parliament with the results of performance audits of significant public policy areas involving foundations.

[*English*]

Chapter 8 deals with financial information. Government departments and agencies manage millions of dollars, and to do this well they need good financial information. I am disappointed that weaknesses we found in financial information systems in 2001 and 2002 have still not been resolved, and many of them are easy fixes.

Another issue is accrual budgeting and appropriations. Other countries, several Canadian provinces, and a territory have already implemented accrual budgeting and appropriations. Quite frankly, I find it difficult to understand why after years of study the federal government has not resolved this matter.

Mr. Chair, that completes my overview of the report. In closing, I would like to note the committee's seventh report that was tabled yesterday, and I would like to thank the committee for their confidence and their continued support of my office.

I would be pleased to answer any questions you might have.

Thank you.

• (1545)

The Chair: Thank you very much, Madam Fraser, and we appreciate the compliment. We also appreciate the work of your office. I think all Canadians appreciate the work of your office. Please communicate that to all your staff, because they don't all get the opportunity to come here to the public accounts committee.

Mr. Gary Carr (Halton, Lib.): They're watching it on television.

The Chair: They are watching it on television, but perhaps you can make sure the information does get back to them.

Ms. Sheila Fraser: Thank you.

The Chair: Mr. Allison is next, for eight minutes, please.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair, and thank you to the Auditor General and her team for putting this work together.

I want to talk about crown corporations a little bit, in accountability, governance, and those kinds of things.

I have just a quick question. We talked a bit yesterday about audit committees. I just want clarification. Is it your opinion that audit committees are functioning in the ways they were intended to function—totally independent and accountable?

Ms. Sheila Fraser: We have noted since our last audit in 2000 that there has been significant improvement in the functioning of audit committees. When we did our audit originally in 2000, we found that on many of the boards of crown corporations there was a lack of financial expertise, which in these very large, complex organizations is often critical. There has been improvement on that. There are still some committees, though, that are not functioning as well as we would like.

Mr. Dean Allison: Okay. Do you feel that ties in with the whole issue of formalized business plans, etc.? I realize the audit base is different from the plans and the reviews, but you talked about only two or three crown corporations having review processes in place. You talked about how the audit committee structure has improved since 2000, but what about the review process with crown corporations?

Ms. Sheila Fraser: I believe the review process the member is referring to is the review of corporate plans by the Treasury Board Secretariat. It's important that the government have an appropriate challenge function of the corporate plans that are being presented by crown corporations. When we did the audit in 2000, we found it was not as strong as it should be, and that's still very much the case today. There hasn't been an improvement in that review function to ensure that crown corporations are in line with what government policies and programs would be; it isn't challenging their financial budgets. So there is an important review function that the secretariat should be conducting. It's not as strong as we think it should be.

Mr. Dean Allison: You talk in your report as well about the issue of publicly traded companies, and things that have gone on with the Nortels and Enrons. How susceptible are we, as a government, to line up, in terms of governance, with accountabilities, with expectations? Have we left ourselves open to being held financially

liable, or whatever the case may be, because we're not doing our homework?

Ms. Sheila Fraser: Quite frankly, that's a hard question for me to answer, because it really gets to the overall effectiveness. My response would be that many of the crown corporations are very large and significant. They are managing millions of dollars, and it's important that they have strong, credible governance practices in place.

Governance practices in the private sector have changed significantly over the last few years. We are recommending that the government look at the modifications that have gone on in the private sector. We believe that some, not all, are applicable to crown corporations, and they should make changes to some of the practices.

I understand—I believe it was mentioned in the House—that the President of the Treasury Board will be tabling their review of crown corporate governance tomorrow, so we look forward to seeing what will be in that report. But it's critical. The directors of these crown corporations play a very important role, not only in terms of money, but also in terms of public policy. It's how the financial aspects and the public policy are coordinated. How do you make all this work? These are very large corporations that receive billions of dollars in appropriations, so the governing structures have to be strong.

• (1550)

Mr. Dean Allison: You talked a bit about where there are areas of opportunity. Obviously, from some of the comments you made, there are changes now; there are job descriptions for directors and financial training, etc. What other types of things need to be implemented, in your opinion? Maybe you could just talk about the timeliness of appointments and things like that.

Ms. Sheila Fraser: We think the timeliness of appointments is a major issue. When you have board members whose terms have expired, some for more than a year, and in fact some for two or three years, and who are still continuing to function as board members, you have to question that. In some crown corporations, it's taking years to get people appointed to boards. The process is too long. Terms should be staggered, as well, so that you have continuity and you don't have a large number of directors with terms all expiring at the same time, and then you have a loss of knowledge and a whole new group of directors who have to be educated about the corporation.

So we think that the appointment process is particularly critical. There have been improvements, as you mentioned, in the development of profiles for identifying skills that need to be around the table, but it still takes too long to fill some of those skills. I think we've given examples in there where it took two years to get someone with financial expertise on a very large crown corporation. That shouldn't be the case.

Mr. Dean Allison: Maybe this is not too broad a question, but do you feel that if some of these other issues were addressed in making sure there's continuity so that people understand the history, etc., it would mean the corporations would be better run and would probably ask government for less money? Is that always a possibility down the road, to be more dependent or independent?

Ms. Sheila Fraser: I don't know if that's the case. Many of the crown corporations are dependent upon appropriations because of the nature of the activities in which they are.... I'm not sure it would change things, but I think it would reassure Parliament and reassure all Canadians that they were being managed well, and that we were having the right people with the right skills fulfilling a very important function for all of us.

Mr. Dean Allison: You also talked about government appointments of staff or deputy ministers, etc. In your comments on that, you talked about them overpowering the voices of the collective group. Could you just elaborate on that?

Ms. Sheila Fraser: We think that the question of the appointment of deputy ministers or government officials to boards is one that needs to be looked at. In certain cases, we can understand why there would be deputy ministers in that they provide a very important link with public policy or departmental objectives, and they are, if you will, the conduit. But in other cases, and we have been told this by directors, the board will look to those people as if they are really representing the shareholder, that they are the voice of government. That is not their role there.

So I think it can create a bit of imbalance around the table. Will they always speak in the best interest of the corporation, or do they see themselves as having to represent their department? So it's an area that really needs to be clarified. I think if deputy ministers and other government officials are to continue on boards, there has to be much more clarity about what their role is, and what it is not.

The Chair: Thank you, Mr. Allison.

Madame Gagnon.

[Translation]

Ms. Christiane Gagnon (Québec, BQ): Thank you.

I don't think I will need eight minutes for my first intervention, so I will share my time with Mr. Sauvageau.

[English]

The Chair: Okay, for between two and eight minutes.

[Translation]

Ms. Christiane Gagnon: Ms. Fraser, I hope you can enlighten me with regard to certain issues. On behalf of my party, I will follow the progress of Bill C-21, which aims to modernize the management framework of non-profit organizations. In paragraph 4.22 of chapter 4, you refer to Bill C-21. You state: However, the amendments proposed by this bill do not address our concerns about the lack of performance audits and an appropriate mechanism for ministerial oversight.

I fully understand that point of view.

Since Bill C-21 is mainly directed at non-profit organizations, I would like to know how you link them with foundations. We will follow the progress of the bill, and I would like you to tell me how it could address your concerns. Would it be through an amendment? Is

there a more direct path or mechanism which would allow the bill to solve the problem you raised? We too are concerned with transparency. I would like to hear your views on this subject.

• (1555)

Ms. Sheila Fraser: As regards the link with non-profit organizations, several foundations were created under Part III of the Canada Corporations Act which deals with non-profit organizations. These foundations are in fact non-profit organizations.

Several people were wondering if we found the proposed new legislation reassuring and our answer would have to be no. Issues of concern to us will not be addressed in legislation that applies to every non-profit organization in the country. Other mechanisms should be used to address these concerns. For instance, such organizations should be included in funding agreements with foundations, or covered by orders in council as regards the mandate of the Auditor General. Or, new legislation should be passed.

Ms. Christiane Gagnon: So then, the issue would not be address through a simple amendment to Bill C-21, even if, for instance, a provision was included requiring an outside auditor or an inspector to come on board. If an amendment to that effect were made to Bill C-21, would that address your concerns?

