



House of Commons  
CANADA

## Standing Committee on Public Accounts

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PACP • NUMBER 025 • 1st SESSION • 39th PARLIAMENT

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EVIDENCE

**Thursday, November 2, 2006**

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**Chair**

**The Honourable Shawn Murphy**

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• (1525)

[English]

**The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)):** Okay, colleagues, I'd like to start the meeting. Welcome. *Bienvenue à tous.*

At this meeting, according to the agenda, we're going to continue with our study into the roles and responsibilities of the Treasury Board Secretariat. Again, this meeting, as was the last meeting on Tuesday, will be a little disjointed because of witness availability, in that we're going to spend the first hour talking with the Comptroller General and his staff, and spend the last 45 minutes discussing concluding reports. Of course, we'll start right in with the tenth report.

Colleagues, with us today is Mr. Charles-Antoine St-Jean. He is, of course, the Comptroller General, as everyone's aware. He's accompanied by Robert Fonberg, assistant associate secretary; and Mr. David Moloney, senior assistant secretary, expenditure management sector. I see Mr. John Morgan in the back.

Mr. Morgan, you're just a spectator, are you?

**Mr. John Morgan (Acting Assistant Comptroller General, Financial Management and Analysis Sector, Office of the Comptroller General, Treasury Board of Canada Secretariat):** I'm an observer today.

**Mr. John Williams (Edmonton—St. Albert, CPC):** Invite him up to the table.

**The Chair:** Well, you're certainly welcome to join us if you wish.

John Morgan's familiar with us all, I would hope.

Monsieur St-Jean has the opening remarks, so I'm going to turn the floor over to him. Again, I want to thank each and every one of you for being here today, and thank you for assisting us in this issue.

**Mr. Charles-Antoine St-Jean (Comptroller General of Canada, Treasury Board of Canada Secretariat):** Thank you very much, Mr. Chair.

My colleague, the associate secretary Robert Fonberg, is here with me. He will be making the opening remarks. He's here for our colleague, the secretary.

Go ahead, Rob.

**Mr. Robert Fonberg (Senior Associate Secretary, Treasury Board of Canada Secretariat):** Is that all right with you, Mr. Chairman?

*Merci beaucoup.*

Let me thank you for the invitation to be here. As you noted, this will be a little disjointed; we're a little bit out of phase. The secretary was not able to be here today. I believe he is scheduled, Mr. Chairman, to be here next week, and he'll give you a good overall sense of the roles and responsibilities of the Treasury Board Secretariat as he sees them.

Only at the Treasury Board Secretariat could you have enough seniors, assistants, secretaries, and associate secretaries to actually confuse the entire table. I am the senior associate secretary. David is the senior assistant secretary. And everybody knows the Comptroller General, Monsieur Charles-Antoine St-Jean.

I would like to take a few minutes to talk about the roles and responsibilities of the secretariat as they pertain to the expenditure management system; as I said, the secretary will be here next week to talk about overall roles and responsibilities. Obviously we'll be pleased to take any questions you have after we make our remarks.

As the government's budget office, we at the Treasury Board Secretariat play a very important role in the government's expenditure management system. That system is the framework—a series of processes, rules, reports, and decisions—used to identify and implement the government's spending plans and priorities. It integrates departmental programs and resources, government fiscal and budgetary decisions, Parliamentary scrutiny and approval, through a series of planning and decision-making processes. All three central agencies—we at the secretariat, the Department of Finance, and the Privy Council Office—play very important roles in that system, albeit with different emphases at different points in the supply cycle.

I'd like to walk you through those aspects for which the secretariat has lead responsibility.

It starts with the planning stage. It is at this stage that the Department of Finance and the Privy Council Office take the lead in supporting cabinet. The secretariat in many ways plays a supporting role at this point.

Planning starts in the fall, right about now, with the pre-budget consultation process and the tabling of the economic and fiscal update by the Minister of Finance, which provides an annual update on the national economic and federal fiscal situation leading to the budget planning process. The update reflects the ongoing spending requirements of existing programs, information that the secretariat provides to the Department of Finance.

The budget outlines the government's annual revenue and expenditure plans, as you all know. All of that spending has to be authorized by Parliament. The budget's fiscal framework provides the overall guidance to the secretariat's work in preparing the government's request to Parliament for the spending authorization.

Treasury Board then approves the adjustment of departmental funding to implement the budget's allocation and re-allocation decisions. In particular, to give effect to those decisions, the secretariat supports Treasury Board in seeking Parliamentary approval of detailed spending plans through the preparation of the estimates documents and appropriation bills. The main estimates identify the spending authorities, called votes, and the amounts to be included in subsequent appropriation bills.

Parliament is asked to approve those votes to enable the government to proceed with its spending plans. That request is formalized through the tabling of appropriation bills in Parliament, typically in March and again in December.

Since the mains are prepared well in advance of the beginning of a fiscal year, they do not always include the total expenses that are provided for in the most recent budget. To address this, the secretariat prepares the supplementary estimates to obtain the authority of Parliament to adjust the government's expenditure plan as reflected in the estimates for that fiscal year. Parliament is also asked to approve these in an appropriation act.

The cycle I have just summarized focuses on implementing budget decisions on new spending initiatives. The vast majority of the spending the government seeks approval for through the estimates documents is carried out through the ongoing programs of the government. The secretariat plays a central role in respect of this annual approval process, through what we refer to as the annual reference level update.

The secretariat works with departments to confirm the detailed spending plans, for which they have prior policy and funding approval from cabinet, and program operation approval from the Treasury Board. The secretariat then seeks Treasury Board approval for the ongoing spending, which in turn is proposed to Parliament through the detailed votes in the estimates and appropriation bills.

The final stage in the process is reporting and accountability. Every March, departments set out the objectives they plan to achieve with the funding proposed to Parliament through the estimates and the reports on plans and priorities. A year and a half after that, in the fall, departments return to table their departmental performance reports, which detail what it was they accomplished with that funding.

• (1530)

The secretariat also prepares Canada's performance report, which is tabled at the same time as the departmental performance reports; and provides parliamentarians with a whole-of-government perspective from which to assess the performance of federal programs and initiatives.

Along with the reporting of financial results and the public accounts, these reports help Parliament to hold the government to account for the allocation and management of public funds. The secretary, when he is here next week, will give you an overview of

the secretariat's roles as a management board and as a budget office, and he'll bring the two of those things together.

I would like to draw your attention to two key aspects of the management board or policy-making role of the Treasury Board and the Treasury Board Secretariat that directly support expenditure management.

The first of these aspects is the work that the secretariat does with departments regarding how they structure their reporting. As members are likely aware, starting with the 2005-06 estimates and public accounts, departments display their overall spending in support of a small number of strategic outcomes and program activities designed to deliver on those outcomes. This change reflects a Treasury Board policy known as the management, resources and results structure policy. The policy was intended to both increase departmental focus on results to be achieved with approved funding, and to enhance accountability to Parliament and the public for the use of that funding. The secretariat is working actively with departments to progressively improve our collective implementation of that policy.

The second area of secretariat responsibility is closely related to accountability and results, and that's the Treasury Board evaluation policy, which sets out requirements for departments to evaluate the outcomes actually achieved by their programs. These outcomes are part of the information Parliament receives through the departmental performance report.

Let me just spend one final minute looking forward, Mr. Chairman. Budget 2006 pointed to the need for a new, ongoing approach to managing overall spending in order to ensure that all government programs are effective and efficient; that they're focused on results and provide value for taxpayers' money; and that they are aligned with the government's priorities and responsibilities. To that end, the budget launched a review of the expenditure management system, led by the President of the Treasury Board, and we are currently working with the Privy Council Office and the Department of Finance on a renewed system that respects the following principles enunciated in the budget: that government programs should focus on results and value for money; that those programs should be consistent with federal responsibilities; and that programs that no longer serve the purpose for which they are created should be eliminated.

