



House of Commons
CANADA

Standing Committee on Public Accounts

PACP • NUMBER 024 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, October 31, 2006

—
Chair

The Honourable Shawn Murphy

Also available on the Parliament of Canada Web Site at the following address:

<http://www.parl.gc.ca>

Standing Committee on Public Accounts

Tuesday, October 31, 2006

• (1520)

[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): I would like to formally call the meeting to order. *Bienvenue à tous*. I welcome everyone here.

Colleagues, this meeting is a little disjointed; we're going to divide it in two. Originally we had scheduled the Auditor General and her staff and also the Secretary of the Treasury Board, Mr. Wayne Wouters. Mr. Wayne Wouters is unable to attend today so we had to break it in two. And this, as everyone is aware, is the first meeting of our study into the roles and responsibilities of the Treasury Board.

I'll give you a little background on this, if I may. This whole issue, over the last 24 months, I suppose, was subject to much comment when we had the sponsorship issue, Gomery, and it's been identified by a number of people as a concern. In the words of Justice Gomery, it was a grave "malaise", if not a "breakdown" in the relationship of financial management and government. And of course the main actors are the Treasury Board, the Office of the Auditor General, and the public accounts committee. When you compare the Treasury Board and the public accounts committee, basically we have the same roles. We are responsible for accountability to Parliament, whereas the Treasury Board is responsible to the executive.

Again, as Justice Gomery said, we must engage in more dialogue and not confrontation. In the last number of months there have been a number of developments in this issue. Of course, we have the tabling of the Federal Accountability Act, which mandates that deputy ministers in the future will appear before this committee accountable for the management of their respective departments, which I think is a fundamental change in the way Ottawa operates. We have again the re-establishment of the Office of the Comptroller General. That was originally a position here in the public service. It was abolished some years ago, but it was reinstated in 2004. Of course, Mr. St-Jean will be a major witness and a major player in this study.

In that regard, the analysts have prepared and circulated a binder for your help and assistance. I sense and I view this study to be very positive. I think it's going to have positive outcomes. We're not criticizing or complaining to anyone right now. We just want to make the system works better. That's why we're all here.

Without saying anything further, I'm just going to turn the floor over to Mrs. Fraser.

Welcome, Mr. Timmins and Mr. Smith, who have been here many times before. I want to thank you for coming. I want to thank you for

assisting this committee in this particular study, and I invite your opening comments.

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

We are very pleased to be here today and would like to thank you for this opportunity to discuss our March 2004 report entitled "Managing Government: A Study of the Role of the Treasury Board and its Secretariat".

Accompanying me today are Rick Smith, the Assistant Auditor General who was responsible for this study, and Doug Timmins, the Assistant Auditor General who leads our audit work at the Treasury Board Secretariat.

We conducted this study to provide Parliament with information on the key challenges the Treasury Board and its secretariat face in developing, refining, and implementing the federal government's management agenda. This study was a first step in the development of a longer-term audit plan for the office, covering key elements of the federal government's management agenda and the Treasury Board's role in them.

• (1525)

[Translation]

Please note that the study was completed early in 2004 and has not been updated to reflect subsequent events. For example, the following changes were made: the Treasury Board Secretariat established a separate Comptroller General's office to help ensure that departments comply with the Board's expenditure and stewardship policies, and to provide functional direction to department comptrollers. A new agency for public service human resources management will work to improve human resources management in the public service and to implement the government's modernization initiative; in addition, the Federal Accountability Act and action plan were introduced.

However, I believe that the study is still useful, particularly in terms of providing an overview of the major issues that the committee is currently addressing, particularly in the area of money management.

As committee members know, the Treasury Board is a Cabinet committee responsible for overall management of the federal government's finances, human resources and administrative activities. The Treasury Board is supported by its administrative arm, the Treasury Board Secretariat.

The Treasury Board establishes policies and standards for management practices in a wide range of areas and oversees their implementation across the federal government. Its original role was to assist ministers in the overall financial control of the federal government, and this remains one of its key roles today.

[English]

The Treasury Board is responsible for preparing the government's expenditure budget, also known as the estimates, and for monitoring program spending in departments. The secretariat supports the Treasury Board's role by establishing policies and standards to improve financial management practices in departments and agencies, by managing the government-wide implementation of them, by allocating and reallocating resources, by monitoring an analysis of the management of resources on a program, departmental, and sectoral basis, by ensuring that resource management is integrated with the government's decision-making and priority-setting processes, and, finally, by reporting on government expenditures.

These are not simple tasks. As the study notes, the federal government is the largest single enterprise in the country. The board's and the secretariat's responsibilities affect the activities of more than 20 federal departments and some 100 other organizations, including agencies, crown corporations, and tribunals. These organizations differ in terms of mandate, organizational structure, and relationship to the minister. This adds to the complexity of managing the government as a whole.

Based on the large body of work done by the office on management in government, we identified a number of significant challenges facing the board and the secretariat as they do their jobs. Most of these challenges are related to the following four identified roles, and some are more critical for one or more of the roles: being a general manager; managing money; managing people; managing information.

The first challenge is what we have characterized as setting the tone from the top. Traditionally, senior people paid more attention to policy than to management issues, delegating the latter to specialists, but clear, visible, and active support among ministers, senior officials, and parliamentarians is critical for translating a management agenda into concrete results.

The second involves the Treasury Board's mandate and capacity. The Treasury Board has a broad range of responsibilities, and its secretariat needs knowledgeable and experienced staff for the effective review and challenge of department submissions; it also needs enough staff to manage the overall agenda.

