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Thursday, May 11, 2006

—
Chair

The Honourable Shawn Murphy

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•(1105)
[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): I call the meeting to order, members.

First of all, I want to welcome everyone here to the meeting, and I especially want to welcome the Auditor General of Canada and her staff to the meeting. She is accompanied by John Wiersema, the Deputy Auditor General of Canada; and Robert D'Aoust, the comptroller of that particular department. I want to welcome the staff to the first time sitting in this the 39th Parliament of this government. Welcome.

I want to welcome the members again. Members, the agenda pursuant to the Standing Orders has been circulated. What I propose to do is to follow the agenda.

The first item on the agenda is the first report of the subcommittee on agenda and procedure. The committee met. We had a full meeting on May 9, Tuesday of this week. The minutes of that meeting have been circulated. People here may not have had an opportunity to read them and review them. If you want to take an opportunity, then we can entertain a motion.

Does there need to be any discussion?

Mr. Williams, go ahead, please.

Mr. John Williams (Edmonton—St. Albert, CPC): As I pointed out the other day, there's been either a Freudian slip or a lack of attention to detail, but there is no Progressive Conservative Party here anymore. And perhaps that could be, if not corrected on paper, at least on the record that it's the Conservative Party of Canada that forms the government these days, and rightly so and deservedly so. So you can maybe make that correction.

The Chair: Mr. Williams is quite correct. That party is no longer with us. Let the record reflect that, and in future documentations we'll refer to it by its correct name.

Mr. Sweet, go ahead, please.

Excuse me, Mr. Williams, Mr. Sweet does not have a copy of the report. Go ahead, Mr. Williams.

Mr. John Williams: You're saying that on May 18 there is a luncheon meeting. Is that a meeting of the full committee, or is that the steering committee?

The Chair: That's a meeting of the full committee, Mr. Williams. And the problem with that date is that it is the date the Australian Prime Minister is here, and we had to rearrange the timing of our meeting. It normally would start at 11 o'clock, but we're going to

start at 12, I believe, for a luncheon. Instead of going from 11 to 1 o'clock, that day we'll go from 12 to 2 o'clock.

It was pointed out, Mr. Williams, that the question period that day actually starts at 11 or 11:15, whatever the case, and goes to 12. The plan is that this committee will meet at 12 and go to 2, and the steering committee will have a meeting after that, because of course there's no question period at 2 o'clock that day.

Is there any further discussion on any of the items arising from the—

Mr. John Williams: Are the 21st and 22nd reports the only two reports that we have not received a government response to?

The Chair: I believe that's correct. I'll check with the clerk.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Mr. Chair, I do not know whether this question belongs here or after, but it probably relates to the report because it's on procedure. If we receive reports and we are not given 12 hours or even 24 hours, I think it's unfair to the witnesses because we are not intelligently informed. I looked at the 64-page performance report and felt that I couldn't do justice to it, because I'm sure it took them days to write these reports, and we have a few short hours to review them and question them when we have not done an in-depth analysis.

Does that become part of the procedure? Or should we have something that stipulates that we should be given at least 24 to 48 hours to review it? I think we need to do justice to the witnesses.

•(1110)

The Chair: You're quite correct, and I agree with you. The earlier we can get these reports the better it is for everyone; it's better for the members of the committee, and it's better for the witnesses also. Sometimes there's a limitation, but again that report ought to have been in your hands before that.

The Clerk of the Committee (Ms. Danielle Bélisle): It was actually available as of November for all MPs, and we just sent extra copies, but we were lacking copies, so I waited to have a copy for everybody. But it's something that had been available since November.

Ms. Yasmin Ratansi: I guess because we added new members of the committee to the older members of the committee.... I was going to say old guard, but I decided not to say that.

Mr. Williams is very well respected. He's an FCGA, so I'll grant him that respect. We new ones would really like to have an understanding before we subject anybody to questions that may not be properly phrased.

The Chair: Your point is well taken, and we will do our utmost to accommodate that. And that's the only way this committee is going to work. If people get the documentation in sufficient time, they can come here both informed and prepared.

Mr. John Williams: Mr. Chair, does that mean we can get a copy of the Auditor General's report today?

The Chair: I can't see any reason why not, Mr. Williams, if you're prepared to....

I think we're going to have to wait till Tuesday.

Are there any further issues arising from the minutes of the steering committee?

Do you mean to say you don't already have a copy? It's in the *Ottawa Citizen* this morning.

If there's no further discussion, the chair will entertain a motion that the minutes be adopted as circulated and amended.

Mr. John Williams: It should be moved by somebody from the steering committee, not by me.

The Chair: Mr. Christopherson has moved that.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: The next item arising from that, members, is the actual travel budget request that did come forward from the steering committee. I believe that has been circulated; it's in front of you. I don't think this should take much time.

We never know how many people want to attend these annual meetings, but we've done our best, and we've used the number 10, and that is the budget that we are going to present to the Liaison Committee for approval.

For the information of new members, this is the way the system works for this committee. For any travel, we have to prepare and present a budget to another committee that's above us to approve financial expenditures such as this. This is the budget the steering committee has prepared. It has to be approved by this committee, and has to be presented and approved by another committee called the Liaison Committee. Again, this is a work in progress, because we don't know how many will attend, but this is probably our best guess at this time.

So what I would like to do, if it's okay with the committee, is to receive a motion for the approval of this budget to go forward to the Liaison Committee.

Mr. Williams.

Mr. John Williams: Mr. Chair, I thought that when we normally attended the public accounts committee the members travelled on their 64 points rather than charging it to the committee. Can that be checked out?

The Chair: Again, that's at our discretion, I understand. We can do it, but we don't have to do it. We've presented this budget without doing it, but again, you're quite right that a lot of times, if there's any issue, we can change that.

The way I'd like to see it done is that the members use their 64 points, but if that presents a problem to any of the members, then we have the budget to pay it to a committee.

Monsieur Lévesque, s'il vous plaît.

[*Translation*]

Mr. Yvon Lévesque (Abitibi—Baie-James—Nunavik—Eeyou, BQ): This is a twelve-member committee. I'm wondering if we could possibly amend the motion by substituting the number 12 for the number 10, in case all committee members would like to attend.

•(1115)

[*English*]

The Chair: We could, Mr. Lévesque. Of course, there are two or three staff who would normally go too, but in the past we'd never get full attendance, although everyone is welcome and urged to attend.

Another point is that I actually live in Charlottetown, so I would not have any expenses for this particular conference. And again, we have flexibility, as Mr. Williams pointed out, in the budget. People could use their own points in certain instances, and that would drive down the cost to this committee. This is just a best estimate of the cost.

In 2003 at this meeting we had four members of Parliament attend, at the 2004 annual meeting we didn't have any attend, and last year was probably our best year ever—we had seven attend—so the chances of getting 12 are probably slim. I hope everyone is considering coming.

[*Translation*]

Mr. Yvon Lévesque: I therefore move that the motion be adopted as is.

[*English*]

The Chair: I accept that as a motion, Mr. Lévesque.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: Members, the next item on the agenda for today is the vote, under Finance, referred to the committee.

I'm going to welcome again the Auditor General and turn the floor over to her.

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

Let me begin by congratulating you and the other members of the committee on your election or re-election and on your appointment to this committee. We very much look forward to working with you over the coming session.

We are very pleased to be here today and would like to thank you for the opportunity to discuss our estimates and our latest performance report. I am accompanied today by John Wiersema, Deputy Auditor General, and Robert D'Aoust, our comptroller. We would also like to take this opportunity to briefly outline our mandate and operations for the benefit of new members to the committee.

[*Translation*]

The Auditor General is an Agent of Parliament who is independent from the government and reports directly to Parliament. As legislative auditors, we provide objective information, advice and assurance that parliamentarians can use to scrutinize government spending and performance. Obviously, we audit the federal government which includes some 70 federal departments and agencies, 10 departmental corporations and 60 other entities.

We also audit 40 Crown corporations, the three territorial governments, 15 territorial agencies and two United Nations agencies, namely UNESCO and the International Civil Aviation Organization. For the two UN agencies, we recover the costs of our work.

Our legislative audits include both financial audits and performance audits. A financial audit examines whether the government is presenting its financial information fairly in accordance with accounting policies. Our financial audits are similar to the type of audits you see in the private sector.

Each year, we conduct over 100 financial audits, including the financial statements of the Government of Canada, Crown corporations, and the three territorial governments.

[*English*]

Through our performance audits, we examine whether government programs are managed with due regard to economy, efficiency, and environmental impacts and whether measures are in place to determine program effectiveness. We select the subject of our performance audits by assessing the risks that departments and agencies face in fulfilling their mandates and conducting their operations. We audit matters of significance, and we report what we find.