As part of the review, we're looking at the approach that the secretariat and the board take to the approval of ongoing spending and our evaluation policy requirements. The president, as per the budget commitment, will be back to report on this work sometime this fall.

Thank you very much, Mr. Chairman.

• (1535)

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

There's one issue I want to clarify here for my own purpose. You gave us a good review of the estimates process and some of the roles of the Treasury Board Secretariat, but when I came to the meeting, I was expecting some comments from Monsieur St-Jean.

I view this review as your role that is very vital to the study of the committee. We have the whole issue of internal audit, where we're going with that, and what some of the emerging issues are. We have the expected enactment of the Federal Accountability Act, and the deputy ministers will be appearing before this committee as accounting officers. There has to be a development of a protocol in terms of what is expected of the deputy ministers and the whole issue of accrual accounting. There is the whole issue of the qualifications, roles, and duties of the chief financial officers in all the departments and crown agencies here in Ottawa.

When I came to this meeting, I thought this was going to be your show, yet you're quiet. I really think the committee will want to hear from you.

I'll turn the floor over to you, Mr. Williams, if you have a comment.

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

As you know, we normally just work with the Auditor General. I believe she's going to be bringing in a couple of chapters on expenditure management in the next few weeks.

**The Chair:** November 28, Mr. Williams.

**Mr. John Williams:** Yes, November 28.

If we're just doing an analysis of expenditure management review, it's pointless and it's ahead of its time. Like you, I thought we were dealing with roles and responsibilities of the Treasury Board so that we could actually make some recommendations to Parliament about how the senior levels of government actually go through their decision-making. But this seems to be fairly picayune stuff that we have here, in advance of the Auditor General. We don't have her comments, so we can't ask those intelligent, searching questions. I'm therefore trying to come to grips with why we're actually here today.

**The Chair:** Well, I think we're here.... I was half-expecting to hear more from Monsieur St-Jean. We have a lot of issues, and I have mentioned about four of them that I think this committee is very interested in exploring. Mr. Fonberg gave an excellent presentation on the estimates process; I didn't detect anything new in that. All of that, of course, is important.

Mr. St-Jean, we just concluded a very important chapter on what I consider to be a dispute as to the treatment of an accounting issue. There didn't seem to be any protocol in government as to how this was to be handled. It was done in a very ad hoc way; it was not the way you would expect any kind of organized system to deal with this issue. We've tabled our report; it's well-known that this committee is not pleased with the way it was handled.

These are some of the issues. Of course one of the outcomes of this study, one of the most important items, is related to our expectation that the Federal Accountability Act will eventually become law. The day it becomes law, the deputy ministers and the agency heads of the crown corporations will all become accounting officers before this committee.

There are some in government who think that won't change anything—it'll just be business as usual. It won't mean anything. There are some of us actually around this table who think it will mean a fundamental change; that is one of the very important vital

issues we want to get at. With that, there has to be the establishment of a protocol as to the duties of the deputies, the manner in which they come here, and what is expected of them. I would have thought that would be coming from the leadership of the Comptroller General. Of course, the committee has had all kinds of concerns over the years about the internal audit function; that's been a bone in our saddle for years.

These are some of the issues that we want to flesh out going forward in this particular study.

I turn it over to you before we go to the questions, Monsieur St-Jean.

• (1540)

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

We're a bit disjointed, as my colleague said, because of some of the changes, but also the agenda we were provided with was more for TBS and expenditure management, so there was a bit of confusion in terms of the role. I'm absolutely prepared to talk about all those issues and have the dialogue with the committee today on those points.

Maybe I could start by saying that as you know, the Office of the Comptroller General was reinstated two years ago; in fact, it was in June 2004, when I took the position. It's also true that there's no common definition of what an office of a comptroller general is in Canada. I had the same discussion with all my colleagues across the provinces; there's no single definition of the scope and responsibilities of an office of a comptroller general.

The same can also be said of my colleagues.

**Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC):** On a point of order, I have a concern. Do we have some kind of misunderstanding of what the agenda was today? I thought it was clear—it was to be the roles and responsibilities, not expenditure management.

**The Chair:** I'm going to ask the analyst to speak on this.

**Mr. Brian O'Neal (Committee Researcher):** Mr. Chairman, I was just explaining that last week I received a phone call from parliamentary liaison people at Treasury Board Secretariat. At that time I made it very clear to them that this meeting was about the Comptroller General—his role in issues like expenditure management, but particularly with an emphasis on this change in status of deputy ministers that will come after the Federal Accountability Act has been adopted. It was made very clear to them over the phone. I suppose that perhaps information was not conveyed properly to other people at the secretariat.

**The Chair:** Mr. Fonberg, go ahead.

**Mr. Robert Fonberg:** We're working from your document, which for the meeting of November 2 says "Treasury Board Secretariat and expenditure management", so there must have been a misunderstanding, because for us expenditure management and the expenditure management system mean something quite distinct from financial management. The Comptroller General has a heavy emphasis—a leadership role—on financial management; another part of the Treasury Board Secretariat has a leadership role and a heavy emphasis on expenditure management.

I apologize for any misunderstanding. I'm sure the Comptroller General's prepared to step in and handle whatever questions you want to take on the financial management side. I apologize for the misunderstanding.

**The Chair:** I'll let you conclude, Mr. St-Jean.

**Mr. Charles-Antoine St-Jean:** The same goes also with the roles of the comptroller generals in various Westminster-based systems. There is no one common definition of what the role of a comptroller general is and what the role of the office of a comptroller general is.

Also, the office was first created back, I believe, in 1918, and over the years there have been different profiles of the office. What's important is that the role and responsibility of the Office of the Comptroller General be clearly defined in the DPR, as was reported in the report of your committee on firearms. You made reference to what the roles and responsibility are, as stated in the DPR.

Essentially, there are three major responsibilities. To give some flesh to those three responsibilities as they are explained in the DPR, as you will recall, the President of the Treasury Board announced in June—on June 20, if I recall—the creation of a task force of senior deputy ministers and two private sector CFOs to review the financial management policy framework. This committee will be reporting to the president in early December.

Since that time and before it, all of the actual policy framework of what the Office of the Comptroller General is and what it should be, and also of what the responsibilities should be of the various actors, is being developed. This will be ready very shortly, to be reviewed with the president in December.

The report of the committee that you tabled this week will be very helpful in shaping those recommendations. In fact, it will to a very large extent shape the direction being contemplated, but the consultation within the government is not completed yet. I think it's fair to say there's some robust discussion going on at the moment about what the roles and responsibilities of the various players should be. We are, as I say, having those discussions at this point in time.

I'll say a few words about the policy framework being developed. I cannot go into the various details, because the president has not been formally apprised of it, but directionally it seems to be appropriate. That is to say that there will be very clear roles and responsibilities for the major players. Of course, the roles and responsibilities of deputy heads is a question of machinery, on which the Privy Council Office should be the one making the final presentation. But the interaction among these various players, between deputy heads, CFOs and departments, program ADMs,

financial officers, the Comptroller General—all these—are clearly looked into and spelled out in terms of expectations.

One of the difficulties you've mentioned very often was a lack of clarity about roles and responsibilities. This will attempt to address that issue. It is not completed yet, but your recommendations—and thank you very much for those recommendations—go very much along the idea of what is being contemplated.

Maybe on that note, I could take some questions, if you would like.

• (1545)

**The Chair:** Thank you very much, Mr. St-Jean.

Just before I turn it over to Mr. Pacetti for the first round, a lot of what you said talks about organizations and robust discussions within government. But this is Parliament, and the interface between the executive and Parliament for a lot of these matters is the public accounts committee. We have to determine our own protocol here, and we can't wait until some blue ribbon committee or some group of deputy ministers decides.