Ms. Sheila Fraser: I'm not really familiar with the bill, but most non-profit organizations get their financial statements audited on an annual basis. We would like the Auditor General to audit how government programs are managed, in particular where foundations are concerned, when they play a significant role in delivering government programs. Some non-profit organizations receive funding from the government, but generally speaking, it is done through contracts and annual contributions. This situation does not represent the same type of concern at all. Often, mechanisms exist that enable departments to audit non-profit organizations. It happens under funding agreements between the departments and other organizations that provide services to the government. We are really talking about two different types of entities. Therefore, as it now stands I don't think that an amendment to the bill would appropriately address our concerns. Other mechanisms should be used instead.

Ms. Christiane Gagnon: Fine, thank you.

I will now give the floor to my colleague.

Mr. Benoît Sauvageau (Repentigny, BQ): Thank you, Ms. Gagnon.

Good afternoon, Ms. Fraser, gentlemen. Once again, welcome. Before I ask you questions about foundations, I have one on chapter 1 and the security of information technology.

I sit on several committees, including the one studying Bill C-11, which aims to protect public servants who disclose wrongdoings and which also falls under the Treasury Board. Last week, I heard the testimony of a Canadian public servant—I don't remember his name and I apologize for that—who lost his job. He worked for the Canadian consulate in Hong Kong and had written a book on visa fraud caused by the lack of technological security. He came before the committee studying Bill C-11, and with him was the RCMP officer who had investigated the complaints this gentleman had raised, and which the officer confirmed. After this incident, both men lost their jobs.

This whistleblower, who had spent his entire career in the federal public service, in the area of international diplomacy, told us that every Canadian mission abroad dealing with immigration issues had serious weaknesses in their systems. I asked him whether this was a problem in every mission. He said that he could not confirm that, but that there was a problem with regard to the technological security related to the granting of visas and passports, and that this problem existed in the vast majority of Canada's missions abroad.

When you studied this issue in chapter 1, did you look into that particular area? Can you tell us more about that problem?

Ms. Sheila Fraser: I can tell you that in 2000, we audited the Department of Citizenship and Immigration and its missions abroad. We looked at the computer systems and found weaknesses. We are aware of this issue. Mr. Flageole, who was responsible for the audit at the time, can give you more details.

•(1600)

Mr. Richard Flageole (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chairman, as Ms. Fraser indicated, we raised significant concerns with regard to access to information technology systems and the protection of the data they contain.

Mr. Benoît Sauvageau: Do you know if any remedial measures have been taken since 2000? This is a status report on previous audits. Did you see if any measures had been taken?

Ms. Sheila Fraser: We have not done so yet. However, I can tell you that we will table another report in April. We have also audited the Passport Office and we may have some things to say on that subject. We still haven't followed up on the audit we conducted at Citizenship and Immigration Canada, but it is obviously important that we also follow up on that as well.

Mr. Benoît Sauvageau: I have a minute left. According to the witness, it is still fairly easy for people, myself excluded, who are experts in the field to break into the computer systems of our missions abroad to steal visas.

With your permission, Mr. Chairman, I'd like to ask the following question. Yesterday, after your report was tabled, you heard some of the government responses to what you said with regard to foundations. I asked questions and Conservative members did so as well. It would be demagogic to say that we should ask the people who receive money from the foundations what they would do if their funds were cut off completely, and it is not all your intention to be demagogic, nor is it ours. So you heard the government response, which is that the independence of foundations has to be preserved. It was the reason cited for your office not acting as the external auditor of the foundations. Do you still maintain that you should be the external auditor of some foundations?

Ms. Sheila Fraser: I think that at the very least, we should have access to the documents from the foundations when we do an audit of the government program, whether it is in the area of innovation, education, climate change, technology or municipal funds. When large amounts of money are given to the foundations to support these programs, I think that at the very least the Auditor General should have access to the documents of these foundations to check whether their activities complement those of the department. Was there any

coordination? Were the objectives for which Parliament approved this funding achieved?

It is not absolutely necessary that we audit the annual financial statements, but we must have access to the foundations' documents. If they receive significant amounts of public funding, there should be proper accountability to Parliament. Quite frankly, I fail to see how our access to a foundation's documents will have any impact on its independence.

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

[English]

Mr. Wrzesnewskyj, for eight minutes, please.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): Madam Fraser, the press release that your office has produced on the oversight of the national airport system stated that, based on what the transport department had provided you with, "The Department noted high levels of compliance with the lease clauses." Based on this, you gave a satisfactory report.

How comfortable are you in a situation where a department sets regulations, conducts oversight, and then reviews performance, and it's only on that review that you base your findings?

Ms. Sheila Fraser: We were, in this case, Mr. Chair, following up on an audit that we had done previously where we found that the government had transferred the management of these airports to airport authorities under lease agreements with a lot of detailed conditions in them and was doing no monitoring to see if they were meeting those conditions. That was a very serious concern of ours. We went back in this audit to see what they were now doing and we found that they have put in place what we would consider a fairly robust system of monitoring the clauses in the agreements.

I'll ask Mr. Flageole to give more details on how they actually do that. We can only audit what is in the Department of Transport. We cannot, ourselves, go and audit whether the information they are receiving from the transport authorities is accurate or not. We rely on the monitoring that the department itself is doing. Are they looking at the right things? Are they obtaining the right kind of information? Do they seem to be doing it in a serious manner? Based on that, we thought they were doing a reasonable job and we gave them a satisfactory report.

Now I could ask Mr. Flageole to perhaps give you more details on how we assessed some of the specifics.

•(1605)

Mr. Borys Wrzesnewskyj: The essence of my question was what is your comfort level? You're producing a report based on information from a department that, as I said, sets regulation, does the oversight, and then produces a report. Based on that report, you provide us with a report. Do you feel comfortable with that framework?

Ms. Sheila Fraser: Yes, I do. I'm not sure if it's because of the different functions that they're doing or the fact... I mean, we would look to see what sort of information they were getting in their monitoring process as well. We wouldn't simply ask, is your conclusion that it's all right or not? We would look to see what they are doing with airport authorities, what kind of information they are obtaining.

We did have interviews with the airport authorities themselves to see what kind of relationship there was with the department and we looked at things like the financials. One of the criticisms was that they weren't assessing the financial viability. So we looked at the rigour and the scope of the work they were doing to assess whether or not it looked serious to us. Obviously we can't conduct an audit of the airport authorities. That's not within our mandate.

Mr. Borys Wrzesnewskyj: Do you find it problematic at all that the transport department that is auditing or providing new oversight of the airports is basically reviewing some of their former peers? You have examples of the chief executives. The president, for instance, of the GTAA was a transport official from 1974 onward until he became the chief executive at the GTAA. Do you find that to be problematic?

Ms. Sheila Fraser: I really can't respond to that specific case. I would hope that the department has looked at the question of potential conflict. There are all kinds of rules around conflicts of interest for public servants who leave the public service, but I think it's also a fact of life that these people have a lot of expertise that is required within the market.

I don't know that it would necessarily cause a problem. I would hope that somebody has looked at it, though.

Mr. Borys Wrzesnewskyj: Madam Fraser, you mentioned the leases, and that's the basis you used. Have we analysed what sort of commitments are made in the individual leases between the airport authorities and the government and how many of those commitments are being met?

You state in your report that basically the department's giving you information on one particular component of the leases—the financials. Taking a look at even the sample clauses that you provide in the lease as you talk about an important component being the environment, when I look at once again the GTAA, it specifies that “The Tenant shall ensure that mitigation of noise emanating from aircraft...is a part of the mandate of a noise management committee”.

Do your offices analyze the leases to see how many commitments there are in those leases and which of those are being addressed by the department when they provide you with their reviews?

Ms. Sheila Fraser: Yes, the monitoring system that we are referring to is not just the financial clauses. It would also cover for example environmental aspects. I'll ask Mr. Flageole to give more detail on that.

Mr. Richard Flageole: Mr. Chair, if you look in the report at chapters 2.45 and 2.46, we give good indication, I think, of what that monitoring system is. Transport Canada will really assess the authorities' compliance with each clause of the lease. We give examples in exhibit 2.5 of what some of those clauses are—governance and public interest, safety and security, facilities. They are fairly comprehensive.