We conduct about 30 performance audits a year. They are tabled in Parliament up to four times a year in reports of the Auditor General and the Commissioner of the Environment and Sustainable Development, who leads my office's environmental audit group. Our reports for 2006 are listed in an attachment to the opening statement.

Special examinations are a form of performance audit that assess the management systems and practices of crown corporations and provide an opinion on whether there is reasonable assurance that no significant deficiencies exist. All crowns must have a special examination every five years. Our special examination reports are addressed to the board of directors of the corporations. Most crown corporations post our reports on their websites.

The work of my office is conducted by a diverse staff of about 600 audit professionals and administrative services personnel. The majority work in our Ottawa office, and we also have offices in Halifax, Montreal, Edmonton, and Vancouver.

• (1120)

[*Translation*]

In 2004-2005, we used \$72 million of the appropriations available to us and the equivalent of 590 full-time employees. Our net cost of operations, taking into account services provided without charge by

other departments as well as other small adjustments, was \$82.5 million.

These figures are measures of our inputs, that is of our use of money and staff. Our last Performance Report for the year ending March 2005 provides details of our outputs—the volume of work that we produce—and a broader perspective on what our work achieved.

Like most federal departments and agencies, we report our planned priorities and performance to Parliament through two central documents: our Report on Plans and Priorities and our Performance Report. The Report on Plans and Priorities for 2006-2007, which is part of the government's Estimates process, will be tabled in the fall this year. I look forward to discussing both of these documents with this committee later this year. Because the Report on the Plans and Priorities is not available for review today, we have attached some financial information on past and projected spending to assist you.

[*English*]

Let me comment briefly on our spending plans.

Parliament has not yet approved main estimates for the current year, and to put our current budget in context, attachment 1 provides a six-year summary. You will see that our main estimates are fairly constant over the period. In addition, you will note that each year a budget carry-forward from the previous year is provided through supplementary estimates. For 2006-07, we will be presenting supplementary estimates representing a carry-forward of some \$3 million, to be added to our main estimates of \$73.7 million.

We believe that with the current level of funding we will be able to properly fulfill our current mandate. However, the office could face financial pressures in the future as a result of our expanded mandate for financial audits and special examinations of additional crown corporations. Furthermore, the proposed audits of departmental financial statements could also affect our resource requirements. We will continue to monitor our financial requirements as these initiatives unfold, and we may need to seek additional funding at some future date.

In previous estimates documents, and in discussion with several parliamentary committees, we have argued that a new funding mechanism is needed for agents of Parliament. I am pleased that the advisory panel on the funding of officers of Parliament was established for this purpose on a pilot basis, and I look forward to appearing before the panel once it is re-established.

[*Translation*]

I would like to say a few words about the new “follow the money” mandate included in the Accountability Act. First of all, let me say that I appreciate this confidence. Now I would like to explain to the members of the committee how we would intend to carry out this mandate.

It is management's job, in departments and Crown corporations, to ensure that grants, contributions and loans provided to individuals or institutions outside the federal government achieve their intended purposes. They do this by establishing the systems and procedures needed to ensure that these funds are used appropriately.

Our role as government's external auditor is to determine whether those systems and procedures are in place and how well they are working. We then report to Parliament on the adequacy of the systems and we provide recommendations where improvement is needed.

We do not believe it is our role to routinely audit recipients of grants and contributions. As previously noted, this is the responsibility of the managers of those programs. Therefore, I expect that we would rarely exercise this option.

● (1125)

[English]

Since I expect to follow the dollar only in very rare and unusual circumstances, we are not seeking additional funding to carry out this expanded mandate.

Finally, Mr. Chair, my staff and I appreciate the continuing support that we have received from this committee, and we very much look forward to working with all of you.

My colleagues and I would now be pleased to answer any questions committee members may have.

Thank you.

The Chair: Thank you very much, Madam Auditor, and thank you for the excellent report.

We will now proceed to the first round. The first round is the Liberal, Mrs. Ratansi, for eight minutes.

Ms. Yasmin Ratansi: Thank you, Chair, and thank you, Madam Auditor and the team.

I'm new to this committee and we have a lot of catching up to do, so I won't match Mr. Williams' knowledge or Mr. Murphy's knowledge.

I was looking at the Gomery recommendation because it was restoring accountability. In that Justice Gomery says: "Canadians are fortunate in that the great majority of the people who serve in Parliament and in the public service hold very high ethical standards. We must not forget that only a handful of government officials failed to live up to those standards...". He then goes on to recommend things to redress the balance between resources available to government and those available to Parliament.

Having been an auditor myself, I see that in the accountability platform some suggestions were made that require you to follow the dollar. With 350 million transactions and \$186 billion in revenue, etc., how do you propose to follow the dollar? What is the material value you put in, and how do you determine the parameters of your audit so we are assured that there are ethical standards and the money is not being misspent?

Ms. Sheila Fraser: In the act it is very clear that any audit work undertaken would be at the discretion of the Auditor General. So

there is no direction from government as to the audits that would be conducted. That is absolutely essential, because one of the key tenets of an Auditor General to be able to do the work is the independence of the Auditor General. So the Auditor General has to be able to determine what work would be done.

In the case of the expanded mandate—it is proposed in the Accountability Act, as we mention in my opening statement—we really believe it is the responsibility of government departments to ensure that they have the systems and practices in place to be able to show that funds that are given by grants and contributions, or through loans, are used for the purposes intended and meet the terms and conditions of those funding agreements. Our job, essentially, fundamentally, is to ensure that those systems and practices are in place and that they are working appropriately. This is the kind of work we do on a regular basis.

There could be very unusual circumstances—and we will have to try to determine what they would be—in which an Auditor General would feel it appropriate to actually audit a recipient. But as we indicate, we believe that would be very rare and unusual. We do not believe we will ever systematically audit grant contribution recipients.

Ms. Yasmin Ratansi: I have been a risk management auditor for the provincial government, where we gave grants, and the basis for giving grants was that they should have their own external audit done. Does the federal government follow a similar process?

How often do you audit crown corporations, and what are the crown corporations that you audit?

With the Comptroller General being established and internal audit departments being in the majority of departments, how does that enhance your work?

● (1130)

Ms. Sheila Fraser: First of all, regarding the management of grants and contributions, perhaps we could defer the question, because in our report that is coming next week we have done a follow-up audit on the management of grants and contributions programs, and you will see the conclusion we have as to whether there are sufficient management procedures in place.

Essentially, many of the departments have specific procedures for a particular type of granting program. One example that comes to mind is first nations funding. There are requirements for annual financial audits to be produced, and in fact if those audits aren't produced, the first nation loses its funding. There are many requirements like that, and we can perhaps discuss that a little more next week.

Regarding the audits of crown corporations, there was an amendment to our mandate last summer in the budget implementation bill, Bill C-43, that named us as auditor or co-auditor of all crown corporations except two. Before that, we were doing almost all of the crown corporations, but that added three crown corporations to the audits we do, the most important being Canada Post. We will be undertaking those new mandates in this coming year, and we will be co-auditors of Canada Post, for example. There are only two that we don't audit.

The Comptroller General has been doing a lot of work to try to reinforce the internal audit capacity within government. There is a requirement that all departments and agencies have an internal audit function of some sort. They are working to establish audit committees in departments.

To the extent that we can, we try to rely on internal audit work, but there is still much improvement that needs to be done in that function throughout government. We did an audit on internal audit in 2004. Our basic conclusion was that the function needed to be professionalized; they needed to bring in more people with the required expertise and give them more resources, more training.

So there are a number of issues that needed to be addressed. But it is going in the right direction, and certainly the intention is there.

Ms. Yasmin Ratansi: My last question—and this shows that I am new to the committee—concerns crown corporations. Are they subject to external audit? Do they have an external auditor doing their audit? Are you the external auditor?

Ms. Sheila Fraser: Either their external auditor is the Auditor General of Canada or, in about six or seven cases, we are co-auditors with a firm from the private sector.

Ms. Yasmin Ratansi: Thank you.

The Chair: Thank you very much.

[*Translation*]

You have eight minutes, Mr. Nadeau.

Mr. Richard Nadeau (Gatineau, BQ): Good day, Madam. It's a pleasure to meet with you.

Good day to you as well, Mr. Chairman.

Can you tell me how you arrive at your budget figures? We know that everything must go through the House of Commons, which is somewhat political in nature. In your opinion, should this process be changed? For instance, could we look at the way things are done elsewhere in the world for inspiration so as to improve the way in which the government audits its books and those of Crown agencies?

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

We have long been critical of the way in which the budget of the Auditor General's office is determined. Like all other federal government departments and agencies, the Office of the Auditor General was required to negotiate its budget with the Treasury Board Secretariat. We found it rather inappropriate to have to discuss our Office's funding requirements with the very same people who were the subject of our audits. We wanted parliamentarians to be more involved in the process.