I think there has to be some work done by the Treasury Board Secretariat or by your office on these issues, and hopefully, during the course of the study we're doing, the robust discussions will conclude and we'll get to some meat on the bones and formulate some of the issues we want to formulate.

There's a big difference. I'm not sure you really equate... This is Parliament right here, now. A lot of the discussions you've talked about are within the executive branch of government.

Mr. Pacetti, you'll have eight minutes.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, Mr. Chairman.

Thank you for appearing, witnesses.

I have a concern when it comes to overlapping. In your first or second paragraph, you talk about the planning stage and what the Treasury Board's responsibilities are when it comes to the supporting role that I think the Treasury Board plays. There has to be an overlap somewhere, because I know the finance committee, of which I'm a member, is conducting its pre-budget consultations. There's going to be a fiscal update, but then there will be a budget.

If the Treasury Board is going to rely on the Department of Finance, then we all know the finance department has not been doing a great job in terms of giving us the proper estimates. They've been overestimating. The Treasury Board must have its own estimates. Or does it just follow whatever the finance department comes up with? There has to be either some type of overlap or some kind of coordination. At what point does that coordination happen? Is it repetitive? Could you expand on that? I'm having a bit of trouble understanding the level at which that happens.

If you're having trouble just in terms of coordinating the secretariat and the comptroller's office in the secretariat, I can imagine how it could be a challenge between departments.

• (1550)

**Mr. Charles-Antoine St-Jean:** If I may, as my colleague explained, the role is in the expenditure management system, which is the actual decisions in terms of where the money will be spent. It's in a big envelope, based on the priorities and so on. That system must rely on a very robust financial management capability to make sure that proper analysis of information is provided to departments and to deputy heads, and that it is rolled up in the documentation that is provided to departments to hold the government to account. There is a very close interlink in terms of the role of responsibility for financial management.

We define "financial management" as a spectrum of different activities, starting with the planning, the budgeting, the accounting, and the reporting. All of these activities are done in such a way as to provide the right information. Financial management also includes the challenge function, internal to the department, but also within the TBS. All these players must work together to provide the right number.

In terms of the accuracy of the forecasts, I would probably ask my colleague to elaborate on the relationship between the Department of Finance and TBS.

**Mr. David Moloney (Senior Assistant Secretary, Expenditure Management Sector, Treasury Board of Canada Secretariat):** Perhaps I could speak to that, just to clarify.

When the Department of Finance brings forward its fiscal framework, it is informing Parliament of its expectations for revenues, its plans for the total degree of spending. What Mr. Fonberg was trying to explain in his statement was that the Department of Finance has to rely on us—Treasury Board Secretariat, and specifically my sector—to provide them with information on the existing programs of government that have authority to continue. The Department of Finance needs to know the total amount of spending that they need to factor into their overall fiscal framework going forward into the next year and the year after that.

**Mr. Massimo Pacetti:** I don't mean to interrupt, but time is limited.

I understand you don't necessarily get involved on the revenue side, so we can understand why some of the numbers sometimes don't get fully disclosed until the end. So let's talk about expenditure.

The Department of Finance decides, through their budget, that they're going to spend  $x$  number of dollars. Let's take an example. With the Department of National Defence, let's say, it's going to be \$10 billion. At what point does Treasury Board get involved and say the defence department might actually be spending \$9 billion or \$11 billion, or that they need to spend \$11 billion but you've only authorized \$10 billion? The Department of Finance doesn't touch that any more, does it? Correct me if I'm wrong. Doesn't Treasury Board get involved at that point?

The the Department of Finance still oversees, from what I understand, and then Treasury Board puts in its two cents, for lack of a better expression. And then the finance department within the Department of National Defence also gets involved. I think that's what we're talking about: the roles and responsibilities of each

department. Everything seems to be interlinked, but nobody can give you a proper answer.

**Mr. David Moloney:** Perhaps I can try it.

It's Treasury Board Secretariat's job to know how much spending is authorized for defence, and to work with Parliament to get Parliament's votes in support of those plans.

The Department of Finance takes from Treasury Board Secretariat the amount that the Department of Finance currently, with current cabinet approvals and Treasury Board approvals, has approval for, for next year. That includes things like policy approvals, but also other adjustments, like, for example, compensation. So the Department of Finance takes it from us for that department.

As for all other departments, they look at that overall. One of their jobs is to decide if that is affordable for the government when we add it all up. It then comes back through to cabinet that we can afford all that plus more, or that we can't afford all that, and then further decisions are taken.

When the budget is made, we go back to the Department of National Defence, in this case, and say they have authorization to continue—

**Mr. Massimo Pacetti:** You'll work with the Department of National Defence.

**Mr. David Moloney:** We are the ones who come to Parliament and go to the department. It is then the role of the deputy and the senior financial officer in National Defence to spend that money.

**Mr. Massimo Pacetti:** I know that the former Liberal government performed an expenditure review, but with this government, I know that some program cuts were announced. How did that come about? They were announced, I think, by Treasury Board and the Department of Finance as well. Was it done in conjunction, or was that basically a cabinet decision?

• (1555)

**Mr. Robert Fonberg:** It was a cabinet decision announced on September 25. It was indicated in the budget last May, budget 2006, that the government would undertake to reduce its expenditures by \$1 billion this year and \$1 billion next year. The results of that review, which was a cabinet-approved process, were announced on September 25.

**Mr. Massimo Pacetti:** How was the procedure conducted differently than in the previous year? In the prior year it was done through a separate department, if I'm not mistaken. There was an expenditure review committee set up within government.

**Mr. Robert Fonberg:** There was an expenditure review cabinet committee. It was led by one of our colleagues at the officials level, who I guess was attached to the Privy Council Office.

**Mr. David Moloney:** You mean the one in 2005.

**Mr. Robert Fonberg:** Yes, it was the previous one. In this particular case, the exercise was led by the Treasury Board Secretariat, by the President of the Treasury Board, and there was also a cabinet committee that was established by the Prime Minister. They met three times through the course of the summer to examine a variety of proposals.

**Mr. Massimo Pacetti:** Thank you, Mr. Chairman.

**The Chair:** Thank you very much, Mr. Pacetti.

Monsieur Laforest, you have eight minutes.

[*Translation*]

**Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ):** Good morning and welcome to the whole team.

The documentation provided to us by our analysts says that the main mandates of the Office of the Comptroller General are "providing government-wide direction and assurance for financial management and internal audit". It also says that "It uses internal audit to provide a level of assurance that departments have sound management controls in place". When I read "a level of assurance", I interpret it to mean that it is not total assurance, but a degree of assurance. There is therefore some vagueness between the two. I would like to ask a question about this.

Is the Auditor General intervening in regard to this vagueness? She intervenes in an external audit capacity and identifies problems. As we know, she tables a report every year and regularly submits reports on various aspects of governance, and raises problems that we analyze and attempt to correct. Consequently, internal auditing does not properly audit all areas of management.

Could this situation be corrected at a later time?

**Mr. Charles-Antoine St-Jean:** Thank you very much for your question, Mr. Laforest.

With respect to the interaction between internal auditing and external auditing, there are two audiences.

External auditing by Ms. Fraser's Office of the Auditor General provides assurance to Parliament about the reliability of the results.

Internal auditing is a management instrument, as Ms. Fraser herself has mentioned on a number of occasions. She provides assurance to the deputy minister and to the Treasury Board Secretariat that there is reasonable control under the circumstances over the management of public property and resources.

With respect to reasonable assurance or level of assurance, one can never do 100% audit. The fact is that there will never be enough money to do so. As Ms. Fraser explained the other day, when she conducts her external audit, there are always concepts involving relative importance, called materiality. Thus if problems arise, it needs to be determined whether they are significant. If minor problems are identified, then of course we deal with these as well.

