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## Standing Committee on Public Accounts

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EVIDENCE

**Tuesday, November 2, 2010**

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**Chair**

**The Honourable Joseph Volpe**



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•(1105)

[Translation]

**The Chair (Hon. Joseph Volpe (Eglinton—Lawrence, Lib.):** Welcome, friends and colleagues.

[English]

I see a quorum, so we'll begin. I call the meeting to order.

Mr. Saxton, Mr. Kramp, Mr. Shipley, and Mr. Dreesen, good morning to you as well.

We'll begin with committee business and then we'll go on with some of our witnesses and carry on with the orders of the day.

I think we have a couple of items of committee business. One is to discuss the motion by Mr. Navdeep Bains regarding the production of papers.

Madam Clerk, would you give us an update on what has been produced so far?

**The Clerk of the Committee (Ms. Joann Garbig):** The committee adopted the motion of Mr. Bains on October 21. On October 28, material provided by the Department of Public Works and Government Services was distributed to the committee. I have copies here if members do not have their copies with them.

The material distributed consisted of an e-mail and an attachment, including details of all contracts relating to the work on the West Block. The e-mail requested from the committee an extension in order to provide more time to the department to provide the material requested in the motion, which it said it would provide in one language by November 19, 2010; the French version would follow as quickly as the material can be translated.

**The Chair:** So in essence we don't have all the documentation that Mr. Bains's motion called for, but we do have some. Is that it, Madam Clerk?

**The Clerk:** Yes.

**The Chair:** Go ahead, Mr. Bains.

**Hon. Navdeep Bains (Mississauga—Brampton South, Lib.):** Mr. Chair, I appreciate the clerk's providing us with the chronology of the motion and when it was submitted. It's important to note that when we passed this motion in committee on October 21, we gave five working days. There was a little bit of flexibility on that; we discussed that, knowing full well that information had been requested of the department by Madame Faillie months ago, roughly four months in advance of my official request that was approved by the committee.

This information is in the possession of the department. I don't understand why they are asking for this extension. It's unacceptable that on the day of the response they verbally or in writing gave us a very vague explanation and then continued to ask for an extension. To say it's only in one language again seems like a delay technique.

This information should be readily available; it should be in the department. They've had sufficient time to provide it. They are undermining the work of the committee, because this is something the committee has requested. It's timely information for a report that we want to submit to the House of Commons.

Chair, I would strongly urge that we need to receive a response more quickly than this. I feel that the timeline is unacceptable in light of the information that is already available in the department.

**The Chair:** Go ahead, Mr. Saxton.

**Mr. Andrew Saxton (North Vancouver, CPC):** Mr. Chair, I'd like to remind Mr. Bains of the magnitude of his request. I understand that there are 5,000 to 8,000 pages of material that need to be accumulated.

I should also remind him of the amount of work, the time, and the cost involved in doing this. I understand that another committee, the government operations committee, has requested something very similar; is Mr. Bains aware of the extreme amount of work and time and cost that he's causing as a result of this request, while at the same time the government operations committee is duplicating his request?

•(1110)

**The Chair:** Go ahead, Madame Faillie.

[Translation]

**Ms. Meili Faillie (Vaudreuil-Soulanges, BQ):** Of course we want the documents in French. However in order to move forward with the committee's work, would it be possible to ask the department to get the information to us as the documents are translated? I also suggest that the deadline mentioned in the letter be maintained. I believe it was November 16. So then, between now and November 16, I'd like the documents to be turned over to us as they are translated and become available.

**The Chair:** Would you like the documents in English and in French, Ms. Faillie?

**Ms. Meili Faillie:** In English and in French. We want copies of the documents in French.

**The Chair:** Mr. D'Amours.

**Mr. Jean-Claude D'Amours (Madawaska—Restigouche, Lib.):** Mr. Chair, Mr. Saxton has brought up a point that has already been discussed before, namely that another committee has made a similar request. Could members of the government party tell us if the other committee has received the information?

[English]

**Mr. Andrew Saxton:** I don't sit on that committee. I can't answer that question.

[Translation]

**Mr. Jean-Claude D'Amours:** Mr. Chair, it's clear why I ask the question. For weeks now, members of the government party have been saying here in this forum that another committee is already looking into this matter and has made a similar request. It's rather odd then that it is taking not days, but weeks, to resolve this matter. Soon, months will have passed. On the one hand, it was being argued that we should not have this information in our possession, while on the other hand, we were being told that another committee had made a similar request, therefore we should not have the information. One has to wonder if someone is trying to hide something, and why.

[English]

**The Chair:** Mr. Bains.

**Hon. Navdeep Bains:** Thank you very much, Chair.

I just wanted to very quickly respond to issues raised by Mr. Saxton. First of all, he raised the issue of the amount of effort and time required. I would beg to differ. I think the information is readily available in the department. It's a matter of consolidating it. The fact that he's aware of the number of pages—I suspect he may have some additional information he may want to share with the committee as to why it's taking so long. Maybe he can be a bit more detailed in his response.

Last week in the House of Commons, I brought up an example of how this government spent \$3,400 for a 1,300-word press release. I'm not sure I would appreciate any type of accusations of the cost implications of this request. This is a committee that's doing work on behalf of parliamentarians for a pertinent report on an issue of transparency, and this issue speaks to the core of what we're trying to get at, which is value for taxpayers' dollars. I think this information is very important, and I don't see why the government is trying to stop this information from being received by the committee.

If government operations is looking into it, that's great. We're a committee, we control our own destiny, we work in our own mandate within our own rules, and we have a responsibility to do so. So if other committees are working on it and they can produce some of that information, great, maybe we can find a way. But when we discussed this motion, clearly it was a reflection and needed in the report we're working on with respect to rehabilitating the Parliament buildings as mentioned in the Auditor General's report.

So that's why this particular motion was brought forward. We debated all these points then, so I don't see why the government is now supporting the department in delaying the release of this information.

**The Chair:** I'm loath to have the debate continue. You've made your point, and that is the point we have. There are two issues: one,

that the motion was already accepted; two, and probably even more important, that we don't have the material. I'm looking for a way to remedy that situation rather than to continue the debate.

I have Mr. Saxton then Mr. Kramp.

**Mr. Andrew Saxton:** Chair, I'm glad that Mr. Bains brought up the issue of the mandate of this committee. I understand that Mr. Bains is new to this committee, so perhaps he doesn't understand its mandate. But this request is clearly outside the mandate of this committee, and that's why another committee has requested that information. This is simply duplicating work that's not necessary when we should be moving to the mandate of this committee, which is reviewing the Auditor General's report.

• (1115)

**The Chair:** Mr. Kramp.

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

Notwithstanding all the arguments, some of which were put forward at previous meetings, I've sat on this committee for a number of years too, and Mr. Saxton's point is absolutely valid. I would even point to the chair's reference to the same point in previous committee discussions and deliberations. The chair has argued our point, actually, in a manner that's in concert with the government position right now.

But that notwithstanding, I have never yet found a department or a ministry that has not cooperated with the requests of the committees, given some form of reasonable approach. A lot of work and documentation is contained in 5,000 to 8,000 pages. There are two arguments. The first—whether it is necessary—is a separate argument. But is it reasonable to ask for 11 working days to present those kinds of documents? Quite frankly, I think that's a reasonable request.

It's not, “No, we're not providing them for you.” It's not, “No, we're not giving you a sense of direction.” We're stating that this is the reality and this is what they have to deal with.

Madame Faillie made an interesting suggestion. If information is available on a per-day or chapter-by-chapter or topic-by-topic discussion, so be it. But there is no attempt whatsoever to not provide information.

I think out of courtesy and consideration, this committee should accept the letter from the department and then just move on. Let's get to work on this issue. When it's time...

To go on and play our games with this kind of thing, quite frankly, Chair, is an embarrassment to the past work of this committee and hopefully to the future work.