We worked with the government to develop a pilot project proposal last year. The proposal called for the creation of a committee of parliamentarians to give advice to the Speaker of the House of Commons. All agents of Parliament would discuss their funding requirements with this advisory committee. Treasury Board Secretariat officials would also come before the committee to discuss their analysis of the situation and their funding recommendations. The whole process would in some respects be more transparent. The committee would then make a recommendation to the Speaker of the House who in turn would make a recommendation to the President of the Treasury Board.

Parliamentarians will now participate in the process. We have not had an opportunity as yet to meet with the committee because it only got down to work in November, just before the session ended. Be that as it may, the current government has indicated that it intends to reconstitute the committee. So, we look forward to meeting with committee members.

• (1135)

Mr. Richard Nadeau: Therefore, you're intrigued by this new approach. However, how does it compare with the systems in place in other countries?

Ms. Sheila Fraser: We researched at length the approach taken by countries with the Westminster model of governance, such as as Britain, Australia and New Zealand. As I recall, we did make a presentation on this very subject to the committee. However, we would be pleased to make another one.

We looked to systems in place in other countries for some inspiration. Obviously, the committee is not patterned exactly on any given model. We felt it would be best to carry out a pilot project for a year or two to see if this approach required any fine tuning, in terms of House rules and procedures, legislation and so forth. In some respects, it's one way of achieving the same objectives. We'd be happy to provide you with information about this pilot project.

Mr. Richard Nadeau: Thank you.

[*English*]

The Chair: Thank you very much, Monsieur Nadeau.

Mr. Fitzpatrick, eight minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Good day, Madam Fraser.

I want to ask you about an area that I know you have a real interest in and that I know you hope your audits will make a difference in, and that's the area of improving the lives of aboriginal Canadians. I'd like to ask you, what area do you think you may have had a really positive impact on in terms of improving their lives, and what area most disappoints you at this stage of the game?

Ms. Sheila Fraser: Mr. Chair, could I ask that this question be deferred for one week? We'll be tabling a status report on Tuesday. In the report we've done a follow-up on all of the recommendations we made between 2000 and 2003, so 37 recommendations. I'll be able to answer with much more detail after Tuesday's tabling.

Mr. Brian Fitzpatrick: Fair enough. Yes, I can wait that long.

In other area, if we assume that the government of the day is quite ambitious about going through some of the doors that maybe were closed to the previous government in terms of audits and reviews, whether they're crown corporations, foundations, or grants and contributions, if the government really wanted to get into an ambitious program of using your office to track money into these areas, would you need more resources in your department to do that?

Ms. Sheila Fraser: I think I have to address the premise of the question. It is absolutely critical that the Auditor General be able to decide the work of his or her office. We cannot be directed by government.

Mr. Brian Fitzpatrick: Let's say the public accounts committee wanted you to do this sort of work.

Ms. Sheila Fraser: If committees of parliamentarians signal concerns to us, we will certainly try to do our best to accommodate that issue. In fact, we recently wrote a letter to the committee indicating that there had been a resolution asking us to audit a relocation program, and we have undertaken that audit and will be reporting it in the fall. So if there are specific issues that the committees have concerns about, we will generally try to accommodate that.

Also, as I mentioned earlier, Bill C-43, which was passed last summer, expanded our mandate quite considerably. It gave us the mandate to audit all crown corporations save two. It also gave us access to the foundations and gave us access to any non-profit organization that received over \$100 million in a five-year period. That was really an issue of concern that we had raised for many years, that there wasn't sufficient accountability. We currently have two audits going on that include foundations. So that issue for us was resolved very much with the bill that was passed last summer.

• (1140)

Mr. Brian Fitzpatrick: There's another area that I want your comments on. I'm not suggesting that all departments do this sort of thing, but when they get to year-end and they have surplus moneys in their account, I think there's a tendency for people to want to use up their budgets and spend the money, even if there's no crying need for the expenditure.

As Auditor General, have you any suggestions on what government could do to curtail that kind of practice?

Ms. Sheila Fraser: The problem was to some extent more acute in the past, I think, when departments didn't have a carry-forward provision. Now if a department doesn't spend all of its budget, it is allowed to carry forward 5% to the next year. I think that has helped to some degree.

Some of the major issues we raised in the past involved very large sums of money that had been transferred, for example, to foundations very close to year-end. I can understand the rationale for wanting to do that in some departments. I guess all I can say is that it really requires a rigorous financial management system to ensure that those expenses are warranted, not simply there to try to use up a budget.

Mr. Brian Fitzpatrick: It's always concerned me that when you have a well-run, well-managed department, where waste and mismanagement are minimal and they have budget surpluses, the way this system of government operates is that it kind of discourages

that. Departments that overspend, and that have a lot of waste and mismanagement, can go back and say, "Look, we're running out of money. We need more."

My own view is that some realism has to come into this picture. But I thank you for your comments on that point.

You're doing more and more of what we call "performance audits", which I think really determine whether government programs are effective in meeting their mandates. The other type of audit, which a lot of us might be familiar with, would be the financial audits. They get into tracking money and the nuts and bolts of the flow of money. It's generally financial audits that bring out waste, mismanagement, and corruption, if it exists.

There are some critics out there—I'm not one of them, but they are out there—who say that the Auditor General's office should use more of its resources on financial audits rather than performance audits. What would be your response to those critics?

Ms. Sheila Fraser: I'm well aware of those critics. The line item that we have here, the financial audit, is the audit of the financial statements. It's to give an opinion on the financial statements, be it a crown corporation or a government. In performance audits there are many audits that one could sort of call financial audits, such as audits of contracting. The sponsorship audit was a performance audit.

Those are the audits where we are actually able to go and do more in-depth work within a program or a department or an area. The financial audit is really geared to giving an opinion on the financial statements. It doesn't often go into as much depth as you would in a performance audit.

I know that some people are saying we should be spending more time doing financial audits, but that tends to mean that you will spend more time looking at a lot of things rather than focusing in and then going into more depth in a program. Given the size of the programs, I worry that we would not be as effective, actually, if we spent a lot more time on the financial audits.

• (1145)

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

Mr. Christopherson, eight minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Mr. Chair.

It's nice to see you again, Madam Fraser and team.

As you know, I take this role very seriously in this committee, in terms of holding both the government and the bureaucracy accountable, and I've been frantically trying to think of how I can make sure we're holding you accountable too, because that's our job. But you do such a great job, the fact of the matter is that most politicians on the Hill would give their right arm to have one-tenth of the credibility you have with the Canadian people. So I'm just going to push on a little. As far as I'm concerned—and I think this reflects the view of the committee, and certainly of the last committee—you do a fantastic job for the Canadian people. You really do.

I watched you closely both when things were riding high and everything was going great and also when the criticism came, and what impressed me most was that you were always the same, always having the same level of professionalism and the same approach. That speaks volumes to your professionalism and that of your department and those who work with you.

So on behalf of the people I represent, I certainly thank you for the job you do. But watch out, because we're still going to be watching you, as our job is to watch everybody.

Having said that, Mr. Chair, I want to jump to an issue that's been referred to here in a front-page story in the *Ottawa Citizen*. Rather than talk about the substance, I'd like to talk about the process, to the extent that the most I knew of it, as a member of this committee, was exactly what's reflected in the documents in front of us, meaning the May 2006 status report and what the subject matter was.

We had a little more information at the last meeting, Mr. Chair, which just spoke to the questions you were attempting to ask and get answers to, but we had nothing at all in terms of the substance of what your department found.

Then there was a notation that there would be another matter related to Parliament's control of public spending. Of course, everybody's political antennae went up, as you'd expect, and there was some apprehension on the part of the some as to what exactly that might mean.

I'd like to know your first thoughts on the appropriateness of this and your reaction to one of your reports that's supposed to be secret until formally tabled. Either it's wrong, in which case this is the end of story and the report will have to deal with it, or could you go on about this? Is this okay, and if it's not, how do you feel about it and what are your thoughts?

Ms. Sheila Fraser: First of all, let me thank Mr. Christopherson for his kind words. I do very much appreciate the comments, and I also appreciate the important role this committee has in holding us to account. We try to ensure that we are accountable through various other procedures. We have the reviews that are conducted of the office, and all the rest of it. While I hope we don't get a lot of tough questions, we do welcome tough questions too, because they are part of the accountability process.

As for the article in the paper this morning, I can't comment as to whether it is true or not, because that would be divulging the report that will be coming next week, but I'm sure all of the members of this committee know that we don't always believe everything that's written in newspapers. That being said, we take this very seriously; we are very upset when we see reports being leaked to the media. I

can assure you the leak did not come from my office. Our departmental security officer is conducting an investigation. This is not the first time it has happened, and unfortunately, I don't think it'll be the last time it will happen.