However, what is important for senior management and for you too, is to know whether there are any major problems. What you want is for the internal audit instruments to bring out such problems.

When we have completed the updating of internal auditing, which will take another few years, we will then be able to provide the president of the Treasury Board with assurance within the government as to the quality of internal controls government-wide. These documents will also be made public. We have not yet got there, but we are headed in that direction.

**Mr. Jean-Yves Laforest:** That means that until we have got there, we do not have full assurance that management is being done properly everywhere.

**Mr. Charles-Antoine St-Jean:** I would be very happy to be able to tell you today that everything is perfect, and so on. Even when the internal audit system is fully operational—and the woman over there who has done some internal auditing knows it—there will always be the concept of materiality, and there can never be 100% assurance.

I am going to be very honest with you. I do not at this point want to try to convince you that I will be able to deliver 100% assurance. There is not enough money. Furthermore, I am certain that given your priorities, you are prepared to shoulder some risk. We are also going to try to educate our people in that regard. It is reasonable to take certain risks; other risks are not reasonable. What needs to be managed is the appropriateness of the risk.

● (1600)

**Mr. Jean-Yves Laforest:** I have a second question, if I have a little time remaining, Mr. Chairman.

The day before yesterday, the Auditor General told us in her presentation that to discharge their mandates, she and the Treasury Board Secretariat have a number of challenges to deal with. For example, she pointed out that strong leadership was needed. I asked her where this leadership had to come from: from the political or managerial side, senior managers? She said clearly that political leadership was needed.

Do you feel that the coming into force of Bill C-2 would make up for a lack of political leadership?

**Mr. Charles-Antoine St-Jean:** It is important to remember that leadership must come at several different levels, including the bureaucratic level, to be sure. My role therefore consists of ensuring that there is a community of internal auditors, which needs to be rebuilt and trained, and that there is a need to attract people, to certify them and to make sure that they are properly deployed and provided with sound tools, and so on. I am already spending several hours a day on that. It is going to take time, because people are involved.

There is also leadership at the political level. I would argue that the political leadership is excellent. In fact, the support of the president for what I am attempting to do has been excellent; he is encouraging me. Last year, we spent \$40 million more per year on internal auditing. We had been spending approximately \$55 million per year and we are going to increase this amount to \$95 million within two years. Money is a problem, but the most important thing is to find good people. Nevertheless, the money is there, and the support.

You also need to be demanding towards us. We prepare internal audit reports and post them on the website every day. This year, I posted 200 or 250 such reports. People need to read them and ask us questions. That is part of the framework, the management framework. It therefore needs to come from three levels.

[*English*]

**The Chair:** Merci, Monsieur Laforest.



Before I go to Mr. Williams, I want to put on the record four questions, Monsieur St-Jean, and I'm not looking for an answer or comment right now. These questions will be given to you in writing by the clerk, and by next week we'd like very specific answers to them, in writing. I don't think a satisfactory answer would be that future discussions are being held. Just for the record, if I may, these are the questions.

If adopted, the Federal Accountability Act will bring about a major change in the status of deputy ministers. How might your role and responsibilities change in light of this?

The second question: The Federal Accountability Act proposes the dispute resolution mechanism when deputy ministers as accounting officers and ministers disagree over administrative issues. Do you anticipate that you and your office will have a major role to play in the dispute resolution process?

The third question: If deputy ministers are designated accounting officers, they will be accountable for comptrollership matters within their departments. Do you and your office anticipate providing enhanced support to deputy ministers as they take on this heightened accountability?

The final question: Your office has been working with departmental chief financial officers on a new policy on internal control. This new policy would set out the accountabilities of deputy ministers and CFOs. The deputy minister would be responsible for extended risk management and the system of control. The CFO would be responsible for core risk responsibilities related to financial systems, records, reporting, and financial controls, including all financial controls and programs. How would a new CFO model work with the accounting officer model?

Again, we'll give them to you in writing. I'm not looking for a comment right now, but we would like a very clear answer as part of this whole process, and we appreciate your help.

Mr. Williams, for eight minutes.

**Mr. John Williams:** Thank you, Mr. Chair.

I hope this isn't the blind leading the blind, but I do feel that we're supposed to be leading, and I feel we're kind of blind here. We hope that Treasury Board is not blind. I still haven't got a feel for what we're trying to achieve here this afternoon.

I liked the fact that you put these four questions on the table and that we're going to get some answers. Perhaps if we'd had the answers, we could have had some debate around them, but we're a bit "cart before the horse" here, and this is unfortunate.

There is going to be a change in the management, by virtue of the Financial Administration Act, which is hopefully going to be approved in law pretty soon. How much preparation have you done in anticipation of this? Have you had your discussions? You mentioned "robust discussions". I presume that's heated arguments, turf protection, and so on. Are you prepared, Mr. St-Jean and the Treasury Board, Mr. Fonberg, for the Financial Administration Act when it becomes law?

Mr. St-Jean.

•(1605)

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

As we said, there was a robust discussion. There is never an easy answer to this. I would like to give you a definitive answer that there was a cookbook here that will tell us, you do this, this, this.

The Auditor General herself, the other day, made the point that it depends: it depends on the swing, it depends on the circumstances, and it depends on the expectations. I've had the discussion with many of my colleagues who say that civil society has changed in the last five or six years. Performance expectations, in terms of the quality of financial management, have changed. We don't expect—

**Mr. John Williams:** Are you getting ready for the Financial Administration Act? Don't worry about societal change. Tell me about your progress and work to be sure that you're ready for the Financial Administration Act.

**Mr. Charles-Antoine St-Jean:** We're moving along those lines. Some of those indicators of performance will be the audited financial statements. As you know, we have a target for tier one—the top 22 departments—to be audited by March 31, 2009. I'm pretty sure that it's going to be very tough to get there. Some will be kicking and screaming getting there, there is no question about it, but we have to have some timelines to do it. Then once we are done with tier one, we'll go to tier two, and tier two will be the other 15 to 20 departments.

**Mr. John Williams:** Let me interject again. I'm sorry, Mr. St-Jean, but you're telling me what is normal policy evolution and where the department is going. I asked you about the Financial Accountability Act, which is going to become law, which is going to change the parameters. Are you having discussions, and are you going to be ready for that if it comes into law, say, before Christmas?

**Mr. Charles-Antoine St-Jean:** Well, as you know, the policy on internal audit was a good example on the point. We put in the smallest internal audit, to be phased in over three years, because as we were saying before, we can have all the money in the world, but it's a people business. We need to have the right people in the right places, and so on. So we're recruiting some new senior financial officers. We should have 11 or 12 becoming available within the next week or the next month. We're getting ready.

**Mr. John Williams:** I'm sorry, I have to interject. I was referring to the Financial Administration Act when I meant the Federal Accountability Act.

**Mr. Charles-Antoine St-Jean:** Yes, I appreciate that.

**Mr. John Williams:** But you still haven't said that the Federal Accountability Act is coming down the pipe and that this is what you are doing. I seem to feel that you're just telling me about normal evolution.

We've known about, and the public accounts committee has been talking about, financial statement audits for a long time. We've been talking about accrual of the estimates for years, long before anybody even heard about the Federal Accountability Act. We've been talking about internal audit for years. As long as I've been on this committee, we've been talking about it.

Tell me what you are doing to be ready for the Federal Accountability Act accounting officer designations. Are you going to be one? Is Parliament going to be better served? What problems have come along because of these debates?

**Mr. Charles-Antoine St-Jean:** Will we be ready when the Federal Accountability Act comes in? We will be ready to start the implementation, sir. I would like to tell you that we have everything done down to the last detail. It will not happen. It's going to take time to bring in the people. We're clarifying all the roles and responsibilities. We're putting new people in some of those roles right now, even in advance of this legislation. We're defining CFOs that are in departments. We now have....