**The Chair:** Hopefully “not” to the future work: that's what you meant to say.

**Mr. Daryl Kramp:** Yes, thank you for the correction, Chair.

**The Chair:** Mr. Young—

**An hon. member:** It's not looking promising.

**The Chair:** Well, I'm glad that we have a bleak view of the world. Mr. Young, go ahead.

**Mr. Terence Young (Oakville, CPC):** I'd like to ask the member opposite if he's ever seen anybody in this place, this Parliament, sitting around doing nothing, because I never have. That's because it's such an incredibly busy place. There are 40 standing committees, plus there are special committees. Every word is translated to either English or French. It's the busiest place I've ever been. Everybody who works here has work stacked up, basically. They go from project to project.

So when they get an important request like this, they take it very seriously. They analyze it, they look at how their time is planned ahead, how many hours and how many days and sometimes how many weeks ahead their work is planned, and they decide how quickly they can produce that for the committee, because they take that very seriously.

I don't think there's any need to belittle research by talking about a press release that costs \$3,400. It's ridiculous, because no press release goes out without hours and hours of research and writing.

I don't want to belittle anybody's work. I don't think it's necessary. This is a very reasonable response to the member's request. The committee should accept it without taking up any more time.

Thank you.

**The Chair:** Madame Faillie and Mr. Bains, and then I'm going to close it off.

[*Translation*]

**Ms. Meili Faillie:** Thank you for letting me speak to this issue, Mr. Chair.

I agree to some extent with what Mr. Kramp is saying. As a rule, the committee works relatively well. Had the whole question of the renovations to the Parliamentary Precinct not surfaced in the media, we would be carrying out this study today and getting information. We might not be doing exactly what Mr. Bains is proposing we do in his motion, but we would be examining the report and all of the contract details in a collegial manner, without political partisanship and without the focus being on stories in the news. Our attention would not be focused on media reports.

Earlier I was suggesting—and Mr. Kramp seemed to agree with me—that we ask the department to send us on a daily basis the documents as they become available, while bearing in mind the November 19 deadline for providing the committee with all of the documents. That would mean we would receive the documents as they become available in both languages.

• (1120)

[*English*]

**The Chair:** Mr. Bains.

**Hon. Navdeep Bains:** Thank you very much, Mr. Chair.

I appreciate the comments made by Madame Faillie as well.

Just to respond to a point with regard to the example I used of \$3,400 for a press release of 1,300 words, that pertained to outside consultants. I actually have a great deal of respect for our public servants and the work they do. The point I was trying to illustrate was this government's mismanagement in spending. I don't want to

go down that line of debate, but that's the point I was trying to make. I wanted to clarify that.

However, in the spirit of cooperation, I understand that we've all made our points, and there are witnesses here as well today. I think we need to move ahead with committee business.

I would suggest or recommend—part of my recommendation goes along the lines of Madame Faillie's comments—that as information becomes available, we need to look at it.

If you look at the last paragraph of the motion, there was a specific request made for a hard copy from 2007 until today of communications between a numbered company, 4373413 Canada Inc., LM Sauvé Ltd. and Paul Sauvé, Varcan Communications Inc., Gilles Varin, and any of the government officials either elected or not. It is in regard to information pertaining to that, if that can be made available to the committee as soon as possible. As the other information becomes available and is properly translated, then we will obviously take that into consideration.

That deals with the prioritizing of information and giving the department further direction. I think that helps to deal with some of the concerns I had and that other members expressed when this motion was passed. At the same time, it would allow the department to work in order to provide us with all the information that's relevant to this.

My friendly recommendation, or amendment, or suggestion would be that we get this additional information as a first priority, and then, subsequently, as the other information becomes available, that it would be shared with committee members.

**The Chair:** I don't know how other members around the table feel about that, but we need to be able to move on. That suggestion might be eminently receivable by members around the table, because November 19 brings us to the week after the break and will certainly give people a lot of time to respond.

As I say, I wanted to cut off the discussion simply because we have our own business.

Madame Faillie.

[*Translation*]

**Ms. Meili Faillie:** I would just like to clarify something. A discussion took place in June after I tabled a motion to obtain all similar documents, that is IT contracts. I would like to give colleagues some idea of how long it takes a department to produce documents further to an access to information request, which is the way to go about obtaining documents.

In the case of the 30 largest departments, initial requests are processed within a week. These departments are equipped to provide us with the requested information fairly quickly.

To ease concerns about the work involved, I can tell you from experience that in the case of the information being requested by Mr. Bains about the correspondence that was exchanged, it could take much longer because information supplied by third parties must sometimes be validated, as must the matters discussed in correspondence.

However, there is no reason why the department cannot provide us with information related to contracts quickly. As I said, based on my experience, this information can be obtained within 10 to 15 days. So then, our request for copies of the contracts does not entail an inordinate amount of work.

**The Chair:** I assume government members agree with Ms. Faille. Yes or no? I'd like us to reach a consensus on this matter. So you all agree then.

• (1125)

[English]

**Mr. Andrew Saxton:** Mr. Chair, what exactly is Mr. Bains requesting, then, by November 19?

**An hon. member:** [Inaudible—Editor]

**The Chair:** Just a minute.

I don't want to get into further debate.

**Hon. Navdeep Bains:** It's just a point of clarification.

**The Chair:** No, but the letter says that they need until November 19 in order to comply with the committee's motion.

Mr. Bains has said okay—or this is what we have interpreted on your behalf—and that we will accept November 19, but we want all the other information, which is the information that's not this specific. In the second paragraph of the motion, there's some pretty specific information that involves a third party. It's not all information that might be in the department's hands. He conceded that point, and said, okay, give us everything you have that's purely in your hands, not the stuff that's third party, such as the communication with LM Sauvé, and so on.

**Mr. Andrew Saxton:** Mr. Chair, the department has asked for the date of November 19. That is something that they feel is workable. It's not up to us to decide whether they can find things more quickly.

I would propose that we accept the fact that they are working on this. They've sent a letter back. They are being diligent, and they've suggested November 19.

So I would suggest that we accept that and we wait until November 19 to get the material.

**The Chair:** Listen, as I said, we're not going to have continued debate. I thought I saw consensus around the fact that we can advise the department that they have material that's in their possession that should be sent to this committee forthwith.

As for the very specific items that involve communication with a third party, the committee is prepared to accept that they might not have that until November 19, and we're going to acknowledge that.

So on your behalf, I will communicate that.

I think we end the debate there. Thank you very much.

I have one other item of information. As per our discussion at steering committee, where we were attempting to accommodate the information given to us by another department—this one from, I guess, the defence department, who would not be available to this committee until the 25th, giving us an indication that they might be available in this week—we've not had yet a response from the

defence department about the proposal we put to them regarding the schedule of appearance.

I'm going ask Mr. Kramp and Mr. Saxton to engage their good services to get them to respond, because we were trying to structure a timetable that fit their timetable.

Not having yet received information from them about their preparedness to come here now Thursday, we had indicated that what we would do is we would go to what's outstanding business for Thursday—outstanding business being some committee reports.

Mr. Kramp.

**Mr. Daryl Kramp:** Chair, might I just suggest, then, that as well, we receive all information from the government operations committee and have it disseminated and distributed to this committee so that we can effectively see that we are wasting the government's and the taxpayers' money by simply doing the same thing that everybody else is doing.

So I would like to see the minutes of the government operations committee, complete with motions attached, sent to this committee, complete with directions, so that it is all distributed to the members of this committee, so we can certainly publicize.... And we're not going to then obviously duplicate exactly what has already been forwarded there.

I'd like that read into the record.

**The Chair:** It was a great compromise there until I heard an editorial.

But you're right, there's no reason why we can't get a photocopy of whatever it is that the operations committee gets.

All right, I think that—

**Hon. Navdeep Bains:** Get the cost of the photocopying, too, so that way we can put that into consideration as well.

**The Chair:** Okay, good point. Thank you very much.

Colleagues, we're going to go into the rest of the committee business, and the committee business today involves of course the witnesses that we have from various departments.

Pursuant to Standing Order 81(4), we are studying the auditing of departmental financial statements: the main estimates 2010-11; part III, 2010-2011 report on plans and priorities; and 2008-2009 departmental performance report of the Office of the Auditor General.