There are five regional offices of Transport Canada involved. They do a thorough monitoring of every single lease and produce a report. On our side we look at the way they did it. We look at the information they're collecting. We really found that the files we examined were complete and the documentation was adequate. But

as Mrs. Fraser said, we have to stop there because we don't have access to those airport authorities. We're limited in this.

• (1610)

Mr. Borys Wrzesnewskyj: Thank you.

Another component of the leases talks of non-profit corporations. These are all non-profit corporations, and from what I understand, a number of them have created for-profit subsidiaries. My question is, how do we monitor these for-profit subsidiaries, especially when you take a look at the numbers in your own report? In some of the airports 200% more revenues were generated outside of regular air traffic revenues. There was a question about that.

The second part of that question is that most of the airports are generating substantive profits. How do they treat those profits? These are non-profits that are generating profits. What is happening with those profits?

Mr. Richard Flageole: In terms of the subsidiaries, there's a clause in the leases where the Department of Transport has access to the information from the subsidiaries. The Department of Transport knows. It obtains the information about the operations of those companies. If you look at the information we have in the appendix, those are consolidated figures, meaning it includes the information from the subsidiaries.

In terms of the profits, it could get a bit complicated. It depends on the source of the money. Just for an example, the money collected in the airport improvement fees is restricted for use on capital improvements. Other types of money can be used also for capital improvements, reduction of the debt—you probably noticed that they have a fair number of liabilities, which could be reduced in this way. I think from what we've seen the Department of Transport has a good overview of the operations of the authorities and the subsidiaries.

What may be an important point that we talk about in the chapter 2, when we did the audit in 2000, we really called for a framework for the operation of those subsidiaries. This was part of the legislation put through in 2003 that died on the order paper. I think it would be important to ensure that the legislation governing the framework for those subsidiaries will be taken back into law.

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

Now we'll welcome back Ms. Wasylycia-Leis, who was a fixture here last spring. It's almost a year ago now.

Welcome back. I'm sure you have some questions for the Auditor General.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you.

It is good to be back. After all the time we spent together dealing with the sponsorship file, I've been going through withdrawal ever since.

In many ways it's a good day to be back, because in fact there are some real similarities between the issues we were dealing with around the sponsorship file and some of Madam Fraser's report, certainly with respect to chapter 4. And thank you, Madam Fraser, and all your staff for being here. It seems we're dealing with much the same kind of phenomenon, the government allocating money in directions where there is little accountability on the part of Parliament, and sometimes beyond your reach.

I guess my first question pertaining to foundations is, it would seem to me by their very nature, by design, that they have been set up to take public money beyond the scrutiny of the public and Parliament. They seem to be moving core programs, central functions, out of government into foundations where there is little ability for us to know what exactly is happening to that money, how it's being spent, and who's making the decisions. Why don't you just recommend that government stop the practice of setting up foundations?

•(1615)

Ms. Sheila Fraser: The use of foundations to deliver programs is really a policy issue. We cannot comment on policy. We have, I guess, if you will, no particular quibble per se with foundations. We think there should be an evaluation done, which has not been done. Foundations have been in place now for close to ten years. There should be an evaluation as to whether the advantages that government thinks are there are in fact there and to demonstrate what some of them are. Is that mechanism a good one? Beyond that, obviously it is not up to us to say whether foundations are to be used or not. That's a policy decision to be made by government.

That being said, once a foundation is created and there are these large sums of public money going into it in advance of need, we believe there should be proper accountability back to Parliament. Parliament needs to be well informed as to what the foundations are doing and whether they are meeting their objectives.

Government has made some improvements. There were announcements in the 2003 and the 2004 budgets. There is more information, better information, coming. Obviously, there could still be some improvement in that area, but we do recognize that there has been improvement in the reporting of information to Parliament.

There are two main areas that we think need to be addressed. One is the ability of ministers to influence the foundation should circumstances change significantly. Should the government decide that its direction in a policy area is different and wants to change it, if circumstances change significantly—for example, if the government decides that it wants to do innovation in a different way from it previously thought it would do it—there should be a way to influence these large amounts of money in these foundations to be in line with the government policy.

The second area is we truly believe foundations should be subject to performance audits—and when we talk about that, we're really talking about the government-wide audits—so if we were to do an audit in an area where the foundations play a large role, we should have access to those foundations.

Ms. Judy Wasylcia-Leis: I appreciate what you're saying. I know that you can't comment on the policy of government, but I'll ask a rhetorical question. Is it any wonder that the government has

been ignoring over half your recommendations over the past decade when it seems this in fact has been a way they can offload, outsource, dismantle, and deregulate issues that normally belong in the public domain?

The millennium scholarship fund is the best example of that. It was set up after the government cut the heck out of transfer payments. There was a huge outcry, so they set up a millennium scholarship fund. They only spent a portion of it, but created the appearance of doing all this great work, when we have this crisis before us for students wanting to access education. I find it very frustrating that we even have to deal with foundations when we're talking about core government functions and central public policies.

My question is this. At least with respect to oversight, would you not want to look at the way in which the boards are structured and make some comments on the oversight? The government is in fact having it both ways. They have government appointments to the tune of less than half the representatives on the board. They have enough there to have some influence in terms of their own agenda, but not a majority. They can always distance themselves from any decisions and say that it's not them, it's the foundation and it's independent. The government wants it both ways and it puts us at a real disadvantage.

Can you at least give directions on the board makeup?

Ms. Sheila Fraser: If we had access to the foundations, potentially yes, but at the current time, no. I would remind the committee that some of these foundations were set up through legislation, and all of the money that has been transferred to them has been voted on by Parliament.

The Chair: That's us.

Ms. Judy Wasylcia-Leis: The other area that I would like you to comment on, if you could, is the fact that it seems the biggest growth in these foundations happened since about 1996-97 and onwards, exactly the time when the government suddenly found itself with an unanticipated surplus or a surplus that was a result of low-balling numbers. Knowing that the money would automatically go against the debt if they didn't spend it, they started putting it aside in foundations. Is that a fair assessment on our part?

Therefore, what do we say to the government a week from the budget, when we know in fact there's going to be a surplus of \$11 to \$12 billion? Obviously, they're going to be coming at us with all kinds of new foundations and trust funds. They're already talking about day care money going into a trust fund. They're talking about front-ending all the money and booking it in one year. In core areas of health care, child care, environment, Kyoto, and housing, we have no way of being able to scrutinize it in a really serious way.

Do you have any comments on what we could do to protect that?

• (1620)

Ms. Sheila Fraser: One of the issues that we have raised is the way these crown transfers are recorded in the government's financial statements. Up until now, the accounting rules have allowed the government to record the transfers as expenses when they're made or when there is an agreement signed that commits the government to transferring an amount. There's a payable amount. The whole amount is an expense, even though in many cases the funding is for a period of many years, up to ten years.

There are new standards. There is a new standard that has recently been released that could affect the way certain transfers are recorded. There is another research project under way looking at how transfers should be accounted for. That could have an impact on the way the government records these.

I believe, and some government officials have indicated in the past, that the way these things are recorded is a consideration in these transfers to foundations. Government will tell you there are a lot of other reasons, that they need stability of funding and all the rest. I think that the accounting considerations are important ones as well.

The Chair: Thank you very much, Ms. Wasylycia-Leis.

Mr. Fitzpatrick, please, eight minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Thank you.

It's good of you to be here today, Madam Fraser. I noticed that you were in the House of Commons the other day watching the afternoon proceedings.

Over the last couple of days, this question has been raised in the House of Commons. I don't have all of the *Hansard* responses to it, but the basic impression I had from the Prime Minister in reaction to this is that there's no problem with these foundations: they're fully transparent, fully accountable to Parliament, and there's really no problem; MPs could check into things if they wanted to. I even had the impression that you really didn't have any impediments to checking into this thing. The message I was getting from the Prime Minister was there's really no problem here.

Do you share his enthusiasm for the openness, transparency, and full accountability of these foundations?

Ms. Sheila Fraser: Obviously not, or we wouldn't have written the report we wrote.

Mr. Brian Fitzpatrick: Right. Thank you very much for that very direct, straightforward answer, Madam Fraser.