The issue of departmental capacity is third. Departments need the resources and tools to meet their management responsibilities. We have commented in several reports that resource issues can limit a department's ability to respond fully to certain aspects of the government's management agenda; these issues are particularly important in the area of financial management.

Building and maintaining effective working relationships with departments is the fourth challenge. Departments and agencies need to know where the government is going and how all the pieces fit together.

The fifth challenge is maintaining momentum. The broad picture that emerges from our historical analysis of the management agenda is one of an implementation gap, a failure to fully translate good ideas into the desired improvements in management. As a result, there is a degree of cynicism among some public servants about the agenda's chances for success.

• (1530)

[Translation]

Strong leadership is needed to maintain momentum. For each reform initiative, the government needs to pay attention to the full management cycle—strategic direction, planning, implementation, monitoring and improving—over an extended period for the management program is to realize its full potential.

The final challenge identified is making the best possible use of the tool kit. The Treasury Board relies on a wide range of policies to set out management expectations. We cited a study by the Secretariat that identified 340 policy instruments in effect. They ranged from instructions on completing financial reports to regulations related to various acts of Parliament. The challenge is to determine what works best under what circumstances.

Mr. Chairman, I do know that when we released our Report, the Secretariat had a number of initiatives underway in each of these areas. And the management agenda has continued to evolve with the introduction of the Federal Accountability Act and Action Plan. The committee may be interested in taking stock of the progress made in dealing with the challenges that we identified.

Finally Mr. Chairman, my next audit report will include audits of the expenditure management system, both in central government agencies and in a number of departments. I am convinced that our findings will be of interest to the committee and I look forward to discussing them with you.

Mr. Chairman, that concludes my opening statement. My colleagues and I would be pleased to answer any questions from committee members.

[English]

The Chair: Thank you very much, Ms. Fraser.

There are a couple of points I want to bring out. The study Ms. Fraser referred to, of course, is set out at tab 3 of the binder that has been circulated. I should point out, because it's a disjointed session, that we're going to adjourn at approximately 4:20 to go back and do the conclusion of some of the reports.

I'm going to start the first round. Of course, we're not going to get beyond one round, I don't think.

I should point out that the caucuses can deliberate among themselves. You may want to share your time.

Ms. Ratansi, for eight minutes.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Okay. I might not take my eight minutes, but you may use that for somebody else.

Madam Fraser, thank you for being here.

As an accountant and as someone who has worked in the risk management area in the provincial government, I have always been fascinated by the pendulum swing between the centralization and decentralization concept, especially on the establishment of the Comptroller General, then the decentralization, and so on. It has happened in provincial governments as well. I find that the internal audit department, if it is centralized, really contributes a lot, if there is the will in government to listen to internal audit, to avoid Enron-type problems.

What are your thoughts on centralization versus decentralization, and what are your thoughts on some of the challenges facing financial management in government?

Ms. Sheila Fraser: Thank you.

I think the member is correct that the pendulum seems to swing back and forth between decentralization and centralization. If we looked at this over time, we would probably have seen several swings in that area.

I don't think there's any one right response. It depends very much on the subject matter and on the particular circumstances. Given the complexity and the size of the federal government, I personally think it would be very difficult to centralize things. We're talking about enterprises that spend some \$200 billion a year. Departments are very large and complex, in and of themselves, so departments have to have responsibility for financial management.

Where I think there needs to be more clarity, though, and we see it very often in our audits, is with regard to the responsibility of the departments and the responsibility of the Treasury Board Secretariat. Quite often when we see a situation where improvements are needed, you will see the departments indicating that Treasury Board Secretariat guidance isn't sufficient, or they haven't been told what to do, and the Treasury Board will say, well, it's the departments that should have been managing that, and there's a bit of finger pointing that goes on.

So I think there needs to be better clarity on what the deputy ministers' responsibilities are. The Treasury Board has given itself or defined its role as being a management board: setting policy. We would have an expectation that it would also know if that policy is working well, and if it is not working well, then what has to be done to correct it. So there should be some monitoring.

At one point, the Treasury Board had an activity or an agenda that they were calling "active monitoring" in departments of the various financial management policies and others. I'm not quite sure where that is at any more. That might be something to discuss with them. How do they ensure that the policies they are setting out are in fact being respected and followed by the departments? So I think there does need to be clarity, and that might be something the committee would wish to look at.

On the issue of internal audits specifically, I know we have had some disagreements with committee recommendations in the past, as the former chair will know, where we believe that the internal audit is really a management tool and that the internal audit should report to the deputy minister of departments. That said, we do support the initiative by the Comptroller General to set up a centre of excellence for internal audit, which would ensure that there be proper standards,

that they have some say in the recruitment of the people, and that they would also carry out internal audit for the smaller organizations, where it is not economically viable for them to have their own internal audit function.

There is a bit of a mix between centralized and decentralized, but for the larger departments, we believe the deputy ministers of those departments should have an internal audit function and that should be part of their management of that department.

• (1535)

Ms. Yasmin Ratansi: If I look at the government, which is a huge body—I mean, it beats any Standard and Poor's company, it's so huge—and if I look at what departments can or can't do, having come from that area, departments don't generally hire the accounting types, the accredited accountants. Therefore, our external auditor, the provincial auditor, always used to have problems, because the provincial auditors used to say, well, in certain remote areas, there's nobody there. Therefore, the Comptroller General, as a body that looks after who gets hired...wouldn't you say that would really help the professional...? If you're looking at figures that come from the department, and you have rely on it, how would you balance that, especially with the lack of competencies there? It is the core competencies that are missing.