We have with us today, from the Office of the Auditor General, Mr. John Wiersema, the Deputy Auditor General, and Nancy Cheng, the Assistant Auditor General.

From Treasury Board Secretariat, we have Michelle d'Auray, the secretary of the Treasury Board of Canada; Mr. James Ralston, Comptroller General of Canada; and Bill Matthews, Assistant Comptroller General.

In the audience as well we have some representatives of audit committees, or PAC committees, from I believe Manitoba, and the committee chair, Mr. Len Derkach, and the clerk, Mr. Rick Yarish.

Welcome.

Okay, I think we'll go directly to Mr. Wiersema, whether you have a statement or whether you'd like to just acknowledge that you're here along with Ms. Nancy Cheng.

Mr. Wiersema.

• (1130)

**Mr. John Wiersema (Deputy Auditor General, Office of the Auditor General of Canada):** Thank you, Mr. Chairman.

As you indicated, I'm accompanied today by Nancy Cheng, the Assistant Auditor General responsible for, among other things, our audit of the public accounts of Canada.

When I was here two weeks ago, Mr. Chairman, I presented an opening statement on this subject. I understand that members have been provided with a copy of my opening statement from my earlier testimony.

At this point, Mr. Chairman, I have nothing to add to that opening statement, but Nancy and I would be more than pleased to respond to the committee's questions today.

Thank you, sir.

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

[*Translation*]

You may proceed, Ms. d'Auray.

**Ms. Michelle d'Auray (Secretary of the Treasury Board of Canada, Treasury Board Secretariat):** Thank you, Mr. Chair.

As you mentioned, I'm here with James Ralston, the Comptroller General of Canada, and Bill Matthews, the Assistant Comptroller General. We are here to talk about departmental financial statements and the financial management policies of the Government of Canada, in the context of your line of inquiry on departmental audited financial statements.

There were two objectives when the government began to renew its financial management policies: improving internal financial controls and providing parliamentarians and Canadians with better departmental financial information.

[*English*]

These are also the objectives the Auditor General underlined in her observations in the 2007 Public Accounts:

The focus of this initiative needs to be on the ultimate objective of improving internal controls and providing better financial information.

In 2007, and in subsequent years, the Auditor General also identified the challenges to achieving the objectives—for example, lack of documentation to support controls for key processes, lack of action plans, and challenges with information technology and systems due to manual transfers and adjustments.

As we continued to develop the new financial management policies, and as departments began the process to achieve audit readiness, the objectives of improving controls and financial information were maintained and heightened, but a different approach was adopted in order to get at the fundamental issues.

Under the new policies, deputy ministers are responsible for ensuring that the financial statements of their departments can

sustain a controls-based audit, in whole or in part. The policy on internal control requires annual public disclosure by departments on the state of internal controls in their organization, as well as their action plans for improvements in that regard.

This year marks the first year for disclosure under this policy. In fact, tomorrow, at the same time as their departmental performance reports will be tabled, the 22 largest departments will be posting on their websites an annex to their statement of management responsibility that discloses the measures they are taking to maintain effective systems of internal control over financial reporting. Departmental audit committees have also reviewed these disclosures.

The disclosures are fulsome and the action plans are detailed, as I can attest from the TBS statement issued by me and my CFO, which you will see tomorrow. The control assessments and related action plans are of the same nature as the required improvements identified by the Auditor General.

In addition to the new disclosure, commencing next year, as directed by Parliament, departments will be providing quarterly financial reports on the use of their appropriations.

We are confident that our policies, accounting standards, and the time and effort dedicated by deputy heads and CFOs to strengthen internal controls and improve financial information, as evidenced by the detailed annual disclosures and quarterly reporting, will achieve the objectives we had originally sought to attain through the process of audited financial statements.

• (1135)

[*Translation*]

We are also confident that the audited financial statements of the Government of Canada, tabled last week in the Public Accounts, and for which the Auditor General gave an unqualified audit opinion for the 12th year in a row, are indicative of the success of our approach.

With your permission, Mr. Chair, I will ask my colleague Mr. Ralston to say a few words.

**The Chair:** Thank you, Ms. d'Auray, for your succinct comments.

Mr. Ralston.

[*English*]

**Mr. James Ralston (Comptroller General of Canada, Treasury Board Secretariat):** Thank you, Mr. Chair.

At the meeting of October 21, I summarized the suite of Treasury Board policies that I believe will be effective in bringing about improved financial management in the federal government, and in particular improved systems of internal control.

I would like to reiterate the point just made by the secretary, that members may see for themselves the results of one of those policy changes. Departmental performance reports to be tabled tomorrow for the 22 largest departments will include links to their financial statements and disclosures on the state of their internal controls.

Much of the discussion at the October 21 meeting centred on the provision in the policy on financial resource management, information, and reporting that assigns to the Comptroller General the responsibility to decide when to request an audit, in whole or in part, of the department's financial statements. This selective approach was contrasted with an earlier idea that would have required audits of all departments' financial statements.

I would like to take this opportunity to make a point that perhaps was not made as clearly as it might have been at the earlier meeting.

The financial transactions of all departments that are subject to the Treasury Board financial suite that I just mentioned are included in the summary financial statements of the Government of Canada. Consequently, all such transactions are subject to annual examination by the Auditor General, as are all the systems of control operating in departments. It is therefore a matter of choice by the Auditor General as to the nature and extent of the work she undertakes.

Professional standards establish guidelines for levels of materiality to be used by auditors. In practice, levels determined according to the guidelines are treated as maximum levels, but lower levels of materiality—and hence more in-depth examinations of any or all systems or transactions—may be chosen if, in the auditor's judgment, the circumstances warrant it.

For your information, the Auditor General spent roughly 33,000 hours on the audits of large departments and the consolidation process to produce the 2010 Public Accounts of Canada. It is important that members of this committee understand that the policy on financial resource management, information, and reporting only provides the Comptroller General with authority to request additional audit work. It does not restrict the Auditor General in any way. It is my understanding that the Auditor General is able to take into consideration any particular interests of this committee as she plans her work.

Thanks, Mr. Chair, for permitting me to add that clarification.

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

I gather that Mr. Matthews is not going to make an intervention.

I'll go directly to questions.

Mr. Bains, you have seven minutes.

**Hon. Navdeep Bains:** Thank you very much, Mr. Chair.

Thank you very much for coming out this morning. I appreciate your patience; the committee had deliberations earlier on.

My question pertains to the key objective of this meeting, which is really the auditing of the departmental financial statements. My question is to the Auditor General's office.

Just to set the context so that people understand why this discussion is important, can you from your position explain the value to Canadian taxpayers and the value in general of having these departmental financial statements prepared for audit purposes, internal control, and other measures?

**Mr. John Wiersema:** Thank you very much for the question.

Perhaps I should start by indicating that the Office of the Auditor General absolutely accepts that deciding whether or not financial statements of departments are required to be audited annually is a government decision and ultimately a parliamentary decision. The Auditor General's office will work with whatever decision is made by the government and Parliament.

As I indicated in my testimony last time, Mr. Chairman, when the government first announced the initiative to move toward audited departmental financial statements in 2004, we in the Office of the Auditor General thought that was a good idea. We thought that was going to help to put the discipline in the system to improve those internal controls so that the departments themselves would have the benefit of knowing that they produce quality financial information. This approach also provides more reliable information for Parliament.

As you've heard again today, Mr. Chairman, government has indicated that it's adopting a different approach now. It's putting more emphasis on its new policy suites and on increased disclosure by departments.

At the last hearing, you also heard that the government had indicated that they received initial estimates from departments that they would require over \$300 million to be able to strengthen their controls in order to audit their financial statements. I don't know where that number came from—we were told that it came from departments—but I guess the question I would ask this committee to consider is that if this \$300 million is required to strengthen controls in order to support audited financial statements, would it not also be required in order to fully implement the new policies that you've heard about today? If we're going to report effectively on internal controls, it would seem to me that those types of control weaknesses would need to be addressed in any event.

