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## Standing Committee on Public Accounts

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**Chair**

**The Honourable Shawn Murphy**

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Thursday, April 23, 2009

• (1530)

[English]

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

Welcome everyone; *bienvenue à tous*.

Before I introduce the witnesses, I want to make a few opening remarks because this meeting is a little unusual. It's not the normal meeting we have every day.

As everyone is aware, this committee has the general mandate to review and report on the expenditure of public funds—in other words, to hold the executive to account for the expenditure of public funds, so that it is done in a prudent and compliant manner. As such, we do not concern ourselves with policy, the budget process, the estimates, or the appropriations from Parliament. Of course, before any money is spent, it has to be appropriated and approved by Parliament, and that's done through the estimates process.

The only exception to this general rule is the expenditures of the Office of the Auditor General. At this meeting, which again is somewhat unusual and does take place each year, we are going to hear from the Auditor General and other members of her staff as to why her office should be appropriated approximately \$72 million in funds from the Consolidated Revenue Fund, less whatever amount was appropriated earlier in interim supply. At the same time, we're going to hear from the Auditor General on her agency's report on plans and priorities and her agency's departmental performance report, which again are part of the estimates process.

As we're all used to, at most other meetings the Office of the Auditor General assists us or acts, really, as our partner in holding other departments and agencies to account for the expenditure of public funds. Today it is different. It's our job as parliamentarians to hold her office accountable for the expenditure of the funds that are used in the operation of that office, not only in the expenditure of the public funds but in the overall operation of her office, whether the office meets its goals and objectives and whether it's being managed with due regard to economy, efficiency, probity, and compliance with all laws, policies, and guidelines.

Those, colleagues, are a few opening remarks.

We are very pleased to have with us today, of course, the Auditor General. She's accompanied by her Deputy Auditor General, John Wiersema. Also with them is Assistant Auditor General, Ira Greenblatt, and Comptroller Jean Landry.

Having said that, welcome again, Ms. Fraser, welcome to your colleagues, and I'll turn the floor over to you for your opening comments.

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

We are very pleased to be here today, and we would like to thank you for this opportunity to discuss our 2007-08 performance report and our 2009-10 report on plans and priorities.

As you mentioned, I'm accompanied today by John Wiersema, Deputy Auditor General; Ira Greenblatt, Assistant Auditor General responsible for corporate services; and Jean Landry, our comptroller.

Each year we are privileged to contribute to Parliament's oversight of government spending and performance with the objective information, advice, and assurance that result from the audits we conduct. As you know, we conduct three types of audits: financial audits, special examinations of crown corporations, and performance audits.

All our audit work is conducted in accordance with the standards set by the Canadian Institute of Chartered Accountants. Our work is guided by a rigorous methodology and quality management framework and is subject to internal practice reviews and to external reviews by peers. All of this provides you with assurance that you can rely on the quality of our work.

[Translation]

During the 2007-2008 fiscal year, the period covered by our most recent performance report, we used \$82.3 million of the \$86.6 million in appropriations available to us and employed the equivalent of 608 full-time employees. Our net cost of operations—taking into account services provided without charge by other departments and other smaller adjustments—was \$92.9 million.

With these resources, we completed 152 audits, including 33 performance audits of various departments and agencies, and 11 special examinations of Crown corporations.

Our 2007-2008 Performance Report contains a number of indicators of the impact of our work and measures of our performance. The tables containing our targets and actual performance for these measures are in Appendix I, attached to this statement.

•(1535)

[English]

For this past year, our performance highlights include the following:

Parliamentary committees reviewed 56% of our performance audit reports—a slight decrease from the previous two years. We participated in 33 committee hearings and briefings over the course of the 113 parliamentary sitting days.

Departments reported that they had fully implemented 55% and had substantially implemented a further 29% of the performance audit recommendations made in the reports we tabled four years ago.

For the second year in a row, the office has been recognized as one of Canada's top 100 employers and top 10 family friendly employers;

And our 2008 staff survey shows that 88% of our staff believe that the office is above average or one of the best places to work.

We also surveyed you and the members of certain other parliamentary committees on your assessment of our work. We are pleased that our reports are considered to be valuable and that no need to make significant improvements has been identified.

Our performance indicators, however, reveal that last year we were still having problems completing many of our audits on budget.

In planning for 2009-10, Mr. Chair, we have decided not to request additional funds. Instead, in response to the current economic pressures, we are undertaking efforts to reduce many of our costs. Our goal is to carry out our existing and new audit mandates with our current level of resources.

[Translation]

In order to do so, we will decrease the number of performance audits we conduct—from 30 to approximately 25 per year—for the next two years. In addition, we will table our reports twice a year—once in the spring and once in the fall—rather than three times per year. We believe this will give Parliament more time between reports to hold hearings, while still providing members of Parliament with the information they require for holding government to account for its use of public funds. These changes will allow us to reduce the overall costs of our performance audit practice. As well, we are seeking efficiencies in our other product lines and reducing administrative expenses and overhead.

We have three strategic priorities for 2009-2010, as described in our recently tabled Report on Plans and Priorities. Sustaining our overall capacity by focusing on our entry-level recruitment efforts and enhancing our student and training programs. Implementing the new international auditing and accounting standards in the Canadian public sector with the support of a strategic alliance we have formed with a major accounting firm. And improving our budgeting and project management through a number of initiatives. Preliminary results for 2008-2009 show that we have already achieved positive results in a number of areas.

Appendix II to my statement provides you with an updated list of our planned performance audits. You will see that the list includes

audits of the administration of the House of Commons and of the Senate. Preliminary discussions are underway with the House of Commons Board of Internal Economy and the Senate's Committee on Internal Economy, Budgets and Administration regarding these audits. We also have begun an audit of Public Works and Government Services Canada's management of the Parliamentary Precinct.

With regard to our special examinations, a recent change in the Financial Administration Act prescribes that special examinations are now mandatory every 10 years instead of every five years. Therefore, the list of special examinations provided to you last year will change. We are currently reviewing the roster of special examinations for the next few years based on this new time frame. We will post a list of special examinations that will be reported on within the next year on our website shortly.

[English]

Committee members may be interested to know that we have recently created a national professional practices group within our office. Under the terms of a memorandum of understanding with provincial auditors general, we will provide technical accounting and auditing advisory services, practice advisories, and financial audit methodology and training support to their offices.

We have worked with Treasury Board to obtain approval for re-spending authority for the amounts to be recovered from our provincial counterparts. Treasury Board has informed us that this request related to the re-spending authority will come through the supplementary estimates (A).

Last year we informed you that officers of Parliament had encountered particular problems with the application of Treasury Board policies to their operations. Many of these policies, which apply to all government departments and agencies, had an inappropriate impact on our independence. I am very happy to say that there have been fruitful discussions with Treasury Board of Canada Secretariat officials over the past year on this subject. While our concerns have not been fully resolved, we are pleased with the progress to date. We look forward to a Treasury Board decision that will amend the application of certain aspects of Treasury Board policies to officers of Parliament.

In conclusion, my staff and I appreciate your ongoing interest in and support for our work. We look forward to continuing to assist you in holding the government to account for its use of public funds.

I thank you, Mr. Chair. I would be pleased to answer any questions that committee members may have.

•(1540)

**The Chair:** Thank you very much, Ms. Fraser. Thank you for appearing here today, and thank you for all your excellent work.

Before we proceed to the first round of questioning, I have a housekeeping matter I want to attend to.

Members, this matter is the review and approval of the minutes of the steering committee meeting held on Tuesday, April 21. Those minutes have been circulated. The main decisions deal with the scheduling of some of the hearings that are there.

The chair accepts a motion for acceptance from Ms. Ratansi.

If there's no discussion, are we all in favour?

**Some hon. members:** Agreed.

**The Chair:** Okay.

We'll move to questions. Ms. Ratansi will start the first round of seven minutes.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** Thank you, Mr. Chair.

I thank the Auditor General and her staff for being here.

As this is being televised.... The Auditor General is always a mystery to the public. They know about the office, and they know that "Madam" Fraser is a she. They know that the Auditor General reviews the books and shows the accountability and transparency. They know that her office conducts financial audits, value-for-money, performance audits, etc. They rely on the Auditor General to provide assurance that taxpayer dollars are being properly utilized. But sometimes they want to know who's minding the minder.