We will be speaking to certain people to try to encourage, perhaps, more *retenue* in the future and recognition that leaks such as this are really not helpful—and are an affront to Parliament, quite frankly.

I find it very unfortunate that these things occur; they make it difficult for all of us.

Mr. David Christopherson: Well, I appreciate your tone and your approach.

I'm a little more on the political end of this. I take it a little more seriously, especially since the first place one goes.... I don't want to make allegations that I can't back up, but I do know who has access to this information. If it's not your shop, then it's got to be somebody in officialdom who was given an initial look at it. I don't know.

I do know that there are opportunities for ministries to receive the comments and to be able to make comments back. So let me ask you the question: where else could that information have come from if it didn't come from you?

• (1150)

Ms. Sheila Fraser: In the course of preparing our audit reports, we do have many discussions and exchanges of draft documents and reports with the departments or agencies we're auditing. It is absolutely critical to our process to do that, because we have to ensure that the facts, as we are stating them, are correct. We also have to give an opportunity to departments to respond. When we have a recommendation in our report, there is a response from the government as to whether they agree or not with the action, and that is a really important part of doing the audit. So we need to be able to share those documents with departments, and we need to have that exchange.

I would say that generally there is never a problem with government officials, because they recognize the process and the confidentiality that has to remain around it.

We also have our suspicions about where this came from. I would be very hesitant to talk about it here, because again I have no proof of who may have spoken to the journalist, and obviously the journalist isn't going to disclose the source. But we will be speaking to people about this.

Mr. David Christopherson: One of the sources has to be somebody in government controls—it's the first place to go to. It's troublesome, given that ethics, accountability, transparency, turning government around, and cleaning government up are supposed to be among the top priorities of the new government. If they had any role whatsoever in leaking this, then they are breaking those promises, betraying their pact with the Canadian people in terms of what they said they would do when they got here.

I take this very seriously. It's clear that it's going to hurt one particular party here more than another, and I hope there are other committee members who.... I don't want to turn this into a witch hunt, but with a brand new committee, it's a big issue loaded with politics. If we're serious as a Parliament and the government is serious about doing things differently, then it has to start here. To some degree, tracking down how this happened—or at least letting people know that when you do these things we're going to sic the dogs on you and chase you—is important. Otherwise, things aren't going to change, it's going to be business as usual, and the ethics and accountability that we all want to bring here is not going to be met in the eyes of the Canadian people.

So I hope I could hear from other members from all parties that if somebody has done something he or she shouldn't have in terms of information vis-à-vis the auditor's report, then he or she needs to be held accountable. To not chase that accountability is to betray the promise that was made to the Canadian people.

Thank you, Chair.

The Chair: That's the time.

I'm going to call upon Mr. Wrzesnewskij. Eight minutes.

Mr. Borys Wrzesnewskij (Etobicoke Centre, Lib.): Thank you, Chair, and congratulations on your election.

I won't be able to be quite as lucid as Mr. Christopherson in saying how great it is to see you here and to be able to continue this very important work, but I certainly look forward to it.

I'd like to touch on a motion I have before the House of Commons stating that the government should introduce legislation allowing your offices to conduct special examinations of all Canadian airport authorities as if they are parent crown corporations, as defined in part 10 of the Financial Administration Act, and that for the purpose of the examinations, your offices have the power of an examiner, as set out in part 10.

I'd appreciate any comments you might have on this motion.

Ms. Sheila Fraser: Mr. Chair, what our mandate might or might not be is really a question for Parliament to decide. I don't have a comment.

Mr. Borys Wrzesnewskij: Thank you.

I'd like to move on. Since it's our first meeting, I'd like to reflect on some of what transpired during the last session.

One thing I found astounding as a new parliamentarian who arrived during the last Parliament was that we didn't have a Comptroller General, that this office did not exist. Even though it didn't hit the front pages of newspapers, one of the most encouraging things the last government did was establish that particular office.

• (1155)

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): I just have a small point of clarification. Wasn't it re-established?

Mr. Borys Wrzesnewskij: Actually, it was re-established. It was eliminated during the Mulroney era, and it was re-established by Prime Minister Martin.

Has there been a full rollout of that office into all the departments? I remember in the fall, when we were going through the Comptroller General's first report, it hadn't been fully established in all departments, in all the ministries, and so on. Has that in fact occurred? Would you be aware of the information on that?

Ms. Sheila Fraser: We haven't, obviously, done any work recently on how well that whole initiative is going. There was always the function of Comptroller General, but it was combined with the Treasury Board Secretariat, so there wasn't a separation of those two responsibilities. We were supportive of separating it and thought that with all the changes that were coming, be it to financial reporting, the focus on internal audit, and all the rest of it, it was good that there be a separate function established for that.

The Comptroller General indicated that he wanted to review, I think, the senior financial officers and the capacity within government. We will be making some comments on that in the report that will be coming on Tuesday, but I think on the analysis—I'm sure he would say so, too—the work is certainly not completed yet. This is not something that can be done in a matter of months, either. Looking at all of this—the qualifications, and then bringing the qualified people in to those positions—will take time, but certainly the initiative has started and we will be giving an assessment of that, again, on Tuesday.

Mr. Borys Wrzesnewskij: When Mr. St. Jean was before the committee in the fall giving his initial reports, he stated, and I'll quote: "Canada is one of three countries in the world, along with Australia and New Zealand, to have an unqualified audit opinion with regard to its financial statements. This is an achievement we can all be proud of."

Is that a statement you would concur with?

Ms. Sheila Fraser: Very much so. And we have said that in fact Canada has been a world leader in its financial reporting. Canada was one of the first countries.... Only a handful of countries actually, have adopted what we call full accrual accounting, having all the assets recorded and all the liabilities. For example, environmental liabilities are recorded. There are very few countries that actually do that. And so Canada has made significant progress in that regard, not only at the federal level but also at the provincial level, and has shown great leadership in that.

Mr. Borys Wrzesnewskij: Following up on Mr. Christopherson's concerns, you said that an examination is taking place in your department in regard to this leak that occurred to the press on a report that's to come in the future. When would you be able to provide us with your findings as to whether the leak could have come from your offices?

Ms. Sheila Fraser: I can assure you today that the leak did not come from my office. I'm absolutely convinced of that. We handle 30-some reports a year. At times some are more sensitive than others, and my staff takes great care to ensure that all the procedures around the confidentiality of reports are respected. That's sort of ingrained in the way we do business.

We have our own suspicions about how that leak occurred. Obviously I wouldn't disclose them publicly, because they have not been substantiated, and I'm not sure they could ever be substantiated, but we will be speaking to the people concerned, and hopefully it won't reoccur.

• (1200)

Mr. Borys Wrzesnewskyj: Well, I'd like to concur with Mr. Christopherson that this would be terribly unfortunate. Hopefully, these sorts of leaks.... Besides the short-term political gain that they might provide for a particular party, people cannot lose sight of what in fact this does. Especially in this committee, we're very attuned to the fact that maintaining the high regard in which your offices are held is of critical importance if we're to have accountability in government. When leaks occur from departments—they do occur—it's unfortunate. I guess it's the nature of politics sometimes here in Ottawa. But a leak that damages the Office of the Auditor General is something to be treated extremely seriously, and I would hope this committee considers how we should follow up on this, because it really undermines the work of your offices and the work we do in this committee.

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

I should point out, members, that Mr. Williams has waited nine years for his regular eight minutes. I'll now give him his eight minutes.

Mr. John Williams: Thank you, Mr. Chairman.

I thank you for giving me eight minutes, but I remember one time when I was the chair and everybody had run out of questions, and I think I had 35 minutes non-stop.

The Chair: You don't have that today.

Mr. John Williams: I don't have that today. Okay.

First let me again congratulate the Auditor General for the fine work that she does on behalf of all Canadians. We very much appreciate the work and the high credibility with which you and your office are held. While I can no longer speak on behalf of all the committee, I know that you have my assurance that my constituents really appreciate the work you do, and we look forward to that relationship with Parliament continuing. You are an officer of Parliament and you report to Parliament, and you are our eyes and ears as we keep the government focused, efficient, and productive. It's great that you're there.

I have one or two questions.

I noticed that in paragraph 12, where you report, you state: "The report on plans and priorities for 2006-07"—which is part of the government's estimates process—"will be tabled in the fall".

Mr. Chairman, why are we having this meeting today when we don't have the documents in front of us? My question is actually to you more than to the Auditor General. Perhaps you should have the steering committee contemplate having a real hearing on the estimates when we actually have the documents before us in the fall, so that we can actually put the Auditor General on the hot seat.

