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Chair

The Honourable Shawn Murphy

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•(1730)

[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): It is 5:30 p.m. Canadian time, so I will call the meeting to order.

Bienvenue à tous.

This meeting, colleagues, is called pursuant to the Standing Orders to deal with the international peer review of the Office of the Auditor General of Canada. Given the significance of the meeting, I wanted to make a few opening comments.

In conversations concerning the Office of the Auditor General, someone will invariably ask me the question: who audits the Auditor General? This is, of course, a very important and interesting question.

As everyone in this committee realizes, the Office of the Auditor General has approximately 650 employees and an annual budget of approximately \$90 million, and it plays an extremely vital role in assisting Parliament to hold the government accountable for the economic and prudent expenditure of taxpayers' money. However, the office itself is accountable to Parliament for those funds it spends, which are allocated each year by Parliament, such that these funds, like all of the funds allocated by Parliament, are spent in a manner that adheres to the basic principles of economy and efficiency and that measures are in place to analyze effectiveness.

Each and every year, the statements of the Office of the Auditor General are audited by the public accounting firm of Lévesque Marchand S.E.N.C., a mid-size accounting firm located here in Ottawa. These statements are published annually on the website of the Office of the Auditor General and are in turn incorporated into the *Public Accounts of Canada*, which of course are tabled in Parliament in the fall of every year.

In addition—and this gets us to tonight's meeting—every five years the operations of the Office of the Auditor General are subject to an international peer review to inquire, assess, and report on the audit and assurance practices carried out by our national Office of the Auditor General. The objective of the peer review is to do a comprehensive inquiry and provide an independent assessment and opinion on whether the management systems of the Office of the Auditor General are suitably designed and are operated effectively to provide reasonable assurances that the work of the Office of the Auditor General complies with relevant legislative authorities and professional standards.

The international peer review was carried out by a team of professionals from the audit offices of Australia, the Netherlands,

Denmark, Sweden, and Norway. The team leader was the Australian National Audit Office. The international peer review has been completed and was delivered to this committee in May or June of this year. The report is available on the website of the Office of the Auditor General.

The report reveals a number of findings and observations and makes two recommendations. Both the findings and the recommendations have been accepted by the Office of the Auditor General. The public accounts committee asks that, like other departments and agencies, an action plan be filed with this committee proposing how that department or agency intends to deal with those recommendations that have been accepted.

In June of this year, the Office of the Auditor General prepared its response or action plan, and that action plan has been filed with this committee. Again, the action plan is available on the website of the Office of the Auditor General.

So over the next two hours, the public accounts committee will hold a public hearing into both the peer review and the action plan.

Appearing on behalf of the international peer review team via telephone conference is Mr. Ian McPhee, the Auditor-General for Australia. Mr. McPhee will be accompanied by Brandon Jarrett, the executive director of the professional services branch, again from the Australian national office; Deborah Jackson, senior director of performance, audit services group; and Wayne Jones, executive director of information technology audits. Again, both Ms. Jackson and Mr. Jones are from the Australian National Audit Office.

Appearing on behalf of the Office of the Auditor General is, of course, Sheila Fraser, the Auditor General. She is accompanied by John Wiersema, the Deputy Auditor General.

Again, as I pointed out, Mr. McPhee, Mr. Jarrett, Ms. Jackson, and Mr. Jones are testifying from Australia via video telephone conference. I understand that it is 7:30 in the morning in Australia. It is 5:30 in the afternoon here in Ottawa, so I want to wish our Australian witnesses a good morning and my Ottawa colleagues a good evening.

•(1735)

We're going to do this in the reverse order that we normally do it. We're going to hear from Mr. McPhee first, and then, of course, the committee will hear opening comments from Ms. Fraser.

Mr. Ian McPhee (Auditor-General for Australia, Australian National Audit Office): Thank you, Chair.

Good evening. I am very pleased to appear today to discuss the international peer review of the Office of the Auditor General of Canada that was completed in May of this year. The review, as you have mentioned, was a joint effort, with significant contributions from each of the respective audit offices of the Netherlands, Sweden, Norway, and Denmark.

As you also indicated, joining me this morning are Mr. Brandon Jarrett, executive director of the professional services branch in my office; Deb Jackson, senior director in performance audit; and Wayne Jones, executive director in my IT audits branch.

As you are aware, the objective of the review was to provide an independent opinion on whether the OAG's quality management system was suitably designed and operating effectively to provide reasonable assurance that the work of the OAG complied with relevant legislative authorities and professional standards.

The peer review team found that, for the period under review, the QMS for performance audit, special examination, and annual audit were suitably designed to provide reasonable assurance that the work of the OAG complied with relevant legislative authorities and professional standards. As well, the QMS was operating effectively for the performance audit and special examination practices.

For the annual audit practice, the QMS was generally operating effectively, but there were implementation issues in two areas: first, the completeness of the risk assessment procedures informing the nature and extent of further audit procedures; and second, the sufficiency of audit documentation recording the results of the audit work performed.

The peer review report included two recommendations that addressed these areas, which the OAG agreed to implement. The report also included suggestions for the OAG to consider, and it also acknowledged a range of good practices adopted by the OAG that other offices internationally would benefit from.

We are aware that the OAG has developed an action plan to implement the review team's recommendations and suggestions, and we look forward to hearing about their progress with the implementation effort.

In closing, I would like to recognize that peer reviews are a learning experience for both the review team and the office being reviewed. They facilitate the sharing of ideas and experiences among review team members. As members of the review team, we found the experience to be valuable and informative.

Finally, I would like to thank Ms. Sheila Fraser for inviting my office to lead the peer review team and for the high level of cooperation and assistance provided to the team throughout the review. The OAG was exemplary in its attitude and approach to the review.

Thank you, Mr. Chair. I and my colleagues would be more than happy to respond to any issues or questions the committee may have.

The Chair: Thank you very much, Mr. McPhee, for your opening statements.

We are now going to turn the floor over to our Auditor General, Sheila Fraser.

Ms. Fraser.

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

I am very pleased to be here today to discuss the results of the peer review recently completed by several of our international counterparts.

As you mentioned, I am joined today by John Wiersema, Deputy Auditor General.

My comments will be brief.

I would like to start by thanking Ian McPhee, Auditor-General for Australia, and his staff for leading this review.

[*Translation*]

I would also like to thank the other members of the peer review team for their participation and contribution to this important project. They included representatives from the national audit offices of the Netherlands, Denmark, Sweden and Norway.

Mr. Chair, as you know, the peer review was undertaken at my request. The objective of the review was to provide an independent opinion on whether the Quality Management System used by the Office of the Auditor General to manage its audit practices was suitably designed and operating effectively.

I believe that this type of external review is important. It provides independent assurance that you can rely on our work. It also leads to improvement in our practices and helps respond to a question often asked: Who audits the Auditor General?

Mr. Chair, I am pleased that the peer review report concluded positively with respect to the design of our Quality Management System and concluded that the system was operating effectively for the performance audit and special examination practices.

• (1740)

[*English*]

With respect to the annual audit practice, the report concluded that the quality management system was generally operating effectively, but it identified certain implementation issues that need attention, and it made two recommendations aimed at addressing them. These issues concerned risk assessment and related audit work, and the sufficiency of audit documentation recording the results of the audit work performed. These findings are similar to those of our own recent practice review.

We have accepted the report's findings and agreed with the recommendations, and we have developed an action plan to implement the recommendations as well as the additional observations and suggestions for improvement included in the report. Our response and action plan, as was mentioned, were provided to the committee in June. We are also presenting an update on the current status of the action plan, and you will note that overall we are progressing according to plan.

In closing, I would like to assure committee members that we are strongly committed to taking the necessary steps to ensure that you can continue to rely on our work.

Mr. Chair, that concludes my statement. We would be pleased to answer any questions that members may have. Thank you.

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

We're now going to questions from members. The first round will be seven minutes, and we'll start with Monsieur Dion.

Mr. Dion, vous avez sept minutes.