I'm very confused. I was reading the government budget report, and they said we are creating independent boards of directors. I'm trying to put my head around this term "independent boards of directors". In the private sector an independent board of directors means people who are protecting the interests of the shareholders in a public company to make sure the insiders don't get off the tracks. Now, we've created foundations that are supposed to carry out government policy and so on, but we've created an independent board of directors. Does that mean independent from Parliament, independent from the government, independent from the taxpayers? Have you in any way tried to figure out what in the world that terminology signifies? When I see that, I think of people who are not accountable to anybody.

Ms. Sheila Fraser: What I think is meant by that term is that the Government of Canada does not appoint the members to the boards of directors. I must admit I'm not totally clear on how it all works, but I believe each foundation has members, and some of the members on the board are appointed by government and others are appointed by the members or from within the members.

I think it's important that I also say that I wouldn't want our audit report to be viewed as a criticism of those people or the operations of those foundations. There are a lot of very reputable people, experts in their fields, who are serving on the boards or working in the foundations. Our criticism is not directed at them.

• (1625)

Mr. Brian Fitzpatrick: Madam Fraser, I noted that three of these foundations are created by legislation.

Ms. Sheila Fraser: That's correct.

Mr. Brian Fitzpatrick: The other ones are under the Corporations Act. If I understand it correctly, are we talking about a group of people who decide to create a not-for-profit organization, create their own membership, create their own executive, incorporate under that act, and then come to the government saying, we, in our wisdom, have decided to carry out government policy; please, Mr. Prime Minister and Parliament, give us a whole bunch of money so we can carry out the mandate of our department? That's one way of looking at it. I'm trying to be a bit facetious about this, but it seems to me—pardon the phrase—a rear-ended way of trying to operate government and make organizations and people involved in government accountable to taxpayers and the people they send to Parliament and so on—and people like yourself. Am I misconstruing this point?

Ms. Sheila Fraser: I'm not sure that's exactly the way it happens.

Mr. Brian Fitzpatrick: You mean the hand of the government may be involved in the actual formation of these organizations?

Ms. Sheila Fraser: Possibly, but many of them are not-for-profit corporations that were established by a group of people. Then a funding agreement is concluded between the federal government and that corporation to transfer the funds. The funding agreements tend to be very detailed as to what activities they should carry out, what projects they can support, eligibility criteria—it goes on and on. But they are not-for-profit corporations.

Mr. Brian Fitzpatrick: A few years ago I had the pleasure of hearing—he's deceased now—a former Supreme Court justice, one from Saskatchewan, by the way, who I had a high regard for, Willard Estey. He was talking about where we're evolving to in this society. He came from the old school: he read the Constitution and applied the Constitution. His argument was that we've got three orders of government in Canada, the federal government, the provincial governments, and the municipal governments, and that's covered in our Constitution. Any time government tries to create an arm's-length order of government that's independent of Parliament and so on, it seems to me you're creating another jurisdiction, another level of government—you might call it a fourth level of government.

I must confess, if this is where we're going here, delegating everything out to foundations that have their own independent boards of directors to carry out government policy, we're really dismantling the parliamentary system, our system of government, and creating, in a convoluted way, a fourth order of government. I think I'd have to spend a lot of time reading the Constitution of Canada to see where the authority is for the creation of these sorts of autonomous foundations.

Do you have any concerns in this area?

Ms. Sheila Fraser: As I said earlier, this really is a policy decision by the government as to how they're going to conduct their programs. I would suggest the committee might be interested in talking to government officials about how they see this unfolding and what they think, and raise some of the issues you have raised today with them.

Mr. Brian Fitzpatrick: Now I'm going to try to put my mind to why the government is creating these things. One of the ways I might look at it is that Parliament and committees like this keep establishing new rules and procedures to try to deal with the apparent abuses and government misdeeds. The book gets thicker and thicker, and a bureaucrat trying to make a decision has a very thick book to go through to make a very basic decision. So in the wisdom of government, maybe the solution to making government more efficient is to create foundations, and bypass all these rules that people keep making to try to micromanage what's going on in government.

Do you have any explanation or theory from the government as to why they have decided to embark on this novel way of trying to govern Canada?

• (1630)

Ms. Sheila Fraser: Government will tell you that one of the advantages of creating the foundations is that they are independent from government, according to government officials, and they are managed and the decisions are made by people who are experts in those particular fields. They will talk about peer reviews before they decide to fund projects, and the rest.

My argument to that is the granting councils do that currently. They are part of government. I don't understand the difference, and I think government officials should be the ones to try to explain that to you.

The Chair: Okay, maybe they'll be here one day to explain that. We'll just see.

Thank you very much, Mr. Fitzpatrick.

Mr. Carr is next, please, for eight minutes.

Mr. Gary Carr: Thank you, Madam Fraser. As usual, we always enjoy it.

I want to explore the issue of the foundations a little bit. As I've told this committee and other people, I was involved with this in Ontario, and we had the exact same thing. At the committee there I had moved on and become speaker, but the actual committee made recommendations because our good friend Eric Peters, the auditor there, was saying the same thing about the Ontario government. To

their credit, the public accounts committee made a recommendation and the government did go forward with it.

In looking at the foundations, does the mere fact that you could go in to audit help keep those organizations doing things properly? I was just wondering, if you did have the power tomorrow, how you would make a decision. You obviously wouldn't get in to all of them. How would you proceed in taking a look at them if tomorrow the government said okay, you're going to do the foundations? I suspect the mere fact that they knew that the auditor had the ability to go in would be very helpful, but are there any criteria you would look at in going after these foundations if we started from scratch at a certain point?

Ms. Sheila Fraser: We determine all of the performance audits we're going to do based on an assessment, department by department, of the various programs, and which are the most significant, which would appear to us to present the most risk, if you will, in the accomplishment of the government's objectives.

So we would pick a program within government, say innovation, education, climate change, or aboriginal issues. If there were a foundation that played a significant part within that, we would include it in that audit. We would look to see how well coordinated the activities for this broad program objective were between government departments, other agencies, and that foundation.

I wouldn't say we would never do it, but it wouldn't necessarily be an audit of that particular foundation, but rather in relation to a broader program area. We've done governance of crown corporations. There could be issues of governance in foundations, because they are managing billions of dollars. It would tend to be an audit with a much broader scope, rather than simply an audit within a particular foundation.

Mr. Gary Carr: That's very interesting and very helpful.

Regarding the crown corporations, as you know—I think you were there—the minister announced that he's going to be taking a look at it. Hopefully, he's listened to some of your advice and guidance on it, and we'll find out tomorrow.

There would be some, though, who would say—and I say this in a non-partisan way, regardless who the government of the day is—that the board might be proper. In paragraph 25, you say there's no formal mechanism for communicating government expectations. There are some who may say that the politicians shouldn't be involved in that, and that once the crown corporation is established the board of directors should do more of that and the government should fund them, if they are to fund them.

I'm just wondering how you see the balance—following up a little bit on what Mr. Fitzpatrick said—between giving the board of directors the autonomy to make those decisions and to put good people in, but also having the government, if they're funding it, take a look at it. When you say there's no formal mechanism for communicating, is there a particular formal mechanism that you would like, so that if the minister doesn't include it tomorrow, we could pass it on to the minister?

Ms. Sheila Fraser: What we're really suggesting, Mr. Chair, is a bit of a protocol letter between the minister and the chair of the board, who would represent the board of directors, that would lay out corporate direction and expectations in the strategic sense—not in the operational, day-to-day sense, which you wouldn't expect the board to be getting involved in. I mean a letter on some of the major public policy issues to give clear direction as to what the shareholder wants in certain areas.

I guess those would be the major issues.

Mr. Flageole, I don't know if you want to add anything more.

It would really be in terms of strategy and in terms of public policy. I think it's important that those be clarified, because many of the people who will come in on the boards will not necessarily have had public sector experience, and may not be attuned to the public policy role of the corporation. It's important when they set some of their financial and operating objectives that they have that in mind. We really see it as being the link back, if you will, to the shareholder, whose expectations need to be clear.