Will you take that under advisement?

The Chair: Again, I assume it has to do with the change in government, although the Auditor General does not speak for government nor does she intend to, but she may want to comment on why it is the fall rather than now.

Mr. John Williams: In paragraph 13 you mention that the \$3 million carry-forward from last year will be in your supplementary estimates. Am I correct in saying that all carry-forwards by all departments are in the supplementary estimates?

I remember a number of years ago that I thought it would be appropriate to have a special supplementary estimate. We as parliamentarians could see exactly what was being carried forward as a single document, and we could understand which departments are running right up to the line and which are being, in Mr. Christopherson's point, frugal and allowing the carry-forward. Do you think it would be a good idea to have a special supplementary estimate as a matter of course on the carry-forwards?

Ms. Sheila Fraser: Let me start by saying how much we have enjoyed working with Mr. Williams as chair of the committee over many years. While he may not have had his eight minutes in the rounds, it always seemed to me that the chair always managed to ask a few questions anyway.

• (1205)

Mr. John Williams: I'm sure this chair will find the same way.

Ms. Sheila Fraser: Our report on plans and priorities is done; it is complete. It is the government's decision that they will table them all together in the fall. I would suspect that maybe there are some departments that have to change their plans and priorities, but ours is done and has been for some time now. It's a question of government, and we would be glad to come back whenever it is appropriate, Chair, to discuss that.

Mr. Williams is correct that all carry-forwards are in the supplementary estimates. It's a question of timing to close off the year and then get the precise numbers. It has to go into a supplementary estimate. If it was a separate vote or, as a minimum, disclosed separately, I think it would give more clarity to parliamentarians to be able to understand what are in the supplementary estimates.

Many times there are also contract salary adjustments because of contract negotiations that have been finalized, which also appear in the supplementary estimates. If those were perhaps disclosed separately by departments, I think it would give more clarity to what members are actually voting on.

Mr. John Williams: Thank you.

It provides more information for us, but remember that we vote money on an annual basis. We don't vote money on an annual basis where if you have some left over you can carry it around and spent it another time. We've talked about that in the foundations, and the same applies to a lesser degree in the carry-forwards.

Therefore, I think that if we're going to maintain a parliamentary overview of the estimates, as we should, they should at least be identified and I think they should perhaps even be subject to their own special vote.

In paragraph 14 you talk about your expanded mandate. Do you have the resources that you're going to need to handle this? Do you think that'll be properly managed?

Ms. Sheila Fraser: As you know, our mandate was expanded last summer to include additional crown corporations. In that bill, there was also a requirement that all crown corporations have special examinations, which means there are a number of special examinations that we will have to do. That addition to our mandate might require us to come back with a request for additional funding.

We have indicated to government that we have sufficient funding for this year. As I mentioned, we will be auditing, for example, Canada Post, and the Public Sector Pension Investment Board. We'll be starting a couple of special examinations and will be better able to assess what funds we will require going forward. For that, I would expect we will probably come back with a request for funding.

As for the proposed expansion of the mandate under the Accountability Act, as I mentioned, we would expect that it would be very unusual and rare that we would actually be auditing recipients of grants, contributions, and loans. We do not at the present time foresee asking for additional money. If we were to do work like that, it would probably just displace work that we have under way.

Mr. John Williams: You mentioned in paragraph 14: "Furthermore, the proposed audits of departmental financial statements could...affect our resource requirements." Are you going to be talking about that next week in accrual accounting? When did you start doing departmental financial audits?

Ms. Sheila Fraser: We have not as yet begun auditing departmental financial statements. This is a statement of intention by the government.

Some departments have started to do assessments. We have encouraged them to do what we call readiness assessments to see if they would actually be able to produce auditable financial statements, because this has never been done before. Some departments have started on that process.

We would expect it will be two to three years—some will say longer—before we actually start to audit departmental financial statements. It's still very imprecise at this time, and we are monitoring this with great interest. When we think we are at the point of beginning audits of departments, we will obviously advise the committee.

Mr. John Williams: Thank you.

In paragraph 16, you talk about the audit following the money. You're talking about the department's establishing "systems and procedures needed to ensure that these funds are used appropriately". I don't think the Federal Accountability Act gives departments the capacity to follow the money. What kind of criteria are you looking at for departments so they can ensure that as we spend these billions of dollars in grants that it is actually being used by the recipients in a manner they said?

Ms. Sheila Fraser: Currently, I would say almost all funding agreements do have provisions whereby the department or agency can conduct an audit. It is part of current practice in most of the organizations that give grants and contributions to audit recipients to ensure they are respecting the terms and conditions of the agreements. That is a regular practice that is ongoing in many departments now.

One thing we would encourage is better evaluations of programs. I know there is a requirement being proposed in the Accountability Act that programs be evaluated every five years. That would obviously strengthen the evaluation and the assessment of these programs.

● (1210)

The Chair: That concludes round one.

We're now starting round two. This is a five-minute round.

Mr. Bains, you're on first.

Hon. Navdeep Bains: Thank you very much, Auditor General.

As a new member to this committee, my first question is really to take the big picture view.

If I recall, I believe you have a 10-year term and it's your fifth year in the term. Halfway into the mandate of your 10-year term, what are some of the challenges you see?

I know that Mr. Williams alluded to it in terms of the additional responsibilities of crown corporations. You talked about those additional responsibilities being taken into account with Bill C-43, and then there are additional responsibilities that were allocated in the Accountability Act, if it passes. I know you haven't costed it out, but are those going to put major strains on your mandate going forward? How do you plan to cope with that?

There's the big picture question and, more specifically, the costing of additional funding required for the examination of crown corporations.

Ms. Sheila Fraser: I believe we have done a preliminary estimate of the costs—which I think Mr. Wiersema is trying to find right now—for the additional crown corporations and the special exams.

We estimate that over the whole cycle, it could be \$1.7 million. This is obviously not enormous in the scale of our whole budget, and that's why we said we would be able to conduct the work during the current year. We will come back at some point in the future when we have better estimates.

Hon. Navdeep Bains: You feel you can absorb it in the current—

Ms. Sheila Fraser: We can absorb it in the current year. That was the agreement we had with government, that we could absorb it in the current year, and once we'd gone through the first year we would have a better understanding of how much effort it actually involves, and then we might come back with a request for funding.

Hon. Navdeep Bains: Would that compromise your audit? You say you can absorb it, but my understanding is that it says an increase in crown corporations. Would that compromise any of the auditing that you would be able to conduct?

Ms. Sheila Fraser: No, we are able to do that. As I mentioned, we have—presuming, of course, that it will be approved—a carry-forward amount of \$3 million. We are in a sense using that carry forward for that additional work.

We want to test our estimates this year, and if we see it is going to cost significantly more, then obviously we'll have to adjust our estimates. We will probably be coming back next year with a request for additional funding for that.

Hon. Navdeep Bains: My question is on the two types of audits that take place—one is a financial audit; the other is a performance audit. I know Mr. Fitzpatrick alluded to this earlier as well, that there seem to be some critics saying you should avoid the performance audit and really focus on the financial side of it.

Is there a reason for it in terms of the costing of that? For instance, does it cost more to do performance as opposed to financial audits? If it does, then I guess my second question, to follow up on that, is do we have any best practices that have been developed to find efficiencies in conducting performance audits?

Ms. Sheila Fraser: It's hard to make an overall estimate of financial audits because it depends very much on the organization being audited. For example, the cost of auditing the financial statements of a museum is going to be very different from auditing the financial statements of Canada Post, for example, or the Government of Canada, which is a cost of \$4 million to \$5 million. I think we put around 50,000 hours of work into auditing the financial statements of the government. So it's very specific.

Because it is an annual exercise, we are able to have efficiencies by the knowledge of the entity, by relying on systems, by documenting. We don't always re-audit everything every year. There's a sort of built-in efficiency in the financial audit, because we're there almost continuously.

However, on performance audits, we will pick areas that we may not have audited for many years. For example, in Tuesday's report we have one on the collection of accounts receivable. The last time we looked at that was over 10 years ago. Just because of the breadth of the federal government, we are unable to do a lot of performance audits and cover all the areas.

We've also tried to determine the number of performance audits that we think parliamentary committees can actually handle. In fact, this committee recommended that we perhaps look again at the number of reports we were tabling in a year. We have in fact, over the past five years, reduced the number of performance audits that we are doing. There was a point in time when we were doing 40 or more; we are now doing between 25 and 30 performance audits. We have brought the numbers down.

Performance audits are costly. I would say they would cost on average \$1 million or \$1.5 million.

Hon. Navdeep Bains: More than the financial ones?

• (1215)

Ms. Sheila Fraser: No, those are absolute numbers.