For the benefit of the public, and I guess for the benefit of everyone—I'm sure that not everybody will read the performance reports and the estimates—how is the Office of the Auditor General held accountable? Who assesses their methodologies?

The reason I ask is that there are new accounting reporting standards, international financial reporting standards. So I have a number of questions.

First, how would that affect your reporting of government books—or would it affect the government? Second, on the funding that the AG's office receives, which is about \$86 million, who audits or reviews the funding and its applicability? Third, how does your work add value not only to the Government of Canada and its agencies, boards, and commissions, but also on an international basis? Moving forward, what are some of the challenges that the AG's office faces that need to be addressed in its own shop so that it can be more effective, efficient, etc.?

I'm sure that will take all of my seven minutes.

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

Let me start by answering the question of who audits the Auditor General, which is obviously put to us quite frequently. In our financial statements, we have an audit that is done by a firm from the private sector named by the Treasury Board. Our financial statements are audited each year and are included in our departmental performance report.

What is more significant to an office like ours are what we call the peer reviews or external reviews of the quality of our work. There are a number of reviews that are carried out. First of all, we carry out our own internal practice reviews as are required under professional standards. We have the institutes of chartered accountants of various provinces come in to review our work to ensure that we can continue

to have students that come to work in the office and receive their training with us.

We have begun, over the past few years, to have external reviews done. The first external review of our financial audit practice was done in 1999 by one of the major accounting firms in Canada, and in 2003 we had a review done of our performance audit practice. Performance audit is quite unique to legislative auditors, so we thought long and hard about who should do that review and decided to ask our international colleagues to review our work. So it was a team of the national audit offices of the Netherlands, Norway, and France, led by Great Britain, that came and did a review of the office. That report is available on our website.

We are currently preparing for another review, which will no longer involve simply practice areas, but the whole office, including our corporate services. That review will be led by the Auditor-General for Australia and will include other national audit offices that have not yet been determined, but as soon as those details are worked out, we will certainly be informing the committee of that. All of those reviews actually assess a quality management system, and indicate that our quality management system is appropriate and that we are following that quality management system. As in any audit, there are, of course, recommendations, and our action plan with the recommendations is posted and indicates how we are dealing with all of that.

On the specific question of the international financial reporting standards, IFRS, they do apply to the crown corporations or many of the crown corporations. They do not apply to government per se, because government uses the public sector accounting standards. But this is a major initiative under way, and you can imagine that for some of the very large crown corporations like Canada Post or EDC or CBC this is significant. So we have been working with the crowns, encouraging them to do the diagnostics and reviewing with them the changes that this will mean for their accounting and other financial management systems, because IFRS can have a great impact on more than simply the accounting and the financial statements. This will go into effect in 2011, and they have to have, of course, comparative figures, so that means it actually has to be in effect next year. So it's coming very quickly for these crowns.

• (1545)

**Ms. Yasmin Ratansi:** Sorry to interject, but if somebody were to look at the crown corporation financial statements and did not know that they were developed on the international financial reporting system, IFRS, and assumed they were developed on GAAP, would they be confused? Would the two sets of figures confuse anybody?

**Ms. Sheila Fraser:** Certainly in the year in which the crown corporations actually transition and adopt IFRS as their accounting standards there will have to be very extensive disclosure about that change and what the impacts of that change are. Obviously there will be a lot of discussion and analysis up front, as well in the management. I would presume we might even do something on it as well, because this is going to be major for many of the crown corporations.

On our value internationally, as the committee may know, we do a fair bit of work internationally. It's fairly modest in relation to the whole budget, but we work through an organization called INTOSAI, which is an organization of all the national audit offices or equivalent of all the country members of the UN. Our office has always been a very active participant in that. We lead various study groups. We led, for example, a working group on environmental auditing for six years. We are now leading a subcommittee on accounting and are very actively involved in many of the international standard setters for accounting standards and auditing standards. There is work on specific projects that are largely funded by CIDA. We are now working on assisting the development of an auditor general office in Mali. We have done work in Russia, China, and other countries. Those are very focused kinds of projects.

The very last part of the issue is challenges. I'd say our largest challenge is ensuring that we have the really good people we need to continue to do the work. We have been successful to date, actually quite successful, but that will always be an ongoing challenge. Especially with all of these new standards coming in, it is really critical that we develop and have the capacity to respond to these challenges in the professional standards. That's why we've done this strategic alliance with one of the major accounting firms.

• (1550)

**The Chair:** Thank you very much, Ms. Ratansi.

*Madame Faille, sept minutes, s'il vous plaît.*

[Translation]

**Ms. Meili Faille (Vaudreuil-Soulanges, BQ):** Thank you, Mr. Chairman.

Thank you for being here. Appendix I to your presentation concerns objectives and indicators. It refers to the "percentage of performance audit recommendations fully implemented four years after their publication", which is 55%. As for the "percentage of performance audit recommendations substantially implemented four years after their publication", that is 29%. Why are these figures so low? The figures for 2008-2009 are 50% and 25%, and 75% for 2009-2010.

What are your expectations with regard to your recommendations? Does the office take part in the process, as the Treasury Board does, based on what we were told at the start of the week, when reviewing its policies or conducting consultations with various departments?

**Ms. Sheila Fraser:** We established the indicators based on our experience over past years. We consider a combined rate of 75% reasonable. It can be increased a little if the trend improves. However, we believe that it can never reach 100%, for two reasons. First, if that rate were set at 100%, I'm afraid that we would tend to make recommendations in order to reach it, and the recommendations must be quite demanding.

Second, you also have to leave a margin in case the departments do not agree with us. Also, for reasons of priority, the implementation of a recommendation can take more than four years, which is the measure we use. When we make Recommendation 18, it is possible that the departments may tell us they have an action plan, but that certain things are happening. For example, as a result of the economic situation we're currently experiencing, the resources may

have to be allocated elsewhere and departments may not be able to complete their projects.

**Ms. Meili Faille:** So it's really based on the recommendations, on a gross figure, not on the qualitative value of the recommendation. Some recommendations were made 10 years ago, and you're still making similar recommendations. The government doesn't implement them, but these are nevertheless quite important recommendations. You don't add value to the recommendation; you don't say whether it's more or less important. You present a rough figure.

**Ms. Sheila Fraser:** We think that all the recommendations are important because, as a general rule, there are quite few of them in an audit. Where there is a qualitative element, it is with regard to the time needed to implement a recommendation and the difficulty involved in doing so. That we do not evaluate, but we believe that, generally speaking, four years later—these are really recommendations that were made four years ago—75% of them should be implemented.

**Ms. Meili Faille:** Then, in Appendix I, you referred to work delivered on time and on budget, you have a very good success rate for being on time. I congratulate you on that. That also facilitates our work. I think you also have a good mark for providing a respectful work place. I believe people are happy to work for you.

On the other hand, what causes problems with regard to budget? Is it because, once you start the audits, things are more complex than you had expected? Let's take the example of the performance audits: the actual figure is 48%, and your target is 70%.

**Ms. Sheila Fraser:** There are a number of factors. First, it must be admitted that the budget was not established in as rigorous and perhaps comprehensive a manner as it should have been. In performance audits, teams sometimes planned their work but did not consider all the other individuals who had to intervene. That obviously resulted in a demand for additional time.

As regards the performance audits, based on our statistics, we've improved considerably. I'll be pleased to talk about those results with the committee next year. Where we still have a challenge is on financial audits. Quite honestly, we should be able to establish a more realistic budget because we are here every year. The actual difficult often lies in changes in accounting standards, and we underestimate the time that will be necessary to conduct the audit. Sometimes there are also discussions with the organizations that may not have clearly understood the standard, and, to a certain degree, we must take more time to produce those audits.

• (1555)

**Ms. Meili Faille:** That's somewhat what explains the decline in the number of audits you'll be conducting; this is a review to better meet your deadlines and have a more realistic budget in order to do the work. That's why you've reduced the number?

**Ms. Sheila Fraser:** Partly, but other mandates and responsibilities have been added. In more normal economic times, we would go back to request additional funding, but we decided, given the current situation, that this was not the time to do that. Instead we chose to reduce work volume, but we nevertheless feel that 25 performance audits is acceptable so as not to exceed the limits of the budget we had last year.

**Ms. Meili Faille:** As regards special examinations, is it one of your recommendations that audits should now be conducted every five to 10 years, or is that really because the 2009 budget directives...?