[Translation]

Hon. Stéphane Dion (Saint-Laurent—Cartierville, Lib.): Thank you, Mr. Chair. I hope you had a good summer.

I want to welcome everyone back, including you, Madam Auditor General.

My first question is perhaps somewhat good-natured. When I read the first sentence of the briefing notes—we often wonder who audits the Office of the Auditor General—I thought you would talk about Marxism courses and other oddities that ended up on the front page of the *Journal de Montréal* this summer.

First, I would like to know how you felt when the shoe was on the other foot and management mistakes reported on by the media gave the impression of overall mismanagement? Will that deflect certain headlines that appeared in newspapers these last few years—headlines that were damaging to a government I was part of?

Second, does the review cover the actual management of your office or does it simply assess the quality of your work, without necessarily talking about the management component?

Third, if the foreign auditors did not include an assessment of your office's management in their review, who is in charge of doing that?

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

Regarding the media coverage question, I am sure, like many of the officials and members here, that we do not jump for joy when we see ourselves on the front page for entirely justified actions that were pre-approved and comply with our policies, and that were unduly twisted just to create headlines. If the committee would like further explanations, it would be my pleasure...

It is a case of highly questionable, unfounded journalism. In our field of work, you could say that this kind of thing happens from time to time. Perhaps the best way to deal with this is to take a deep breath and just move forward.

• (1745)

Hon. Stéphane Dion: Welcome to the club!

Ms. Sheila Fraser: Yes, indeed.

The report, or rather, the review is mostly about our product quality management program; it was not strictly speaking about management. Certain aspects were reviewed, such as staff appointment and training methods, and, to a certain extent, the hiring and recruitment process. Everything related in some way to production and product quality was covered in the review. However, issues related to hospitality expenses, course costs or our contracting systems were not covered in this peer review.

We conduct internal audits periodically, often using external contract employees to review our business management processes.

Hon. Stéphane Dion: Do you have access to those audits?

Ms. Sheila Fraser: Yes, they are all posted on our Web site. They are also included in our performance report. If the committee would like to see some excerpts from or summaries of these internal audits, it would be my pleasure to provide them to you. I think that that answers your questions.

Hon. Stéphane Dion: The report we received talks a lot about the comprehensiveness of the risk assessment procedures. I am not sure I fully understand what that is about.

Ms. Sheila Fraser: The report covers several aspects. A key issue it points out is that, when undertaking a financial audit, we must assess the potential risk of errors being present in the financial statements. After that, we must follow procedures to ensure that errors did not occur and that the risk was well managed.

Our colleagues noted that the link between our risk assessment, our risk identification and our work needs improvement. The work we do for each particular risk and the linkage between the various aspects should be clearer.

Information technology is also an issue. We did not have any policies requiring that information technology experts participate in the audits. Now, as a result of this review, we do have such a policy. For all audits, for all the entities with complex systems, we will call upon the services of an information technology expert to improve the risk assessment, but also to better identify possible improvements in terms of financial control. We will then be able to use those assessments for future audits.

The last element is about assessing fraud risks, a standard Canada adopted fairly recently. The auditors noted that the standard is applied very inconsistently, especially when it comes to keeping a record of the conversations we must hold with senior executives, the committee, the board of directors, and so on. We must clarify the policy that regulates all that and how this new auditing standard should be implemented.

Hon. Stéphane Dion: Thank you, Madam.

The Chair: Thank you, Mr. Dion.

Mr. Nadeau, you have seven minutes.

Mr. Richard Nadeau (Gatineau, BQ): Thank you, Mr. Chair. I am very happy to be with your committee once again.

Ms. Fraser and Mr. Wiersema, good afternoon.

I have read the documents that were submitted, or at least the assessment summaries. They mostly talk about the renewal of audit methodology. You still have a year or two to do that. I understand that it is a lot of work. In fact, I feel that we are trying to improve upon a system that works well. Nevertheless, changes must be implemented and the process must move forward.

How far along are you in terms of the renewal?

• (1750)

Ms. Sheila Fraser: The renewal was initiated after Canada adopted international audit standards—in French, we now say “*audit*” rather than “*vérification*.” There are many upcoming changes to how we do things and to the standards. For audits being completed, the new standards take effect on December 31, 2010. All auditing firms must adopt these new standards.

We issued a temporary manual that sets out the resulting differences, so that our employees can start planning the audit engagements. Last year, we entered into a strategic alliance with a major auditing firm. We expect to have access to all its material, manuals, as well as to all its training courses. We were hoping to get everything this summer, but unfortunately, that firm also experienced some delays. That is why we had to issue a temporary manual. We hope to come out with a new one at the end of the year or at the beginning of 2011. Clearly, we will adapt it to our own situation, since the public and private sectors are different. Courses are also being developed.

The project is going well, at least in terms of the financial attest audit. The performance audit, due in December 2011, is also going well.

We must also draft a manual that will cover all policies and all standards that apply to the office as a whole, regardless of the audit practice used. We are planning to issue it in 2011.

The project is moving forward. We hope to meet all our deadlines. At this time, the most pressing matter is the financial audit, since it is due on December 31. We are prepared for that change.

Mr. Richard Nadeau: So we are in a transition period. Does the transition framework affect the staff? Will a review of the internal working of the organization be necessary?

Ms. Sheila Fraser: At this time, we cannot determine with any certainty how long the audits will take. In addition to the changes made to audit standards, there are also changes being made to accounting standards. Companies must also change their accounting methods and the way they account for certain transactions. Owing to those changes, we must provide our employees with a lot of training and possibly allow more time for financial attest audits.

We have reduced the number of performance audits conducted annually in order to free up resources. Those resources will help us cope with the updating of manuals and with all the training we must provide, keeping in mind also the additional time required for financial attest audits. We won't know how the audits will be affected until they are performed.

Mr. Richard Nadeau: Are you currently relying on models from other countries for guidance, or is this something that is unique to the management of each country, depending on its records, its budget and its abilities to conduct audits?

Ms. Sheila Fraser: It is rather specific to each country, based on the standards that were used previously. We don't think that the differences are as major in Canada as they may be in Europe, for instance. We do have some experience. Actually, we already have to use international standards in the audits we conduct for the United Nations agencies. So, we do have a certain amount of experience.

Of course, we regularly consult the major firms that are also going through this transition. We have learned a lot, especially owing to their experience in Europe. We try to conduct assessments, but they must really be performed on an entity-by-entity basis, according to each entity's assets, the nature of its operations, and so on.

I think that we are lucky to have ties to a major firm and to have access to all its training material. Preparing all that ourselves would have been a lot of work.

• (1755)

Mr. Richard Nadeau: Very well.

Thank you very much, Mr. Chair.

[*English*]

The Chair: *Merci, monsieur Nadeau.*

Mr. Christopherson, you have seven minutes.

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

Madam Fraser, welcome.

Welcome to our guests from Australia. Thank you for the work you've undertaken, ultimately on behalf of the people of Canada. We very much appreciate it.

I'm sure you know that the Auditor General is well respected in Canada, and deservedly so. But I think the sense of duty we feel to hold the auditor accountable in her own audit is valid. Given that Ms. Fraser commands such respect, woe betide anybody here who doesn't handle this properly. I do believe they see accountability as part of the system, which is why the system works so well. There's accountability for everyone—ultimately for us, too—directly to the Canadian people. So again, thank you so much for undertaking this work on behalf of our people.

My first question is in relation to the 2004 peer review.

I also wanted to put on the record—and this needs to be noted by Canadians—the courage our own Auditor General displayed in asking for this audit. It's been my experience in over six years on this committee that departments in the federal government don't jump up and down and say, “Pick me, pick me.” To have an auditor who's prepared to do just that while understanding the potential damage... If you came out with a scathing report, the Auditor General's ability to maintain that reputation and continue to do her work would be severely impaired. So I think it says a lot about the Auditor General. It says that she and her senior managers have so much confidence in the department they run that any helpful criticisms that might come forward would not damage in any way the respect for the Auditor General here. That respect is really the currency of the Auditor General.