They are expensive, because in many cases we need to bring in experts to assist us, depending on the area we're looking at. They are very extensive reviews of the program or the activity concerned.

There is also a lot of time spent in the whole reporting phase on discussions of findings with departments, going back and forth. We don't have that kind of effort when we do financial audits. It's a very different kind of practice.

We would obviously be very interested if the committee has suggestions on areas they would like us to look at or areas we're looking at that they don't think would be of interest. Through the surveys we've done, I think most of our reports are in areas parliamentarians say merited attention. We try to provide recommendations where we think appropriate to improve the management of those programs.

Hon. Navdeep Bains: Thank you.

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

Mr. Sweet, five minutes.

Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC): Mr. Chairman, thank you very much.

I'd like to echo the words of some of the other parliamentarians here on the great job you've done. Not only that, but considering your ballooning mandate, I congratulate you on the frugality with which you lead your department, as I see the projections are still quite tight.

In paragraph 8, you mentioned that your special examination reports are addressed to the board of directors of corporations. Are these made public? You mentioned that only a few are put on the website, so I'm just wondering.

Ms. Sheila Fraser: The previous government indicated they were going to require all special examination reports to be made public. That would have been about a year and a half ago. Before that, they were not required to be made public. Many did voluntarily, and I think the practice now is that most, if not all, are posting them on their websites.

Mr. David Sweet: I have deep concerns, as well as my colleagues have, about the headlines today, and I don't like the implication of any partisan reason why that happened. I am concerned, though, to find out what the root of that would be.

How many outside stakeholders would there be involved, outside of the government—printers or anyone involved in the development of these reports?

Ms. Sheila Fraser: Obviously there are printers. The report went to print probably a month or more ago—three to four weeks ago—but again, I would be very surprised, given the comments that were in the report; I do not believe a printer or a contractor would have leaked that.

Mr. David Sweet: Are confidentiality agreements signed for a report like this with anybody who is involved in the publication of it?

Ms. Sheila Fraser: I'm not sure. I would—

Mr. John Wiersema (Deputy Auditor General, Office of the Auditor General of Canada): I would have to verify, but I suspect, Mr. Chairman, the contract with the printers would provide for confidentiality, and it's part of our normal procedures with the departments with whom we operate. In the covering letters we attach to the reports when we send them over, we remind the departments that those reports are confidential until they're tabled in Parliament.

● (1220)

Mr. David Sweet: And I'm new as well, so this is an educational process for me. I noticed on page 8 you mention you are fully funded by the federal government, but I noticed in your report on page 43 you have accounts receivable.

Now you've got items coming from the consolidated revenue fund, but then there are accounts receivable. Is this the cost recovery on UN agencies, etc., that you mention?

Ms. Sheila Fraser: Yes. We bill the UN agencies for the services we provide. I suspect that's probably, in part... I'll ask my comptroller to provide the response.

Mr. Robert D'Aoust (Comptroller, Office of the Auditor General of Canada): If I may, the accounts receivable are mainly composed of amounts to be reserved from Treasury Board Secretariat for overpayment of the employee benefit plan. There are also prepaid expenses incorporated in those receivables.

Mr. David Sweet: Okay, so they don't include cost recovery—

Mr. Robert D'Aoust: They would, but it's minor. It's mostly related to amounts recoverable from TBS for the employee benefit plan.

Mr. David Sweet: I have one last thing, if I still have a moment. A colleague brought up the airport, and another concern I have would be the CATSA organization security. Has a performance audit already been done on that organization?

Ms. Sheila Fraser: That is an interesting question. We are the auditors of CATSA, so we audit the annual financial statements, and there is a special exam currently under way that we will be completing by the end of the summer. So the special examination is under way as we speak.

Mr. David Sweet: Does that have a performance component to it, given that it's our security organization?

Ms. Sheila Fraser: Yes. Essentially special examinations are like a broad-scope performance audit of the whole crown corporation, and we actually have to give an opinion on whether there are any significant deficiencies in its management. So we will be looking at all the significant management areas of CATSA in that special exam.

Mr. David Sweet: Thank you very much.

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

[Translation]

Mr. Lévesque, for five minutes.

Mr. Yvon Lévesque: Ms. Fraser, it's an honour for me to speak to you and your associates, those who are here and those who are back in their offices. I must tell you that my wife does not generally hold Members of Parliament in high regard. The only time she envies me is when I get an opportunity to speak to prominent people like yourself or Justice Gomery.

In your Performance Report for 2004-2005, you noted that departments had implemented only 44 per cent of the recommendations made by your Office in the year 2000.

How do you determine if a recommendation has been implemented? Are you talking about all of the recommendations put forward or merely those that were accepted by departments and agencies?

Ms. Sheila Fraser: Thank you, Mr. Chairman. And thank you, Mr. Lévesque, for your kind words. It's very encouraging when parliamentarians appreciate the work we do.

With respect to recommendations, each year we do a follow up with departments and agencies. We do a status report on the implementation of the recommendations put forward four years earlier. We ask the department to provide us with a follow-up report or to explain what steps it has taken, and the team responsible for this department assesses the credibility of the response and determines if these are satisfactory or not.

In addition, each year, the Office releases a Status Report in which we review our audits of certain areas and judge whether or not satisfactory progress has been achieved on the recommendations made previously. The 2006 Status Report will be released next week.

We use both the responses provided by the departments and the Status Report to compile our statistics.

I also have to say that the 44 per cent compliance rate is not acceptable to us. We've launched an initiative with the Office of the Comptroller General to find out why departments are not following through with the recommendations. Yet, all of the departments said they agreed with the recommendations when they were first made.

On the other hand, the Office has come to realize that it needs to improve the quality of the recommendations to make them somewhat clearer. This would make it easier to judge whether any progress has been made. Occasionally, we felt that our recommendations were too general. Efforts are therefore being made on both sides, in the hope that some improvement will be noted.

Lastly, the committee has been most helpful to us. In recent years, it has called on departments to produce an action plan identifying the parties responsible for making improvements as well as target implementation dates. We rely on the action plan to ascertain when we can re-audit the department. I even think these plans make the system more rigorous. The committee has therefore done us a great service in recent years by requiring these action plans.

● (1225)

Mr. Yvon Lévesque: Since you're trying to ascertain why the implementation rate is so low, do you have the authority to take steps to ensure that more of your recommendations are in fact implemented?

Ms. Sheila Fraser: I only have the authority to make recommendations and to report on the progress made on the implementation front. Sometimes, the mere fact of reporting little progress can spur departments into action.

Often, when we arrive to start our audit, we get the feeling that departments want to receive a good report card when the process is over. They are beginning to take a look at problem areas.

Mr. Yvon Lévesque: I want to remind you at this time that you are five years into your ten-year mandate.

When you were first appointed, you identified five areas in which you wanted to effect positive changes. Can you speak to us briefly about these areas and give us a status report on the progress achieved? Can you also tell us how you plan to divide your budget among each of these sectors?

Ms. Sheila Fraser: The first of the five priorities was accountability to Parliament, a fundamental consideration for an Auditor General. Our Office has conducted a number of audits and studies and intends to continue doing so.

Another priority of ours was ensuring an efficient Public Service. We look into such issues as human resources management and technologies management. Our efforts in this area are ongoing.

Another area of concern is public health and safety. We've conducted a number of audits on national security, particularly in the wake of 9/11. A considerable amount of money has been invested in this activity.

We're continuing to carry out a series of health audits involving Health Canada and the food protection service. Additional audits will be carried out over the course of the next few years.

Another priority was Heritage. We've conducted an audit on the management of historical and other sites. This was a first for a legislative auditor. We foresee conducting more in the future.

The last priority identified was aboriginal issues. We've conducted an average of two audits per year in this sector.

At the Office, they're already starting to talk about the end of my mandate, yet it seems I just took up the position. We plan to provide a report of sorts on these matters as the end of my mandate nears. We're also planning audits to address questions such as the ones raised by Mr. Lévesque.

[English]

The Chair: *Merci beaucoup, Monsieur Lévesque.*

Mr. Casey is next for five minutes.

● (1230)

Mr. Bill Casey (Cumberland—Colchester—Musquodoboit Valley, CPC): Thank you very much.

It's a pleasure to have you here today. I am a substitute, so this is a treat for me. I didn't expect to have you here.

I want to raise one particular case with you that you and I have had a little bit of correspondence on. It's the Digby wharf in Digby, Nova Scotia, close to where I live.

In 1999, the Department of Transport was going through a divestiture process. They turned over a wharf in Digby, which is used by 40 fishermen, to a not-for-profit organization set up by a former Department of Fisheries and Oceans employee. The minister

wrote him a cheque for \$3,064,272.26. They just sent him the cheque—no accountability.