• (1635)

Mr. Gary Carr: It's my understanding that the way it works now, ministers would have meetings with the CEO, and presumably they could do it. But you're talking of something a little more formal, rather than sitting down and saying this is the direction. I think there also is a fine line; if it's written down, it's a protocol that clarifies it, rather than the political side going too far. I think you'll admit it does have to be a fine balance between setting the broad overview and then attempting to micromanage it, because that's why we want the crown corporation; otherwise we would just make it a deputy minister's role or part of that ministry.

It's interesting to see that fine balance, as you might expect even around this—

The Chair: A point of order...? No?

Mr. Gary Carr: I think that even around this table, there would probably be disagreement about how much involvement there should be from the minister. So I think it will be very helpful in the discussions.

I want to follow up on something else, too. In the information technology section in paragraph 22, you urged the senior managers to pay more attention to identifying the threats and the risk. We've had this discussion, too, on the whole governance issue about why senior managers.... I don't know if you were here, but I was fairly hard on the Deputy Minister of Indian Affairs regarding some of the things that you had brought up. I probably said on your behalf some of the things you might have wanted to say, but maybe you would have been more polite than I was. But the argument of why the senior managers.... I suspect that there are so many competing priorities that it's very, very difficult. The other thing I found is that the senior management changes a lot; we move people around, particularly at the deputy managers' level, and that makes it very difficult. In all fairness to the deputy, he'd only been there a year, and a lot of the problems go back. He gets in there and gets all of this thrown at him.

From your perspective of having had a look at it, would you think we would better off having deputy ministers stay in the position

longer, rather than this seeming revolving door process we have now?

Ms. Sheila Fraser: I think Mr. Carr is absolutely right, Mr. Chair. Deputy ministers and senior officials in government are faced with a lot of competing priorities. There are a lot of initiatives going on now on management issues, reviews of this, and reforms of that. We even said in a past foreword to one of our reports that we would encourage government to identify a few priorities, really focus on them, and move them ahead.

It becomes a bit overwhelming for the managers to know which one is the priority. When we see basic things like security just not getting the attention they should, I don't think it's because of a lack of interest in the area, I think it's often just not as prioritized as other issues that are coming forward. So I would agree.

We don't have the statistics, but it might be an interesting audit for us to do. We could look at turnover of senior bureaucrats. My suspicion is that they are not in positions for very long periods of time, which makes it very difficult to have certain initiatives take hold. The departments are very large, change is always difficult for everybody, and you need someone who is going to be there and who is going to be persistent at times to make things happen.

• (1640)

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

Mr. Kramp, please—and we're now into round two, so this will be for five minutes.

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

On a little bit of a different tack that may be way off your radar screen, I have a little concern in the information technology area. I'm concerned about the relative weakness of our whole IT situation. In your capacity or in your authority to evaluate this situation, do you think we should have a concern with cyber-terrorism?

Ms. Sheila Fraser: What we have said in this report is that the government systems are vulnerable. There could be attacks against the systems. People have raised a lot of concerns about sensitive data and information that they hold, but people could do a lot of damage otherwise.

Mr. Daryl Kramp: I'm worried about monetary instability, etc.

Ms. Sheila Fraser: If they went in and shut down a few of the systems for a few days, it wouldn't be very good. There could be a lot of disruption, a lot of costs. Access controls—those are some of the controls we certainly talk about—are not at the level they should be.

Mr. Daryl Kramp: Maybe to borrow an old statement of one of my former colleagues from years gone by, John Crosbie—I don't know if he coined it or not—perception becomes reality.

My concern here is, of course, the public's perception of this problem. If there was a situation and/or circumstance, I would want to ensure that we had a fair handle on it. In other words, I would want to ensure that we don't have a doomsday scenario per se. I wouldn't want the public to run amok and then create a thousand-fold more problems than we actually have.

I realize it's not necessarily your department here and that we should be involved with CSIS or whatever, but did you get any level of assurance at all that there is any level of competence to be able to pass judgment on the potential seriousness of this situation?

Ms. Sheila Fraser: I don't know if Mr. Timmins wants to respond; I'm not sure we can respond to that.

Mr. Douglas Timmins (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, we can't answer the specific question, as Madam Fraser has said, but I would point out that in our chapter we do suggest that there is a requirement for the Treasury Board to take a more active role in monitoring whether the standards have been applied. There are indications they will do so. If that is done, there will be a sense that the standards being applied, the vulnerability assessments and so on, are being looked at and the doors and risks are being addressed. To me, that is probably the biggest thing we could accomplish.

Mr. Daryl Kramp: To once again flip back to accrual accounting, the government appears to be hesitant to embrace wholeheartedly the philosophy of getting it done and getting on with it. The training mechanisms appear to be a problem. On the fact that we don't appear to have our own internal capacity to be able to understand and/or handle and/or manage the accrual process, do you think this is because there's a lack of willingness from the government to embrace the process? Or do we just not have the capacity within our system to be able to actually train the huge numbers of people who would be involved in capturing the whole process of accrual? What are your thoughts?

Ms. Sheila Fraser: Government has made the decision to adopt accrual accounting. That was made several years ago, and now the summary financial statements at the end of the year are prepared on an accrual basis. So that decision is clear. There was a lot of training, a lot of effort, and a lot of money spent on new systems to enable all of that.

As for where there are difficulties, I will say yes, there is a lack, I think, of expertise throughout the government. But we are seeing some progress on that, and the comptroller general is certainly making that a priority. That, I think, will be addressed over time.

Where there is, I would say, more resistance is the whole question of clear direction as to whether the government is going to adopt accrual budgeting and accrual appropriations. This committee has studied this. We have issued reports for six or seven years, with recommendations. Government continues to say that it's a complex issue and they're studying it. Meanwhile, other countries have gone ahead and adopted it; provinces have adopted it. Until that is resolved, people are going to continue to manage largely on a cash basis of appropriation, and are not going to use the accrual-based information.

I do not understand the resistance in government to doing this. I would suggest quite strongly, Mr. Chair, that you invite back the Treasury Board Secretariat, who are responsible for this, and that you ask them those questions, because we're at a loss.

•(1645)

Mr. Daryl Kramp: Thank you.

The Chair: Thank you, Mr. Kramp; your time is up.

Before we go to Mr. Holland, I was just going to follow up on that question.

What can your office and Parliament do to convince the Department of Finance—as I'm sure they, as well as the Treasury Board, have a role to play in this decision—that they can't have an apples and oranges situation? It makes no sense to continue on with cash appropriations if we expect to have financial statements prepared on an accrual basis, because 90% of the value of accrual accounting is in the management information that it provides for them to run the business properly. And if they don't see that, then we have to kind of knock their heads so they can hear it. If you have any thoughts on that, I would like to hear them.

Ms. Sheila Fraser: If I knew the solution, Mr. Chair, I would be glad to make a recommendation.

The Chair: Okay. Well, maybe this committee will have to spend some time on it.

Mr. Holland, please, five minutes.

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

Thank you, Madam Fraser, for the opportunity to talk to you today.

I have a number of questions with respect to foundations. I'll come back to it if I have the time, but the first one I want to touch on is to say that I certainly agree with the premise you put forward, that the foundations have to be open to being audited by your office. I think that makes sense. I have no particular objection to that.

I think it is important to comment, though, because one of the things that my opposition friends have done, to some degree, is to sort of say there are monsters in the closet, or improprieties occurring, or there's a suggestion there are things going wrong in foundations, or foundations themselves are bad. One of the things I wanted to be clear about—and I know you've said this, but I think it's an important point to underscore and illustrate—is that your principal concern is with the accountability of these foundations and the ability to audit them, not with their existence or the fact that there is any evidence or any suggestion of improprieties going on in the foundations.

Ms. Sheila Fraser: That is absolutely correct. I certainly wouldn't want our comments on accountability issues to be any reflection on the foundations, the work they're doing, or the people who are working there or who are on the boards of these foundations. That is not the point of this audit. Our audit really is about mechanisms of accountability to Parliament.

Mr. Mark Holland: And that's exactly as I understood it. I thought it was important to underscore that, because I think some of the debate has shifted away from that, from time to time.

Mr. Wrzesnewskyj was asking some questions with respect to chapter 2, on Transport Canada, and specifically with respect to airport authorities. Now, Transport Canada set up the airport authorities, and I understand from the audit you conducted you've been generally satisfied with the progress in terms of their oversight of these agencies.