I don't know if I've answered your question, but ultimately it is a government decision. We think this will help to improve the discipline in the system to strengthen those controls. It will provide independent validation, not explicitly but implicitly, by virtue of the fact that the Auditor General will be in there auditing at a departmental level rather than at the level of the whole of government, as she does for purposes of the public accounts opinion.

● (1140)

**Hon. Navdeep Bains:** Thank you very much. That did answer my question, very much so. I was trying to get at the value-added component, and you clearly explained the value associated with having departmental financial statements prepared for audit purposes. You clearly explained that it gives more reliable information and therefore allows you to do your job better, and that it is better for the Canadian taxpayer as well.



Mr. Ralston, with respect to the costs associated with implementing this change and having departmental financial statements fully up to speed, the last time we spoke you indicated a cost of around \$300 million. Can you elaborate on that, or can you explain the costs associated with the current changes that you've implemented and that you discussed in your opening remarks about not having full departmental financial statements prepared? By that I mean some of the cost control measures and some of the internal changes that you've brought forward; what are some of the costs associated with that?

Second, based on that particular policy that you've introduced versus having a fully prepared financial statement, what is the difference, so that the average person can understand, between what you propose and what the 2004 policy initiative was?

**Mr. James Ralston:** Mr. Chairman, I think I touched on this point at the last hearing, but essentially to repeat, the original estimate of \$300 million was to remediate the internal controls. It was basically to bring the departments up to a state such that the controls would be satisfactory for the Auditor General to choose a controls-based audit as opposed to a substantive-based audit. That work has gone on, and part of the remediation and the future work to be done will in fact have contributed to the disclosures that I mentioned we'll be seeing.

That speaks to the preparatory work around getting controls in place. There then is the second aspect, which you talked about: once you've built the foundation and you go in, year in and year out, to actually do the work, it would be an additional cost. It would be a recurring cost each year.

I've already indicated the number of hours that the Auditor General spends auditing the public accounts of Canada. I would say that there is at least an hour-for-hour corresponding cost to departments. Obviously we wouldn't know that until we actually got into the situation, though.

The Auditor General is in today, looking at all the same transactions and looking all the same controls, so the implied benefits that Mr. Wiersema refers to are as implied today as they would be implied under any alternative scenario.

•(1145)

**Hon. Navdeep Bains:** Just as a point of clarification, what is the cost differential, then, for you to implement the internal cost controls that you've put in place for our disclosure versus having fully prepared departmental financial statements?

**Mr. James Ralston:** The incremental cost would be now the annual cost of each and every year doing the work.

**Hon. Navdeep Bains:** So what is the incremental cost on an annual basis? Do you have that number?

**Mr. James Ralston:** We don't have that number. The number that we computed originally was to do the foundational work to achieve the state of readiness, not the annual cost to them to do the work on an ongoing basis.

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

Madame Faille.

[*Translation*]

**Ms. Meili Faille:** Further to Mr. Bains' question, could you provide us in writing with the cost of auditing these 22 departments on a yearly basis?

My questions will pertain to Ms. d'Auray's remarks. You state on page 1 of your submission that in 2007 and in subsequent years, the Auditor General has identified a number of challenges, such as lack of documentation to support controls for key processes, lack of action plans, and challenges with information technology and systems owing to manual transfers and adjustments.

Mr. Ralston, when we examined the last Public Accounts, you told us that information was received or changes made often two or three months after the books are closed. It is perfectly normal for you to want to try and provide better information and improve controls.

Ms. d'Auray, you go on to say that you are pursuing your objective to develop new financial management policies. I know you addressed the subject broadly in your recent appearances before the committee. However, you conclude by saying that you have adopted a different approach in order to deal with fundamental issues, in connection with your audit activities, I trust.

In your opinion, which three largest departments are the biggest spenders and how will the new policies and audit processes that you have adopted help these departments strengthen their internal controls?

I would also like you to give us an estimate of the costs associated with adopting and implementing this new approach.

I'd also like to know why you haven't said anything to us before about this new initiative which involves having various departments post their statements on the Internet, all on the same website, as I understand it.

Can you also tell us if these types of reports will provide us with any new information? The committee was critical of the fact that these reports were essentially a pitch by the departments designed to show that they were performing well. However, these reports do not contain any information about the challenges that the departments are facing. Internal audits were the only indicator that we had that the department was using more objective methodology in accordance with the Financial Administration Act, contractual obligations and so forth.

If we're really seeing something new here, I'd like to know how this approach will help departments improve their follow-up processes. And from Treasury Board's perspective, I want to know how you stand to benefit from this change.

•(1150)

[*English*]

**The Chair:** Would you prefer to go first, then, Madam d'Auray?

**Ms. Michelle d'Auray:** Sorry, Mr. Chair, I thought the questions were....

[*Translation*]

**Ms. Meili Faille:** If you don't have time to answer the question right now, perhaps you could respond in writing.

[English]

**Ms. Michelle d'Auray:** No, no, I'll try to address them succinctly.

**The Chair:** Go ahead, Madam d'Auray.

[Translation]

**Ms. Michelle d'Auray:** Fine. Thank you.

I'd like to get back briefly to the cost issue. We could estimate how much it would cost departments to conduct audits, but I think that is also something the Auditor General's office could do. If you like, Mr. Chair, I can also tell you what the cost will be to the Auditor General's office, because there are two types of audit costs: those costs incurred by the departments, and those incurred by the Auditor General's office. There are two kinds of costs. It ties in with Mr. Bains' question about this matter.

To answer Ms. Faille's question about the new direction we are taking, let me say this: the statements that agency heads, deputy ministers and their senior financial officers will be required to make must detail all aspects of our examination of a department's financial controls, including our payment methods, our IT security controls, accounting measures, monitoring systems, the extent of departmental interdependence, the number of audits that we conducted, a list of the shortcomings identified in our control mechanisms and mention of our yearly detailed action plan to resolve or address these issues.

These are some of the things that you will find in the statements that you would normally have seen as part of the control mechanisms required of the departments under the policy. These are very specific and detailed measures. These are also components of the action plan announced at the time by the Auditor General, components that were lacking in order to evaluate each department's financial capacity and controls. This information concerning 22 departments, regardless of their size, will be available on the websites as of tomorrow.

Perhaps my colleague has something he would like to add.

[English]

**The Chair:** Mr. Ralston?

**Mr. James Ralston:** No, I think the secretary gave a very good example of what the disclosures would be like in a typical department.

You had asked what we would see from, say, the three largest departments. Well, obviously the actual content would be different in terms of the situations that each one faced. That would be different. But in terms of the general nature of the disclosures, that was well indicated by what the secretary just said.

[Translation]

**Ms. Meili Faille:** Thank you for your comments. Perhaps you could provide us with a written explanation of how these reports, once they are published, are used to do next year's follow up. You could also tell us what this means in terms of management tools.

**The Chair:** Thank you.

Mr. Allen.

[English]

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Mr. Chair.

I'd like to continue on about the costs, because I know, Mr. Ralston, when you were before us the last time, we talked about how doing this internal audit has a certain cost established to it in upgrading—I believe this is the term we used—the “systems”, which I said were probably the computer systems.

I understand, of course, that there's a cost to the AG's department in the sense that if they do an audit, they have to pay for it—there's a cost to them in human resource and in all of the other material—and that's a cost that correctly should be borne by that particular area as it looks at whatever, in this case, let's assume, in the department. But for me—we didn't quite explore this far enough, I thought, last time—there's a separation in those costs. The number of \$300 million was put out there, and then a comment was made at the end, but of course, with time being limited, we really didn't break out...

Now, maybe you can't do it. Maybe, as Madame Faille has said, we need to get this in writing.

It's costing you a certain amount of that \$300 million regardless of whether the AG does anything at all, including, as you correctly pointed out, they could simply.... If we asked them to go do a department, they could go do it—end of story.

Can you break that out for us now, or do you need the time to actually do that? For instance, the \$300 million is internally going to be \$150 million to you and \$150 million if the AG were to come in; or \$200 million and \$100 million; or \$250 million and \$50 million; or whatever percentage those costs may be.