On the day he got the cheque, he signed it over to a private engineering firm. On the same day, or thereabouts, the private engineering firm hired all the directors of the not-for-profit society, including the president, his wife, and his three friends. The money is now all gone, the wharf is falling down and is in really sad shape—half the wharf is closed.

I wrote to you on July 27, 2001, and you wrote me back right away on August 1 and said the internal audit did show issues of concern, but it was part of a legal process. I wrote again on February 21, 2002, and you wrote back on March 5, 2002, and again said there were concerns there, but it was part of the legal process, and you must respect the legal process.

Well, the legal process has just been completed, so now I'd like you to unleash the auditors. I'd like you to audit this transaction, follow the money, and see if you can find out where the money went, because nobody knows where the money went.

The minister wrote me a letter and said the money was to go to capital expenditures on the wharf and maintenance. It didn't. The wharf is literally closed. Half of it is closed now because it has fallen in and is unsafe. There's been a health and safety report on it that has condemned part of it.

This contract that the Department of Transport had with this not-for-profit society absolutely guaranteed no accountability. Once the money left the not-for-profit society, it went to the private sector. There are allegations that they used it to do a feasibility study on a tour boat in another harbour on the other side of the province, and all kinds of things.

It's a very intriguing story, but anyway, it's time somebody got to the bottom of the Digby wharf. I hope you will unleash the auditors.

In both of your replies to me, you said you'd continue to monitor the file as soon as the legal process was over. I would just like to make the request now that you take this on, to see if you can find out where the money went, and see if there's any way to get the money back for the people of Digby who need the wharf. Also, analyze the transaction to make sure that never ever happens again. Deal or no deal?

Ms. Sheila Fraser: Thank you, Chair.

Obviously I'll have to go back and talk to my people, because we'll have to look at what the contracts were. I'm not sure we would have access, quite frankly, to go beyond that. Let me look at it, and I will once again send you a letter saying what we can or cannot do.

Some hon. members: Oh, oh!

Mr. Bill Casey: And then you'll monitor the situation.

For sure—and it's not hard, really—you can find out where the government's weakness was. The government of the day was so weak; even before they transferred the money, some of us asked the minister not to go ahead with the deal, but he did anyway. Then the money just evaporated, and then there is no accountability.

For sure, any time the federal government writes a cheque to a person or a not-for-profit society, or anything else, there should be guaranteed accountability. This contract guaranteed that there was none; it just erased the accountability trail. It was a defect in the way the government operated. But if you can go further and find out where the money went, we'd all be very grateful. If you can get some of the money back, that would be even better.

That's the extent of my questioning. I appreciate your monitoring of this problem over the last six years. I look forward to further monitoring.

Thank you.

The Chair: Thank you.

Mr. Christopherson.

Mr. David Christopherson: Thank you, Chair.

Well, I don't know Mr. Casey, but I certainly have learned he is tenacious.

I want to raise something, Chair, that is possibly very problematic. I've got a little birdie telling me that there are a number of items coming up in your report that is about to be tabled that are actually going to be referred from this committee to another committee. The rumour mill has it being the government operations committee, but it could be another committee. This is very problematic if it's true; if not, then fine, and I'll shut this down and acknowledge that it's wrong. But until I hear that, it's problematic on a number of fronts, the first being that this committee is custom structured to ensure the greatest amount of oversight; i.e., the chair, by the Standing Orders, has to be an opposition member. This is the only committee where that's the case.

•(1235)

The Chair: No.

Mr. David Christopherson: I'm sorry, that's not the only committee?

The Chair: No, there are other committees.

Mr. David Christopherson: All right, but it is specifically mandated here for this committee because of the nature of the work. I think that's fair to say.

So that's problematic.

The second one is that in the incident case at the last steering committee meeting, we actually discussed—and I know this, because I raised it—waiting until we actually got the initial report so that we could have some sense of the substance that was in it, and then determine which ones we wanted to.... For new members, we'll pick two or three chapters, or maybe more, and we'll go in depth on those and invite ministry representatives—maybe the minister—and get right into it. So we decided we'd wait until we had the initial report, so we'd know what the big issues were.

So hearing some possibility of this being moved out of here, I'd like to ask the Auditor General, the chair, and members of the committee if anybody has heard anything about this. If not, I'd still like to hear how the Auditor General feels about the possibility of some of the functions of this committee going somewhere else.

Ms. Sheila Fraser: All I can say, Chair, is that it has been very common practice in the past that even.... I guess I should start by saying that all of our reports are automatically referred to the public accounts committee, so this committee is the committee that we view as being the one we work with primarily. But we do advise other committees of audits we have done that might be of interest to them or that fall within the domain of the departments they are responsible for. It has been very common practice for other committees to also review reports; so it's not, in most case, "instead of" the public accounts committee, but in addition to public accounts.

Mr. David Christopherson: That would be my question, Madam Fraser. If it is in addition to the committee, I don't see that as a problem, but if somebody were to suggest that it would be instead of it, would that be problematic?

Ms. Sheila Fraser: We have not received any indication that other committees will be reviewing reports instead of public accounts.

Mr. David Christopherson: Okay, that's what I wanted to clarify. That's fine. I hope there is no truth to it and that this will be the end of that. If so, then—

The Chair: Mr. Christopherson, if I could address that—and I'll not use your time—I am not aware of any standing order or other authority that would take business away from the committee. Whatever we want to do, we're entitled to do, so it could be a situation where another committee of the House has a parallel process and wants to create a certain report, or a certain aspect of the report. But again, nobody is going to tell us that we cannot investigate any chapter that comes onto our agenda.

Mr. David Christopherson: Can I ask about a procedure then, Chair?

For that to happen, would it be a permissive thing from this committee, or can any committee see a report that's here and say they're going to look at it also, regardless of what we're doing? Is that correct?

The Chair: They can do that, yes.

Mr. David Christopherson: Okay, good. I hope that's the end of it.

If I have any time left, I have one question. We had talked about reducing the number of reports you bring forward—and I believe it was the former chair who raised this, but I could be wrong—simply because we were starting to become overwhelmed. Again, it was a non-partisan committee, and some members felt we weren't doing justice to the reports because there was an avalanche of them. If you recall, it was getting a little silly. I think we were backed up a couple of calendar years, which was partly understandable because of the minority elections we don't normally have. But I wonder what the status of that is. I can't recall. Did we make a final determination? If not, where are we? Or at least, where were our deliberations in the 38th Parliament?

Ms. Sheila Fraser: Perhaps I could provide part of an answer. For example, in the current year, because of the election, we had planned to table a report in February and then another in April. We have obviously readjusted our schedule because we thought that for you to arrive and have two reports would be a bit much. Essentially we moved the February report to May and the work in April into the fall. Other work has moved out, so we adjusted our schedule for that as well.

We have not looked at reducing the overall number of reports because over the years we reduced them from over 40 to 30 or 25. Currently we are looking at different reporting options, which we are studying in the office. We would appreciate being able to meet either the steering committee or perhaps selected members of this committee to get views on the various options we are considering. So perhaps we will be coming back to discuss some of these options with the chair and the steering committee to get your input.

• (1240)

The Chair: Thank you.

Your time is up, Mr. Christopherson.

Mrs. Ratansi, five minutes.

Ms. Yasmin Ratansi: Thank you, Mr. Chair.

I'll be asking questions because I'm new here.

It says here that the role of the House's committee on public accounts occupies a central position in accountability. Being an accountant and auditor by trade, I seek your guidance on some issues.

I see that lots of checks and balances were put in place through Bill C-43, that you had an expanded mandate, that the Comptroller General was a re-establishment, and that internal audit departments were there. Then I looked at the peer review of the performance audits you did—and you got accolades for that—and your financial audits.

The reason I give you this is that I want a perspective. When you give your audit opinion, do you feel that your audit is taken out of context and sensationalized? This goes back to my question of materiality: within the concept of \$186 billion, what is material? Being in the province of Ontario, I used to say to the provincial auditor, what is material? Not a single taxpayer dollar should go astray, but what is materiality?

The premise of the introduction of the Federal Accountability Act was that somehow we are a very corrupt country—it reminded me of third world banana republics, and I thought, are we really?—and that the legislation being brought forward is the most anti-corrupt legislation.

So number one, what is materiality? Number two, is your report being sensationalized? And number three, are we really a corrupt nation? That goes against the grain of what Justice Gomery said.

Ms. Sheila Fraser: The concept of materiality is one that is used largely for financial statement audits, and it assists an auditor in making a judgment when an auditor has to give the opinion on the financial statements, as I'm sure the member will know.

For example, when we do the audit of the financial statements of the Government of Canada, our materiality is \$1 billion, which means that if there is an error in the financial statement of \$1 million, we will not qualify the opinion. If there is an error of \$1.5 billion, we will qualify. So it assists the auditor in giving the opinion and to say what extent of testing we have to do and when we would actually qualify the financial statements.