Could you tell me whether you would want the opportunity or ability to audit these airport authorities? I heard from what you were saying before that's something that can't be done today. Would that be something you would want to be able to do?

Ms. Sheila Fraser: We haven't raised an issue about the audits of airport authorities. Because of the arrangement in the lease agreements between Transport Canada and the airport authorities, it's really up to Transport Canada to do the monitoring and to ensure that those conditions in those lease agreements are being respected. And it's up to them to oversee the airport authorities. So we are satisfied if Transport Canada is doing that role robustly. I don't see any need for us to be doing the audit, because there is an accountability mechanism between the airport authorities and the government, and we will rely on their work.

If we found, as we did in our audit in 2000, that this wasn't being done properly, we would certainly raise that to Parliament. But we have not expressed a desire to be the auditors of the airport authorities.

• (1650)

Mr. Mark Holland: Let me throw a scenario out. I only raise it because it's certainly come to my attention, because there are issues beyond the leases that obviously are dealt with, like the airport authorities. For example, they're responsible for planning future airports, as certainly is the case in my particular constituency. And a number have questioned whether or not, in terms of a process audit, it would be worthy to consider the ability to just audit, say, the process by which they do that and how they expend funds through that process. Because there is a significant amount of money, time, and energy expended through that process that may be worth or may not be...an audit may find absolutely nothing. The question is, is there value in having the opportunity to do a process audit on how they might handle issues like that? So it's beyond just the issue of leases.

Ms. Sheila Fraser: In response, Mr. Chair, we'll always say that we think there is value in audit and that airport authorities are of course very important in this country. They are very large organizations. If we are asked under an order in council to do certain work, we will certainly consider it. And if a parliamentary committee also asks us to do work, we will generally do it. It's a question of mandate and access to certain organizations.

Mr. Mark Holland: I know that I have very limited time, but this next question I think is very important.

Would it be a fair characterization to say, though, in a broad context—and I know you say it here, but again it's just for the point of underscoring it—that you are generally satisfied with the way Transport Canada...and the relationship they have and the oversight mechanisms they have to ensure that the airport authorities are operating in such a way that it is accountable and transparent...?

Ms. Sheila Fraser: We are satisfied with the monitoring of the lease agreements and the way that Transport Canada is doing that now, yes.

The Chair: Okay, thank you very much, Mr. Holland.

Monsieur Sauvageau.

[*Translation*]

Mr. Benoît Sauvageau: If I may, I would like to come back to Mr. Holland's question about foundations. I was pleased to see that Mr. Holland agreed with you and your recommendation that the foundations should be audited by your office. I was pleased to see that.

I would also like to tell him that at no time did we suggest that these foundations were poorly run. Rather, I said that if they were well run, the foundations would be eager to accept the Auditor General's invitation that they open up their books. If people are proud of the way they run things, if they are proud of the way things are administered and they want to show that to the whole world. That shouldn't be a problem.

I would now like to ask you a question about chapter 7, on the governance of Crown corporations. This will be a brief question, and it will be my last one.

In exhibit 7.3, which goes with paragraph 7.60, you talk about the British Columbia model. I have not read your recommendations, and I apologize for that, but are you suggesting that the B.C. model as illustrated in exhibit 7.3, could be adapted to federal Crown corporations so as to facilitate the functioning and mandate of Crown corporations as well as their relationship with the government?

Ms. Sheila Fraser: We are referring here to a process in place in British Columbia, whereby a letter of expectations is submitted every year.

Mr. Benoît Sauvageau: Correct.

Ms. Sheila Fraser: We think this is a model that the federal government should at least examine to determine whether it might be applicable to Crown corporations.

Mr. Benoît Sauvageau: If the government were to adopt this model, it would not be necessary for a committee to conduct a study lasting three or four years and produce a report. We do not have to reinvent the wheel here.

Ms. Sheila Fraser: From my understanding, Mr. Chairman, the government is been carrying out a review for about a year now, and a report should be tabled tomorrow in the House of Commons. We will discuss series of measures that will be taken to deal with a slew of issues. I trust this matter will be broached in this report.

• (1655)

Mr. Benoît Sauvageau: But the foundations are not alone. Unless I'm mistaken, there are five or six Crown corporations for which you have no oversight. Are you hoping for some clarification on this subject tomorrow?

Ms. Sheila Fraser: We do not talk about that specifically in the report. There are some Crown corporations for which we would like to be the auditor, because we are starting to see some audit problems or some potential audit problems. I am referring to the Canada Pension Plan fund. A large percentage of the assets is now in this fund. Since we have to express an opinion about the plan itself, we will encounter some professional problems if we do not audit the assets. As far as other matters are concerned, I will await tomorrow's report to see what the government intends to do and what the wishes of Parliament are.

Mr. Benoît Sauvageau: You're saying that you would like to audit certain foundations and all Crown corporations. Correct?

Ms. Sheila Fraser: That remains to be seen. Some Crown corporations, for reasons unknown to me, have never been audited by the Auditor General. We must find out why.

Mr. Benoît Sauvageau: I was forgetting one question. I met with some people from Génome Canada who told me that according to its charter, this organization was not a foundation. In your report, you wrote that Génome Canada was a foundation. They told me that according to the letters patent, Génome Canada was not a real foundation like all the others. Have you any comments on that? Have you checked into this?

Ms. Sheila Fraser: No.

Mr. Benoît Sauvageau: I was told I was mistaken when I referred to Génome Canada as a foundation.

Ms. Sheila Fraser: We would have to check on that. I will take your word for it and we will check the information we have. Of course, our information is quite limited. Perhaps we need to be certain that we understand the situation correctly.

Mr. Benoît Sauvageau: Could you send us an answer regarding Génome Canada?

Ms. Sheila Fraser: Yes, of course.

Mr. Benoît Sauvageau: Thank you, I appreciate that.

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

[English]

Mr. Wrzesnewskyj, please.

Mr. Borys Wrzesnewskyj: Madam Fraser, in a previous meeting you'd said that your priorities are protecting the well-being of Canadians and financial rectitude, and that was quite encouraging.

The GTAA has built an engineering marvel, but it ceases to be so marvellous when it impacts negatively on budding neighbourhoods. Coming back to how they comply with their lease obligations, I'd like to once again read a direct quotation out of their lease:

The Tenant shall ensure that mitigation of noise emanating from aircraft...is a part of the mandate of a noise management committee which the Tenant shall establish and which shall include at a minimum, the Tenant, the Minister or his designate...

And then it goes on.

What we've found is that the GTAA, when structuring this committee, created two classes of membership—voting and non-voting. The federal government and the minister's office have no voting members. What's fascinating is that this noise management committee was told after the fact that the corporation had decided to create a special exemption for FedEx for night flights.

When you look at the regulations—Transport Canada regulations and the GTAA is abiding by them—they allow 4% of the overall flights to take place between 12:30 a.m. and 6:30 a.m. For Toronto, that's 11,555 for the year, 35 approximately during that timeframe every night. That means every 10 minutes a jet is roaring over neighbourhoods that abut this airport.

What's fascinating is that they're allowed to provide exemptions for additional flights. It is GTAA, not even Transport Canada, that sets the criteria. When you look at the criteria, and there appear to be

four, the most important appears to be improved passenger or shipper convenience. It does talk about the GTAA noise management program, but it doesn't even seem to be referred to when decisions are made.

When I read your news release, I find it a little problematic. In terms of financial rectitude, it could well be satisfactory, but in terms of protecting the well-being of Canadians, they do not seem to be living up to their lease obligations. It's not just the GTAA. When we take a look, they have environmental obligations that they've signed on their leases. We look at the Toronto Island Airport. I am looking at a report that was produced, and I'll just read from it:

Over the past several winters, Community AIR volunteers have documented that the Island Airport appears to be allowing run-off and snow containing airplane de-icing fluid...to drain directly or indirectly into Lake Ontario, in contravention of the Tripartite Agreement.

It has a beautiful coloured photograph on their website showing this yellow fluid running directly into Lake Ontario.

Should there be two components to this report that say yes, when it comes to the financials, we're satisfied, but when it comes to the portions of the lease agreement that deal with environmental concerns, neighbourhood concerns, noise concerns, we don't know because we're not getting proper reporting from Transport Canada on this particular issue?