So having said all of that, I'll now move to the actual report. I was interested that there was a reference to the 2004 audit. There were suggestions made there. Your response, Madam Fraser, on page 6 of the spreadsheets in your action plan says, and I'm quoting:

In addition, the 2004 peer review suggested that the presentation of reports could be improved through the use of graphics and tables to present complex numerical data and footnotes showing sources of evidence. We consider that this suggestion is still valid.

The obvious question is why we have an outstanding recommendation that you agreed to in 2004 and still seem to agree to now. I'm just wondering why in the last six years you didn't implement it.

Ms. Sheila Fraser: Thank you, Chair.

We have tried to implement it. Whenever we have complex data, our communications team works very hard to try to present it in a way that makes it clear and easy to understand for parliamentarians. I think what we're trying to say here is that we recognize we can always do better.

The issue is really about working with the teams to try to get them as well to think about how best to implement this. I would also welcome, from members of Parliament who read our reports, suggestions of ways to improve the presentation.

Certainly when we have surveyed members regarding content of the reports and understandability of the reports, the surveys have always been very favourable. So I think this is ongoing. I doubt it will ever be completely resolved.

There was one suggestion made, which you will note in the response, and that was to use footnotes. We have not agreed with that. We think it would—

• (1800)

Mr. David Christopherson: That was going to be one of my subsequent questions. What is the rationale for that?

Ms. Sheila Fraser: We just think it would make the report very heavy if we started to list where our evidence came from. We do indicate in the report the criteria, what the sources of the criteria were, and where they came from. If we were to start sourcing all of our evidence—I mean, we have binders full of evidence. We thought doing that would make the report actually very difficult to understand.

Mr. David Christopherson: Thank you.

Mr. McPhee, what are your thoughts on your recommendation and the response you've heard from our Auditor General on the issue of footnotes?

Mr. Ian McPhee: I think it's a matter for the Auditor General at the end of the day.

Certainly in Australia we judiciously use footnotes to refer to key sources of evidence, particularly government documents or matters of that kind, and sometimes we use footnotes just to provide a little bit more background information, rather than cluttering up the main report itself. We use a footnote just to provide a little bit more context sometimes, a little bit more background information.

Sheila Fraser is right to say that undue use of that sort of approach does probably cloud the report. So you do have to be careful, and only in significant cases would we use that to help the reader, to provide more context to the reader.

Mr. David Christopherson: Thanks. That's very helpful.

I don't want to belabour this one point on footnotes, but what is the practice in many of the other Commonwealth countries? It sounds to me like it's a judgment call, and if it's a judgment call, then I'm curious as to why you would reference it. If it's entirely up to the discretion of our AG, then why make the point? Obviously there's a

reason why you've made the point, so perhaps you could help me understand maybe what they're doing in other Commonwealth countries with regard to the use of footnotes in reports.

Mr. Ian McPhee: I can respond to part of that question. I'll ask Deb Jackson to assist as well.

I think it is a matter of discretion. When we did the review we provided not only the recommendations that addressed what we considered to be the significant matters that the OAG needed to take into account, but we also made suggestions, which are discretionary, in areas where we believe the OAG should consider approaches that may improve the presentation and communication effectiveness of the reports.

It's an approach we use in Australia. We come across issues that may not be all that significant in the overall scheme of things but are nevertheless important to pass on to the agency we're auditing. There's an area where they might look at whether they can improve a particular approach by taking something on board.

I need to say here that in Australia we've moved from our audit reports containing many recommendations to seriously reducing the number of recommendations, so that we only focus on what we believe to be significant matters of public administration. When you cull something like 30 recommendations in a report we may have produced 10 years ago to something like five or six, it's not necessarily that the quality of administration is improving. As many of my colleagues and agencies say, "Well, look, you've got 30 recommendations last year and now only six. We've obviously improved." I say, "Well, actually, no. What we're doing is trying to focus on the significant matters now." We then say, "In the body of the report, we will nevertheless make suggestions that aren't all that significant but are nevertheless useful to improve administration or performance."

I guess we have taken that philosophy, that approach, across to the report we've done with our colleague, to just raise the issues of tables and footnotes. In some other areas we've made what we call less significant suggestions for the OAG to consider. The pleasing thing is, the OAG, except for the issue of footnotes, I think has agreed to take on what I call the minor suggestions. That's fine, and we're happy. The reason we didn't put it in a recommendation is that we thought it was entirely appropriate for the OAG to make the decision whether they saw a benefit in this approach.

In terms of the specific matter you raised, I'll just ask my colleague, Deb Jackson, to see if she can add any further information about the international experience.

• (1805)

Ms. Deborah Jackson (Senior Director, Performance Audit Services Group, Australian National Audit Office): Thank you, Mr. McPhee.

What I want to say is actually a product of several of the audit officers—and there were two other audit officers who were involved in the performance audit part of it. We all felt that the recommendation of the 2004 report, as we said here, is still valid. It was common practice, as Mr. McPhee says, in Australia to use footnoting for sourcing evidence from, say, third parties or data from third parties, or from the agency being reviewed. It was also common practice in the other audit offices that were involved in this peer review. That's why we thought it was a valid suggestion in this report. I understand it is more widely also a common practice among audit officers.

Mr. David Christopherson: Thank you very much. It sure points to a great summary and a great report when we have to spend so much time on footnotes, so thank you very much. I appreciate that.

Thank you, Chair.

The Chair: Mr. Saxton, you have seven minutes.

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

Thanks to our witnesses for being here with us today.

Special thanks to Mr. McPhee and his team for waking up so early so that they could be with us by video conference.

Mr. McPhee, I can't help but notice the object of art that you have on your desk in front of you. It looks a lot like the work of the Haida First Nation from my home province of British Columbia.

My first question is for Mr. McPhee: have you or your team ever done an international audit before?

Ms. Deborah Jackson: I might just answer that. The ANAO was actually involved in the peer review of the U.S. GAO in 2007. I'm sure Mr. Jarrett can talk about that a bit more. We also have an agreement with the New Zealand audit office. Every second year we do a mini peer review of each other's offices.

Mr. Andrew Saxton: Thank you.

Can you tell us how this audit compares and contrasts to those audits you've done?

Mr. Ian McPhee: I think this one had a much wider focus. It is much broader and more in depth, in the sense that particularly with our colleagues in New Zealand we may do a review of several of their performance audits, but we don't go into the full review of their quality management system for both performance and annual audits. This is the most significant review we've been involved in, because we have led it and because of the breadth of the audit or the review objectives.

Can I just thank you for recognizing the work of art here? We just wanted to have a little bit of Canada here with us this morning. I'm pleased that you have noticed it. Thank you.

Mr. Andrew Saxton: Thank you for having it.

My next question is in regard to the scope of the audit. How did you decide on the scope of this review?

Ms. Deborah Jackson: It was actually a discussion between the OAG and the ANAO. The OAG had two specific areas that they wanted the peer review team to examine and they largely suggested

what the objective and the scope would be. We then discussed that. In fact, some of the details were subject to negotiation, such as the timeframe. That was subject to negotiation between the two offices and also in involving other peer review teams.

Mr. Ian McPhee: If I could just add to that, clearly from my perspective this peer review goes to the core of the OAG's business. It's the heart; it's about audit quality and audit performance. It's absolutely focused on what matters to the reputation of the OAG understanding that the chair referred to earlier. If I could say this, not only are Sheila Fraser and the OAG extremely well regarded in Canada, but I can say that they are extremely well regarded internationally as well.

So I agree with the earlier comments. It just demonstrates the constructive attitude and approach of the OAG to seek this peer review and to have it focused on the essential core business of the office.

• (1810)

Mr. Andrew Saxton: Thank you for those comments.

My next question is for our Auditor General.

Madam Fraser, you requested that this particular audit take place. Can you share with us why you decided to do that?

Ms. Sheila Fraser: Thank you, Chair.

In the past we have had two peer reviews done. One was completed in 1999-2000 on our financial audit practice, and the other one, in 2004, was on the performance audit practice. I thought it important that we have a peer review of all of our practices, not specific practices.