I don't know whether you can answer right away or whether you need the time to break it out.

• (1155)

**Mr. James Ralston:** If I may, Chair, I think essentially all of the costs would have been the costs of the government, first of all, and they all would have been costs related to the remediation of internal control. None of it would have been related to the annual audit costs, as I tried to distinguish with respect to the earlier question.

So I think we would expect to see that all of that sum of money would be spent—obviously it was an estimate—in pursuit of the improvement of internal control, and it will all be reflected in the statements that are now going to be disclosed by departments. That should bring us to the state of a better overall control environment for the government, and that will have been...you know, let's say that's the cost.

So then, as we now look at next steps, which would be, “Do we proceed to actually doing annual audits or not?”, we would have to cost that again. It would be a different kind of cost, different kinds of activities would be costed. They would now be annual costs instead of one-time costs, and there would be an element of cost on the Auditor General and a corresponding element for us, and so we would have to create those new estimates.

**The Chair:** Mr. Wiersema, I think you wanted to comment on Mr. Allen's question.

**Mr. John Wiersema:** Thank you very much, Mr. Chairman.

Just very briefly, I have two comments. Firstly, I think Mr. Ralston's absolutely correct that the \$300 million to strengthen the controls will be required to either prepare for audited financial statements or to fully implement the new policy on internal controls. So I think that's necessary spending anyway if the government's priority is to strengthen those controls.

If I may, Mr. Chairman, on the issue of the audit costs, how much does it cost to audit these accounts, the Comptroller General has indicated today that the Auditor General spends over 30,000 hours a year auditing the public accounts of Canada. That's absolutely correct. Those public accounts were tabled last week. They show total spending by government of \$270-some-odd billion, total liabilities of almost \$900 billion. So the Auditor General's office spends 30,000-plus hours auditing those accounts at that level, and obviously there are some very big numbers in there.

When we did the audit of departmental financial statements, for example, when we did the audit of the Department of Justice in 2009, we spent just over 2,000 hours doing the audit of that department as a separate entity. So we have to plan the audit as an audit of a much smaller organization and have to do more work than we would have to do in Justice in terms of the amount of spending it contributes to the overall public accounts of Canada. I don't have Justice's spending numbers here, but I suspect it may be \$1 billion or whatever it is out of \$270 billion.

So we have to do a lot more work in the Department of Justice to audit them separately than we would in the public accounts of Canada.

We spent 2,000 hours doing the audit of the departmental financial statements of the Department of Justice. When we only audit them as part of the public accounts of Canada—and these numbers aren't necessarily representative—we estimate it's only going to be 100 or 200 hours. So the amount of effort we would do in Justice, as a small, separate entity, which makes a very small part of the public accounts of Canada, is a fraction of what it would be if we audited it separately.

One shouldn't extrapolate from the numbers I've just used. Justice is a relatively small department in the list of the top 22. If we take an organization like the Department of National Defence, when we audit the Department of National Defence as part of the public accounts of Canada that I refer to, I believe—I think, Nancy—we spend 3,000 or 4,000 hours in the Department of National Defence because of their significance to those accounts.

If we were to audit them as a separate entity, if Defence were at the point where it could support a controls-based audit, we're clearly going to spend more than 3,000 or 4,000 hours. We haven't yet estimated how much it would be, but it would be more audit attention in the Department of National Defence than it currently is. I don't think it's going to be the same sort of ratio of 2,000 hours to 100 hours; I think we might have to do double the amount of work we do in DND to support a separate audit as opposed to auditing in the public accounts of Canada.

I just hope that helps to clarify for the committee the work we do on the consolidated financial statements of the Government of

Canada, and what's necessary to support that opinion, versus what we would do in individual departments to give an opinion on departmental financial statements.

Thank you, Mr. Chairman.

• (1200)

**The Chair:** Mr. Allen, you're just about out of time.

**Mr. Malcolm Allen:** This goes to both of you, actually. It's out of your report from the AG, where you say "Our work adds value for the organizations we audit". You assigned some target scores and then some actuals. For the "percentage of departmental senior managers who find our performance audits add value", you assigned a score of 65% as your target. The actual score that the managers reported back on was 61%. This actually goes back a couple of years. For crown corporations, you actually set a department target of 75%—so there's a difference between that...why you would assign lower to the departments internally rather than crown corporations—and the score back from the departments was 66%.

I guess this is the obvious question: what was the feedback that led to them suggesting they didn't get the value you thought they should get?

To Mr. Ralston, obviously the question is this: why do those managers in the department suggest that they don't see the value that the AG audit actually targets? It didn't meet it, and why not?

**The Chair:** Mr. Allen, I'm afraid the witnesses will not be able to answer that question orally, but they're welcome to present it in writing for all committee members, unless they prefer to address Mr. Allen in his next round.

Mr. Saxton.

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

I would like to follow up on the same line of questioning regarding the costs of these audits. My questions are to Treasury Board or to the Comptroller General.

On the \$300 million that we're talking about, that is an annual cost, is that correct, projected? Or is that a one-time cost?

**Mr. James Ralston:** That was a one-time cost.

**Mr. Andrew Saxton:** What would be the annual cost?

**Mr. James Ralston:** Well, we just heard from Mr. Wiersema that the cost of doing the Justice audit represented about 1,900 additional hours over what the Auditor General would have done normally for the consolidated audit. My earlier guess, and it's nothing more than that, because we didn't actually check with the Department of Justice on this, would be that there would be at least a one-for-one time investment on the part of the department for that.

So we're basically saying what Mr. Wiersema described was a cost in Justice that is 20 times greater for the audit of that department, and I would speculate that there would be a matching cost to the department. That's for one department. We would then have to multiply that by every department in the population.

**Mr. Andrew Saxton:** So it's not insignificant.

**Mr. James Ralston:** Not at all.

**Mr. Andrew Saxton:** Really what we're talking about here is value for taxpayers' dollars. There's a cost and there's a benefit. The question is, does the benefit justify the cost?

You mentioned earlier, Comptroller General, that the Office of the Auditor General already is in the departments, is already looking at the audits that take place in those departments. The question is this: is there value to go that extra mile? Does the benefit justify the cost?

**Mr. James Ralston:** The first point to make—I know I made this point last time, and I'm going to make it again—is that we are in this discussion treating the audit of the consolidated financial statements of the Government of Canada as if there was virtually no benefit, and that we had to therefore supplement that with these departmental statements.

I would vehemently deny that. I think the audit of the consolidated statements of the Government of Canada is tremendously valuable. It's valuable to parliamentarians, to taxpayers, and to investors, I would say. So given that tremendous value, there is one aspect.

Mr. Wiersema also then referred to the implicit value, not the opinion itself but the value that's created by the scrutiny, by the incentive to departments to improve practices and systems. But once again, I would say, that same incentive is there through the audit of the summary of financial statements of the Government of Canada.

And then on top of that, we have now added the very specific disclosures around internal controls. We have also added to departments the requirement to produce financial statements in their DPRs, which would basically look very much like they would even in the eventuality that they were audited.

With all of those building blocks in place—the audit of the consolidated statements and now these additional blocks that we've added—is there still more benefit to be had by digging even deeper through just basically lowering the materiality levels and increasing the effort by 20 times?

I would have to say that I think going that little extra mile now, given all that's been accomplished to date, would be.... I would question whether the cost benefit on that one is positive. It would be different if it weren't for all of the other things we have already accomplished, but we're now talking about adding kind of a last step on a huge foundation.

•(1205)

**Mr. Andrew Saxton:** Okay.

In economics there is the term “the point of diminishing returns”. Have we reached that point of diminishing returns? You have put all of these other checks and balances in place, so for every extra dollar spent, we're not getting the same value for that dollar. Does that make sense to you?

**Mr. James Ralston:** I think I would agree with that characterization of what I said. You summed it up very succinctly. I think I was trying to say the same thing.