● (1700)

The Chair: Before the Auditor General responds, it seems that she didn't really investigate that particular matter, Mr. Wrzesnewskyj, but she can comment on what she knows about the particulars of this. It may be something the transport committee would want to take a look into as well.

Ms. Fraser.

Ms. Sheila Fraser: What I can respond, Mr. Chair, is we looked at the monitoring system in place by Transport Canada and we looked at the documentation that they obtained and the evidence that they had when they drew their conclusions. We do not do an audit of the compliance with the lease. We have no access to the airports. It would be inappropriate for us to do that. That is the responsibility of Transport Canada.

If you have information that would indicate that their assessment should be different, I would invite you to invite Transport Canada in to discuss the issue. We really looked at their monitoring system for all aspects, not only financial, but environmental, security, and all the rest. We looked at how they determined whether the clauses were being respected and the level of documentation they had for that.

We can't go further than that, and based on it, we believe that the system was satisfactory.

Mr. Borys Wrzesnewskyj: Madam Fraser, your priority is protecting the well-being of Canadians. Would you welcome a motion from this committee that would then put auditing of the airports into your department?

The Chair: I think that would actually require more than a motion. That would require legislative change, wouldn't it?

Ms. Sheila Fraser: I'm not sure if I would want that, Mr. Chair. It's really a responsibility of the department to ensure that the information they receive is accurate and that they are making the proper assessment. I do not believe it's the responsibility of the external auditor to see that the lease is being respected; it's really the managers in Transport Canada who should be doing that. Perhaps there are internal auditors in Transport Canada who would do that kind of work in management, but it's really the managers in Transport Canada who should be ensuring that those lease conditions are respected.

The Chair: There's a good chance that they'll be showing up here, and you'll get the chance to ask these pertinent questions, Mr. Wrzesnewskij.

Mr. Murphy, please, for five minutes.

Hon. Shawn Murphy (Charlottetown, Lib.): Thank you very much, Mr. Chairman.

I just have one question to the Auditor General. I came yesterday and I read your report, and I thank you for it. I've been on this committee for several years now, and I certainly haven't been hesitant in criticizing the various government departments that have appeared before it. I'm as frustrated as some people. But I came here yesterday and I read the eight chapters. Some were positive, some were negative, and some were neutral. Some of the negative ones were certainly explainable, that they had to deal with the HR modernization that dealt with a number of departments, which is a mammoth exercise and will take some time. We had good discussion, and it was good that you followed up, and I think further follow-up has to take place.

I went to bed last night and got up this morning, and I read the media. You've obviously read them too. I've just picked up a couple: "Fraser lashes Liberals"; and this is an interesting one—"Crown agencies need U.S.-style overhaul". There were about another ten similar headings, similar comments. I question whether the people have read the report. I question whether or not they understand it, especially that last one. My only question to you is, do these reports accurately reflect the findings in your report?

• (1705)

Ms. Sheila Fraser: We go through, I think, quite a process to try to inform the media of our reports. We hold a lock-up with them. My staff are all available to them to answer questions. I give a statement to the press, which is exactly the statement that I read to members of Parliament.

I think if you read the actual articles, those reflect the report fairly accurately. Headlines are perhaps something else. We obviously go through a quick analysis in the morning, after a report, and I think if you read what is actually in the text of the articles, it's fairly close. It is close to what the findings in the report are.

Hon. Shawn Murphy: Do you ever make any attempt to correct those statements?

Ms. Sheila Fraser: Yes. When there are clear errors of fact, we will contact the journalists and we will note that there should be a correction made.

Hon. Shawn Murphy: Thank you. I have nothing further.

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

I'm going to give a couple of minutes to Ms. Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Just a couple?

The Chair: You're not on the list, but I think there's consensus—

Ms. Judy Wasylycia-Leis: I wonder if Mr. Murphy—

The Chair: We won't give you the last word, because I will have that after you.

Ms. Judy Wasylycia-Leis: I'm wondering if Mr. Murphy read the same Auditor General's report that I read yesterday. I think the media has accurately reflected her report, certainly on foundations, because that chapter is the one that is the most critical in terms of government neglect and lack of accountability. In the introduction right on page one of the report it says that the progress is unsatisfactory, that gaps remain, that there is no provision for performance audits, or any mechanism for ministerial oversight, and so on.

I think we have to take this report seriously and start to demand of government some accountability over public funds. If you take the \$9 billion in foundations the Auditor General mentions in this report, add to that about \$14 billion, the amount already committed before the budget we're going to hear next week, in terms of money going into trust funds, add to that another \$4 billion going into another medical trust fund as outlined in the health accord, and add on top of that possibly up to \$12 billion worth of surplus, which will go somewhere, without accountability and transparency, that makes the sponsorship scandal look like small change.

We're talking about billions and billions of dollars for which there is no accountability to the public, no meaningful provision for parliamentary scrutiny, and no way for the Auditor General to give us any advice and feedback. That's outrageous. And I would hope Mr. Murphy is going to go away from here and tell his government to do something about it.

I'd like to know two things, and one is on this chapter. I know you didn't have the mandate to go into trust funds at this point. I'm wondering if you are going to look at trust funds. If we took your recommendations pertaining to foundations and had you involved in the auditing of all the trust funds, might that make at least a difference right now?

My other question is unrelated to that and has to do with CIDA. One of my colleagues wanted to know about your chapter 5. When CIDA was created in 1968, no clear mandate was established for it. Would legislation on CIDA's mandate help provide clarity of purpose for what it does and improve CIDA's performance?

Those are my two questions.

Ms. Sheila Fraser: On the question of trust funds, I believe Ms. Wasylycia-Leis is referring to the trust funds that have been established with the provinces for various health care initiatives. We audit those transfers when we do the audit of the government's summary financial statements, but it is my understanding that those trust funds are under the control of the provinces. We audit the moneys going to those trust funds, but the trust funds are really for the benefit of the provinces and are really out of the hands of the federal government.

On CIDA, we did do some checking yesterday and have learned that in fact CIDA does not have legislation. I'll ask Mr. Flageole to give some comments on that.

Mr. Richard Flageole: Mr. Chair, CIDA was set up by an order in council in 1968. It now receives its budget under the foreign affairs vote and reports in the public accounts under that department, which is quite different from regular government departments.

• (1710)

The Chair: Thank you.

Mr. Fitzpatrick, you had a question, and then we'll go to Mr. Lastewka, who has a few minutes. I have some questions of my own, and Mr. Wrzesnewskyj may have a question at the end, if we have time.

Mr. Brian Fitzpatrick: I don't share the confidence of the government when it seems to indicate that with these big outside accounting firms it can handle the auditing of these departments. I do have problems with this.

A lot of these big accounting firms are doing more than auditing; they're doing government consulting work, and I would remind everybody here about Arthur Anderson and Enron. They made a whole lot of problems by getting into a major conflict of interest due to the conflicting jobs they had to do. That causes me some concern.

I even look at things happening in Canada right now, like Nortel Networks, which I think is a sad case of reporting and dealing with things and so on, but the same auditor who's been there for the last four or five years is still doing the job. To me, there may be some shake-ups taking place in the United States in this area, but I'm not so excited about what I see happening in Canada on that front. The government is relying on these people to do your job, Madam Fraser, and I have problems with it.

I want to defend you, Madam Fraser, and I want to defend members of the opposition too. None of us were indicating that there's any wrongdoing going on in any of the foundations. But the point we're trying to get at is that we need checks and balances to make sure government policies are being carried out, that taxpayers are getting value for money and so on. We need your folks to be able to shine the light on what's going on in those operations, and if you're shut out of it, we're in trouble.

You did an excellent job on the gun registry to expose serious problems in that registry system, and you've shown serious problems with the sponsorship program. I'm not saying that there's anything running afoul within the foundations, but if you had no opportunity to be able to review their operations, how would anybody know? That's a concern that I think everybody in the opposition has, and we're onside with you on that point 100%.

Ms. Sheila Fraser: I'd just like to say, Mr. Chair, that we have no concerns about the financial audits being conducted in the foundations. Our question is really about performance audits that would provide additional information to parliamentarians to help them assess whether programs are meeting the objectives they were initially set out to meet.