**Mr. John Williams:** Let me ask Mr. Fonberg about this. Is he going to be ready?

Are you going to be ready, Mr. Fonberg?

**Mr. Robert Fonberg:** I actually am ready, sir.

**Mr. John Williams:** Tell me how you're ready. What have you changed to make yourself ready?

**Mr. Robert Fonberg:** The Federal Accountability Act, in terms of how it applies, is fundamentally the purview, in terms of its internal changes, its internal audit changes, of Charles-Antoine, so it actually has no kind of direct applicability. It has accounting officer implications, which deputy ministers, as I understand, are getting ready for. I think your question's properly positioned to the Comptroller General.

•(1610)

**Mr. Charles-Antoine St-Jean:** In terms of the audit of the financial statement, we've got readiness assessment going on right now. The first department, a tier one department, got their audited statement this year for the first time. We'll have some more this year. It's one by one by one. We're going to get there.

We'll be tough. Some might be qualified to see those statements, but so be it. We're going to take them on one by one. In terms of the audit, we said that we're going to be doing a horizontal audit. Well, we've got two horizontal audits. That's the first time in the Government of Canada that horizontal audits are being conducted by the government. Before that it was only the Auditor General; now it's being conducted by the government. We've got one on delegation of authority; we've got one for the small departments for travel and hospitality.

**Mr. John Williams:** Then you can answer this question about internal audit. My position has been for years that an internal audit should be under your direction at the Treasury Board—centralized, with internal auditors seconded to departments and moving around every two or three years so they don't become co-opted into the system, as we saw at public works under the sponsorship scandal. Do you agree that this is a good policy? If you don't, why not?

**Mr. Charles-Antoine St-Jean:** Well, if I may—

**Mr. John Williams:** You can criticize me. That's okay.

**Mr. Charles-Antoine St-Jean:** As the Auditor General also has mentioned, she begs to differ with your approach.

**Mr. John Williams:** I know she does, yes. That's why I say you can beg to differ too. Give me your reasons, though.

**Mr. Charles-Antoine St-Jean:** I also beg to differ.

When we're looking at the Federal Accountability Act and the accounting officer, we want deputy ministers to be accountable and also to have the tools. It's important that we give them the tools to enable them to give you the assurance that they've got their shop under control.

Their internal auditors will give them the assurance that they're in control. The deputy ministers will be tasking the CFOs. They'll tell the CFOs to put controls in place here and here. They are going to be turning around and saying to their chief audit executives to give them the assurance. They'll tell them they're going to have an audit committee here that will be challenging this; now the deputy has to ask if they'll be equipped to be accountable.

**Mr. John Williams:** But are we going to find that legal opinions trump accounting advice, as we saw in the gun registry? In this ninth report we recommended that you, Mr. St-Jean, be the final authority on accounting matters. Will the opinion of some lawyer who has only got contract law and no accounting experience trump the Comptroller General? Are we going to see the end of that?

**Mr. Charles-Antoine St-Jean:** I read with great interest the recommendation of the committee on that issue. It gives us the intent of the legislator, and I really appreciate seeing the recommendation. It's going to help us in doing our job.

However, as I mentioned in my testimony, I'm also a citizen who must respect the law. In those cases in which you as a legislator tell us to do something and the accounting standards tell us something else, I'm going to be torn, sir. I'm one of those 15 Canadians who sit on public sector accounting boards, but I do not want to usurp the right of the legislators. It is your role to tell us the standards you want us to follow; it is not for a private sector accounting board to tell us that.

In the future, when there's a problem—because there will be some problems—at least the auditing routine will be very clear. If there's a problem, a potential difference of opinion, the Auditor General will be informed at that time, before the transaction is recorded, just as any external auditor would be advised in the private sector so that will not happen.

It will happen in the future, no matter what, sir.

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

**Mr. John Williams:** Before we close on the accounting, Mr. Chair, I don't think I'm any more enlightened than when I started. I'm blind here. I'm hoping they're not blind, but I'm leading—

**The Chair:** Maybe you're a slow learner.

**Mr. John Williams:** Maybe, but I'm not sure that I am, Mr. Chair.

**The Chair:** I'm just kidding.

I can appreciate your problems, Mr. Williams.

Maybe Mr. Christopherson will enlighten us all. Welcome.

**Mr. David Christopherson (Hamilton Centre, NDP):** You keep talking to John Williams like that and your problems are going to be a lot bigger than that.

Thank you very much.

Just to get this off my chest, I don't quite understand the situation. We were in the House of Commons dealing with Remembrance Day issues and doing a two-minute silence. There were veterans in the House. It blows my mind that committees were started; they shouldn't have.

• (1615)

**Mr. Kevin Sorenson (Crowfoot):** They should have been postponed until 3:30.

**Mr. David Christopherson:** I came straight from the House and got here as quick as you humanly can. Anyway, I'm not blaming you, I'm just saying that should be clear. The House leaders or somebody should make it clear that, if anything, that's a moment when we all just stop everything, stay in the House in a non-partisan way, and reflect our constituents' respect for our veterans.

Having said that, if ever there was a meeting to be late for, it seems that this may be the one. As I read through this, I gathered there was a bit of a miscommunication in terms of what you thought you were going to talk about and what we thought. So I'm with Mr. Williams. I'm not sure where we go from here. I suspect we just decided to fill in the time, since you were already here, which is a shame, because we have a lot of work and not a lot of time.

The only thing I'll ask is this. You said you had some differences, so I'd like to expand a little on where you left off with Mr. Williams. That was a point we hit pretty hard. I can appreciate the dilemma you raised, and that's why I want to pursue it. It's an interesting point.

Here's how I see it, and you can tell me how you perhaps see it differently. Our discussion, led by Mr. Williams because of his experience, led us to believe that there ought to be a set of standardized accounting procedures that we, as Parliament, tell the sitting government. Regardless of what partisan stripe it is, these are the parameters by which the government will conduct its reporting of the accounts of the people of Canada.

It seemed to make sense to me that we found a standard. It's external. It didn't need to be, but it's one that we accept. We've said that is the standard we will stand by, so there you go. You were suggesting that you might have a different sense of allegiance in terms of where you go. I understand that, but I'd like to hear of it a little further, because the process is meant to deal with that specifically. It sounds like you're creating a problem that we haven't addressed.

**Mr. Charles-Antoine St-Jean:** To respond to that, as you know, the accounting standards evolve quite radically. They're still going to evolve pretty radically in the next few years. The private sector in Canada will be adopting the IFRS, which is the international financial reporting standard, in 2011. It is a brand-new standard. The rest of the world goes in a gap for the moment, but many organizations are moving on that basis.

In the federal government, we have an accrual basis of accounting for financial reporting, but for the estimates we have a modified cash basis. That's something we still need to resolve. I think your colleagues in the other committee will be coming out with recommendations on this.

Some of those accounting standards are sometimes difficult to reconcile, and I can give you a perfect example of this: the new accounting standard on reporting entity. This year, we included the four foundations and a fifth element, the St. Lawrence, as part of the accounting entity of the Government of Canada. The accounting standard tells us that if there's an accounting control, we have to put it in. We've seen one interesting debate with the Canadian Forces Personnel Service Board. The accounting standard tells us that we need to put this in the accounting entity, but when you look at the legislation, it tells us it's not public money and we cannot put it in the public accounts.

Things like that will happen. What's important is that when they do happen, we raise the flag, haul the external auditors in, say we have a problem here, and do things transparently. I just want to make sure that we do not create an automatism that might be going against what the legislators would like to do.

**Mr. David Christopherson:** In the example you've given, does that require any direction or guidance from the political side of things, or would you do all of that internally?