**Ms. Sheila Fraser:** That's a recommendation that we've made to the government for a number of years. In fact, it's a requirement for all Crown corporations. Some Crown corporations are relatively small and must undergo an audit of their system and practices every five years. On the other hand, there are departments that we audit every 10 years. So the audit effort was disproportionate. There is a section in the act that provides that a special examination may be requested earlier by the board of directors, the government or the Auditor General.

**The Chair:** Thank you very much, Ms. Faille.  
[English]

Mr. Christopherson, you have seven minutes.

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

Thank you again, Auditor General and staff, for your presentation. I know everybody always says it, but it needs to be on the record that you do great work for the people of Canada. It really is a joy to work with someone of your calibre on this committee. I can only hope that going forward the people who follow you hit the same standard.

**Ms. Sheila Fraser:** Thank you.

**Mr. David Christopherson:** It's well deserved.

A general question that came up at our steering committee is this—and you're right, it comes up all the time, and I asked it when I was a rookie and I'm still asking it every now and then. Who audits the auditor? Who watches the auditor?

I've been through the dynamic and I understand all of that. The one thing that I'm still left with is that every time we bring in anybody in this fashion, there's always a yin and a yang. There's always the deputy who talks about how wonderful things are and how wonderful their responses are to everything, and then there's always you or one of your colleagues with a “yes, but”. It works well. You're the expert, and it's best for us when we have the experts there and we can ask the questions and draw the conclusions that we will.

In this case, it's the only one I'm aware of where it's all one-sided, and there is no “yes, but”; there's no report, there's nobody else—and I will leave it with you to reflect on. Could you respond to that sort of lack in the process, particularly where we have new members? Nonetheless, the process itself I find works best when that natural tension is there. It's not there when you come here: it's your show. That's great while it's you, but it may not always be, so we need to make sure the system works for Parliament and for the Canadian people.

I'll leave that with you to comment on, because I'm going to move on to my next question.

You mentioned in your opening statement—and it was appreciated—on page 2, number 10, that your performance indicators, however, revealed that last year you were still having problems completing many of your audits on target. I appreciate the forthrightness. My

questions relate to the fact, though, that I don't see anything that follows from this that says, “Here's what we're going to do about it.” In fact, when I look at the report, what I see in terms of budgets on time and what you're expecting, I believe 70% is the biggest number we get on budgets in terms of performance audits, financial audits of crown corporations, federal organizations. One is 70%, one is 55%, and the other is 70%.

Help me understand why, in acknowledging that last year wasn't good enough, that this year's target is only 70%. Please help me understand how you target less than.... If you know you're not going to make it on budget, don't you make adjustments going in, so that even if the quantitative number is smaller, the qualitative standards have been met. But to come in with a game plan that says, “Here's what we're going to do and we're looking for a 70% success rate”, doesn't seem to me to be.... Why aren't we going for something higher, particularly since you've acknowledged it as an issue?

• (1600)

**Ms. Sheila Fraser:** I would very much like to have the targets higher.

Let me go back to your first comment about our not having this sort of other side here. I agree with you on that. I think what the committee might want to consider is when we have a peer review done, that we have a hearing, if you wish, or a discussion with the Auditor-General for Australia. We could do that.

The other thing the committee might want to consider going forward is this. We have an audit committee, as do all the large departments. You might want to invite the chair of our audit committee, because all of our internal audit reports go there. You could ask as well what sorts of mechanisms we have put in place to make sure we're responding.

**Mr. David Christopherson:** As a preamble to this meeting, to have that meeting with them to—

**Ms. Sheila Fraser:** Absolutely. I think we can probably explore some ways to provide that to you.

On the targets, we've taken a number of measures. First of all, just to make people much more sensitive to the fact that this is important, we've announced that this will be part of the performance pay plan for the coming year. When you affect people in their pocketbooks, they really do start to pay attention to this sort of thing.

We are putting more review into the budgets themselves, and we are also giving courses on project management within the office, so hopefully all of these things will help. I think it's just encouraging people to be a little more thoughtful when they do their initial budgets. When we do the budget we do not change the budget as we go into it. If there are large problems, there will be a discrepancy noted. It is to be expected that there will be problems in some of the audits, either new accounting standards that are badly understood by the entities we audit, or significant errors, which we find from time to time. I would say too that the percentage for the territorial agencies and organizations is much lower, and that is largely due to an issue of capacity in those organizations.

The timeliness you will see is also much lower. We have many cases where we are issuing statements that are in fact two years old, where we send in teams and the organizations are not ready and we pull out the team. There's a capacity issue in the north. We're trying to work with them to resolve it, but they do not have the same capacity as the crown corporations.

**Mr. David Christopherson:** In the same chart, in appendix I attached to your opening comments, concerning getting your projects completed on time, for "federal organizations—without a statutory deadline", It's 70%; the actual in 2007-08 was 81%, and then you dropped to 70% as your target. There's no actual here for 2008-09 yet, but the target was 70%, and the repeated target for 2009-10 is 70%, and yet the actual in 2007-08 was 81%. So you hit 81% and then recalibrated your target to be 70% in the next two years.

**Ms. Sheila Fraser:** I can only agree with the member that it should be higher. I don't really have an explanation. I don't know quite—

**Mr. David Christopherson:** I should quit right now. This doesn't happen very often.

**Some hon. members:** Oh, oh!

**Ms. Sheila Fraser:** No, I agree with you. I think you're right. We should not be targeting lower than our performance of the previous year.

• (1605)

**Mr. John Wiersema (Deputy Auditor General, Office of the Auditor General of Canada):** The only comment I would add, Mr. Christopherson, is that we didn't recalibrate the target to 70%. It was 70%, and we maintained it at 70%. But we've demonstrated we can do better, and we should consistently do better.

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

Thanks, Mr. Chair.

**The Chair:** Thank you, Mr. Christopherson. Thank you, Mr. Wiersema and Ms. Fraser.

Mr. Weston, you have seven minutes.

**Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC):** It's a hard act to follow, when the audited auditor feels chastened by my colleague.

Thank you, Mr. Chair.

Again, thank you for being here, Madam Fraser and colleagues. I'm going to apologize in advance for an early departure today for a flight I have to catch.

The tradition of auditing the auditors goes back to Roman times, and the question you asked, Mr. Christopherson, I remember from my Latin class days, "Who audits the auditors?" It really is remarkable that we get to sit here and participate in that tradition, particularly when people say, as they often do, that we don't have the checks and balances in Canada that the nation to the south has. Here we are participating in a very important check and balance. Thank you again for the work you do.

My first question is about the peer review by Australia that you mentioned. When will it occur, and when might we have the opportunity to have the presentation you suggested?

**Ms. Sheila Fraser:** Mr. Chair, I will let Mr. Wiersema respond on those timelines.

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

The Auditor General has been in contact with the Auditor-General for Australia. I have been in regular contact with the Deputy Auditor-General for Australia. We have been having some initial discussions on the terms of reference for the peer review.

They intend to make their first preliminary planning visit to us on site and to start to scope out the peer review in, I believe, June of this year. At that point, we will start to finalize the terms of reference of the peer review, and I think we would be more than prepared to share those terms of reference with the committee at that time. The details of what other countries will be involved are still under discussion. Australia has not made final decisions on that question. We expect they will make a further visit, during which the majority of the audit work they will be doing would take place, this fall and perhaps over the early winter.

We very much wish to have this peer review completed, reported with the Auditor General's response, and made public by the summer of 2010. The summer or fall of 2010 is when it will be completed.

**Mr. John Weston:** Perhaps, Madam Clerk, we could be reminded of that, to make sure we get an opportunity to participate. I think it's a valuable exercise for our committee.

There are reductions mentioned at paragraph 12, Madam Fraser, and they follow from an earlier paragraph in which you say you are doing your best in difficult economic times to reduce expenses. I thought that was laudable and wondered whether there were any things you learned from that exercise that could be leveraged in other areas of government.

**Ms. Sheila Fraser:** I'll tell you some of the actions we've taken.

As you can appreciate, most of our financial audit work arrives all at the same time. We have a very significant peak of work, because the majority of year-ends are March 31. The period from May and June through July is an extremely busy period for us. In the past, we have spent up to \$800,000 on contracting generalist financial auditors to help us through that period.