I also wanted to have the peer review done before the end of my term. I thought it was important that a new Auditor General coming in not have the responsibility of conducting a peer review right away. The issues we have to deal with are known now, and hopefully that Auditor General, before the end of his or her term, will also do a similar peer review to assess the state of affairs of the office.

So yes, to me it was very important that we do this. Especially in a time with a lot of change going on in the office, it was important to us to have that independent objective assessment of where we needed to improve and how we could make our practice better.

Mr. Andrew Saxton: Thank you.

Can you share with us the progress that has been made with regard to the recommendations, if you've had time, in fact, to make some progress?

Ms. Sheila Fraser: Yes, we have. We have provided to the committee an update of our action plan, I believe. You will see that there are several actions that have been completed—the ones that were actually relatively easy to put into place.

The major response to the recommendations is this revised audit methodology project we are undertaking, which we plan to have completed by December of next year. We are on track. We're making good progress.

In the practice areas, where we do need that methodology and guidance sooner—for example, in the financial attest practice, which has to be in place for financial statements that we will be undertaking during this next year—we have made very good progress. Staff is being trained and there is methodology that's available to them.

So we are progressing well, and we would certainly be pleased to provide the committee with regular updates on how that is going.

Mr. Andrew Saxton: Thank you.

Can you share with us how the executive committee is going to be monitoring the progress made on these recommendations?

Ms. Sheila Fraser: We have asked for regular updates. We have an update of the RAM project every month at the executive in terms of schedule, costs, and resources, and then we have asked for an update of the whole report and action plan semi-annually, just to make sure we're on track. Responsibilities have been assigned and people will be accountable to delivering on the plan.

Mr. Andrew Saxton: Finally, can you share with us who makes up the executive committee?

Ms. Sheila Fraser: The executive committee is composed of myself, the Deputy Auditor General, the Commissioner of the Environment, and all assistant auditors general. We are now 14 people, I think.

Mr. Andrew Saxton: Thank you very much.

Ms. Sheila Fraser: Thank you.

Mr. Andrew Saxton: Thank you, Mr. Chair.

The Chair: Thank you, Mr. Saxton.

Colleagues, that concludes the first round of seven minutes each. Now we're going to go to the second round of five minutes, and we're going to start with Mr. Lee.

Mr. Lee, you have five minutes.

Mr. Derek Lee (Scarborough—Rouge River, Lib.): Thank you, Mr. Chair.

My thanks as well to the Australian team for assisting with this peer review.

I want to address with our Auditor General the question of the risk assessment, with the focus on fraud, because I always thought audits were intended to uncover the fraud rather than speculate in advance. It's almost an un-Canadian.... Maybe it's a culture creeping into a financial management system; it's an un-Canadian thing to start off assuming the worst about a financial system. If a Canadian is walking through the door and there are two people at the door, Mother Teresa and a career criminal, the Canadian would probably treat them both the same, whereas one's likely to steal your wallet and the other one's likely to give you a very memorable greeting. It's almost unconstitutional to start off assuming, or saying, "How many crooks and cheaters are we going to find in this particular financial envelope?"

I understand how practical and real that is, but how do you systemically insert that into your meeting agenda as you scope out what you're going to do?

• (1815)

Ms. Sheila Fraser: I would start by saying that the risk is not only the risk of fraud; it's also the risk of error, and it's really an assessment of how good are the management controls in place to ensure that the financial reporting is as accurate as possible.

So we would look in certain systems and basically ask what could go wrong—either deliberate or accidental—and then at what controls are in place either to prevent it or to detect if something has happened. Then we would test those controls to see if they are actually functioning as planned.

The question of fraud has actually evolved quite a bit over the last five years or so. In the auditing profession we used to have an assumption that management was acting in good faith. You went into an audit with that almost as accepted practice. Since some of the very large scandals in the U.S., and I would say since Enron, basically, that assumption has gone.

So auditors now have a responsibility to not give any bias, if you will, one way or another as to how management will act, and we have to probe senior management about fraud. We have to ask audit committees and boards of directors about fraud. Are they looking at the procedures that are in place? Have there been cases uncovered? What have they done in these cases?

It is a much more extensive audit and investigation than used to be done in the past, though I think every auditor will tell you that an audit will not necessarily uncover fraud, and that is not the main purpose of an audit. But we certainly have to do much more work under standards now than we ever had to in the past. This has been a change that I think has come in largely because of large corporate scandals and events in the U.S. in particular.

Mr. Derek Lee: That means the auditor then is like the sheriff coming into town. I mean, if you're going to signal it in advance, "We're not just coming to check your books, but we're looking for the bad guys"....

Is there a balance there, or are we still working on this? Obviously the peer review has identified this as something we could be more consistent on.

Ms. Sheila Fraser: It's important to note that we do not presume that fraud has occurred; it's just that it's one of the risks that we now have to investigate and question. It's a lot through discussion with senior management and to see what kinds of monitoring controls and other controls they have in place. Are they sensitive to the possibility and the risk of fraud in their own organization?

As well, I think our auditors have to be a little more sensitive to some of the signs that could exist—

Mr. Derek Lee: You're so polite.

Voices: Oh, oh!

Mr. Derek Lee: Could I just ask our Australian friends, is there something we need here that's more brutal—a heavier hammer or a sharper knife—or do we have the right idea? I'd like to hear it from your point of view, as measured against other international....

Mr. Ian McPhee: I would just say a couple of things in this area. Auditors have always been expected to have what we call “professional scepticism”. That is, we do look for evidence and support for positions taken or for a set of financial statements to make sure that the figures do have integrity.

The second thing, as Sheila has mentioned, is that particularly with the adoption of the risk-based approach to auditing, where the auditor is forever assessing the risk of material misstatement in a set of financial statements, clearly, fraud and error need to be factored into that consideration. The auditor quite appropriately needs to assess the risk of fraud and error.

If you look at the auditing standard on the auditor's consideration of fraud in a set of financial statements, it actually says that even if the auditor believes that the integrity of the entity you're auditing is of high standing, you should put that view aside in your consideration of the risk of fraud and consider: if this board was up to no good—if I can use that expression—how might they perpetrate fraud in terms of the financial reporting of the state of affairs of that entity?

There's no question that since Enron and other collapses the audit profession has been on notice about seriously considering the risk of fraud. Hence, now in the standards there are firm requirements for discussions amongst the audit team about assessing the risk of fraud and for the discussions that Sheila mentioned, the discussions with the entity management.

It is not to suggest that the organizations are criminals, but it is to try to suggest that the auditor has this obligation to test the risk of fraud and to put in place procedures designed to make sure, when they provide the opinion on the financial statements, that there is only a very slight chance of that opinion being incorrect.

So it is a global move. This risk standard that Canada applies is the same as the international standard, but it's a more recent development.

• (1820)

Mr. Derek Lee: Thank you.

The Chair: Mr. Kramp, five minutes.

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

Welcome to Mr. McPhee and his team and to our Auditor General and her staff.

I have maybe just a few quick questions.

First, to the Auditor General, have you previously had any occasion to work with Mr. McPhee and his team?

Ms. Sheila Fraser: Not formally on a project. We are, of course, colleagues in international fora, but no, we have not worked together. Some of his staff have worked with us. On the GAO peer review, for example, we worked together, but beyond that, no.

Mr. Daryl Kramp: Thank you very kindly.

A while back when you were here, you intimated that you knew that there were a couple of areas that weren't necessarily problematic, but there were improvements that could be made. You brought that up to this committee.

With the peer review audit now, what component of that peer review would reflect these same concerns? Did we anticipate these outcomes as presented by Mr. McPhee's team, or were they in addition to or a corollary...?

Ms. Sheila Fraser: As the committee may be aware, we do our own internal practice reviews each year. We do a very large number, probably somewhere between 15 and 20 audits that we review ourselves. The recommendations that came out of the peer review were not a surprise. The issues that were raised were very similar to the same issues we had found in our most recent practice reviews, so we knew we had work to do in this area.