**Mr. Charles-Antoine St-Jean:** On this one, the issue is not material enough when we look at the materiality of the public accounts of the Government of Canada. The Auditor General was making reference to a \$1-billion materiality. The asset of that entity is less than that, so it's not material. When we're doing the audits of the departmental financial statements, that will become material to one of the departments. At that point in time, we will be looking for guidance or a legislative change and will ask what you want us to do. Do we put it in or leave it out?

I don't think it should be the accountant telling you what to do. I do think you should be informed that there's an issue, and you should know of the options so that you can tell us what you want us to do. We'll be glad to follow.

• (1620)

**Mr. David Christopherson:** Thank you.

Mr. Chair, maybe you or one of the analysts can help out. In a case like that, where it's not controversial to the point where the minister has to make a decision but it is reported to them as being done a certain way, is there a mechanism for reporting back? Have we covered that off in our deliberations?

**The Chair:** Do you mean from a financial point of view?

**Mr. David Christopherson:** Yes. We were trying to avoid this business that's been pointed out as to whether it is accountants, or whether it's lawyers. And we didn't like and didn't accept what we saw in the report.

Do we have a system in place now that will prevent this?

**The Chair:** Not that I'm aware of.

I think what we were looking for, Mr. Christopherson, was a very firmly established well-known protocol if there is a dispute. And these disputes arise every day: there is a dispute as to how a certain transaction will be recorded in the published statements of a department or the estimates.

There should be a protocol. Someone out there should have the final say. The system seems to be fairly well established in the private sector. In the government, as we've seen in the firearms situation, there didn't seem to be any system that we have seen, and we were looking to have a system in place.

I would have thought it would be under the leadership of the Comptroller General; that his office would have developed.... In fairness to Mr. St-Jean, the department was only reinstated in 2004, so I think the recommendation is that we are looking for a protocol.

**Mr. David Christopherson:** That may be an area we still have to go back to revisit and maybe keep in mind as we go through our deliberations, because it's really a continuation of that whole business we just went through.

**Mr. Charles-Antoine St-Jean:** Let me say on this issue that we also have to reconcile two aspects. We want deputy heads to be accountable. These are their financial statements; we also have to respect that we want them to be accountable for their statements. So it's difficult to say that somebody else will be overriding them.

But I take your point: it has to be transparent. I'm trying to reconcile those two, and we'll come up with a protocol.

**Mr. David Christopherson:** Let me quickly ask where that stands right now. If a deputy came to you and wasn't sure what to do, and you had a differing opinion and the two of you were standing there, who has the primary decision-making role?

**Mr. Charles-Antoine St-Jean:** At the moment, it's clearly the deputy head. These are the statements of the deputy head.

**Mr. David Christopherson:** And that won't change with the new legislation?

**Mr. Charles-Antoine St-Jean:** Well, the legislation would not change that, because the deputy head is responsible, unless the roles and responsibilities are changed to reflect what the protocol is to deal with those kinds of issues.

**Mr. David Christopherson:** Is that consistent with the thinking we did, really, that it go to the deputy and end there? Correct me if I'm wrong, but I thought we were trying to sway things more your way, in terms of your being a final arbiter and preventing this business, because the deputy, of course, is under the supreme direction of the minister and the Prime Minister.

**The Chair:** Don't forget that we have a situation of very few deputies having a financial background, and we still have situations where CFOs in government don't have a financial background, so you have the "blind leading the blind" situation.

**Mr. Charles-Antoine St-Jean:** But the recommendation is well taken. That might be one of the changes we need to reflect the reality and the wishes of Parliament. For those particular circumstances, we'll review this to see what the president and the Prime Minister and the PCO....

**Mr. David Christopherson:** Thank you.

Thank you, Chair.

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

Mr. Wrzesnewskyj, you have eight minutes.

**Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.):** Monsieur St-Jean, I took note when you said that your office was reinstated two years ago during the previous government's term.

I'm curious. You're providing accounting oversight. What about the procedures in place, for instance, with contracts, etc.? Have you established some protocols to report on them as well?

We've seen situations in the past when contracts were tendered where procedures may not have been properly followed. Have you arrived at the point that you're reporting on this as well, besides just the accounting aspect?

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

I have two hats. One is financial management; the other one is internal audit. Making sure that the real risks, the most important risks, are audited comes under my internal audit hat.

Concerning the contract situation, we ask what management processes are in place, we look at what the control points are, we look at the current practices. It's done department by department, depending on the risk profile of the department. That is part of the envelope of responsibility, looking at what the internal control is.

It's internal control on any resources that are being deployed: people, contracts, grants and contributions. They're all part of the internal control framework on which the chief audit executive of the department will opine in the next few years.

We are working at establishing all these audit programs that will be followed by every department. We're taking away variability. So yes, we're looking into it. That's part of the envelope.

• (1625)

**Mr. Borys Wrzesnewskyj:** We know the intention of the various rules in place, especially when it comes to contracts and tendering of contracts, but if certain loopholes potentially exist and lawyers say that technically nothing illegal has happened, do you foresee that you might be providing some recommendations to make sure we close off some of those loopholes?

**Mr. Charles-Antoine St-Jean:** Of course.

The most important value added by a strong internal audit function is to provide the assurance to management and to stakeholders that proper controls are in place.

The second most important is occurs when we have some weaknesses or some risks to address. That's the reason why every single internal audit report, before it's completed, must have recommendations.

You also have to have a management response. When you look on the web, every given year we have about 200 internal audit reports. All those reports must have the problem that we're trying to correct, the impact, the recommendation, and the management action plan.

This is where we're looking to strengthen this—in the departments' independent audit committees, to make sure that they follow up on the action plans on a timely basis and report on an annual basis on the status of the health of the internal audit and the status of the health of the financial management.

**Mr. Borys Wrzesnewskyj:** One of the departments that perhaps makes some of the largest purchases and procures the largest dollar-value amount of goods is the Department of National Defence. Recently we saw, within a couple of days after we recessed for the summer, a week-long string of announcements about \$17.5 billion in military purchases.

I assume all of that was within the budget, but one in particular seemed to stand out. There was an announcement of a \$2.5 billion sole-source untendered purchase of heavy-lift aircraft from Boeing against the recommendations of the actual department.

There was another aspect to it that's quite worrisome: it turns out that on top of this being a sole-source untendered \$2.5 billion contract against the advice of the department, there was a multi-year \$4 billion service contract attached to it.

Would this sort of thing raise flags?

**Mr. Charles-Antoine St-Jean:** This particular transaction that you refer to was approved by cabinet in the normal course of events. What's important from an internal audit perspective or from a control perspective is that if it's sole source, it has to be disclosed as sole source, so that management can then make their own assessment in terms of whether it is reasonable.

It's not for me to make that policy decision. My job there is to make sure that there's a control framework in place and that if a certain protocol is not followed, the reason is transparent and is reported.

At that point I've done my job, and it is for members or stakeholders to ask those questions.

**Mr. Borys Wrzesnewskyj:** In that case it appears we have some tightening up to do in Parliament. When former lobbyists for some of these military contactors now sit in cabinet and we have sole-source untendered multi-billion-dollar contracts issued against the advice of the department, it's fine as long as we declare it openly.

• (1630)

**Mr. Charles-Antoine St-Jean:** I think I cannot comment further on that question. My job is to make sure that it's reported.

**The Chair:** There's a minute and half left. Ms. Ratansi, please go ahead.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** Thank you for being here.

In response to Boris's question, you say your job is internal control. I'm trying to reconcile the two. I'm of the opinion that John Williams has: I'd love to see an internal audit department in every department, for the reason that if a deputy minister has no financial background and he or she is powerful enough to force a CFO to change a decision, where are your internal controls, and how do you ensure that those internal controls have not been violated? What checks and balances do you have? What protocols do you have?