This year, we set an objective not to use any contract help, and we deployed all of the accountants in the office on the financial audits. We moved timelines so that some work might be delayed to accommodate other work. At this point, we are there. We may have to go to some contracting, because we may lose some of our staff in the normal turnover, but this is one thing we're doing: very significantly reducing the contract spending.

There are a number of other initiatives. I can perhaps ask Mr. Greenblatt to tell you a little about some of the other things we have done.

**Mr. Ira Greenblatt (Assistant Auditor General, Corporate Services, Office of the Auditor General of Canada):** Thank you.



We looked across the board. I asked all the corporate services groups to come back with a 15% cut in their budgets, and they all did that. We took a look at performance pay, and we made cuts to our management performance pay plan in line with some of the decisions that had been taken elsewhere in government. We cut things such as some technology projects we had planned to do this year and had talked about for a long time. We postponed those and cut those out of the budget for the coming year.

As Madam Fraser said, we cut \$800,000 in contract budgets. We looked at travel for both administrative purposes and—strongly—for audit purposes. We pared that down everywhere we could. There were a lot of small things, a few bigger things, such as the \$800,000 Madam Fraser mentioned, and some of the technology projects, coupled with a number of small things across the board.

•(1610)

**Mr. John Weston:** Mr. Greenblatt, you mentioned travel. Were there any specific policies on travel that you recommended be applied to your department that might be applicable elsewhere?

**Ms. Sheila Fraser:** We generally follow the government's travel policy. One difference we have maintained for several years is that we do not allow any travel in business class within Canada. There are some provisions that would, under government travel policy, allow for business class travel, especially for our teams that would, for example, go up to the Yukon or the Northwest Territories. They are in travel status for quite a while—for a number of hours. That is not new. We are encouraging people to use upgrade certificates and those sorts of things.

**Mr. John Weston:** You have performed very well as an employer, as identified in appendix I, page 3. Your staff declared that you were either the best place to work or better than average.

What one thing could you point out that applies to your department that might make us all better employers?

**Ms. Sheila Fraser:** I'm really proud of those results, I have to tell you. We had a response rate of 92%. You know, this isn't 20% of the people saying that they like to work there. I think the main issue is that we really paid attention to human resource management. In our management performance pay system it used to be one number. Now, 50% of the performance pay is for product and 50% is for people management. We put a focus on that, and we have paid a lot of attention as well to what the staff were telling us through the employee surveys.

**The Chair:** Thank you very much, Mr. Weston. Thank you, Ms. Fraser.

Before we go to the second round, there are a couple of points I want to cover. First, Ms. Fraser, your office has gone through the process with the panel on funding and oversight of the independent officers of Parliament. It came forward with the figure that's going to be voted on by this committee this afternoon. In your opinion, do you have sufficient resources to fulfill the mandate given to you by the Auditor General Act?

**Ms. Sheila Fraser:** Yes, Chair, I am comfortable with the level of funding we are receiving.

**The Chair:** Second, in what I believe is your performance report dealing with special examinations, you've identified a crown agency

that has been deficient in two special examinations in a row. What agency is that?

**Mr. John Wiersema:** Mr. Chairman, if you're referring to the performance highlights—

**The Chair:** Yes.

**Mr. John Wiersema:** —the one corporation that had a repeat significant deficiency was Atomic Energy of Canada Limited. They had a deficiency in both the previous and most recent special examinations. It is related to some of the strategic challenges the corporation is facing that have yet to be resolved.

**The Chair:** Back to Ms. Fraser. I want to get your thoughts and comments on an issue that has been before this committee for many years and on which we have expressed concern. I'm dealing with compensation and benefits. Specifically, I'm dealing with performance pay. As you know, the committee has had a concern in the past about the transparency of it. I have no problem giving a bonus to an employee after an exemplary performance, but what has happened is that in other departments, it has crept into the system so that it is almost universal. In some departments it is 100%. In most departments it is 90%.

In my view, it's just become an additional layer of salary that's not up there as transparent as I, as a member of Parliament, would like to see it. Again, parliamentarians really don't know the criteria used to determine this. Could you take us through how you determine...? On page 43 of your performance report, dated for the period ending March 31, 2008, you talk about the range. Can you give us the percentages and explain how you determine them? Is it just given to everyone, like some other departments of government do? I should point out, as you are fully aware, that the Prime Minister's panel on public service has certainly addressed this issue too.

•(1615)

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

Our performance pay and performance pay system is different from that in government. The performance pay we give our employees at different categories is in fact less than is given at a comparable level in the federal public service.

Our system provides for every employee to go through a performance evaluation with their supervisor each year. The supervisor will determine a rating. As I mentioned, we have two components to performance pay: one is product management and one is people management. The categories are 80%, 100%, 120%, and 120%-plus. We have set targets as well for the majority of our staff, 60% or 70%—I'm sorry I don't have the number with me, but I can certainly provide it to you—to be at 100%; that is to say, they're meeting expectations. A very few will be at 80%, who are below expectations, and a very few will be in the 120% or 120%-plus category.

Once those initial assessments are done by the supervisors, the executive committee meets and discusses all of the ratings for all of our management category, which represents about 200 people. We make sure there is consistency and fairness in the ratings that are given to ensure that someone is not being overly generous or too punitive, and then we determine the categories and the amounts. You can see the amounts on page 43 of our performance report, and those are paid out to staff.

The professionals are unionized, and we have negotiated with the union for a small percentage, up to 15%, to be able to receive a performance pay bonus of up to \$3,000.

**The Chair:** On page 43 you talk about 608 staff. What percentage of those would be getting performance bonuses?

**Ms. Sheila Fraser:** A little over a third.

**The Chair:** Okay. If you don't mind, Madam Auditor, could I get you to give us a memo on that, exactly how that is? It is slightly different from what is experienced in other departments, so if you could—

**Ms. Sheila Fraser:** Sure.

**The Chair:**—provide us with a memo of exactly how those performance bonuses are determined and the percentages in each category.... I think that's important, because we do run into this.

As you know, over the course of a number of years we've seen a number of problems, and either I've asked the question or Mr. Williams has asked the question of the person that we think, at least, caused the problem: Did you get your performance bonus? The answer has always been, "Of course, I did. Yes, I did."

The next round is for five minutes each.

Ms. Crombie, five minutes.

**Mrs. Bonnie Crombie (Mississauga—Streetsville, Lib.):** Thank you.

Welcome to the Auditor General and members of your office.

I want to congratulate you all on a very favourable performance report, 152 audits—it's considerable—75% to 90% of them on time and about half of them on budget. I know there's an opportunity for improvement there, but my warmest congratulations in particular are for being voted the top 100 employer and the top 10 family friendly employer. Obviously there's a high degree of satisfaction working for the Office of the Auditor General, and also for being one of the capital region's top 20 employers.

I noted that you had an 86% retention rate, which was below your target, but I wondered why you thought that was not meeting expectations. That sounds like a pretty significant number, 86%. Why was that below your standard?

**Ms. Sheila Fraser:** We have traditionally had a turnover rate of about 10%, so that's the reason we've set it at 90%, and I think 10% is kind of normal. We need to have that kind of attrition. I think it's to be expected, either with retirements or simply to kind of regenerate our population.

We were a little concerned at certain levels. We were losing people at certain levels, so there needs to be, probably.... The 86% in and of

itself is probably not problematic; it depends where the attrition is occurring.

• (1620)

**Mrs. Bonnie Crombie:** I thought it was pretty good, actually.

**Ms. Sheila Fraser:** I think we're doing well. Certainly, we're doing well compared with the major accounting firms. It's where it's occurring that is a bit of an issue because we have to ensure that we try to keep those young professionals with us to do all of this audit work.

**Mrs. Bonnie Crombie:** I could pursue this line of questioning, but there are some other issues I'd like to address.

First, in the last round of questioning I asked you what happens when departments don't follow your recommendations. I want to go back to that and talk about implementation of performance audit recommendations. It was noted that departments and agencies are responsible for taking their own corrective action. We've established that four years is the reasonable timeframe in which they should implement your recommendations, and that of the 196 recommendations you made, 55% were fully implemented and 29% were substantially implemented.

Our chairman just noted that there had been a significant issue at AECL, Atomic Energy of Canada Limited. You had previously identified that there had been strategic issues and deficiencies at AECL—in particular, strategic challenges that needed to be resolved relating to completion of licensing, dedication of isotope facilities, and securing of long-term funding for replacement of their aging facilities.