The Chair: Thank you, Mr. Fitzpatrick.

Mr. Lastewka, please, for four or five minutes.

Hon. Walt Lastewka (St. Catharines, Lib.): Thank you very much, Mr. Chairman.

It's good to see the Auditor General back and here with us. I'm sure you knew that I was going to be tackling governance and chapter 8 and my concerns concerning organizational changes and what happens.

I was inquiring the other day about the Comptroller General, when the Comptroller General was taken out or combined. My concern is that no matter who is in government, when there are government changes to organizational structure, what type of input do you have prior to those changes being made?

Before organizational changes are made in large organizations, there's always a checkpoint with the auditor portion of the corporation to make sure nothing gets through the cracks. I'd like to understand the changes and the consultations that you have with the government when organizational changes are made.

Ms. Sheila Fraser: I'll let Mr. Timmins respond specifically to the question of the Comptroller General, but as a matter of principle, the Auditor General doesn't comment on two areas. One is policy decisions and the other is what we call the machinery of government.

We believe that government should be able to organize itself in the way it feels most appropriate to deliver services and programs. In my experience, which is relatively limited, we are not consulted when there are major changes in government organizations.

Perhaps Mr. Timmins wants to respond to give the specific details on the Comptroller General.

• (1715)

Mr. Douglas Timmins: I believe the question yesterday was specifically on when the position of the Comptroller General was merged or eliminated. It was merged back in June of 1993. The responsibilities remained within Treasury Board as an organization. The Secretary of the Treasury Board had dual responsibilities assigned to that position in June of 1993, and that continued until the appointment of a separate Comptroller General last June. I didn't do extensive research on the specifics for most of the activities that were carried out, but the general role was still carried out by the Secretary of the Treasury Board.

Hon. Walt Lastewka: I'm going to talk about prime ministers. When the Mulroney government was in, we had comptroller generals.

Mr. Douglas Timmins: Yes.

Hon. Walt Lastewka: When the Campbell government came in, they combined it. We've now separated back to where we were. Is that basically what we've done?

Mr. Douglas Timmins: That's basically what has been done, yes.

Hon. Walt Lastewka: I understand that one very well now.

Ms. Fraser, you said that you don't interfere with the machinery and that the government can reorganize. Shouldn't there be some consultation before an organization is made so that things don't fall through the cracks?

Ms. Sheila Fraser: I don't know. The most recent experience, I guess, would be the major reorganization that happened on December 12. We were not consulted on that. I think that it's really up to government to decide on how it best thinks it should organize.

Hon. Walt Lastewka: Okay. My last question is on inventories and inventory management. My concern is with the high amount of \$6.1 billion for inventory and the writeoffs at the end of the year.

Basically, what happens is this. If there is no good control of inventories, minimums and maximums and deletions, and things are coming to the end of a life cycle, the procurement department or purchasing department continues to buy and then we write it off at the end of the year. What instruments are in place to make sure these inventories and management controls are in place?

Ms. Sheila Fraser: The inventories are an issue for us in our audit of the public accounts. The inventory systems in the Department of National Defence were set up to manage quantities and were not set up to manage costs. The department has been working for the last three or four years now to try to modify the system to give them cost information.

We are still not satisfied with where they were at. Certainly at the time of our last audit, we were still finding too many errors in the cost information and the evaluation of inventory. The information on obsolescence, too, is probably not where it should be if the cost information isn't there. It is particularly difficult in DND, of course, because much of the equipment is old. It's not only a question of how long it has been in inventory. Maybe there are insurance parts that you will need.

There needs to be a more robust, rigorous system in order to manage inventory. I know that the department has assigned people to work on it. They are proceeding on this. Hopefully, when we do our audit this year we will see progress. It was still largely a year-end kind of focused exercise, rather than the normal day-to-day management that one would expect.

Hon. Walt Lastewka: Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Lastewka.

I'm sure we'll be seeing some reports coming down that deal with procurement and inventory management in the near future. Is that right? Hopefully.

Mr. Wrzesnewskyj, you had one question.

Mr. Borys Wrzesnewskyj: I'm looking at this news release. Out in the public realm, there's an assumption that when the Office of the Auditor General produces a report and a news release entitled "Oversight of the National Airports System is satisfactory", it has actually been your office, a neutral third party, that has produced this report. What we find, in fact, is that Transport Canada has produced the report, and all you're doing is reporting on the Transport Canada report, even though it's the national airports system that we're reporting on.

I think that does a disservice in terms of the confidence people hold in your office, because there is an assumption. People may not read the fine print, even though it says "The Department noted high levels of compliance". There's an assumption that if you're issuing a press release from your office and the press release deals with the

national airports system, it's your office that has actually conducted the audit.

My question is, should this even be a component of your report? Should you just call it a press release about Transport Canada, as opposed to oversight of our national airports system?

• (1720)

The Chair: Perhaps Mrs. Fraser could respond to that, because I have two questions now.

Ms. Sheila Fraser: I would be pleased to take any comments that members may have on our communication and how we can improve it, but you will note that at the very top of the news release it says "Chapter 2—Transport Canada".

If we can clarify further to the public that our activities are related to federal government departments, we would be glad to do that. However, I do not believe the news release is misleading or I would not have issued it. We audited the oversight by Transport Canada of the national airports system, and with all due respect, Mr. Wrzesnewskyj, I think that's what's reflected in the news release.

The Chair: Staying on the airport authorities, I think you said, Madam Fraser, that you don't really want to have the authority to audit them, but you've indicated that you strongly would like to do the audits of foundations and of course crown corporations.

Don't you think that if we're going to have the Auditor General responsible for auditing government—not only its departments, but its other agencies, such as foundations, such as crown corporations—you should be auditing the airport authorities as well? These are not-for-profit organizations that are basically backed by the Government of Canada. They have all kinds of borrowings out there in the capital markets. Somebody's responsible for those borrowings, and it's likely the taxpayers of Canada if something goes wrong.

Ms. Sheila Fraser: Perhaps, Mr. Chairman. We really just haven't reflected on airport authorities. The fact is that Transport Canada does have a role in overseeing them and in ensuring that they are respecting the conditions of leases, so that oversight role is in place. We would be glad to consider it and come back to the committee with a view on that, if you wish.

The Chair: I think you should.

I think also of Milit-Air, which is another non-profit organization that was set up as a buffer between Bombardier and the Government of Canada. Milit-Air—again, a not-for-profit organization—has borrowings in the capital markets, if I recall, of around \$720 million. How can a not-for-profit organization borrow \$720 million on the capital markets? It's because it got a no-cut, absolutely guaranteed cashflow from the Government of Canada, even though the services may or may not be delivered by Bombardier.

I think we perhaps have to take a look at how far out the Auditor General can go so that Canadians are fully informed, right?

Ms. Sheila Fraser: I would be glad to do that for the committee.

The Chair: The other point I have is that if we decide we're going to take a look at accrual accounting—and we heard your comments on accrual accounting—then when you come and make your presentation, perhaps you could tell us, the Treasury Board, and the Department of Finance if they're here, what we can expect as far as the management benefits of accrual accounting are concerned, so that they can see why and then tell us why they shouldn't go down that road with accrual budgeting as well.

Accrual budgeting is this whole information package that managers can obtain by having good financial records. That's what it's all about. They seem to find they can run the country without accrual budgeting, yet we impose it upon every private sector business in this country. Those businesses find they need it in order to run themselves profitably and effectively, yet the largest organization in the country seems to get along without it. It seems to be rather strange.

So if we call you on that issue, I'd like you to come forward with a clear statement of what benefits are obtained by having a proper financial system in place. Is that possible?

Ms. Sheila Fraser: I would be pleased to do so.

The Chair: Okay.

We'll get some closing comments from you, then we'll wrap this up.

Ms. Sheila Fraser: Mr. Chair, I'd like to thank the committee again for their interest in our work. I presume we will be having future hearings on some of the issues we have brought forward, and I look forward to appearing before the committee again on those issues.

The Chair: Thank you very much. Again, I think all members of the committee want to express their gratitude to you and to all your staff for your hard work and the diligence with which you fulfil your duties.

The meeting is adjourned.

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