Ms. Sheila Fraser: That's an excellent point. We've raised that, actually, in several of the audits we've done over the years. In the federal government there are what is known as senior financial officers in the departments, and we were very concerned. I think our first audit was about four years ago when we raised the issue that there were very few senior financial officers who had what we would consider financial expertise. We looked for either some accounting designation, an MBA—there were very, very few. I think actually at the ADM level there were only two in all of the federal government. Even in any large private sector corporation, there would be more than two in an accounting shop.

The Comptroller General position has been created since that report, and we have noted an increase. This has been a focus, and the government has worked very hard to try to increase that, so there has been improvement in that area. There are 16 of 22 senior financial officers who have a professional accounting designation, so there has been, I would say, very good improvement in that area, and the Comptroller General does now play a role in the hiring of those people. So that is an area where there has been improvement, but there are still overall—and I think the Comptroller General would agree—not enough people with financial expertise, particularly when the government has announced that it wants to move to auditable financial statements in departments. It's going to require more expertise and more capacity.

• (1540)

Ms. Yasmin Ratansi: Thank you.

I have one minute, if you want.

The Chair: Does anyone want to conclude? There's one minute left.

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): Continuing with the Comptroller General's office, the various departments where we now have his officials working...we have a spectrum of different types of departments. Are we trying to standardize the reporting methods throughout the departments so that there is a continuous flow of information on a regular basis? For instance, if there's reporting that the comptroller's officers do, is there a timeframe, i.e., every department would have thirteen four-week periods in the year, something of that nature, or is that sort of standardization still in process because it is a relatively new office?

Ms. Sheila Fraser: Let me clarify that. While the position of Comptroller General as a distinct position is relatively new, there has always been a Comptroller General function; it was the Secretary of the Treasury Board who was also the Comptroller General. What happened was they divided those two responsibilities. So there has always been a central function that prepared, if you will, the financial statements of the government and collected the data from the various government departments.

I believe they have an accounting manual, and I believe they are all on the same accounting periods, and they use the same standards of accounting within government, based on this Treasury Board....

Mr. Timmins might add a few more comments.

Mr. Doug Timmins (Assistant Auditor General, Office of the Auditor General of Canada): There are seven different financial systems that could be used in the government in various departments, so standardization, as Madam Fraser has mentioned, is there in terms of the chart of accounts that they use, the way they classify certain expenses, but that's when it's reported to the centre.

On your question about quarterly reports and information, that has not been established as mandatory in any way at this moment. There are some discussions of going there, but it is not there yet.

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

Before I go to Monsieur Laforest, I wish to clarify something that I thought I heard you say. Did you say that of all the departmental chief financial officers in Ottawa, there are only two who are accountants?

Ms. Sheila Fraser: No. At one point, when we did our first audit at the ADM level, there were only two. Now there are 16 of 22 who have a professional accounting designation.

The Chair: These are the CFOs?

Ms. Sheila Fraser: These are CFOs.

The Chair: There are still six who aren't accountants?

Ms. Sheila Fraser: That's correct.

These are of the 22 largest departments, but it's an improvement. I think when we initially did it there were only eight.

The Chair: Monsieur Nadeau.

[Translation]

Mr. Richard Nadeau (Gatineau, BQ): Good day, Madam and gentlemen.

We were told about the sponsorship scandal. We know that there was a break in the chain of responsibility. It became necessary to dig

deeper to know what was involved precisely and to wait for a while for the newspapers to assimilate the news and open Pandora's box.

The direct question that I am going to ask you may relate more to politics than accounting, but I think that it is legitimate given what came before. Could we find ourselves in a similar situation because the chain of responsibility is not strong enough? Is that a possibility?

Ms. Sheila Fraser: That's not an easy question to answer. I don't think so.

What happened at the Department of Public Works and Government Services was rather special, because the group that was handling the sponsorships was not subject to the department's control systems. It was separate and had its own finance and supply system, whereas all the other activities of the department went through the regular systems. It was at this level that a major failing occurred. We feel that if the sponsorships had gone through the regular systems, we would have identified the problems much earlier.

The other problem was related to the internal audits. An audit had been carried out, but there was very little follow-up. Furthermore, at the time, the internal audit reports were not being sent to the Treasury Board Secretariat, and they were also not being posted on the website.

All the internal audit reports now have to be sent to the Secretariat and posted on the website. Likewise, the establishment of independent audit committees whose members are not part of the government makes things much more rigorous.

In this way, we hope to ensure that there is much better monitoring of the internal audit reports on management problems and that action is taken to correct these problems.

• (1545)

Mr. Richard Nadeau: All right. You have just given us an overview of this scandal, which, let us hope, was an isolated incident.

Bill C-2, which is before the Senate, increases the accountability of deputy ministers.

I am not sure whether this is the right place to talk about it, but I will raise the issue anyway. My understanding is that accountability is shared by both administrative and political officials, whether they are political appointees or government deputy ministers, who must also be accountable to a minister for their activities.

It is expected that Bill C-2 will be enacted. Will it be able to help prevent future breaks in the audit chain?

Ms. Sheila Fraser: In 2004, we prepared a report about the sponsorships audit and then carried out a study of general roles and responsibilities within the public service. On the one hand, this study indicated that the roles needed to be clarified, particularly the roles of the minister and the deputy minister, and that it was necessary to identify who was responsible for what; on the other hand, it showed that many documents could be confusing, because terms such as "accountable", *rendre compte* in French, and "answerable" were used, even though the latter has a different connotation. At the end of the line, no one was answerable or accountable.

I cannot comment on the policies set out in Bill C-2. Nevertheless, this bill clarifies everyone's roles. Needless to say, everything will depend on how the act is implemented. It is essential that all deputy ministers be aware of precisely what their role is and what they are accountable for.

Mr. Richard Nadeau: I will now give the floor to Mr. Laforest.