Can you talk about what other deficiencies existed at AECL at the time? And if you would, could you talk about the bigger issue, about how you determine which recommendations are implemented and to what degree? How can the Office of the Auditor General improve the rate of implementing your recommendations?

**Ms. Sheila Fraser:** Let me start with the last questions first.

The percentage of recommendations implemented is information that is reported to us from the departments. They do their assessment and we review it to see whether it's reasonable, but we don't actually go to them and audit to see whether this is all exact. It's only when we do the follow-up audits that we can assess whether the progress has occurred or not.

One thing I think will be very helpful, and something the committee may wish to consider at some future time, is the departmental audit committees that have been put in place fairly recently, with some very impressive people from outside of government. One of their main responsibilities is to follow up on audit recommendations, be it our recommendations or internal audit recommendations. It might be interesting, perhaps, for the committee to have a discussion with some of these audit committee members to see what they are doing and discover how they see their role and whether they see progress as well.

Concerning AECL, for many years our special examination reports, going back to probably the nineties, have been raising the question of the strategic direction of AECL and its funding. In the last report, we mentioned strategic challenges around the replacement of the reactor that is there. There is a project that had been in place for many years and that was not working, which has subsequently been cancelled by government.

**Mrs. Bonnie Crombie:** I'm being cut off, but could you also address the question of how we can better encourage departments to follow your recommendations?

**Ms. Sheila Fraser:** I'd say certainly by holding hearings, by asking for action plans, by following up on them, and perhaps as well through audit committees. I think the audit committees will help.

**The Chair:** Thank you, Ms. Crombie.

Thank you, Ms. Fraser.

Mr. Saxton, you have five minutes.

**Mr. Andrew Saxton (North Vancouver, CPC):** Thank you, Mr. Chair.

Thank you, Madam Auditor General and your colleagues, for coming back once again to our committee.

I note from your earlier comments that you're not asking for any additional funding this year. I want to commend you on running a tight ship during these challenging economic times.

I notice on your website that this week an internal audit was made public on the staffing functions within your office. Can you give us some background on what was found, on who conducted these audits, and on what will be done in the future?

•(1625)

**Ms. Sheila Fraser:** Thank you.

Chair, I'll ask Mr. Greenblatt to respond to that question.

**Mr. Ira Greenblatt:** The internal audit was conducted by our own audit shop, obviously, and it was completed last year. The major recommendations were as follows.

First of all, we need to make sure that our staffing policies are consistent with the new Public Service Employment Act. We agreed with that recommendation, and we have done that.

The second recommendation is that we need to make sure we involve our management team in the staffing process, that it's not just done by HR. Whether it's staffing for audit or staffing for corporate services, members of the audit team or the corporate services team who are doing the hiring will be involved in the hiring process.

The recommendation was that we should ensure that all those involved are fully aware of their roles and responsibilities, because there is a new delegation instrument in government for delegation of authority for staffing. The HR group has started the process of making sure that everybody is trained on that. We're now at about 75% of all the potential managers who are trained on that; we'll be at 100% by the fall.

There was also a recommendation to ensure there's a monitoring process established to provide Madam Fraser, the Auditor General,

with adequate assurance that staffing actions are in keeping with the legislative requirements. We're going to have that in place this year.

There was another one that tied back to ensuring that everybody is aware of their responsibilities.

Those were the recommendations, and that's what we—

**Mr. Andrew Saxton:** How regularly will you be conducting these internal audits?

**Mr. Ira Greenblatt:** We have a regular internal audit plan, which is in the material that was provided, I believe.

John, do you remember?

**Mr. John Wiersema:** If I can, Mr. Chairman, our internal audits look both at our audits, how we audit our own auditors.... We do about 8 to 12 audits of individual audits each year, and then each year we select an additional corporate or administrative function for audit.

Mr. Greenblatt just talked about the audit that was done on HR. Presently there's an audit under way of our implementation of a new financial system. We implemented a new financial system in the office last year. Our implementation and the controls over the new financial system are presently being audited. That audit is being wrapped up as we speak, and it will be on our website this spring.

We do one audit of a corporate function each year, and then 8 to 12 audits of our audits each year.

**Mr. Andrew Saxton:** Can you tell me a bit about recruitment plans? Are you planning on hiring more staff, and what qualifications do you look for?

**Ms. Sheila Fraser:** Because we are reducing the number of products, we currently have a surplus of staff. We are working on a number of measures. If you're interested, I can certainly tell you what we're trying to do to deal with that.

We are committed to maintaining our entry-level recruitment. We bring in probably—

**Mr. John Wiersema:** Thirty.

**Ms. Sheila Fraser:** —thirty staff each year to be part of the audit staff, which is where most of the entry level is, of course. A person must have either a professional accounting designation or a master's degree.

We have a student program as well. They train with us. The accountants could be one or two years away from getting their designation.

For the others, it's a program we have developed ourselves for the performance audit practitioners.

**Mr. Andrew Saxton:** Thank you very much.

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

Monsieur Desnoyers.

[Translation]

**Mr. Luc Desnoyers (Rivière-des-Mille-Îles, BQ):** Thank you, Mr. Chairman.

Ms. Fraser, in your opening statement, you referred to the 2009, 2010 and 2011 audits. In 2009, you refer to the acquisition of military vehicles. I suppose these are trucks. In 2010, you refer to the acquisition of military helicopters. In 2011, you mention military equipment.

What exactly is military equipment?

**Ms. Sheila Fraser:** I'm not sure that we've exactly defined the nature of that equipment, but I could check with the team. We want to proceed with a series of audits. We talked about that, but we're hesitating between the possibility of conducting another audit on the acquisition of equipment and the possibility of auditing unsuccessful acquisition initiatives. Some requests for proposals were not successful.

•(1630)

**Mr. Luc Desnoyers:** Of course, I would tend to tell you what to do—

**Ms. Sheila Fraser:** Your questions are always welcome.

**Mr. Luc Desnoyers:** —about military aircraft. I note that there's no mention of National Defence for spring 2010. The military aircraft could therefore be one of the files. I'm convinced that my colleagues would support the idea of such an audit being conducted, particularly since only 24 performance audits are scheduled for 2010. So there would be room for an additional audit. You referred to 25 audits. So you could deal with aircraft, which are military equipment. That should generate significant impact in Canada and Quebec, particularly during this period.

**Ms. Sheila Fraser:** Mr. Chairman, I see there are also auditors on the committee side.

**Mr. Luc Desnoyers:** I raised that point and I'm probably going to address it again with the Chairman and the committee in order to ensure that this audit is eventually conducted. My question also concerns cuts. You're talking about lowering the number of audits from 30 to 25 and the number of reports from three to two and of cutting travel costs. So I'm concerned about the impact that will have in the present context. A major economic crisis is indeed ongoing.

If the crisis worsens in the coming months, current budgets will not necessarily cover all the expenses that would have to be made. Major audits will be necessary because a lot more money will be spent. A lot more controls will be required. Based on what you say, there were more audits when we spent less, but there will be fewer when we plan to spend more. There will be staff cuts. You said earlier that you anticipated surpluses. The purpose of my first question is to determine what the impact of these measures will be. If there are staff cuts, how will that affect your office? I think there could be a major impact on the work that would have to be done, but that will not be done in the years to come. Will there be layoffs?

**Ms. Sheila Fraser:** First, with regard to staff, there won't be any layoffs. I made a commitment to my staff on that subject. We believe that, given the normal turnover at the office, we will be able to get back to the desired level by the end of the year. This is a very temporary situation, and we're talking about some 20 positions. We've taken a proactive approach to the internal audit services of various departments. We asked those people whether they needed staff in the short term for interesting projects. It is indeed important that our people be able to do meaningful and interesting work. Some

15 departments responded. They're asking for 60 auditors. So there's fairly significant demand for experienced audit personnel. I'm sure we'll be able to manage the situation.

If this can reassure the committee, I will add that the departments' internal audit services have vastly improved. They do much more work now. I believe we can increasingly rely on those services. For example, an audit of the economic plan is planned. We don't expect to do all the work in all the departments ourselves. We want to work together with the internal audit services, which I believe should do the audits in those departments. By working with them, we'll be able to be more efficient and to ensure that the audit program is adequate for our purposes. We'll be able to use their work to report results to Parliament. I think the internal audit services within government should increasingly be reinforced so that the Office of the Auditor General makes greater use of their work. That would enable us to become more effective and efficient in our own work.