**Mr. Charles-Antoine St-Jean:** There are different ways. For the roles of the various players, you have internal controls. Internal control is the job of the deputy heads, but also of all the senior management executives in a department, to make sure you have good internal controls. The CFO will make sure a department has

good internal controls in financial reporting and good internal controls on the management of the financial resources.

The chief audit executive—

**Ms. Yasmin Ratansi:** Just so that I'm not going on the wrong track, we as the public accounts committee need to be sure that we can rely on you in saying things are going fine. How do I know things are going fine when you're not even auditing them? You do not even have the routine.... I mean, you have to have cyclical areas that you go to audit. I just want to see the balance.

**Mr. Charles-Antoine St-Jean:** My apologies; I should have said that my role with the internal audit, speaking to Mr. Williams' point, is.... We have decentralized internal audit, so there's an internal audit in every department. All the larger departments have the capacity for internal audit. I'm responsible just for the small departments and agencies, because of critical mass. Otherwise, it's in every department.

I participate in the selection of the chief audit executive; I provide the functional leadership to that community in terms of recruiting, classification, deployment, and in terms of tools, and I have ongoing discussions with all the chief audit executives in the departments. If there are some problems, they tell me, and I have my discussions with them. There's a loop.

**The Chair:** Thank you very much, Ms. Ratansi. Thank you very much, Monsieur St-Jean.

Mr. Poilievre, you'll have four minutes.

**Mr. Pierre Poilievre (Nepean—Carleton, CPC):** On the point Mr. Christopherson raised—I think he was talking about disagreements between a minister and the public service and the comptroller—as I understand it, the minister actually has the final say, according to the Federal Accountability Act, and if there is a disagreement between the minister and his deputy, then that disagreement is put in writing and is provided to Treasury Board, which will make the final decision. That decision and the record of disagreement then also go to Privy Council and to the Auditor General. Those are the new processes that are put in place under the Federal Accountability Act in those circumstances.

I still don't understand, though, your reporting structure. Do you report to the secretary or to the president?

**Mr. Charles-Antoine St-Jean:** I have one of those relationships that are dual. As a deputy head I report to the president, and on the machinery I also report to the secretary. By the Financial Administration Act I'm designated as a deputy head, so I can and do report to the president, but on the machinery, I also report to the secretary. It's a matrix kind of reporting.

**Mr. Pierre Poilievre:** Okay. I guess I'm going to go back to the same question: if there's a disagreement between you and the secretary, would the minister resolve the disagreement?

**Mr. Charles-Antoine St-Jean:** The secretary reports to the president. I also report to the president—

**Mr. Pierre Poilievre:** Right. So he's the final authority, then.

**Mr. Charles-Antoine St-Jean:** Yes.

**Mr. Pierre Poilievre:** Okay. Good.

As I see it, the Federal Accountability Act may succeed—we'll find out—in resolving the 70-year-long debate that has gone on in public administration in this country between centralized control of financial accounting and decentralized control that allows the departments to run their own affairs, in that it makes the deputy minister the chief accounting officer, but it also empowers the Comptroller General, underneath the Treasury Board president, at the same time. This, I think, is the first time we've seen both of those things: departmental responsibility increased, along with central control being increased.

Do you think we may finally have resolved the debate that goes right back to the 1930s, when Prime Minister Bennett had to take over the Treasury Board and the finance department and all of those functions himself in order to centralize, and ever since there's been a pendulum swinging back and forth? Do you think we may have finally solved that seven-decade-long debate?

• (1635)

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

As the Auditor General herself said, there is no magic answer. It really depends on the environment, the circumstances, and the risk involved. However, I think we're getting close.

**The Chair:** Mr. Sweet.

**Mr. David Sweet:** I just want to go back to what Mr. Williams started with. Along with association standards, you have a number of statutes that buttress up against your responsibilities, including the Financial Administration Act, the Federal Accountability Act now, as well as new accounting procedures.

There has to be a desire on your part, particularly from the both presentations that I heard, for some clarity of your role. Is there not a responsibility that you have in this case that we go back to, in which a legal opinion trumped a financial opinion in a financial case? Is there not some responsibility that you have to make sure that we, as Parliament and as legislators, are able to provide you with the tools so that this will not happen again?

**Mr. Charles-Antoine St-Jean:** Like I said, I really read the report with great interest, and I thank you for the recommendation. It provided me with a pretty strong sense of direction of the intent of the legislators, in terms of where you want to go. If I may, I appreciate that this might not be satisfactory to the committee, but we are getting close in terms of reporting to the president.

With all due respect, I would like to have that discussion with the president in terms of what the appropriate balances would be, because the president would also probably like to have a discussion with the Prime Minister's Office. I have to defer to the authority of these individuals.

**Mr. David Sweet:** But I do have it right. You would function better, have better performance, if you had some more clarity around those kinds of things.

**Mr. Charles-Antoine St-Jean:** There's no doubt about that, sir.

**Mr. David Sweet:** Are the audit committees that you mentioned from each department made up of the departmental staff in those departments?

**Mr. Charles-Antoine St-Jean:** The policy that was enacted as of April 1 this year says that by 2009 all the larger departments—which means about 40 to 45 in total, if I'm not wrong—will have a majority of their members who will be citizens. They will no longer be members of the management team of the department. They will be citizens selected for their competencies in financial management, contracting, logistics, or whatever the business of the department is, to really provide us with a level of independence that is needed for the deputy head.

**Mr. David Sweet:** So presently they're not independent audit teams, but we're moving in that direction.

**Mr. Charles-Antoine St-Jean:** Some of them have started. We have some independent members.

**Mr. David Sweet:** What is the formula you're going to use? Have you decided, or is it simply going to be by percentage of the total federal budget? What's the formula you're going to use in each department for the materiality of that commensurate department?

**Mr. Charles-Antoine St-Jean:** Again, there is no magic formula for that.

• (1640)

**Mr. David Sweet:** There's not a lot of magic here.

**Mr. Charles-Antoine St-Jean:** No, there's not.

On order of magnitude, when you look at the public accounts, you see \$200 billion worth of expenditure and \$1 billion worth of materiality. Is the materiality half of 1%? In the industry, it has changed to between half of 1% and 1.5%. It's in that range. But again, to the point, even though they would be below the dollar threshold, some transactions are significant, so it should not only be a question of dollars, but the significance of the information to the reader or the stakeholder. That's what a good auditor, a good financial manager, or a good manager must take into account: not only the dollar threshold, but the significance for the decision-makers. So it's a half of 1% or 1% order of magnitude, but with this caveat that there might be some stuff that is below that.

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

Thank you, Mr. St-Jean.

That concludes the time we have allotted for this section, colleagues.

I want to take this opportunity to thank Monsieur St-Jean, Mr. Fonberg, Mr. Moloney, and of course Mr. Morgan. We weren't too hard on him today.

Again, if I can summarize this study that we're doing, it arises from some of the comments from Gomery and some of the issues we had to deal with. Just to clarify our own relationship between the public accounts committee and the Treasury Board Secretariat, basically we have very similar roles. The Treasury Board Secretariat is the oversight arm of the executive and we're the accountability arm of Parliament. Certainly if the thing is going to work properly, there has to be a very strong relationship between the Treasury Board and the Treasury Board Secretariat.

Also, with the reinstatement of the Comptroller General and your position, there are again a lot of issues that this committee is unclear about in terms of how your office will fit into the present arrangement, and also going forward with the expected enactment of the Federal Accountability Act. Again, as Mr. Williams quite rightly pointed out, we see that as a major change going forward, and we hope we're right.

Mr. St-Jean, just to conclude, we gave you four questions in writing, and we would like very clear answers. I don't think the committee would feel it's appropriate that the answers would be that these issues are under study. I think we'd like very definitive answers to these issues.

**Mr. Charles-Antoine St-Jean:** No disrespect was intended, Mr. Chairman. My apologies.

**The Chair:** No, there was none taken.

Thank you very much.