I think I had mentioned to the committee that I was hoping there wouldn't be any other surprises, and there weren't. We were quite aware that we had to do work in these areas.

Mr. Daryl Kramp: Okay, so obviously you've identified this. You've presented a plan of action to follow. I'm wondering, of course, were you able to discern that you had some areas along the way? Had you gone to a certain extent before you said “Oh, we'd better take some action on this”, or would there just be a gradual improvement or a gradual acknowledgment of a couple of areas of weakness, and would they be fixed right on the spot?

Ms. Sheila Fraser: There were several areas. I think our practice review results came out in about February or March, so spring, just slightly before. We were aware of the results of some of those practice reviews. We knew we had issues, and some had even been raised in the year before. An issue like documentation, unfortunately, is a common theme that comes up in most practice reviews and peer reviews, so we had started to encourage the teams to better document.

We have made changes to some of our tools where we saw that there were misunderstandings or we could guide people more in how they should be documenting. So there were a number of actions, and that's why you'll see in the update that many of the actions are actually complete, because we had started in the springtime. The peer reviews confirmed to us the necessity to go ahead and put these actions into place.

Of course, the largest project is this whole methodology project, which will come over two years.

• (1825)

Mr. Daryl Kramp: Thank you.

Mr. McPhee, you've obviously made two recommendations, primarily. You've said your report also included a number of suggestions for the Auditor General to consider. For the record here, could you just elaborate a bit more on these suggestions you made for the Auditor General to consider?

Mr. Ian McPhee: Thank you very much.

I'll just make some opening comments and allow my colleagues to assist on the detail. Certainly, just to reinforce, the suggestions were areas where we felt that at the margin improvements could be made. It drew together the experience of the international team. As I say, it reflects our normal—certainly in Australia—approach to reporting to leave the recommendations to the most significant matters and the suggestions to the report itself.

I'll ask my colleague Brandon just to cover off quickly the various areas we thought could be improved.

Mr. Brandon Jarrett (Executive Director, Professional Services Branch, Australian National Audit Office): Thanks very much. It's nice to be here today.

The first one I'll talk about is reporting to management. One of the suggestions we have here is that the OAG could consider ranking the findings it gets from its annual audit work into a risk tier, where things are rated into high, medium, and low risk. In that way it could help consistency of judgments and also inform the people who get the report as to what requires the most attention from them in responding to those issues.

That is put as a suggestion because there's an upside and there's a downside with that. It provides, as I said, an opportunity for consistency of judgment and clarity in reporting, but it also causes in some cases a distraction in terms of reporting processes with the entity that's being audited.

Mr. Ian McPhee: If I could add to Brandon's comments, when that system first came in in our office I was skeptical, as a good auditor, about whether it would be beneficial or not, but I decided to continue the approach. Actually, the effectiveness of it has been remarkable. A lot of the agency heads, with whom I deal on a day-to-day basis, are very alert to our categorization system. We use A, B, and C for our system: A is for the very significant matters that need attention quickly; B is for moderate matters but still important enough for the CEO's attention; and C is for minor and procedural matters. Agency heads in this town do not like the thought of their agency being reported on whether they have these high-level A or B findings, so they are very focused on eliminating them. They see it as a bit of a matter amongst their peers that they should be seen to be running a high-integrity, well-controlled organization, and their shorthand assessment of that is the number of As and Bs the audit office provides in its ranking. It has actually had a much more powerful effect here in Australia than I envisaged in the first place.

We use it, we find it effective, and that's the reason we have just raised it for the OAG to consider.

Mr. Daryl Kramp: Thank you so kindly.

The Chair: Mr. Jarrett.

Mr. Brandon Jarrett: The next one is in relation to the use of electronic audit working papers. One of the challenges all audit practices face in the preparation and use of basically electronic systems is the timely review of working papers and the consistency of their use. We've suggested to the OAG that all reviews should be done within the system so that it's self-contained, there is a complete record, and it can be archived as a complete record.

I'll get Deb Jackson to talk about the other two that relate more to her area of expertise than mine.

• (1830)

Ms. Deborah Jackson: Thank you.

I'll try to be brief. The first one is around continuous improvement. We recognize that the OAG does capture lessons learned from both their audits and also stakeholder feedback and practice reviews in several different ways, but we found that there wasn't necessarily a systemic approach to capturing those lessons

learned and ensuring that they're actually fed back into learning and development programs and things like their RAM project, for example. In their action plan they have mentioned they are addressing that and they've put in place a more systematic approach.

The other area was in relation to performance audits and special examination reports. The footnotes, of course, we have touched on. The other is just providing a little bit more context in performance audits and special examination reports, and also particularly in special examination reports, making it a bit more clear what they are addressing in those reports, what systems and practices are being examined and what those findings and conclusions subsequently mean, and putting context for the reader to understand those recommendations. So it's the readability of those reports at the end of the day.

The Chair: Okay. Thank you very much.

We're now going to move to Madame Faille.

[*Translation*]

Ms. Faille, you have five minutes.

Ms. Meili Faille (Vaudreuil-Soulanges, BQ): Thank you. I will share my time with Mr. Nadeau, who did not get to ask all of his questions earlier.

Mr. Richard Nadeau: Thank you very much, Mr. Chair.

We talked earlier about the fraud risk issue. The whole question was examined, and things were explained. Now, we are talking about sufficient documentation. Following the recommendations made, where exactly do things stand on this matter?

Ms. Sheila Fraser: We mentioned to our staff and even stressed the importance of documenting decisions properly. Our internal practice reviews seem to indicate improvement in that area, but I have to admit that it will always remain a challenge. Often, people don't take the time to properly document why they did certain work, what their conclusions are, what their reasoning is. I think that we will always have to remind people to take the time to properly document everything they do. Owing to the new international standards, we are requiring that employees provide more documentation to explain their actions.

Mr. Richard Nadeau: Is this odd situation also due to the fact that the task must be performed quickly? If employees have to move on to the next step, they may neglect to document their work to some extent in order to focus on the big picture. Is this oversight due to a lack of time or staff, or is this the way things have always been done?

Ms. Sheila Fraser: Perhaps the issue partly stems from a lack of time. Our employees often have to rush to complete cases. I also think that human nature factors into the equation. We do our work and think that what was done is clear, but when someone else sees the work done, it is perhaps not so clear, especially when it comes to the underlying reasoning. Employees do the work required, but they do not provide sufficient documentation to support their reasoning, for instance, justifications for choosing a particular method and arriving at a specific conclusion.

Mr. Richard Nadeau: Another issue is the retention of electronic documents. Is that a relatively new procedure? We know that it has been around for a while now, but it is still new. Should we be rethinking that aspect? I know that, in this field, technology changes rather quickly. Is that fact taken into consideration? At a given time, electronic documents were being retained in a certain format. Today, that particular format is obsolete, it no longer exists. We are not even sure whether we can find equipment that allows us to read older documents. Is that taken into consideration?

Ms. Sheila Fraser: In that case, the issue was more about the use of computer tools for performance audits. When it comes to financial attest audits, we have been using an electronic tool that was designed for that specific purpose for about a dozen years now. People are more familiar with it.

For performance audits, we had to adapt a tool to meet our needs, as it was not as user-friendly as it could have been. We made other changes to it. Now, the policy requires everyone to use it. We are currently working on that.

I think that it is also a question of human nature. People who, like myself, have been working in this field for a long time are much more used to turning pages or going through a paper file than to reviewing an electronic record.

However, I am noticing changes in the practices. In our internal reviews, we ensure that electronic files are being created and that the use of paper is eliminated as much as possible.

• (1835)

Mr. Richard Nadeau: Does having a new medium, new electronic hardware, make it necessary to review the ways to further the search process every five, three or two years? Will we not constantly have to ensure that, technologically speaking, we are not slightly behind the times?