•(1635)

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

[*English*]

Mr. Kramp, you have five minutes.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** I have seven questions, if I can get to them here. We'll give it a quick little try.

There seems to be a little bit of a different perception of your evaluation from either the members here or the senior managers. I take a look at our perception as parliamentarians as 97% of your objective and indicators, and yet your percentage of senior managers who find your financial audits add value is down around 55%, on your report card, appendix 1.

The percentage of parliamentary committees that find your work to be of value is 97%, and I think we all agree. We're very, very pleased and impressed with your contribution.

**Ms. Sheila Fraser:** If I could just clarify, these are essentially the deputy ministers of the departments we audit.

**Mr. Daryl Kramp:** Yes.

**Ms. Sheila Fraser:** They are not always happy with our audits.

**Mr. Daryl Kramp:** Well, that's my point. Is this because the senior managers are doing their jobs so well that they don't need to improve the program, or is it because they're resentful because their performance is inadequate and you've identified these weaknesses?

**Ms. Sheila Fraser:** I think very often the surveys we do are completed by personnel within the departments and not necessarily the deputies themselves. Some of the comments we get back indicate they might not be very happy that we have picked their area for audit or raised the issues we have audited, and that's why you can see we don't expect 100% satisfaction from that group of people.

We would hope it would be higher, and whenever there is an issue that is raised, either by a committee chair of a crown corporation or a deputy minister, I follow up on that to make sure.

**Mr. Daryl Kramp:** I think we as parliamentarians would like to see that quite a bit higher, and we would like to see them expect to have their efficiencies vindicated rather than their problems identified.

My second point, under your budget, is about the percentage of audits that meet the budgeted hours. Right across the board on everything, whether it's performance, financial, or territorial, everything is well below, at consistently low hours that are there versus the hours you budgeted for. Well, if you used the hours you budgeted for, would that mean you'd be 25% over your budget? You're 25% to 30% below your budgeted hours all across the board. So if your budgeted hours actually met your own expectations, does that mean your budget would be utilized by 25% more?

**Ms. Sheila Fraser:** I'm not sure I understand the question, Chair. I can tell the committee I'm certainly not happy with this performance. We have to do much better. I think it's unacceptable that we have this kind of performance, but we have an appropriation that is given to us. We do not exceed our appropriation, so the hours that are spent...I think one thing, too, you have to recognize is that if we have an entity that we think will take 100 hours to audit and it takes 120 hours, that will show up as not being—

**Mr. Daryl Kramp:** Okay, so that's where your trade-off will come in then?

**Ms. Sheila Fraser:** So it's not total hours. If you look at the total hours, it's not as bad, perhaps, but still, this is not acceptable, and we have improved significantly. I can tell you the performance audits are almost at 100% for meeting budget now.

**Mr. Daryl Kramp:** I have just a couple of real quickies. You mentioned you have a very few that are actual poor performers, people who are not operating quite up to your standard. Are they penalized?

**Ms. Sheila Fraser:** We will work very hard to find those people a place where they can contribute, be successful, and it may not be within our office.

•(1640)

**Mr. Daryl Kramp:** Thank you. Comparatively, how are your staff paid relative to either other departments and/or the private sector for basically the same kind of capacity?

**Ms. Sheila Fraser:** We do a comparison. I'd be glad to show that to you. We share it with our staff. We are, I'd say, pretty much comparative with government. At lower levels we are I think comparative with the private sector. At senior levels we cannot compete with the private sector.

**Mr. Daryl Kramp:** How about comparable now with other nations? Obviously it's hard to compare. It's not apples and oranges; it's apples and apples, and we have different institutions and/or systems, etc. But whether it's Britain, Australia, New Zealand, or the U.S., how does your budget compare with the other nations—if you had a similar mandate, or is your mandate so different that you can't use a comparable?

**Ms. Sheila Fraser:** Well, we actually haven't done that comparison. I am aware of some of the budgets of other national audit offices, but the mandates are very different.

For example, the National Audit Office of the U.K., because it is a unitary government, has a very different model than we would in Canada, where there are provincial auditors general as well. In the U.S., the General Accounting Office plays a very different role from that of the Office of the Auditor General.

I'm not really sure. Australia might be the most comparable to us. We haven't done that. It's something we could certainly do.

**Mr. Daryl Kramp:** I was just curious.

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

Mr. Christopherson, five minutes.

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

After watching my friend, Mr. Kramp, run out of time, I note that I have half the questions but I talk twice as much, so I'll probably have the same problem. But I'll try to get a few of them on the table.

First, on the DPRs, the departmental performance reports, we had sent a letter to you, I believe in February 2008, asking if it would be possible for you to do one or two random analyses. That came back "no"; I'm wondering if you could give us reasons why. I'm sure it's workload, but I'd like to hear it. Secondly, is there any intent to get it into future work plans? In that regard, if you're not able to do it, then it seems to me that at the very least we ought to be doing it.

I'm going to recommend, Chair, that we take this to the steering committee to talk about how we actually build it into our work plan. If we don't start doing something around those performances, the heat's going to move off and we're going to end up back in the old ways of doing it. We're just beginning to get a sense that it's changing the culture so that we get reports that are real. Anyway, I'd like you to comment on that.

Ideally what we need is a template, a template as to how we would go about it, both from the analyst point of view and in regard to the sorts of things that we would do; then it becomes a regular matter of our business. Then, when these things are being sent out by deputies, they never know whether they're being hauled in or not, and that's part of the pressure that hopefully will get these reports improved.

Second, speaking of the audit committees, it's a fairly new notion that has come in just in the last few years. They're not all up to speed. They're coming online. Most of them are hitting the target, I understand. It's going well, but it's a new notion for us.

It seems to me, as I sit here reflecting, that this could be another very useful tool for us, in the sense that if we're bringing in somebody after you've done an audit report, and it's one of those horrendous ones and we have all kinds of problems, it might be very instructive for us to find out that the internal departmental auditing committee had been making recommendations along a certain area and had been ignored. That could be good for us to know.

Conversely, if they've caught it, if they've made recommendations and they're ahead of the curve, and then our report sort of catches up, then we'd get a sense that they really do have it in hand, that the department head gets it, and that now the audit committee gets it. But again, it's new, so do you have recommendations around how we take that expertise and include it?

Then, Chair, again, if we could take this answer at some point and put it on a future steering committee agenda to talk about how we might make that part of our work....

Especially given that you're now doing one report less per year, it gives us a little breathing room both to do our reports properly and to take on some of these new tools that are there to help us do a better job.

Quickly, I wonder how we're doing in terms of finding auditors. I know you made reference to getting and keeping young professionals in particular, but there's such an incredible demand for auditors, how are we doing in finding them for all these committees?

The last point is on the national professional practices group. I was very impressed to see that. One of the benefits of a parliamentary or governance model like ours, with strong provinces, is that there are benefits from the synergies, because each of them has strong auditors general and strong infrastructure. It's not a story of a strong federal government and very weak provincial or state governments; they're very strong in their own right. I'd just like to hear you expand on that a little. Are they actually going to meet? Has this been done before in the Commonwealth?

I'm very impressed and I want to end on that note. I'm always impressed with how you're seeking to find new ways of doing things, staying in touch with the world scene, and keeping Canada front and centre on the things that we're known for. We're known for being decent, honest people who try to help. When we do our public books right, it reflects that, so this sort of thing is a part of us, that being this gold standard of public accounting. I'd like to hear any further thoughts on where you see that going.

Thanks, Chair.

• (1645)

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

To the first question on DPRs, it was a question simply of resources and being able to do it right now. I would like our team that deals with this to take a look at the kind of work we could do in this area. They're doing some initial thinking about it.

For example, I wonder if we shouldn't look at this whole reporting to Parliament initiative, which has seemingly been going on for a quite a while—that is, trying to get better information to parliamentarians. It would be interesting for us to find out where that's at. Have they thought about how they could make DPRs and RPPs more relevant and easier to understand for people? I think we need to take a broader look rather than simply assessing individual DPRs. If the committee wants, we'd certainly be glad to share with you the methodology we've used to rate them. It may even be on our website, but we can certainly discuss with the researchers and the clerk how to go about that.