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): In your presentation, you spoke about five challenges, all of which relate to government expenditures as a whole. You said that it was important to set the tone from the top and you spoke about the challenges faced by senior officials at Treasury Board. You said that this involved all of the departments in terms of staff relations and their ability to manage.

This is a very broad issue that affects all of the departments and the Treasury Board Secretariat, and accordingly the Treasury Board itself. You said that strong leadership is needed to maintain momentum. Where is this leadership to come from?

Ms. Sheila Fraser: That is an excellent question.

I think that leadership needs to be political. That, however, is my own opinion. Senior public servants must also provide leadership. Without firm political will, it will be difficult for them to effectively implement initiatives that are spread over several years and that require resources, particularly those pertaining to management.

When the time comes to set the government's priorities, I am not convinced that managerial issues will be at the top of this list, particularly when they are compared to certain public services and other needs that the general public may feel are more pressing.

Firm and strong leadership is definitely needed to follow through effectively on projects that may extend over several years.

• (1550)

Mr. Jean-Yves Laforest: When you say that leadership must come from the top, do you mean the political top?

Ms. Sheila Fraser: Yes.

Mr. Jean-Yves Laforest: Good.

Thank you.

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

[*English*]

Mr. Williams, eight minutes.

Mr. John Williams (Edmonton—St. Albert, CPC): Thank you, Mr. Chairman.

In your opening remarks you made significant reference to the Gomery report. I always thought the Gomery report tinkered around the edges. It talked about changes to the Auditor General and changes to various things, but it never dealt with the heart of democracy being Parliament and strengthening Parliament. I thought that was a serious weakness of Mr. Gomery's report.

Coming out of that, we had the deputy ministers being accountable before Parliament, and this committee recommended a series of correspondence that would become public in the event a dispute could not be resolved. If there was a serious dispute between the DM and his minister, the minister—if he wanted to carry forward

with a policy—would write to the DM, saying go ahead anyway. If the DM still objected, then that correspondence would end up with you and the Comptroller General. If you felt it was appropriate, you would report to Parliament and we'd take it from there.

But then, of course, the Federal Accountability Act deems it to be a cabinet confidence that they write to you and therefore that part of it disappears. The deputy minister, in my opinion, is hung out to dry, having put in writing to his minister a serious disagreement on policy or a policy proposal by the minister. If the minister overrides him, we will never hear about it.

Do you have any comments on that?

Ms. Sheila Fraser: I wouldn't presume that, Mr. Williams.

What is being proposed is if there is a disagreement between the deputy minister and a minister, it would go to Treasury Board and there would be a decision by Treasury Board. We receive all copies of decisions, so we are informed of all decisions.

We are very careful in how we deal with cabinet confidence and how we cite cabinet confidence, but I can assure you we have done several audits where we have presented issues without breaching cabinet confidence.

Mr. John Williams: Okay. On that very point, I'm looking at... this is the Treasury Board Secretariat, tab 4 of the book, page 45. The Comptroller General of Canada, part of the Treasury Board of Canada, reports directly to the President of the Treasury Board. In your last report on the financing of the gun registry, a convoluted legal opinion trumped the opinion of the Comptroller General, who said, "I disagree", and all of a sudden we have lawyers telling professional accountants how to handle accounting matters.

Now that we have all these professional accountants as chief financial officers, the question begs to be asked, Mr. Chairman: what's the point if lawyers can trump accountants when it comes to accounting matters?

Here's a situation where the Comptroller General disagreed with a policy of the department and yet was overruled, and we heard nothing about it. Would that type of situation come to light in the future, and if so, on what basis?

Ms. Sheila Fraser: This will have to perhaps be corroborated with them, but I believe the Comptroller General reports to the Secretary of the Treasury Board.

Mr. John Williams: The line here on page 45, tab 4, shows a direct line to the President of the Treasury Board.

Ms. Sheila Fraser: If you look here on organizational information, there is a reporting line, yes, but he also reports to the Secretary of the Treasury Board.

•(1555)

Mr. John Williams: My point being, here we have the Comptroller General of Canada, a professional accountant like yourself, in charge of the books of the Government of Canada, overruled by...I'll say by another deputy minister who felt they had the capacity to pull rank on him and said legal opinions trump professional accounting opinions when it comes to accounting. It didn't come to light except, thankfully, you brought it to light. What better way...? The Treasury Board has to be faulted here, in my opinion, for not blowing the whistle on this.

Ms. Sheila Fraser: Well, I would agree with you. I believe there were actually two decisions in that whole process. One was whether to go for supplementary estimates or not. The second decision was then how to record those in the books of account and the financial statements at the end of the year. I guess there can be some disagreement about the role the Comptroller General would play in the decision to go for supplementary estimates. But certainly, how amounts are recorded in the financial statements and charged to appropriations...the Comptroller General should have the final say on that.

Mr. John Williams: Thank you.

You mentioned that departments are, hopefully, going to be producing audited financial statements.

Ms. Sheila Fraser: There has been an announcement by government to require departments to produce auditable financial statements by 2009.

Mr. John Williams: You say 2009. When I arrived here, Mr. Chair, this was already on the table. We were looking at this new modern technology, and we were going to get cascading financial statements, so that programs would have their own financial statements; a department would consolidate all its programs into a departmental financial statement, which would then be consolidated into a financial statement for the Government of Canada, and, like the private sector, all done in the first fifteen days of the month.

I think this policy was announced in 1989, and now, within twenty years, they just might get halfway there, Mr. Chair. Why doesn't the Treasury Board move things along a lot faster if they're the manager of government?