Ms. Sheila Fraser: Our software is used globally and is well known in the audit world. In addition, the software is constantly updated. So, we can perform updates as needed. There are also user forums and conferences we participate in, as well as North American accounting and legislative audit offices. We keep up with the changes that take place. An ongoing dilemma is whether it is worth our while to make a change in order to adopt the latest version or whether it would be better to wait a little while and make the change later.

We are aware of the changes. The main modification we had to make this year was incorporating all the audit standards and the procedures we must use into the software. Because of the modifications to the standards, tremendous efforts were invested into bringing everything up to date and making things as easy as possible for the auditors.

Mr. Richard Nadeau: Thank you for the clarifications.

[English]

The Chair: *Merci, monsieur Nadeau.*

Mr. Shipley, you have five minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chairman, and thank you, Mr. McPhee, for being part of this great day in Canada as we do the report on your peer review.

I would say to the Auditor General that it reads very much like many of her reports that come forward. I have to say to the Auditor General and the peer review team that, from our perspective here, we're very fortunate in Canada to have many ministries, agencies, departments, and crown corporations that actually come with very good reports. I guess because we're human there are always a few things to make us better, and that is driven, in large part, by the very strong and successful Auditor General's office we have here.

I want to congratulate you, Mr. McPhee, for chairing the peer review, and with that, I would ask the first question to you.

I understand that the peer review follows international guidelines and practices around the world. Just for our information, could you tell us a little bit about how the countries that have been involved in the peer review—there are four or five of you—implement the standards required by the countries and where they are in terms of the implementation of these practices and standards?

Mr. Ian McPhee: First, thank you for your kind comments about the review and the review team.

Second, the countries we were involved with in undertaking the review are all members of the International Organization of Supreme Audit Institutions, and they are collectively moving to adopt international auditing standards. But I have to say, some of those audit offices have not yet fully adopted the standards. I believe the countries we work with are adopting the auditing standards themselves, but I can't entirely assure you of that.

I can tell you that certainly Australia has adopted the same sorts of standards that Canada has—and there's no doubt these are standards that today are produced by the International Auditing and Assurance Standards Board—which apply in both the private sector and the public sector equally. That's very important. So the standards that both Canada and Australia are using in our audits are right up there in terms of quality.

The other thing that's important to say is that all audit offices do have issues with reinforcing the importance of training and adherence to the standards. In particular, I would reinforce what Sheila Fraser mentioned about documentation. It is an issue that features in many reviews of many audit practices in both the private sector and the public sector.

I can tell you that not all audit offices around the world adopt international auditing standards at this time, but certainly the leading audit offices do. Australia and Canada do, and I would say with some confidence—but without the evidence—that our colleagues on the peer review would be in a position similar to that of Australia.

• (1840)

Mr. Bev Shipley: My next question is to the Auditor General. It comes from a comment made by Mr. Jarrett regarding reporting to management and the issue of senior management involvement.

In your report I read that that was completed, I believe, in 2010. It would just seem to me—and if I'm missing something, please tell me—that such a management practice should certainly have been in place. When we have had other agencies, often—I remember back—we have talked about the management control, the communication gaps, how we're going to make and infiltrate into our technology... and all the communication strategies that we have. I'm pleased to see that it's completed. I'm just wondering why it's now completed and it wasn't sooner.

Ms. Sheila Fraser: This refers to senior management of the office and their involvement in the audits. Moving to the risk-based approach to audit requires more senior management involvement than may have been the case in the past—in particular, the involvement of our assistant auditors general.

I think we had perhaps placed too much reliance on other members of our management category. We have three levels in that management category, so the principals and the directors were really viewed as being the ones who led the audits. We've now clarified that the assistant auditors general really need to be involved certainly for the higher-risk audits and they have to be involved in the determination of which ones are higher risk. They need to be involved right up front in the planning in ensuring that the risks are properly identified and that the audit procedures being planned will adequately address those risks.

Some did it. Some did it very well, others less well. It was really a question of clarifying the expectation that they should be involved. Again, we will be looking at our internal practice reviews to make sure it is happening as expected.

Mr. Bev Shipley: Thank you, Mr. McPhee and Auditor General.

The Chair: Thank you, Mr. Shipley.

Now we're going to go to Mr. Christopherson for five minutes.

Mr. David Christopherson: Thank you, Mr. Chair.

Mr. McPhee, I was just curious, were there any practices that you saw here in Canada in our Auditor General's shop that you'd look at incorporating in Australia?

• (1845)

Mr. Ian McPhee: Thank you, Vice-Chair.

Yes, there certainly were. We actually make reference to some of these in the report, on page 17 of the English version.

Certainly, we think the way your committee and your Auditor General work together is a very high-level model and we are most interested in the strong and active relationship between the OAG and your committee. We have observed that already.

We like the clarity of the messages in the OAG reports. I think one of the challenges we auditors do have from time to time is that we perhaps use language that some others don't always understand. Clarity of message and clarity of communication are important. We think the reports that the OAG does are very good from that point of view, so we've taken on board that particular approach.

In regard to some of the collaborative audits the OAG does with other organizations, we found those very interesting. We in Australia have not worked collaboratively with other organizations in

undertaking audits, but we do produce what we call here “better practice guides”, which basically seek to draw from the information we've learned from audits to articulate what is better practice, be it in grants, administration, or contingency planning, or even in how to prepare a set of financial statements; we have a series of better practice guides. In some cases we work collaboratively with other agencies to produce those better practice guides, so we're interested in those matters.

I think the last one was the area of the criteria for special examinations. We're interested in that.

I think it's like any other area of activity, in that we learn so much from international experiences, that is, speaking from here in Australia. In Canada, as has been mentioned by various committee members, the OAG is a great asset to your country. It's highly regarded. We learn a lot by just being in touch with the OAG. In this case, the whole review team flagged these four or five areas as areas where we could learn.

As Sheila Fraser mentioned, we do meet at international gatherings. We do contribute and learn from each other and share experiences. I, for instance, without taking much of the committee's time, am very focused on audit quality: trying forever to improve the quality of the products we produce, particularly the reports we produce. We have to do it in a fairly efficient manner because of resource considerations, but we are working very hard, particularly in our performance audits, to invest in quality in the early stage of the audits so that we're all aligned, and so that when it comes to producing the final report, we have a clear understanding of what the messages are likely to be and we are comfortable with how they're being produced.

I think every audit office is interested in improving the quality of its work. I think the positive thing, from the point of view of the OAG, is that the investment the office has in the quality management systems is a very good basis for producing quality work. The OAG faces the same issues that other audit offices do: it's about how to make sure the implementation of audits actually follows the management systems, the policies, and the procedures that the OAG has articulated.

The other final comment I'd make while I'm speaking is that there's no doubt that auditing these days does require a higher level of involvement. The risk-based approach does require mature consideration of risks to misreporting or to misperformance, and it does require a high level of senior management involvement, particularly in the planning and in the reporting phases and the review phases.

So it's gone from being... In the old days, I used to send people out with lists of things to “tick and flick”, as we used to say, to check things off. Young auditors would be doing things, but they never understood exactly why they were doing them; a senior had told them to go do that. That's what you did, and you reported back, whereas what we're trying to do now is to make sure the whole audit team understands the risks there are to misreporting and to make sure the audit covers off those risks.

It requires a very thinking approach, a very intellectual approach, today, so I fully endorse what Sheila was saying about the importance of having more senior involvement in our audit teams, particularly in key stages.

●(1850)

Mr. David Christopherson: Briefly, Mr. Chair? Okay.

Thank you very much.

Then I'll take an opportunity just for a clarification, really. It came up in an earlier question. On page 3 of your spreadsheet there was a recommendation. I won't get into it because I think I just need a quick clarification. You agreed with it. You said:

Our own internal practice reviews have also identified the need for improvements in our audit documentation. The Office's Executive Committee will take the necessary steps....

My question was going to be that if you'd already identified it in your own audit, why did you wait till this audit identified it to take steps? But I believe that in an answer to a question from either Mr. Kramp or Mr. Saxton you mentioned that you were already on it, so this probably should read that you've already started the steps and you'll continue. Am I correct in that clarification?