When we get to the performance audit, the question of materiality—I don't want to say it doesn't exist—is very different. It's more a question of what is significant, what is important in the management of that program. There are many areas that actually can't be quantified in terms of dollars. In many of the audits, we will say that there aren't sufficient performance measures, that departments don't know what they're achieving, that there isn't a financial notion attached to that.

In some of the recent audits we've done, we've talked, for example, in regard to the RCMP, about staffing problems and recruiting problems. It's not always related to dollars. So the performance audit has a different notion.

Obviously there have been certain audits that have gotten a lot of public attention. In my five years, there have probably been three that have received a significant amount of public attention and attention from the media. That has to be put into perspective, because over that period of time we've probably issued 100 or 150 performance audits. Because three have become *causes célèbres*, is that unusual or not? I can't really judge that. I believe, though, in all those cases, the issues were serious, and we can't always judge the issues by the amount of money involved. It goes beyond money.

I've had people question, saying, well, the sponsorship program was only \$100 million. I say, yes, but the issues in the sponsorship program weren't about the money but about what was done and how that was allowed to occur. So we can't always equate everything in terms of money.

I do agree with you that these cases are, for the most part, the exceptions in our management. We have said in numerous reports that we should be proud of the public service we have; that the vast majority of people are ethical, come to work each day with great integrity, and work very hard for their fellow citizens; and that we should not generalize these cases to all the public service. They really are exceptional cases, and that's perhaps why they receive so much attention, because they are so exceptional.

• (1245)

The Chair: Your time is up.

Mr. Lake, you have five minutes.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

I just want to start by saying I'm new to Parliament and new to this committee as well. The main reason I got involved in the first place is my concern about stewardship over tax dollars, so I want to join the others in thanking you for the very important work you do.

In regard to performance audits, you say you conduct about 30 of those per year. I'm just curious, being new, how do you decide which performance audits to do? You used to do more, and now you do less. There has to be a priority. How do you make those decisions?

Ms. Sheila Fraser: We go through an analysis of the risks of the department. It's an exercise that we conduct probably about every four or five years in the departments, presuming that there aren't major changes, obviously, in their mandates and their organization. It is a very extensive exercise, where we interview people within the department, but also stakeholders outside as well, to try to assess what are the major risks to them to achieving their objectives. Then we determine which ones of those are subject to audit, because there could be some that are policy-related issues on which we can't comment. Then we develop a plan for three to five years.

The selection of the departments and agencies that we will audit is largely dependent on the overall risk involved, and as well the... [*Inaudible—Editor*]. So for departments like the Department of National Defence, there will always be audits going on in there because of the scope and the size of it. Other departments, like the Department of Justice, we will maybe only audit once in 10 years. So we have a bit of a schedule of rotation as well based on how often we think we should be in certain departments. There is, of course, the work of the Commissioner of the Environment and Sustainable Development, which is part of the Office of the Auditor General, and there is usually a minimum of six to seven audits a year that have more of an environmental focus.

So we try to map it all out. We have a planning session every year where we put up the proposed audits, and then we try to see if there are themes, for example, that are coming out of that. We'll go back to the focus areas and look at that. Then we do our planning for the next... We usually have a plan for about three years out. It takes us anywhere from 12 to 18 months to do an audit. So the audits that we will be reporting, say, next November will be starting shortly. So it's a long process.

Mr. Mike Lake: I have, I guess, a curiosity question. Do you receive any kind of information, anonymous or otherwise, from people from within departments, asking you to look into certain situations? If you do, if the answer is yes to that, do you have any kind of mechanism to act if you see a pattern within a department? Is this a way that might influence?

Ms. Sheila Fraser: Yes. Occasionally we do get letters—the famous brown envelopes—from people within departments but also at times from the public or other people. I wouldn't say we get an enormous amount of them, but we do get them.

We have a group of forensic auditors. It is not large; probably there are five to ten people who work in forensic audit. They will conduct the investigations. If we see that there is something untoward, it will generally show up in a report to Parliament.

• (1250)

Mr. Mike Lake: How long does it take?

Ms. Sheila Fraser: It depends. We try to do these things fairly expeditiously, but at times if we see a situation that is really serious, we will in fact often refer the file to the RCMP. So depending on all of those procedures, and how long it takes to interview people concerned, it could take the normal time of our performance audits—a year to a year and a half.

Mr. Mike Lake: I have a quick question about special examinations. You say that you do it about every five years or so. Do you think that timeframe works for you?

Ms. Sheila Fraser: That is required by the Financial Administration Act, so it is the law that requires special exams to be done every five years.

We have suggested to government that this timeframe could be extended. We would actually suggest that it be perhaps eight years, but with the discretion to do it earlier, because some—I would say most—of the crown corporations are very well managed, and we should be doing these more on a bit of a risk basis. So for the ones where we have noted problems or deficiencies, we should perhaps be going in every four or five years. For others where there are no deficiencies and we see that the management is working well, we could extend the timeline.

We suggested that, actually, when government was trying to find ways of having economies. We said one way for us to actually do less work would be to extend that time period out. So that was a suggestion we made, I think two years or so ago.

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

Members, I have one quick question of the Auditor General, and I have a motion and a piece of information.

First for the question. Madam Auditor, one of the major concerns this committee's had over the last number of years, and it's a major concern of yours, was the transfer by the government to foundations at the end of the fiscal year, which did two things: it distorted the actual financial condition of the public statements, and it actually put funds outside the arm of Parliament. I noticed in the recent transfer that there were transfers to trust accounts at the end of this fiscal year, March 31, 2006. That of course does not put the money outside the arm of Parliament, but it does, in my view anyway, distort the actual financial conditions being published in published statements of government.

Do you have any comment on that actual transfer?

Ms. Sheila Fraser: We will obviously be auditing that as part of the public accounts audit this summer, but those trust accounts were created under the budget bill, Bill C-48, which was voted on and passed, obviously, by Parliament, whereby if there were a surplus at the end of the year, the moneys could be used for certain specified activities. I think housing was in there, and medical, and aboriginal issues. Our understanding is that the trust funds have been set up, some at least, for the benefit of provinces, and the moneys will be moved into these trust funds once the final figures are known for the year.

We have looked at this, at least preliminarily, and if there is a transfer from the federal government to the provincial government and it meets certain conditions, it will be recorded as an expense as at March 2006.

The Chair: Bill C-48. Is that the first time that was ever done by government?

Ms. Sheila Fraser: Yes.

Chair—my deputy was just mentioning—as you know, we were given access to the foundations, but there is also a new accounting rule that came into effect this past year, whereby it defined which entities should be in the government's summary financial statements. And we have had, I would say, vigorous discussions with the government on this, and four of the foundations will now be included in the financial statements of the federal government.

The Chair: Just before we put the motion to the assembly, colleagues, I had a meeting yesterday morning with the Auditor General, and we have proposed having a dinner with the new members of the committee, with the total committee, and her. We were going to suggest Monday, May 29, or Tuesday, May 30, if that's fine—

• (1255)

Ms. Sheila Fraser: That's fine.

The Chair: —in the Parliamentary Restaurant, in one of the side rooms.

What date would be preferable to the committee? Tuesday? Tuesday is better than Monday?

Mr. Mike Lake: Monday's better.

The Chair: Okay, we may not get everyone, but we'll send out a notice. If you want to put that tentatively in your agenda,

colleagues—Monday, May 29. That's the first Monday after the break week.

Mr. John Williams: I do note, Mr. Chairman, that on Tuesday the Canadian Vintners Association is having a reception.

The Chair: We do not want to compete with the vintners.

The last items, colleagues, to come before this meeting are the two motions at the very end of the agenda, which are of course dealing with the formal estimates.

First, shall vote 20 under Finance carry? The chair will entertain a motion for that particular motion.

Mr. Christopherson.

FINANCE

Auditor General

Vote 20—Program expenditures.....\$64,920,000

(Vote 20 agreed to)

The Chair: The last motion, which is procedural only, is shall the chair report vote 20 under Finance, less the amount voted in interim supply, to the House? The chair will entertain a motion to that effect.

Mr. Lévesque.

(Motion agreed to)

The Chair: Is there any new business?

Mr. Christopherson.

Mr. David Christopherson: One item, and I acknowledge that I'm trying to slip something in that I couldn't during my time, is the issue of the number of reports.

You were looking at a round table to talk about the recommendations vis-à-vis boosting the resources of the committee and our workload. That might be a good place to put that item, because one of the reasons we even considered doing fewer reports was simply that we couldn't do justice to the ones we had. If there's an increase in the resources available, we may not need to do that. In fact, we might be able to do more.

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

The meeting is adjourned.

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