**Mr. Andrew Saxton:** Okay, thank you very much.

The commitment to audit all departments' financial statements was made by the government in 2004. Can you explain how the environment has changed in 2010? I suppose part of it is in the answer you gave previously on how it's changed since 2004, and that is that you have all these extra checks and balances in place now.

**Mr. James Ralston:** In 2004 the part that would have been the same is of course the audit of the summary of financial statements of the Government of Canada.

What is new is the departmental financial statements, now the disclosures around internal control. There is also a strengthened internal audit. We're seeing a lot more internal audit reports coming out than before. As well, we have added the oversight of that whole regime with departmental audit committees. These are audit committees that have on them independent members, so members who are not part of the public service.

I think those are all very significant elements that were not present in 2004.

**Mr. Andrew Saxton:** Mr. Chair, how is my time?

**The Chair:** You have a few seconds.

**Mr. Andrew Saxton:** Okay.

Can you sum up how long it would take departments to get ready for these audits?

**Mr. James Ralston:** First of all, the original statement talked about controls-based audits, and that was done on purpose, because we had a goal to cause controls to be improved. Audits don't have to be controls-based. There are other ways to audit, so in a sense you could say that an audit could take place at any time. It's not true that a controls-based audit could take place at any time.

The other thing is that we've been focusing on readiness in terms of the systems and the core systems. There are other details, not unimportant; if you're going to introduce balance sheets for the first time, there has to be work done on establishing the opening balances of assets, the opening balances of liabilities. Those would be elements that would still have to be done, so there are challenges still to be overcome to produce audited financial statements today.

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

Monsieur D'Amours.

[*Translation*]

**Mr. Jean-Claude D'Amours:** Thank you, Mr. Chair.

My first question is for you, Mr. Ralston. If you can come here this morning, throw out the figure of \$300 million and tell us that this is a one-time cost, and not annual fees, can you tell me then why you are not able to tell us what the cost would be if you were to use your new measures and policies? You've given us a figure today, one that you appear to be comfortable with. I'd like to know why, if you've quoted one figure, you cannot boldly tell us what the cost would be if you were to use your new policies.

Can you briefly explain this to me, sir?

•(1210)

[*English*]

**Mr. James Ralston:** Thank you.

As I've mentioned, the original statement from 2004 and the current suite of policies were aimed at the same goal. I've made that point before. So the costs are as relevant, whether we're pursuing improved controls through throwing out the goal of audited financial statements, or whether we are improving controls through the route we've now taken—

**Mr. Jean-Claude D'Amours:** Mr. Ralston, can you explain to me why, if you achieve the same goal, you are not able to tell us what the cost is with your new objective?

**Mr. James Ralston:** What I've said is that it is the same cost, because it's the same activities—

**Mr. Jean-Claude D'Amours:** So it will cost \$300 million also.

**Mr. James Ralston:** It *has* cost, because we're doing it. We've started this effort, so costs have been incurred.

We're no longer talking about \$300 million going forward from today. We're talking about \$300 million going forward from the time at which that estimate was prepared. Some of that work has taken place. Some of that remediation has taken place. And some of the benefits of that are now going to be disclosed through the statements that will be tabled tomorrow.

[Translation]

**Mr. Jean-Claude D'Amours:** But how can you come up with...? I hear this and on the one hand, people are trying to say that this shouldn't be done, because there are costs associated with these measures, because you're saying that it would take 20 times as many hours to specifically audit a department, versus consolidated statements.

I have a question, Mr. Ralston. When someone says this, it is almost as if he is afraid of something. Are you afraid of something? Are you afraid that a more in-depth audit could uncover some facts? Because if we spend more time on the audit, it's going to be a more in-depth examination. Are you afraid that the Auditor General's office will uncover something you wouldn't like? Please answer me, yes or no.

[English]

**Mr. James Ralston:** The \$300 million costs, I will say again, were the foundation costs. We also need to talk about the costs that would happen going forward, year by year. They are two different kinds of costs—

[Translation]

**Mr. Jean-Claude D'Amours:** I understand what you're saying, Mr. Ralston.

[English]

Mr. Ralston, I understand what you said about the \$300 million. I don't need the same answer again.

[Translation]

What I'm trying to understand today is why you are afraid. You've stated your reasons, you've said that certain things shouldn't be done because of the overtime costs that would be incurred. I'll stop at that, because there's something that isn't quite right on that score.

I have a quick question for you, Ms. d'Auray. You said that a different approach was being taken to address fundamental issues, in

accordance with new policies and so forth. In the course of developing these new policies, did you consult with the Auditor General's office to ensure that you were complying with the standards and going in an appropriate, interesting direction?

**Ms. Michelle d'Auray:** If you don't mind, Mr. Chair, I'd like to respond to the question the member put earlier.

**Mr. Jean-Claude D'Amours:** I would still like an answer to this question first, please.

**Ms. Michelle d'Auray:** I'll answer this question as well.

You're asking if the mechanisms or policies developed followed sound control rules?

**Mr. Jean-Claude D'Amours:** No, that wasn't my question. Did you consult with the Auditor General's office?

**Ms. Michelle d'Auray:** Yes, we did discuss the policies that we developed.

May I answer the other question, Mr. Chair?

**Mr. Jean-Claude D'Amours:** Just a second, please.

Could you confirm that, Mr. Wiersema? I'd also like to know the tenure of the comments and recommendations that you subsequently made to the Auditor General's office?

[English]

**Mr. John Wiersema:** Mr. Chairman, if I may, perhaps I'd make two comments.

Firstly, I don't recall being personally consulted on the Treasury Board policy on internal control—I don't know if Ms. Cheng was consulted—but I think we were aware that the government was working in that direction. I do not recall that the office formally commented on the policy or if any formal consultations took place.

Perhaps I can also comment, Mr. Chairman, just very briefly, on the question posed about the value of an audit of those departmental financial statements. If I could give my one-sentence answer to that question, it would be that the Auditor General has indicated that she will audit departmental financial statements, if this is a government priority, when the departments are ready to sustain a controls-based audit.

So the value in that audit, then, would be the independent validation that the controls in that department are of sufficient rigour and robustness to support a controls-based audit, that the controls are there at a level of materiality relevant to that department.

I think that's the short answer to that question.

Thank you, Mr. Chairman.

• (1215)

**The Chair:** Thank you.

Mr. Kramp.

**Mr. Daryl Kramp:** Thank you, Chair.

Welcome to our guests.

Going back to Mr. Saxton's point, I guess, one of our biggest concerns here, of course, is cost-benefit analysis. Where do we go? Where do we stop? And at what point does it make sense to spend  $x$  amount of taxpayers' dollars to verify what is either a problem or isn't?

Maybe to Mr. Wiersema, how many of our departments are actually audited? Are crown corporations audited, and what about the agents of Parliament? Do they go through the same particular requirement?

**Mr. John Wiersema:** Thank you for the question. It's an excellent question.

The Auditor General is in fact the auditor and does an annual financial statement audit of all crown corporations except two. Those two are the Canada Pension Plan Investment Board and the Bank of Canada. But all federal parent crown corporations are subject to an annual financial audit.

What we're talking about today is the audit of the 22 large departments and agencies. The Auditor General does not presently audit the financial statements of those 22 large departments at the level of departmental financial statements. They are, obviously, included in the public accounts of Canada.

With respect to the agents of Parliament, the Office of the Auditor General does annual financial audits of the financial statements of each of the agents of Parliament.

So yes we do crowns, and yes we do agents of Parliament annual financial statements, but we do not do the 22 large departments, with the one exception of the Department of Justice in 2009.

**Mr. Daryl Kramp:** Okay. And certainly with no disrespect to the Auditor General's office, of course the Auditor General's office isn't audited every year.

**Mr. John Wiersema:** Yes, Mr. Chairman, we are.

**Mr. Daryl Kramp:** Under the same standard you're proposing here?

**Mr. John Wiersema:** Under the exact same standard we're proposing here. The Office of the Auditor General's annual financial statements—I think you'll find them included in our departmental performance report—are audited annually, and an opinion is expressed by Welch & Company. They audit us as we would audit large departments and agencies.