I think audit committees will be very useful. I would perhaps urge some caution about how the audit committees would appear before committee because they are advisory to the deputy minister. I think some thought has to be given to that. I know regular meetings are held by the Comptroller General with the various departmental audit committee members. It might be useful at some point for this committee, or certain members of this committee, to meet with this group and have a discussion on how you could work together on some of these issues. We can certainly suggest to the Comptroller General that he should start thinking about some of this stuff.

In finding auditors, we have been successful in meeting our recruiting targets. As I mentioned earlier, we can't compete with the private sector on salary, but we certainly try to compete on work-life balance. We are able to attract a number of very competent, very bright young people into the office because of that. We have to be very careful that we maintain that advantage as compared to the private sector.

Finally, to the national professional practices group, we have an association of legislative auditors in Canada, the Canadian Council of Legislative Auditors. It has been in existence for probably 10 years or more, and we meet formally twice a year. We have a number of working groups and we do concurrent or collaborative audit work together. On the list of audits that's coming, electronic health records, we have worked as a group. I believe six provincial auditors general will be auditing electronic health records, and we are going to try to produce a summary report for all of us.

This national professional practices group came out of a recognized need from all of us that with the changing standards and professional requirements we could not do it individually. It was impossible. We have agreed to provide those services for a fee to the provincial auditors.

For example, when exposure drafts come out of new standards, our group does an analysis of it and we will share the position with them. They have expertise in certain areas that we don't have, such as education and health. We hope that over time we will be able to use and tap into those resources. It's really a sharing of resources of all of the legislative audit community across the country. With that, we hope to all be better professionals.

• (1650)

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

Thank you, Ms. Fraser.

Mr. Shipley for five minutes.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Auditor General and your colleagues, for being here again today.

I want to emphasize one part. You mentioned the recognition of your office. I want to tell you that an office with strong morale where people are happy to come to work often trumps the wage. With that usually comes good performance. I do commend you for working hard through your public relations and human resources to make that happen.

In your opening statement, Ms. Fraser, in paragraph 12, we talked about decreasing the number of performance audits for the next two years. I don't know if that means you're doing a pilot project for two years, but you're going to do those once in the spring and once in the fall, rather than three times a year. You say:

We believe this will give Parliament more time between reports to hold hearings, while still providing members of Parliament with the information they require...

Why is this good now, and why is the change just coming now? Is it strictly because we're in an economic time where we need to tighten our belts on the budget? Is it about the balance between budget and efficiency? Is it because we have technology that's helping? Is it that you now have a stronger dependence on the internal audits of departments?

**Ms. Sheila Fraser:** Thank you, Chair. This was really provoked because of the economic situation. If it had not been for the economic crisis, we would have come to Parliament to ask for additional funds. When we did our initial budget, if we had kept the level of work that had been initially planned and given new mandates and new responsibilities, we would have come back to Parliament to ask for somewhere between \$3 million and \$4 million extra. We made the decision not to do that. Because so much of our work is statutory, the only way we could manage that was to reduce the number of performance audits. We had very long discussions about whether we should do that or not, and we believe that the level of activity is still appropriate, that we're not at the point where we are not fulfilling our mandate. At 25 audits in two reports...because then to go to three, we aren't getting all the savings we could get, because to do tablings is an expensive process as well. To be quite honest, given elections and prorogations and disruptions that occurred in the parliamentary calendar, I'm sure the chair will tell you, and other members know, that there has been a period of time when we've had a backlog of reports that have not had hearings. So we're hopeful that this will kind of resolve a few issues going forward.

The planning is for two years. We are planning now the audits out. We're starting to look at November 2011. My mandate ends May 2011, so I really can't commit. We'll plan, but the next auditor general will have to decide whether this is the model that he or she wishes to maintain or whether he or she wishes to augment the number of reports. It will depend as well on the reaction from this committee: does this committee want more audits, which would then require us to go to more tablings, back to the three tablings a year?

**Mr. Bev Shipley:** Thank you. I want to stay with that just for a minute. I think you had mentioned that being more accountable and relying more on the strength of internal department audits is the way to go. How are you going to market that through us to Parliament, to government, to the other people who are out there? Or do you think they will deem this to be sort of an inappropriate process by Parliament, to be reducing what they may call service and relying on some internal departmental people who are looking after their own interests, and not making sure that Canadians are actually going to have the security of the Auditor General's office that they have come to know and to appreciate and respect?

•(1655)

**Ms. Sheila Fraser:** This office will always continue to do performance audits, and we will always do audits in areas of importance. But certainly we have a follow-up audit that's planned in

2011 on the internal audit function. I'm very hopeful that it will show that significant progress has been made in strengthening internal audit across government, and if that is the case, we have to recognize that in our work. We shouldn't be duplicating the work that is being done with internal audits. Quite frankly, where we have, if you will, an advantage or kind of a niche is being able to do cross-governmental audits, rather than audits within a specific department.

So if we look at something...for example, an issue would be food safety, where you have the Department of Health and the Food Inspection Agency; the internal audits could look at the processes within each one of those, but they don't do that kind of broader question. Many of our audits will bring in two or three departments on an issue. I think that's where we can really add value.

We're not there yet, and it might take quite a while before we get there. But if the internal audit function can really be strengthened across government, I would think that we would move more to those kinds of broader issues that involve more departments. We'd continue to look at what internal audit is doing and look at certain issues—like in National Defence. We will always be doing specific audits within National Defence, but maybe with some of the other departments we won't be quite as present within the transactions within that specific department.

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

Thank you, Ms. Fraser.

Before we go to Ms. Ratansi, there's one issue I want to explore with you, Ms. Fraser. You raised it in your answer to Mr. Shipley. You indicated that your mandate expires in approximately two years, and in politics around this institution two years is an eternity. But in planning for the succession of a job as important as yours, it's not that long. I expect that the process will begin within six or nine months, if it hasn't started already.

Can you take us through that process? You're probably not involved directly yourself, but you know the process. Is there a role for Parliament? I believe the position has to be approved by Parliament, at the end of the day.

**Ms. Sheila Fraser:** I'll be glad to tell you how the process worked when I was named.

A search committee was established, and I believe it has always been chaired by the president of the Canadian Institute of Chartered Accountants. I'm not sure who else was on that search committee, but they contacted the major accounting firms and various professional organizations to bring forward names of people who might qualify for the position. An ad was placed in the newspaper for people who wanted to apply. Then there was a selection committee, chaired by the President of the Treasury Board, who then conducted interviews of a short list of probably five candidates. Then that committee made a recommendation to the Prime Minister. In my case, it was an appointment by the Prime Minister. I understand there was also some consultation with the chair of the public accounts committee at the time.

That process will have to be modified now because of the Federal Accountability Act, which requires some involvement of the parliamentary committee. I don't think it's an actual approval, but there is some hearing before a committee—I presume it's this committee—on the candidate who is being proposed.

**The Chair:** Under existing legislation your term cannot be renewed or extended.

**Ms. Sheila Fraser:** That's correct. It's a 10-year non-renewable term and it cannot be extended.

**The Chair:** Ms. Ratansi.

**Ms. Yasmin Ratansi:** Thank you.

The line of questioning has been around your indicators and whether 97% is good, 55% is bad, or whatever. But people don't understand audits. When I used to tell people I was an auditor and an accountant they said, “You have too much *joie de vivre*, so you cannot be an auditor or an accountant. They're boring.” So I sat there and said, “Okay...”

I think the general thrust is that they're afraid of the fact that you're coming to check on them. I looked at the indicators and saw that 55% of departments found performance audits added value. How does the Office of the Auditor General of Canada compare to that of Australia or Great Britain? Do we have benchmarks or best practices, or do we know that this is a standard we probably face? Honestly, people don't understand accounting and auditing. I used to have financial officers who didn't know anything about debits and credits.

As an internal auditor, I used to raid the professional companies because we gave work-life balance. Do you find that you are in a similar position?

I'll stop here because Ms. Crombie wants a question as well.

• (1700)

**Ms. Sheila Fraser:** Thank you for the question on indicators. I should have the information with me, but we have a group—I mentioned the legislative auditors in Canada. There are some common indicators that we use. I'm just not sure...I can certainly provide that to you.