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

**The Chair:** There's a motion I'm going to deal with, and then we will go in camera on the reports, colleagues.

Colleagues, the first motion I want to deal with goes back to the motion we passed at the last meeting, dealing with the engagement of Dr. Ned Franks. I really didn't quite appreciate how complicated this was going to be. Anyway, according to the clerk, we now have to pass another motion with the budget presented, and that then goes to the Liaison Committee, which is meeting next Thursday.

The Liaison Committee is a committee of parliamentarians. It's chaired by Dean Allison, and it comprises the chairs of all the various House committees.

I'll read the motion in English:

That, in relation to its study of the Review of the Roles and responsibilities of the Treasury Board Secretariat, the Committee approve the proposed services contract budget in the amount of \$24,965.00 for the period of November 1, 2006 to March 31, 2007 and that the Chair present the said budget request to Liaison Committee.

Attached to that motion is the actual budget. To go forward, that will have to be moved and passed by this committee. I don't want to borrow words, but I point out that we did have a fairly robust discussion on this issue the last time.

**Ms. Yasmin Ratansi:** Mr. Chairman, I have a question, if I may.

**The Chair:** Mr. Laforest is first.

[Translation]

**Mr. Jean-Yves Laforest:** Mr. Chairman, in our discussions at the previous meeting, was it not mentioned that a service contract could be for a maximum amount of \$25,000, whereas at the moment, the motion indicates that the contract would be for the precise amount of \$24,965? It seems to me that this is not what we had agreed on. Indeed, it seemed to me that we had even allowed for latitude in contracts so that they could vary between \$18,000 and \$25,000, but I see here a firm commitment of \$24,000. I don't recall that this was what had been agreed.

• (1645)

[English]

**The Chair:** I have been informed by the clerk that this is a budget only, Monsieur Laforest. I had no idea how much the per diem was—I know now—and this would depend on how many days we would need him, how many days he would work for us, and where it went.

This is not a set contract for \$24,965. It would depend on the number of days. Concerning the expense budget, we have no idea whether it would be \$4,000 or \$2,000. All we know is it cannot exceed \$4,000.

[Translation]

**Mr. Jean-Yves Laforest:** It does not say, Mr. Chairman, that the maximum amount is \$24,965.

[English]

**The Chair:** This is the absolute maximum, yes.

[Translation]

**Mr. Jean-Yves Laforest:** Then it should be stated; it is not written down. In any event, not in the French version.

[English]

**The Chair:** We can write in the maximum amount; that's no problem at all.

**Mr. Massimo Pacetti:** All your details are here.

**The Chair:** I have no problem. But first of all, let's get the motion on the floor.

Mr. Christopherson is prepared to move it.

Is there any further discussion?

**Mr. John Williams:** The only question I have, Mr. Chairman, is that I thought we were hiring Ned Franks, and there's no indication of his name showing up in either the contract, budget request, or the motion. Is that appropriate?

**The Chair:** To a point, Mr. Williams; I would have thought it would be here somewhere.

Again, you're quite right, but this is much more complicated than I ever dreamed when I started this.

**Mr. John Williams:** I just want to point out that this is why we have accountants. And you're a lawyer.

**The Chair:** Anyway, there's no name on it; that's right. But the clerk tells me the name will be on the contract.

Is that right?

**The Clerk of the Committee (Mr. Georges Etoka):** Yes.

**Ms. Yasmin Ratansi:** I'm sorry, I was first, but then Mr. Williams.... He always bumps people off.

**The Chair:** My apology.

**Ms. Yasmin Ratansi:** This is where we have to be careful; you have to write it down. It's a motion we approved last time, and the words have changed. What's going on here? You had his name before; you had "not exceeding \$25,000"; you're saying it won't exceed \$24,000.

Could we have it properly prepared and sentenced, so that we know what we are doing? You made us vote for it last time on this basis.

**The Chair:** If I may, I will ask Mr. Christopherson for his consent for a friendly amendment: after the words “proposed services contract with Dr. Ned Franks“, it would be “for a budget amount in the maximum amount of \$24,965”. Everything else would remain the same.

Mr. Christopherson accepts that amendment, and I think that clarifies Mr. Williams' issue. And of course, he's quite right.

Mr. Wrzesnewskyj.

**Mr. Borys Wrzesnewskyj:** I voted against during the last meeting because I thought we were proceeding in a sloppy way. I see we've tried to tighten things up. At the last meeting it was presented to us that it's a maximum amount of \$25,000, but it could cost, as you've said yourself, much less—\$2,000 or \$3,000.

Has anyone bothered speaking with Mr. Franks to find out how much this may actually cost? Shouldn't the contract, then, be for the amount that Mr. Franks feels it will cost him? If we do this in an open-ended sort of way and are allowed to go up to \$25,000, the odds are that's what it's going to cost.

Has anyone actually spoken with Mr. Franks to find out how many days he figures...? We know the per diem rate now; it's \$599 per day. How many days does he expect? What travel does it entail? We've put \$4,000 into travel expenses. What travel does he...?

I understand we've tried to put some parameters in place, but I'm still lacking details to be able to vote on this.

•(1650)

**The Chair:** If I may attempt an answer—and perhaps I'll ask the analyst or the clerk to jump in—I think, Mr. Wrzesnewskyj, it will depend on the committee. Mr. Williams raised a point last time, and it was added to the terms of reference. We're embarking on a study. We don't know how long it's going to take, ourselves. It's fluid; it's a continuum. The Auditor General will be presenting two chapters on November 28, and we'll be hearing from witnesses.

We don't know how many days we will require this individual. I would be reluctant to say what it is, because we may not need him for that amount. I'd be reluctant to say it's going to be two days, because we may need him for more than that. It depends where we go with the issue. He'll be under our instructions, and we can give you a report.

It's what I call a professional services contract for which we have to have a clearly defined budget, clearly defined terms of reference, and a per diem, but for how long or to what extent he is needed

really depends on the committee, and we don't have that information in front of us now.

**Mr. Borys Wrzesnewskyj:** Chair, with all respect, my question was whether anyone has spoken with Mr. Franks to find out how many days he expects it will take him, given the parameters that have been set out. At least we will then have an idea of what the actual cost will be.

**The Chair:** I've spoken with Dr. Franks on the issue, but I've never broached the subject of the number of days. I really think he would turn the question right back to me, and I wouldn't be able to give him an intelligent answer.

Brian or Georges, do you want to try that?

**The Clerk:** If I may, Mr. Chair, I spoke to Dr. Franks this morning, and I asked him how long he thinks he's going to be working, knowing that the per diem allowed by the Board of Internal Economy is a maximum of \$600 per day. He couldn't tell me how many days he's going to be working, because he has to meet people, draft a report, come back, and follow what the committee is doing.

**The Chair:** We have to bear in mind that Dr. Franks is a servant of this committee.

Mr. Pacetti.

**Mr. Massimo Pacetti:** It's just to help out.

I think it's a normal procedure to put in a maximum. I think it's fine. This is the way you operate. If you're only going to put ten days but he needs eleven, you have to go back and re-put the motion, and then go to the Liaison Committee and ask for the money. The Liaison Committee will meet maybe once or twice a month, although I'm not really sure how often they meet.

This is the discretion of the chair. He has to work with Dr. Franks, so we have to give him some leeway. If we can't trust the chair, for lack of a better word, then I think we're not in the right business here.

You're not going to pay somebody if they don't do the work, but you have to have some parameters. I think 35 days is reasonable. Let's just get with it.

**The Chair:** Are there any other comments?

As I said, we did have a fairly good discussion on this issue at the last meeting. I think it would be appropriate to put the question to the floor.

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

**The Chair:** We're going to suspend for about thirty seconds, and then we're going to resume in camera to discuss the tenth report of the committee.

[*Proceedings continue in camera*]









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