Ms. Sheila Fraser: That's something, Chair, you'll have to ask the Treasury Board. The Comptroller General has a plan. We have strongly urged them to do what we call readiness assessments of departments, to see in fact how ready they are to produce auditable financial statements. Like you, I'm a little skeptical on the 2009 date.

Mr. John Williams: Skepticism around here is good, Madam Auditor General. I find with the Treasury Board, they call themselves the manager of government, of the departments, but they don't follow up. They issue all of these regulations, rules, policies and so on, but they don't police them. That's why I believe internal audits should be at the Treasury Board, not hidden away in some bottom dungeon of a department that really, as we found out in the sponsorship scandal, was blown away and ignored even if they wanted to blow the whistle. I think the Treasury Board needs a serious wake-up call so they can really hold government and departments to account, because they're the senior manager. Don't you think that would be an appropriate way for them to act?

Ms. Sheila Fraser: Obviously, Mr. Williams has a very strong opinion on this, and I know we've had disagreements over the years on the role of internal audit. I don't think you should quite so easily ignore the role of deputy ministers in departments, who are themselves managing billions of dollars and thousands of people.

Mr. John Williams: The CFOs with no accounting experience.

Ms. Sheila Fraser: It's maybe too easy to blame everything on the Treasury Board Secretariat.

The Chair: Before we go to Mr. Christopherson, I have a point of clarification,

Madam Auditor General, on the organizational chart that's showing the Comptroller General of Canada, on page 45 of tab 4 of the binder—this is on the Treasury Board of Canada Secretariat's report on plans and priorities, showing a direct line of reporting from the Comptroller General to the Treasury Board president. I believe that's an error. Is that your understanding?

Ms. Sheila Fraser: I believe the line between the Comptroller General and the president is a dotted line and that there is a straight line to the secretary, but you might want to clarify that.

•(1600)

The Chair: That's my understanding. We'll clarify that.

A voice: It is dotted.

Ms. Sheila Fraser: It's a dotted line?

Yes.

Mr. John Williams: It's not dotted in my copy. Do you think we can get a legal opinion on this?

Some hon. members: Oh, oh!

The Chair: Are there any practising lawyers here?

We'll go to Mr. Christopherson, for eight minutes.

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

Next we're moving to dangling chads.

Let me just say first of all to Mr. Williams that we need to be a little bit careful about throwing stones, given the glass house we live in. This is a report from March 2004, and we're just getting to it now.

May I also point out, because it's historical for me, that I actually have help here today. My good friend Mr. Dewar from Ottawa Centre is here to join in, given that he covers Treasury Board.

I'm going to welcome you. It's a pleasure to have help here.

I have one question, and then I'll turn it over to my colleague, Chair. My question is to the Auditor General, with respect to page 24 of your report, point 7.94. You go on to talk about the "absolute critical need for the proper resources and tools to meet management responsibilities".

We know here in particular that not having enough resources will stop you cold right there. One thing I want to ask you, especially in light of the \$2 billion in cuts, \$1 billion of which have been made public—the other \$1 billion is pretty much a place holder—is whether you are satisfied that they not only have the resources they need now, but that none of those necessary resources is on the chopping block. Do you have any sense of that, in terms of these cuts they're making?

Ms. Sheila Fraser: I'm afraid, Chair, I can't really respond to that. We don't do evaluation work, and I haven't seen any evaluation by the secretariat of its own capacity, which is really what would be needed to be able to respond adequately to the question. Neither have we done an analysis of the cuts.

But perhaps the Treasury Board Secretariat itself can go through

Mr. David Christopherson: Yes.

I think, Chair, at some point that's something we need to come to grips with, especially as we're evolving into new processes, new everything. We need to make sure there are the resources to give effect to them.

I'll turn it over to my colleague.

Mr. Paul Dewar (Ottawa Centre, NDP): Thank you, Chair.

I have a question on the cuts we most recently saw, the \$1 billion through Treasury Board. We just got the estimates and are looking through to ferret out some of the cuts.

Do you have any concerns about the sequencing—not, of course, about the cuts, for that's for us to critique—of how they were done vis-à-vis financial reporting? What I mean by that question is, typically we will have the budget and the main estimates, and then we get an update with the most recent supplementary estimates. However, in between these we got the announcement of cuts to programs, and I haven't quite figured out where the money is, if you will, because there might be some transferring within. For instance, I think one department may have cut some programs, but their bottom line hasn't been affected, because there are some transfers within. This makes it very dense and difficult to read.

Have you had a chance to look at it? We just got them yesterday, so I appreciate it if you haven't. Do you have any concerns, not about the politics of it but about the presentation and, if you will, the literacy—pardon the pun—of how we're able to understand and read the document?

Ms. Sheila Fraser: We haven't looked at it, and I am not sure we would be able to comment on it. In the report that's coming, though, at the end of November, we have an overview piece, and we raise issues about the Treasury Board role in the expenditure management system and how that whole system works. There may be some answers.

I would say more generally that we have raised in several reports the need for better, simpler information to parliamentarians on the estimates and on the financial results more generally. The information presented tends to be very difficult for anyone, even a professional accountant, to understand. The terminology is not

necessarily clear, and you often have to refer back to reports on plans and priorities to be able to get it.

I know the government indicated there was a project under way—I'm just not sure where it's at, but they announced it a couple of years ago—to try to simplify and improve the information to parliamentarians. That may be something you would want to take up with the secretariat.

Mr. Paul Dewar: I know you had concerns previously about the Treasury Board contingencies and the fund amount—\$750 million, I think it is. They have descriptors in this document on it. What were you looking for in your critique before? Can you refresh my memory as to your concerns about the Treasury Board contingencies? Was it how they were being used? Was it the descriptors? Could you elaborate on that a bit, please?