**Ms. Yasmin Ratansi:** How does it compare to Australia? Is the 55% in the same ballpark?

**Ms. Sheila Fraser:** The most common indicators that are used internationally are the implementation of recommendations. Another one that many audit offices use is the savings that come from their recommendations. We have been reluctant about that and have had a long discussion with our colleagues around it. I'm worried it can encourage you to go to certain departments rather than others. I think I can tell you where you might be able to find some money, but that may not be the most important area in terms of management practices. As well, one issue that we see a lot is actually in fact that there's a difference between the level of activity the departments are trying to do and the funding they have. So if they are not getting enough funding for that activity, do you do that kind of audit? A lot of them, the GAO in the U.S., for instance, use that. The National Audit Office in the U.K. uses that. I'm very reluctant to use that indicator.

On the last question, on work-life balance, absolutely, that is our competitive advantage. What was really surprising through all of this is that women, especially young women or women with young families, in particular, and men too with young families, are very much attracted to the office. On our professional staff, we are now at 64% female, which I think was a shock to the men accompanying me.

**Mrs. Bonnie Crombie:** I'm just going to jump in for a quick 30 seconds.

I have a question on your opening statement, on point number 17, where you say that:

Last year we informed you that officers of Parliament had encountered particular problems with the application of Treasury Board policies to their operations. Many of these policies, which apply to all government departments and agencies, had an inappropriate impact on our independence.

What exactly does this mean? Can you explain this to us?

**Ms. Sheila Fraser:** I'd be glad to.

Whenever the Treasury Board issues an administrative policy, it applies to us as it would to any department. Within those policies there are, on occasion, roles for ministers or central agencies that are inappropriate for an officer of Parliament. One example we use is that any hospitality expense over \$5,000 a minister has to approve. The largest hospitality expense we have is for our lock-ups for journalists during our tabling. It would be inappropriate for a minister to say yes or no to us having a lock-up.

There were other conditions. The communications policy was one that we raised last year. Under that policy I would have to provide all of our communications strategies, all of our press releases, all of my statements to the Privy Council Office before delivering them.

**Mrs. Bonnie Crombie:** Has this issue been resolved?

**Ms. Sheila Fraser:** It has. We have worked very hard with the Treasury Board Secretariat staff. I am very appreciative that they have recognized that this is an issue for us and for all agents of Parliament. They are going before the board to have us exempted from those specific conditions that we find problematic.

• (1705)

**The Chair:** Thank you very much, Ms. Crombie.

Mr. Young, five minutes.

**Mr. Terence Young (Oakville, CPC):** Thank you very much, Mr. Chair.

Welcome to everyone. Again, it's great to see you here. Thank you.

I do want to comment on your report card, too, on the timeliness and the quality management framework. I wish I had a report card like this in grade 11. I'd be much farther ahead now.

I noticed that four years later a total of 84% of your recommendations are implemented in full or partially in the organizations that you audit. Since it isn't 100%, why isn't it 100%? Is it the changing conditions, or what is it?



**Ms. Sheila Fraser:** I would say it's probably in large part a question of priorities within departments. There can, of course, at times be recommendations that they say they agree with and they don't really agree with, so they really have no intention of implementing them.

**Mr. Terence Young:** So they choose not to.

**Ms. Sheila Fraser:** Those are not the majority. It's really a question of changing priorities. Most of the recommendations will require additional resources. Circumstances change and this may become less a priority to the department.

**Mr. Terence Young:** I realize it's a broad array of organizations you audit, but do any of them have any internal penalties or anything for not implementing the recommendations?

**Ms. Sheila Fraser:** Not to my knowledge.

I do know that some departments are fairly rigorous in following up on recommendations and what the progress is. As I mentioned, I'm very hopeful that the departmental audit committees will also bring more scrutiny and oversight to this, which is one of their responsibilities.

**Mr. Terence Young:** You say in your report that your training efforts, your expertise, is provided on a cost-recovery basis to the provinces. It's really a sharing of resources. I'm just interested, did you ever offer it to industry or to foreign governments?

**Ms. Sheila Fraser:** We haven't offered it to industry.

**Mr. Terence Young:** I can think of a couple of car companies. Had you been there five years ago, we'd be in a lot better shape.

**Voices:** Oh, oh!

**Ms. Sheila Fraser:** No comment.

**Mr. Terence Young:** Have you offered it to other countries then?

**Ms. Sheila Fraser:** Yes, we have offered it to other countries. We work on certain projects, largely those funded by CIDA.

For example, we were doing a fair bit of training in French sub-Saharan Africa on auditing. We are helping the Auditor General of Mali establish an office. We have a number of auditors general and their people who will come through for short one- or two-day sessions with us on how we work. We've done a lot of work in environmental auditing. In fact, the Commissioner of the Environment and his group are really leaders on all of this.

We have developed guides and tools that other auditors can use, and have been very successful, actually, at using.

**Mr. Terence Young:** It is my understanding that you enjoy an outstanding reputation internationally. Is that right?

**Ms. Sheila Fraser:** Yes, I think the office is very well recognized and has always been very well recognized. One of the programs I'll mention is the fellows program. I believe the committee has actually met some of the fellows, or they've attended in the past. Under this program, we bring in anywhere from five to seven fellows each year from developing countries, and they spend nine months with us.

The program has been in existence for about 25 years. There have been over 200 fellows who have gone through the office, and some are now actually the auditor general in their country.

**Mr. Terence Young:** When I was in the private sector—and I've worked in a lot of different businesses—and the auditors would come, I would notice the stress level going up. People would start whispering for no reason.

How does it work? How do you decide to audit? Is it strictly your decision, Madam Fraser? What happens then? Do you arrive at the door with briefcases and just knock, or do you give them a couple of weeks' notice?

**Ms. Sheila Fraser:** We decide what to audit. Obviously we take into consideration requests from parliamentary committees, and we try to accommodate those. We go through quite a rigorous planning exercise to determine the greatest risks for a department in achieving its objectives. That is done with a great deal of consultation with departmental management outside stakeholders, and then we prepare a plan of audit for three to five years.

That plan is shared with the department, so they know what is coming, and in fact sometimes they start to do their own internal audits before we actually come, which is not bad. Then there's a whole process that we go through. But they are aware quite a long time in advance that we're coming in. We will indicate to them what the scope of the audit is. We agree on what we call the criteria, the expectations of performance that we would expect to see. They have to agree that these are reasonable, and then we conduct our audit. Obviously there's a lot of discussion about whether there are gaps or not.

• (1710)

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

Thank you, Ms. Fraser.

That, colleagues, concludes the second round. Of course, I'm at the direction of the committee, but I would propose that before we call upon the Auditor General for her closing remarks, we put the matter to a vote. The way the committee works is that we're dealing with the estimates, and we have to vote on them.

I have the motion in front of me. I'll read it, and we have three choices. We cannot increase it, of course. We can approve it as presented. We can decrease it, or we can negate it, eliminate it altogether. That would be one way to get in the *Globe and Mail* tomorrow morning, but I'm sure we don't want to do that.

**Voices:** Oh, oh!

**The Chair:** If that procedure is okay with the committee, I will read the motion and ask for a mover.

FINANCE

Auditor General

Vote 15—Program expenditures.....\$72,631,942

**The Chair:** Shall vote 15 in the amount of \$72,631,942 less the amount of \$18,157,985.50 granted in interim supply carry?

So moved by Mr. Saxton.

(Vote 15 agreed to)

**The Chair:** The second motion, which is part of it, is rudimentary.

Shall I report the main estimates to the House?

**Ms. Yasmin Ratansi:** Yes, you should.

**The Chair:** It is moved by Ms. Ratansi.

(Motion agreed to)

**The Chair:** On behalf of all members of the committee, I want to thank you, Ms. Fraser, at this point in time, for everything over the last year and for your excellent work. It's not only you, but the members of your staff who assist you, and who assist Parliament and, through Parliament, all Canadians greatly in the job we do.

Having said that, I invite you to make any closing remarks that you have at this point in time.

**Ms. Sheila Fraser:** Mr. Chair, I would very much like to thank you and the committee for your interest in our work. The hearings

you hold certainly bring value to our work. I'm convinced that without them we would not be seeing the kinds of responses that we see to our recommendations.

I too would like to recognize my staff. I certainly don't do this alone. I am very fortunate to lead an organization of such dedicated and competent people.

Thank you.

**The Chair:** Thank you very much.

Just before we adjourn, I want to announce that next Tuesday we will be meeting in camera to deal with the reports. There will be no meeting next Thursday, April 30.

The meeting is adjourned.

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