Ms. Sheila Fraser: Yes.

Mr. David Christopherson: Very good. Thank you very much.

Mr. McPhee, thank you again very much. On behalf of the Canadian people and certainly the people I represent, thank you for your efforts. We do take accountability, as you do in Australia, very seriously. It's at the core of our democracy. This office has to work. We're not always going to have the benefit of Sheila Fraser to be here, so if we can leave this office as strong as possible going into that transition, it is such a help to us in our democratic system.

Thank you again, and thank the people of Australia for offering you up to do these services.

Mr. Ian McPhee: Thank you very much.

The Chair: Thank you, Mr. Christopherson.

Mr. Young, for five minutes.

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

I reiterate that thanks as well, Mr. McPhee.

I want to ask you about your second recommendation to the Auditor General of Canada, which is referring to reinforcing in the staff the need for documentation on electronic working papers. It sounds pretty serious, and I'm trying to get a handle on how serious it is.

There is reference to examples where the electronic working papers didn't contain sufficient documentation. There is reference to documentation gaps. On occasion the report clearance summary was subject to revision, and unadjusted errors found were not adequately collated, documented, or reported. I'm still trying to get up to speed on Auditor General jargon, Auditor General speak.

I've been on this committee for a year, and what we ultimately get is a parade of ministry staff who come before us with a giant *mea culpa* and they say "We agree with the Auditor General, and we thank the Auditor General, and we've already begun to fix these

problems." It's like no one will ever challenge the Auditor General and say "You've reached an incorrect conclusion", or "We think you are wrong on this", at least not publicly. We don't get that in front of this committee.

I'm trying to get an understanding. There is no evidence that there are any errors or omissions or that there were missed conclusions or missed opportunities. Was your report saying that it's possible because of these problems, or that you think it was likely that it happened?

Mr. Ian McPhee: No, we were just suggesting that the documentation could have been better put together to address the audit risks and, as Sheila Fraser mentioned earlier, the alignment between the risks and then the audit procedures put in place to assess whether those risks were significant and whether there could be any misreporting as a result of some of those matters.

I'll ask Brandon Jarrett, my colleague, to just go into some of the details so you perhaps have a bit more hands-on experience here to help you understand the particular point.

Mr. Brandon Jarrett: Thank you.

I suppose, simply put, the audit file needs to be able to show what you intended to do, what you did, and support all the judgments on the way through. As we've talked about before, that's a challenge across the profession internationally.

In some cases, in looking at the files we couldn't see a clear path between things that were planned to be done or were done. But that doesn't mean that the judgments, at the end of the day, were incorrect. What that means is that in terms of reviewing the file I couldn't see a clear process or clear documentation to be able to support everything that needed to be done in accordance with the auditing standards.

●(1855)

Mr. Terence Young: Thank you very much. That's very helpful.

I have another question for Mr. McPhee, please. You had reported that one of the best practices of our Auditor General was with regard to special examinations, which are very important, and you talked about sharing information and that you may have adopted some of the methods that are used here in Australia. I want to ask about the other side of the coin. Is there anything you wanted to suggest here, or have suggested, that your department does that we should be doing more with regard to special examinations? In other words, is there an international best practice that you have achieved or are working toward?

Mr. Ian McPhee: Certainly I wouldn't claim that we've got to the international best practice, but we do work hard, as I said earlier, at improving the audit quality.

I'll ask Deb Jackson whether there are any specific matters in relation to special examinations that we may be able to draw on.

Ms. Deborah Jackson: Thank you.

I suppose one point we probably need to make first is the ANAO or most of the audit offices don't really do.... The special examination is a slightly different product from what most of the audit offices actually do. We do performance audits of equivalent types of bodies, as the special examinations are, but we don't actually do special examinations per se.

The recognition of the good practices that we did here was that had actually developed criteria and subcriteria that could be used across several of the practices. That is why we recognized that was actually good practice, and we feel that is also adaptable to performance audits. There is something of the further good practices that we felt we could include in the report. We were trying to focus on some higher-level things. There are probably some minor things about some of the practices in both performance audits and special examinations that we can adopt, which Mr. McPhee actually mentioned before. Certainly one that we mentioned here was that development of criteria and subcriteria for examining systems and practices is a good practice.

Mr. Ian McPhee: To add to what Deb said, we've recently been implementing some software that allows our audit teams to interrogate our past audit reports and to draw out criteria, for instance, that may have been used in the past. As well, where we've articulated something around a subject matter like risk management or governance, they can quickly search the material to access it in order to improve the efficiency of their current audit.

In a similar vein—we touched earlier on tables and the presentation of statistical information—we have some other software that helps us enormously. We're working with our bureau of statistics to present information in a much better way. We are trying in our audit analysis to use more software to help us analyze the population data that we're looking at. As a result of that, we're able to draw information out. There's a real art form in how to best present information in a statistical sense.

Again, we're working on a software solution to allow our teams to put into our reports some diagrams, graphs, pie charts, and that sort of thing to try to assist in the communication of the messages in our reports. It's very much a journey, this focus on audit quality and communication.

I was talking to the U.S. GAO, and I was asking them, particularly recently, about communication, because I'm conscious of the way in which we auditors present reports. Sometimes it lacks the clarity that some members of Parliament would like to see. It was interesting; they said that they're introducing communications specialists into their audit teams—from the very early planning stages right through to the end of the process—to make sure that the audit team continues to focus on the clarity of the findings, and the conclusions, and the messaging as a result of their work.

I find it here sometimes, with my own staff. Not surprisingly, they get very close to the detail of their work, and often I'll say, "Well, you just need to stand back. What's the key message here? What's the primary message you want to get across?"

So we're working hard, like the OAG, just to improve the quality of our work and to pick up best practice from anywhere in the world we can get it. The reality is that we tend to pick it up from the

leading countries, of which OAG is one, but we're all ears when it comes to improving our own performance.

• (1900)

Mr. Terence Young: Thank you.

The Chair: Thank you, Mr. Young.

I believe Ms. Fraser has a comment to make on that point.

Ms. Sheila Fraser: Mr. Chair, I just wanted to make the point that special examinations are unique to the federal crown corporations. To my knowledge, no other legislative audit office does special examinations, per se, of crown corporations; they will do performance audits.

So there is a lot of similarity, but special exams are very unique, as I said, to the federal government.

The Chair: Perhaps to clarify, Mr. McPhee, could you describe the differences between the way in which the Australian National Audit Office and the Canadian Office of the Auditor General operate?

Basically, we all know how the Canadian system operates. We have probably between 25 to 30 performance audits tabled in Parliament every year. We do have the departmental and the consolidated financial audits, and of course we have the special examinations of selected crown corporations and agencies.

Is that significantly different from the Australian experience?

Mr. Ian McPhee: I don't think it's significantly different. Let me just give you an outline of our mandate and what it entails. We do all of the financial statement audits of Commonwealth- or Australian government-controlled entities. All together there are about 243 entities. We in Australia do departments of state. Departments are required to produce financial statements. They in turn are consolidated into the government's own accounts, along with all of the transactions of all the other government-controlled entities. I think that may be different from the situation in Canada, where your departments are required to have individual reports in the first place and you're required to audit them. So that's on the financial statement side.

Regarding the performance audits, we do about 50 a year. One perhaps important difference is that I can table reports whether Parliament is sitting or not. I can table reports all through the year. So we produce individual performance audit reports on a program or topic, and I can table those. We produce 50-odd a year. They're about 100 pages long, and each one costs us about \$500,000.

We have a very broad performance audit mandate. The only thing is that at the moment I am not able to undertake a performance audit of a government business enterprise. I've raised with my own public accounts committee whether that should be changed and whether that constraint should continue to be in our legislation. We have fewer and fewer government business enterprises as the years go by, because Australian governments have tended to sell off many of the commercial entities that formerly were GBES, so it's not such a significant issue as it used to be.