• (1605)

Ms. Sheila Fraser: This is what we call vote 5. Vote 5 was supposed to be used for—I can't remember the exact wording—exceptional, unforeseen expenditures, or something of that nature. What we found was that in fact many almost recurring expenditures were going through vote 5. For example, much of the expenditure of the firearms system over the years was going through vote 5, and there were other expenditures like that.

We raised the question of what the definition of unforeseen exceptional expenses is. In fact, many of these expenses probably should have been back in the main estimates, not going through vote 5.

I know there were several studies that looked at this. The government gave, at the time, new directives to departments as to what was to go into vote 5. We haven't gone back to look at this, but my impression is that they had made quite a bit of improvement and had narrowed what actually could be charged to vote 5.

Mr. Paul Dewar: I note on page 83 of the supplementary estimates that there's one for a grant for an institute for Canadian citizenship. It might be deemed an emergency, but I think others might argue that citizenship is something we work on for the long haul and that it might not be an emergency. There was \$1 million put toward that.

There clearly might need to be some tightening in what the government understands to be an emergency and what is in fact an emergency—things that come up that you can't foresee and predict. We all understand that there needs to be money there. It's interesting that now that they have descriptors, you can read and then measure: is this something that was really deemed essential in the interim period?

Thank you.

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

Mr. Fitzpatrick, you have three to four minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): I'd like to follow up on the point Mr. Williams raised. I think there's another aspect to this whole thing that I find rather astounding in your ninth report.

I view the Comptroller General in a treasury department as being the person to monitor or police things. I think we've come a long way from the days of C.D. Howe, when things were run by the Treasury Board in those days. My understanding is that it was a career-ending move for a deputy minister to try to violate the rules or circumvent things in those days, when they had a genuine fear of the people who were running the Treasury Board.

In this case, what I find remarkable is that you have the acting Comptroller General stating the proper legal position: you must go to Parliament and get the appropriation, or you must report a blowing of the vote. From what I can gather, to shore up his position—not to get into debates about lawyers or accountants—he got a legal opinion that supported this position. Then all of a sudden senior people in other departments said, “Oh, we'll just push you and your opinion aside and we'll get another opinion that will give us a third option, and you just go away and leave us alone.”

It even gets to the point where we get a replacement for the acting Comptroller General, who adopts the second legal opinion and ignores the first. I find that whole process rather distasteful.

I think the Comptroller General and the Treasury Board should have a fair amount of power, and deputy ministers who step out of line in this place should get a good whack from that department. They shouldn't be pushed to the side; there's something wrong with that process.

Am I off the rails with this kind of view, Mrs. Fraser, or is there some legitimacy in the concern here?

Ms. Sheila Fraser: Well, no. As I indicated earlier, I believe the Comptroller General should have the final say on accounting treatment. But it goes back, again, to the respective roles and responsibilities of deputy ministers and the Comptroller General, and I'm not sure they're as clear as they should be.

Mr. Brian Fitzpatrick: Another observation I have concerns the procurement of British submarines—a boondoggle, as it turns out—and also the sponsorship scandal, the HRDC boondoggle, the gun registry, Shawinigate, and a whole lot of other things, which through your office were exposed as the bungling of government programs, and so on.

I go to paragraph 16, where you state the importance of the management cycle. I think the importance of the cycle is that the managers of these government programs and departments should be following a management cycle, and the taxpayers should expect this at the very least from the people who are managing programs, if they have this process in place and we're getting results for our money.

In my view, the Treasury Board should make sure these programs, among many things, are being delivered in accordance with some sound management cycle.

Clearly, in the cases I've identified here, there was an absence of any management cycle. It was just politicians going ahead with some boondoggle, authorizing something, and then closing their eyes to the whole process and hoping that by random luck these things would work out—which they didn't. That's not the way things happen in the world. They happen from good management, sound planning, and so on. This was really an indictment of incompetency at the highest levels of government and management in government.

Do you see the Treasury Board's role as making sure that when we have government programs, the government is following proper management practices and a good management cycle?

• (1610)

Ms. Sheila Fraser: Again, Chair, that comes back to the respective responsibilities of deputy ministers and the central agencies. We have always taken the position that if the Treasury Board is the one that sets the management policies, they should know if those policies are working or not.

From there, to say that they should take responsibility for program delivery, I would not go that far. I think it is still up to the deputy minister in those departments to assume responsibility for program delivery, and I think that has to be made clearer. It can be one or the other, but it has to be made clearer, because right now people are pointing their fingers at each other.

Personally, I don't think it's fair to say that the Treasury Board Secretariat should be managing all the programs in government. Essentially if we make them responsible for everything that goes wrong, that's what they'll have to do. I really do believe that the deputy ministers in departments have a responsibility, and I think they would acknowledge this for their departments and the management within those departments. It's how you share the responsibility between the central agency and the deputy ministers that has to be clarified.

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

Thank you, Mrs. Fraser.

Mr. Laforest, you have no more than four minutes, followed by Mr. Poilievre, for eight minutes.

[Translation]

Mr. Jean-Yves Laforest: For the Treasury Board of Canada Secretariat and the Comptroller General of Canada, what is involved is expenditures of some \$210 million. These federal government expenditures are controlled to varying degrees, given the failings in recent years in terms of a number of scandals, as Mr. Fitzpatrick was saying, and hence the need for an auditor or an auditor's office to provide another layer of control or to check whether mistakes have been made.

You check programs or aspects of programs in a department or complete data from a number of departments or agencies.

How many billions of dollars do you believe your audit covers? Out of \$210 billion, how many do you audit?