**Mr. Daryl Kramp:** Okay, fine. Thank you very much. I appreciate that clarification.

Madam d'Auray, could you give us an example of some particular challenges that would exist in order to have all of the departments ready to have their financial statements audited? Are there particular challenges?

In other words, why would there be any hesitation to move toward this direction? Are there internal challenges? Are there manpower challenges? Or is it simply a question of dollars and cents? What would be some of the reasons that you could provide?

**Ms. Michelle d'Auray:** Thank you.

The challenges to be ready for a controls-based audit are essentially the same challenges as are embedded in the policies on

internal control and the policies on financial management. That is why in the policy on internal control there is a requirement for the disclosure. It requires us to have documentation of controls and evidence of controls. It requires us to make sure that we are consistent and frequent in our reconciliation, so accountancy provisions have to be in place. We have to make sure that we have controls over the computer systems and security and access, that we can do spot-check audits, that we can do post-payment verification, that we have a constant monitoring system in place.

Those are all elements of systems controls or controls that we have to put in place on financial reporting as part of the policy. This is why there is nothing to fear—if I may refer to the previous question—of having an audit done of financial statements, or of a controls-based audit. All we are suggesting is that the measures that we have put in place enable us to achieve a state of readiness in order to be able to undertake or withstand a controls-based audit in whole or in part, should the Comptroller General require that to happen. So all the elements are being put in place for us to do so.

The policies we have put in place were shared informally, and Mr. Wiersema...*[Inaudible—Editor]*...to say that, but we never require the Auditor General to formally comment on the policies of the Government of Canada because that is not their role and function. They can be aware of and they can be engaged in the discussion and informally receive, but they do not formally comment on the policies that we set out, because those are the policies that the government chooses to put forward.

In that case, we are quite confident about the policies we have put forward and the requirements, which members of Parliament will see from the first disclosures coming out tomorrow, the extent and the depth to which the analysis is done, as well as, again, pointing to the requirements of an action plan of what each organization has committed and is committed to do, in order to get the controls at a level that is required.

● (1220)

**Mr. Daryl Kramp:** Good. It will be good to look forward to this—

**The Chair:** Sorry, Mr. Kramp. You're way over.

Madame Faïlle.

*[Translation]*

**Ms. Meili Faïlle:** Notwithstanding the fact that financial statements are audited, departments invest in ways to improve internal controls. This according to Mr. Ralston.

Is that statement correct?

*[English]*

**Mr. James Ralston:** That's correct.

*[Translation]*

**Ms. Meili Faïlle:** Ms. d'Auray, earlier you were asked some questions about adopting a new approach. Judging from your remarks, the goal of auditing departmental statements to improve controls has been met.

We've held three meetings to discuss this topic and I have been asking myself some questions. Why did you decide to change directions? How did this decision come about? What documents were drafted and what analyses were carried out beforehand?

**Ms. Michelle d'Auray:** When we first turned our attention to this matter, Mr. Chair, we focused on two objectives, as Ms. Faille so aptly pointed out. We wanted to strengthen control systems and increase the reliability, so to speak, of financial information. As these mechanisms and policies were developed, we completed phase one of the process, as Mr. Ralston said, which was the production of financial statements. These statements were first produced in 2005-2006.

We then focused on developing an internal audit policy. We struck committees, made up of independent members, for each department.

We then turned our attention to control measures, because to sustain the audit process, we also require control mechanisms. Hence a policy on controls was drafted.

These various measures were taken to sustain the audit process. The need to be audit-ready is reflected in the policies adopted. We asked ourselves what the value added would be if we put in place all of these mechanisms which, getting back to the Auditor General's comments, are designed to help us achieve our true primary objectives, namely better controls and transparent, reliable financial statements.

**Ms. Meili Faille:** If I were to ask you where this information comes from or when the decision was made, would you say the decision to change direction was made in 2005-2006?

**Ms. Michelle d'Auray:** The decision stems from the policies in place and the latest policy was released in 2010.

**Ms. Meili Faille:** On June 1, 2010.

**Ms. Michelle d'Auray:** The decision was made further to the development and release of the policy, which sets out a new approach to conducting controls-based audits.

• (1225)

**Ms. Meili Faille:** Can you assess the situation for us at the Office of the Auditor General? We're talking about policy changes over a period of six years. Are you in fact seeing any net improvements in internal controls in the different departments?

Has Treasury Board missed the mark here? Are there shortcomings to the proposed approach? Much was made of costs earlier, but what is really going on in the different departments?

Another issue is that we are being told today that new information will be posted on the Internet as early as tomorrow. We're finding this out at the very last minute. I think we should have been informed of this last spring when we first broached the subject of internal audits. I don't know when the decision was made to go forward with this initiative, but can you tell us if the Auditor General's office had an active part in the decision to post on the Internet information about internal control audits.

[English]

**Mr. John Wiersema:** *Merci, monsieur le président.*

Yes, I am able to confirm that the controls were strengthened in the Department of Justice, because the Department of Justice was able to successfully sustain a controls-based audit. Beyond that, no, I'm not in a position to comment on the strengthening of internal controls in government, because we have done limited work in that area.

Just to be clear, Mr. Chair, the Office of the Auditor General has no shortage of things to audit. There's a big government, and we can audit, we can conduct more performance audits. There's an awful lot of work we can do in auditing in the government.

What we had pointed out initially, on May 11, when we appeared here, before the DPR, was that in response to a change in government direction, we were changing our priority. Since government was no longer pushing or encouraging audited departmental financial statements, it didn't make sense for us to continue to audit them.

I absolutely accept that it's the government's decision, and ultimately Parliament's, whether or not you wish to have audited departmental financial statements. If the decision is no, the Office of the Auditor General will accept that decision.

What we have been pointing out to this committee in our discussions is that what you will not be receiving as a result of not auditing those financial statements is some form of independent validation that the controls are there at the departmental level, relevant to the department, to sustain a controls-based audit. You will not be getting that independent validation from the Office of the Auditor General.

If Parliament chooses—

**The Chair:** Sorry, let me interrupt you there, because now we're going, again, way over time.

I see that Madam d'Auray would like to have an intervention as well, and I've already said no to her once. Mr. Ralston wants another one—no—and I know that Mr. Shipley wants in.

I think all committee members are anxious to hear the responses. We're really good at asking questions, but if I could limit you to about 20 seconds, and you, Mr. Ralston, to another 20, I think I would satisfy everybody's curiosity about where this conversation is going.

[Translation]

Please keep your response brief, Ms. d'Auray.

[English]

**Ms. Michelle d'Auray:** I have two answers, Mr. Chair. Thank you.

One is that the policy on internal control took effect on April 1, 2009, so the disclosure as requested by Madame Faille is not a surprise: this policy has, in fact, been in place since 2009.

I'll stop at that.

**The Chair:** Go ahead, Mr. Ralston.

**Mr. James Ralston:** Mr. Wiersema continues to say that readers of departmental financial statements will get assurances from the Auditor General about the improvement in controls. I want to just repeat my statement from the last time, which is that the auditor's standard opinion on financial statements does not give assurance on control. In fact, the engagement letters will caution organizations not to expect that.

Therefore, it is, in my mind, a bit irreconcilable how the readers are to take assurance from something that is explicitly not mentioned.

• (1230)

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

Mr. Shipley.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Mr. Chair, thank you very much.

Thank you, witnesses, for coming out.

Just in comment, if we go back to 2004, actually, when the government of that day committed to department financial audits, I understand clearly why they would want to do it at that time. There had been corruption; there had been a sponsorship scandal. So in order to try to cover themselves, they would want to say, "Listen, everybody is wrong. We need to do financial statements on everyone."

I think now, clearly, in six years...and the question was asked, for clarification, whether the difference that has happened over the last five or six years. I think you have to lead in anything, whether it's a business or whatever, by example of accountability and transparency. That's why there's been the Federal Accountability Act and other legislation brought in, so that this sort of leadership is evident.

We talked about the consolidated audits. We talked about having the cost of controls-based audits of each of the departments. I'm just not clear that it could be up to 20 times higher for controls-based ones, but it's substantial dollars.