We have a wide performance audit mandate. I think we pretty much go through similar sorts of processes. Some are more sensitive than others. I get heavily involved in the sensitive ones, including in discussions with the chief executives about the matters being raised. Of course, then, we table the reports in very much the same way. Our public accounts committee here in Australia has a statutory obligation to review each of the performance audit reports we produce. In some cases they will have an inquiry into the matters.

To that extent, I think there are far more similarities than differences, Chair.

The Chair: Just for clarification, Mr. McPhee, do I take it from what you said that all of your departments produce audited financial statements on a departmental basis?

• (1905)

Mr. Ian McPhee: That's correct.

The Chair: Thank you very much.

Mr. Dreeshen, you have five minutes.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much.

Thank you to our guests from Australia, Mr. McPhee and your officials. I certainly appreciate this opportunity to hear some of your views as we have been going through the peer review of our Office of the Auditor General.

Thank you to our auditor and Mr. Wiersema. I certainly appreciate your being here as well.

In response to one of Mr. Nadeau's earlier questions, you spoke of how specific changes in accounting practices and standards would require extra training time for the audit teams. I was just wondering if you have any estimates of how time-consuming these training sessions might be. Perhaps expanding upon that, there was also the discussion of electronic audit file management. I'm just wondering whether the software that is coming for that and the training process associated with it will actually speed up the audit process, and what evidence there might be that you'll be getting value for money.

Ms. Sheila Fraser: I'll perhaps ask Mr. Wiersema....

Oh, sorry, Mr. Chair.

Mr. Ian McPhee: Sorry, Sheila. Go ahead.

Mr. Earl Dreeshen: I would appreciate a comment as well, Mr. McPhee. I know you had addressed this also.

Ms. Sheila Fraser: I'll start, and then Mr. McPhee can add. I'll begin, and I'll ask Mr. Wiersema to help me as well.

On the question of electronic working papers, there actually has been quite extensive training already given to staff, and we have what we call a network of superusers, people in each one of the groups who are more expert and understand the capabilities. They're there to help people as they're doing their audits.

Obviously, for the people who aren't very familiar with it, the first time they go through it is going to require more time, but we actually just had a staff session today and one of the people was saying that now he's quite comfortable with it after doing it two or three times. Also, there are advantages to having the electronic files, in that you

can update some of the permanent information quite easily from year to year. So there can be some efficiencies to gain from that.

On the question of training, we've done two major programs. One is on international financial reporting standards, which are the new accounting standards coming in, and the other is on the new Canadian auditing standards. I can perhaps ask Mr. Wiersema to explain that.

Mr. John Wiersema (Deputy Auditor General, Office of the Auditor General of Canada): Very briefly, Mr. Chairman, on the adoption of new accounting standards, the biggest change there is the adoption of international financial reporting standards, something called IFRS. Many of the larger crown corporations will be transitioning to those international financial reporting standards. I believe that around 29 entities will be adopting those international standards. In the office, we have set aside a little reserve, if I can call it that, of about 10,000 audit hours to help the teams, to allow the teams to be able to audit their financial statements against those financial reporting standards.

Sheila has already talked about the training, both with IFRS and with the Canadian auditing standards. I think in total over the course of this year we're probably going to be offering a week or more of training to all staff, including the members of the executive committee. We are going to have a two-day session. We've already had some training on accounting standards. We'll have a two-day session on the adoption of the Canadian auditing standards.

On the adoption and use of electronic file management, the tool we use there is a tool we call TeamMate. I think Sheila earlier alluded to the fact that we've been using this in our financial audit practice for over a decade now, so it's fairly well ingrained in our financial audit practice. Only more recently has it been introduced to the other two practice lines. The training is offered. We have user sessions, TeamMate training sessions, for one to two days to help them make the transition from hard-copy paper files to electronic files.

All of that is to say that it's all part of our renewal of our audit methodology project. It is a big project. It's going on for over two years. We're confident that we'll be successful and will complete the project by the end of next calendar year.

Mr. Earl Dreeshen: Thank you very much.

Mr. McPhee, you have been through this process already, then? Or do you use this management tool? I think I heard you suggest earlier that you use this to go back over previous audits to do some checks. Could you perhaps explain how that is working?

• (1910)

Mr. Ian McPhee: Thank you.

Yes, certainly we have similar audit technology. We use TeamMate in Australia as well for our financial statement work, and we have electronic record management systems, particularly for our performance auditors. They seem to be able to accumulate reams of information as they go about their work. We're now heavily into using technology to improve the efficiency and I think the effectiveness of our audit approach.

We in Australia adopted international financial reporting standards some years ago, and significant changes are coming through in accounting standards. Certainly in Australia we've seen a significant move from "historical cost" accounting to "present value" accounting. Assets and liabilities are measured at current values, not historical costs, which introduces more volatility into the presentation of information.

In some cases where balances are significant, just going back to the risk approach, where you have a significant liability—call it a superannuation liability, say, or employee benefits liability—and where you may need specialists' assistance, we now from time to time use actuaries on these significant numbers to make sure we cover off the risk that they're in fact not appropriately accounted for in terms of the standards.

We're using more specialists than ever before because of this move to more current-value presentation of information. In the public sector, we have a range of specialist assets. The reporting agencies use valuers in their work. From time to time, we may want a valuer of our own to assess the approach adopted by the entity's valuer. So there is some work involved there.

All that is just to say that the accounting standards are driving a fair volume of work for my office. On top of that are the auditing standards, which are changing all the time. With the underlying audit methodologies and systems that we have in place to support everyone, it means that there is a heavy training impost, probably up to two or three days a year, certainly, on average, plus regular—quite regular—technical updates to make sure our teams are across the issues as they arise and are fully informed about the various approaches.

So it's a very significant cost, but it's not always obvious, to outsiders looking in, the investment we make in training to make sure that we can produce quality audits.

Mr. Earl Dreeshen: Thank you.

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

That concludes the second round.

We'll now ask for any closing comments from either Mr. McPhee or Ms. Fraser.

Mr. McPhee, have you any closing comments to the committee?

Mr. Ian McPhee: First, thank you for inviting us to be part of your inquiry. It was an honour to be asked by the OAG to lead the international review team, and I'm very comfortable with the report that Australia and its international colleagues have produced here.

Having said that, the issues we have raised in this report are not unique to OAG. It's a message to all audit offices, including my own, about the importance of making sure we have the training and the follow-through to ensure that the systems we put in place are actually followed so that we can produce quality audits for the information of Parliament and the country.

Thank you very much, Chair and members.

The Chair: Thank you, Mr. McPhee.

Ms. Fraser, have you any closing comments you want to leave with the committee?

Ms. Sheila Fraser: Thank you, Chair.

First of all, I would like to thank the committee for their interest in this review and in this report.

You may be aware that there has been a sort of general agreement in the international audit community that we would conduct these peer reviews, and each office would contribute the time so that the office being reviewed paid only out-of-pocket expenses. If we had had to contract this review, it would have been very expensive.

I would very much like to thank Ian and all of his staff for what I hope they view as an investment in improving our practice. I know they've put in considerable work, the Australian audit office and the other audit offices as well.

I am confident that this report and this review will help us to become even better than we are and will provide you with the assurance that you can rely on the quality of our work.

My thanks to Ian and his colleagues.

• (1915)

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

On behalf of all members of this committee, and in fact all members of Parliament, I want to thank you again, Mr. McPhee, and your colleagues, Mr. Jarrett, Ms. Jackson, Mr. Jones, and the entire team.

I would also like to highlight the professionals from the Netherlands, Denmark, Sweden, and Norway who worked on this international peer review.

I also want to thank you for getting up so early in the morning to be part of this meeting.

I think I would be remiss if I didn't thank the technical staff of the House of Commons. This meeting was done via video conferencing, and it would certainly have been done at a fraction of the cost of bringing witnesses from Australia. It went off without a hitch, so I do want to thank everyone involved in the organization and set-up of this meeting.

I understand the meeting was televised. I'm sure people found it very boring and the entertainment value was very minimal, but I do want to point out that this process is vitally important to the operation of Parliament.

In closing, I want to thank everyone involved.

The meeting is adjourned.

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