Ms. Sheila Fraser: I could carry out an analysis and submit it to the committee, but what is needed is a breakdown of the \$210 billion.

For example, the crown corporations are included in this amount. Our audit in fact covers most of the crown corporations, and we give our opinion of them. For example, we naturally audit the agreements for many of the transfer payments to the provinces. For certain expenditures, we audit the systems. We audit the government's pay system to ensure that it has satisfactory monitoring mechanisms. We do not audit all the pay cheques, but rather the system.

Furthermore, for other departments, we check wherever there are very large unspent balances and some balances that may constitute a greater risk. We do an analysis of the riskiest budgetary items that require the greatest amount of judgment in establishing provisions for legal action or claims.

In terms of revenue as well, it is obvious that there is some auditing. We audit a significant percentage of transactions, but not necessarily all transactions. We also rely a great deal on the systems.

• (1615)

Mr. Jean-Yves Laforest: The public has lost a great deal of confidence in politics, institutions, and their government because of what has happened in recent years. Of course this audit revealed a number of things. The public became aware of the importance of the role of the Office of the Auditor General.

Is it enough? Should not the Office of the Auditor General demonstrate clearly that its work is truly effective, that it gets to the bottom of things, and that it will serve democracy effectively in the future?

Ms. Sheila Fraser: We try as much as we can in discussions and presentations to the public to explain our role and the nature of our work, and to demonstrate that basically we operate in a transparent system that also respects the independence of external auditors. This accurately reflects our democratic system, and Canadians ought to be proud of this.

Thus in many of our exchanges, we explain that although some audits identified problems or the need for significant improvements, overall, our public service is very healthy. I can say that it is one of the best in the world, although I have not checked into the matter closely. Our system is rigorous and our public service is highly professional.

In fact, we have noted improvements and also noted that programs are experiencing difficulties. However, compared to other countries, we are doing much better.

An hon. member: We can feel better about it?

Ms. Sheila Fraser: Yes.

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

[English]

Thank you very much, Mrs. Fraser.

Mr. Poilievre, for eight minutes.

Mr. Pierre Poilievre (Nepean—Carleton, CPC): As I read through the history of this subject, I find that it often engenders a debate over who should be responsible for what. So we've been talking a lot about whether the Comptroller General is responsible for the viability of financial management or whether it's the deputy heads in departments.

Before I enter that debate—because I do have some comments on this and some questions to pose—I'd like to point to the most obvious responsibility, and that's to the ministers who are aware of actions going on in their department.

When you released your ninth report, you pointed to unauthorized expenditures that occurred without proper parliamentary approval.

We responded to your report just yesterday, and so far the media has not really caught on to our report.

This all-party report was tabled in the House of Commons yesterday by the chairman, and it really is scathing towards the minister who was responsible at the time. It says:

The Auditor General reported and Mr. Bloodworth, Mr. Wiersema, and Mr. Baker, the principle public servants in this matter all indicated that the minister was aware of this problem. Regardless, evidence suggests that the minister knew, and she did nothing to ensure that Parliament was fully informed and for that she must accept responsibility.

Do you agree that when a minister is informed of an accounting controversy of this enormity and knows, or ought to know, that authorization should be required for additional expenditures, that this minister then becomes responsible before the public for expenditures that go on in the minister's department?

Ms. Sheila Fraser: I have difficulty responding to that, Chair, because although I know the minister was informed of the situation, I don't know exactly what was said to the minister and how fulsome that was. So I think it would be inappropriate to comment on that.

• (1620)

Mr. Pierre Poilievre: Fair enough. But through a report, this committee has come to the conclusion that she must accept responsibility. I think that was a wise conclusion.

On the subject of the degree to which financial controls ought to be centralized, this debate has been ongoing in Canada for the past 70 or 80 years, back to the early 1930s. When the Depression was hitting, the controls were so loose that R.B. Bennett actually appointed himself the finance minister and the Treasury Board president, and for all practical intents and purposes made himself a comptroller general, because he felt things were so out of hand.

Then over time things were decentralized. There was the Glassco commission in the 1960s that led to the position of comptroller general being eliminated from Treasury Board altogether, which left the responsibility to the departments to manage. Then in the mid-1970s the control had become so dispersed, as I have here in the report our researchers prepared for us, "that Parliament—and indeed Government—has lost, or is close to losing, effective control of the public purse". That was what your office said in 1976.

In 2003, the last government—to its credit, I think—increased the control of Treasury Board and the Treasury Board Secretariat to manage and control spending. Yes, we'll give credit where credit is due; that's fair. So now it seems we're moving back in these years to more centralized financial management

But with the accountability act, we're also making the deputy heads accounting officers who are going to be responsible for this committee. As I see it, this is the first time we've done both: responsibility for the deputy head and responsibility for the central agency.

I want your opinion on how this can be adequately married, because it seems throughout our history, going back those 70 years, it's never really been done particularly well.

Ms. Sheila Fraser: I think it goes back a bit to the earlier comments, that there's this sort of pendulum that swings between centralization and decentralization. Given the complexity and the size of the federal government, we have to recognize that this has to be a shared responsibility. I don't think it can be totally decentralized; it would be impossible.

There has to be some central function, if not just to produce the financial statements and to issue the policies and the guidance to the departments. To totally centralize would also not be functional, given the complexities of these departments in and of themselves. So there has to be a shared responsibility, and what there probably needs to be is more clarity about what the role and responsibility of the central agency is.

When we talk about monitoring to make sure that policies work, if they find that something isn't working in a department, is it the Treasury Board Secretariat that should be responsible and accountable, or is it the deputy head? I think there needs to be more concrete clarification of those roles, and perhaps the whole accounting officer concept can help to clarify that.

Mr. Pierre Poilievre: I think you're right.

I think the deputy head has to be answerable before Parliament. Gomery proposes to go one step further and make the deputy head accountable to this committee, which is distinct from answerable. I think he even recommended that the deputy ministers ought to be appointed by the public accounts committee, if I'm not mistaken.

Ms. Sheila Fraser: I don't believe so.

Mr. Pierre Poilievre: Or approved.

But anyway, to what extent do you think a deputy minister should be made accountable before a parliamentary committee?

Ms. Sheila Fraser: I think it comes back again to the role that is given to the deputy ministers. If you give them a role as an accounting officer...

Certainly if we look to Great Britain, the accounting officers are accountable before Parliament for the management within the department. And I think there is a clearer line or demarcation between the policy or political aspects and the management aspects within a department.

• (1625)

Mr. Pierre Poilievre: The one last question I'll ask, if I have the time, is about the Public Service Human Resources Management Agency of Canada. The agency was created around 2003, specifically for the purpose of implementing the new Public Service Modernization Act. Has that act been fully implemented?

Ms. Sheila Fraser: I think the agency was created after our study or at the time our study was completed; I'm not sure. The Public Service Commission has done some work on it, and we are planning to do some work on that initiative within a couple of years, but we haven't done anything on it recently. I'm afraid I can't answer.

Mr. Pierre Poilievre: Okay.

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

Thank you, Mrs. Fraser.

That concludes our time, colleagues. I'm going to ask Mrs. Fraser or Mr. Smith or Mr. Timmins if they have any concluding remarks. At the end of the concluding remarks, we will suspend for two minutes to reboot the system and reopen as a meeting in camera.

Mrs. Fraser, I invite you to give any closing remarks.

Ms. Sheila Fraser: Thank you very much, Chair. We thank you for inviting us today to discuss the role of the Treasury Board Secretariat. As I mentioned in our report, which we will be tabling at the end of November, we do have several pieces on the expenditure management system that I think will be helpful to the committee in their study.

Thank you.

The Chair: Okay. That concludes this segment of the meeting.

I will now suspend for two minutes and then we're going to resume and we're going to come back to the firearms report.

[Proceedings continue in camera]

• (1626)

(Pause)

• (1700)

[Public proceedings resume]

The Chair: Okay colleagues, we're going to resume the meeting.

I'm going to put the question, but before doing so, I'm going to read in public the motion moved by Mr. Christopherson:

That the clerk of the Committee do prepare a budget not exceeding \$25,000.00 for the purpose of retaining, according to all parliamentary guidelines and requirements, the services of Dr. C.E.S. Franks, to assist the Committee in its study on the Review of the Roles and Responsibilities of the Treasury Board Secretariat.

You've heard the motion.

Mr. John Williams: I want to ensure that these terms of reference will include that if we want to, we will study the recommendation by Mr. Justice Gomery that this committee have resources in order to fulfil its mandate, as recommended in his report. I think this should be part of the criteria we're looking at, because if we're hiring the services of Dr. Franks, an eminent scientist, we should look at this issue as well.

The Chair: We certainly could put that issue to him; I don't see a problem.

Does anyone see a problem with that?

Let's call the question.

Ms. Yasmin Ratansi: Please re-read what you said. Did you say something about Parliament?

The Chair: Yes, I'll read it again. It is:

That the clerk of the Committee do prepare a budget not exceeding \$25,000.00 for the purpose of retaining, according to all parliamentary guidelines and requirements, the services of Dr. C.E.S. Franks, to assist the Committee in its study on the Review of the Roles and Responsibilities of the Treasury Board Secretariat.

Mr. John Williams: And the recommendation of Mr. Justice Gomery that we have funding.

The Chair: Do you want to make that an actual amendment to the

Mr. John Williams: I think we have to have an amendment, because we can't just close it off there.

Mr. Marcel Proulx (Hull—Aylmer, Lib.): Do you want to throw this in as part of his mandate?

Mr. John Williams: Why not? I don't see any reason—

Mr. Marcel Proulx: There's no problem, except we have enough at \$25,000 now.

Mr. John Williams: Well, you could come back for more.

Some hon. members: Oh, oh!

Mr. Marcel Proulx: Why don't we do it on two?

Mr. John Williams: Okay, fine. We've got two motions, Mr. Chair.

But I do want the public accounts committee to respond officially to Mr. Justice Gomery, who made that specific recommendation to the committee.

The Chair: Mr. Williams, I don't want to sidetrack the committee, but the government has to respond within two years.

Mr. John Williams: Yes, but we're entitled to our opinion as well.

The Chair: Yes, we should provide our opinion to the government; I agree with that.

Mr. John Williams: That's what I'm suggesting, that we form an opinion.

The Chair: That's right. I couldn't agree more.

●(1705)

Mr. John Williams: Now, if you want to make a separate motion, that's fine.

The Chair: My own preference would be to deal with one motion, because we're dealing with the one contract.

Okay, just at the end of it, after “Treasury Board Secretariat”, add “and the recommendation of Mr. Justice Gomery that the committee receive additional resources”.

That would be an amendment by Mr. Williams.

Mr. David Christopherson: I'll accept it as a friendly amendment and I'll move it.

The Chair: Thank you, Mr. Christopherson.

All in favour of the motion as read?

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

The Chair: Okay, colleagues, what I'm going to have to do is suspend the meeting for an additional thirty seconds and then resume in camera, when hopefully we start the conclusion of this committee's tenth report.

The meeting will be suspended for thirty seconds.

[*Proceedings continue in camera*]

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

Publié en conformité de l'autorité du Président de la Chambre des communes

**Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.