My question is should we dig deeper at these types of costs, but is there acknowledgement of any reason, Mr. Ralston and Ms. d'Auray, that you have had brought, or you would see, for the need of that expenditure?

**Mr. James Ralston:** No, not at this point in time, and the policy allows me, if I do see something, to request an audit. The audits are selective, not automatic, but were I ever to have a concern, the policy allows me to request an audit.

**Ms. Michelle d'Auray:** The other element, if I may comment, Mr. Chair, is the fact that at the request of Parliament, departments will also start producing quarterly financial statements, starting in 2011. The first financial statements will be produced in August 2011. So there is an additional requirement to produce information in terms of the transparency and the reliability of financial information, which is an added element that was not in place when the original commitment was made.

**Mr. Bev Shipley:** Thank you.

We have just, I believe, received what we would call in audit terms a "clean audit", which I believe is number 12 for Canada. Can

you tell me what other countries have had a clean audit that are asking for, that would need to have, a controls-based audit of all their departments?

I mean, we're doing the 22, and that actually looks very positive for coming out just in general terms tomorrow. But what other countries that have those clean audits—first of all, are there others—are also demanding of all the departments to have what we would call a controls-based audit?

Mr. Wiersema.

**Mr. John Wiersema:** Mr. Chairman, I do not have complete information with me today.

The member is absolutely correct. The Auditor General issued last week, and it was tabled in Parliament last week, an unqualified opinion on the consolidated financial statements of the Government of Canada.

That's something the government could quite rightfully be quite proud of. I know there are very few other jurisdictions of sovereign governments around the world that can make a similar claim.

I don't have precise information with me, but as an example, the Government of Australia—some committee members will recall the discussion with the Auditor General of Australia in the context of the peer review—does a pretty good job of reporting on its financial statements as well. It has probably received some clean opinions. But you also hear the Auditor General of Australia indicate that in Australia departmental financial statements are in fact audited.

**The Chair:** Ms. d'Auray is next, and then Mr. Matthews.

**Ms. Michelle d'Auray:** In fact, I wanted to signal that Mr. Matthews had the information.

**Mr. Bill Matthews (Assistant Comptroller General, Treasury Board Secretariat):** Just to add to the global context, Australia does receive clean audit opinions. As Mr. Wiersema said, they require departmental financial statements, but there are two important clarifications: they're not controls-based; secondly, in Australia they physically transfer cash to each department, which then holds the cash, so they have a very good reason for having departmental financial statements. They don't have the same level of control we have here. It's a very different environment.

The U.K. cannot get a clean opinion on its audited financial statements; the U.S. cannot get a clean opinion on its audited financial statements; nor can the Government of France. The only other one I'm aware of that does is the Government of New Zealand; it is smaller in scale, but they can achieve a clean opinion on the consolidated financial statements.

The other point I will add is that no other government, except that of the U.K., requires the annual disclosure related to internal control that we are now requiring. The U.K. has had that practice for some years, and there's really good activity in monitoring the action plans and the improvements made.

• (1235)

**The Chair:** Thank you.

I'm going to go to Mr. Allen.



Mr. Allen, just before you begin, you ended with a series of questions. This is just a reminder that if you so wish you can ask them to answer those, or we could leave it with their sending us the answers in writing.

**Mr. Malcolm Allen:** I appreciate the reminder, Chair, that I posed those questions. Since it's five minutes that I have, let me get short answers to the particular questions I posed when my time ran out.

To remind you, it was an issue of a score that the Auditor General sets, not the comptroller's department. I appreciate the fact that it wasn't something you established, Mr. Ralston, or the department, but that the AG set. But there is a dialogue between the two as to a score being set and not being met.

So the question is for both of you—if you could keep it within a couple of minutes, because I have one other question about that issue.

**Mr. John Wiersema:** Mr. Chairman, I'm prepared to provide a one-minute answer to the question.

The Office of the Auditor General basically undertakes two forms of audits: the performance audits that this committee is used to, as well as the financial audits, in particular of crown corporations and the public accounts.

The number the member referred to, the 65% target, relates to our performance audits, the value-for-money audits.

With respect to the financial audits, in our 2009 DPR our target for "Our work adds value" on the financial audits was 75%; the actual was 83%. So we've exceeded the target for large departments and the public accounts audit, as well as for the crown corporations.

The feedback we are getting from the recipients of those financial audits as opposed to performance audits is that we are adding value, and we've exceeded our target.

Thank you, Mr. Chairman.

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

Mr. Ralston.

**Mr. James Ralston:** I must confess that I haven't done a survey, but just based on my experiences with the financial audits, typically in the course of an audit the Auditor General folks will issue management letters. Often they will come across transactions or situations that had escaped the attention of management. There are millions of transactions at play sometimes, at least where I was. We appreciated getting those kinds of heads-up on things that had not previously come to our attention.

**Mr. Malcolm Allen:** I appreciate, Mr. Ralston, that you didn't necessarily have the material or haven't done it before, but really what I was looking for from your area concerns the managers who were questioned, or at least who responded. I'm not sure who they were, but obviously the AG's department would have that information.

The headline is, "Our work adds value for the organizations we audit", which is the AG. The response back from the managers was the "Percentage of departmental senior managers who find"—that is, the senior managers find—"our performance audits add value"; that is, the performance audits of our AG.

The target they set for themselves was 65%. Your managers said, or at least 61% of the managers in those departments that were audited said, that they added value. So the target they set—and I think it's low, because for the crown corporations they actually set a value of 75%—was lowered to 65% for the departments, and yet the departments' senior managers said they didn't even hit that score, didn't get the score that the AG expected.

For me, the suggestion is that six out of ten departmental senior managers said it added value, but four out of ten said they didn't think so.

I'll leave it to you to get back to us on that, because I understand you need to take a look at it. It's not to put you on the hot seat, because that's not necessarily fair.

I have one other sort of quasi-statement, part question, to ask. I understand the systems both of you are talking about in the global sense—who's better, who's not better—and the reality for me is that I don't really care what they do in the U.K. or in New Zealand or Australia. I don't live there anymore. I used to live in the U.K. as a kid, but I don't live there anymore. I live here; I pay my taxes here; my government is here, so I'm looking at how we manage our cents.

I commend both of you, both groups, for wanting to ensure that, as my colleagues have said, we get value for the dollar, the money we collect from our citizens. That's extremely important. The issue becomes one not so much of trust as of how we are being perceived by those folks who entrust their money to us. At the moment, the trust level, if you put it on a score, is such that you'd be much higher on the score level than I would be.

So the issue becomes for us, and I'll take a general comment from both groups, is how do we re-engage folks so that when we make a departmental audit and show it to them, they go, "Bang on, two thumbs up, I believe everything that's been said"? Because, quite frankly, at the moment, if I were to take it to my constituents, a lot of them would have a lot of questions, asking me, "Are you sure?"

• (1240)

**The Chair:** I don't know how they're going to answer that question. I think it's more of a statement.

I appreciate your having made that statement, and since we are again well over time, I'll go to Mr. Young.

**Mr. Terence Young:** Thank you, Chair.

With regard to the new disclosures that you have—I'm not sure who I should ask, but maybe Mr. Wiersema—how many other countries do these new disclosures that are happening quarterly?

**Mr. John Wiersema:** Sorry, Mr. Young, I'm not sure I followed that question.

**Mr. Terence Young:** You have new disclosures happening—for instance, tomorrow you're putting the results from 22 departments on the web, and then you have other quarterly reports that are disclosed. How many other countries have that standard of transparency?

**Mr. John Wiersema:** I haven't done research in this area, Mr. Chairman, but I expect many other countries present financial information publicly, on their websites. Some countries may or may not present quarterly information. I do not have that information.

**Mr. Terence Young:** Is it a relatively new thing? It's just that I think the transparency is absolutely critical to people's trust in our institutions and in government. It's a great thing. I'm just wondering, how new is it and how common is it?

**Mr. John Wiersema:** Mr. Chairman, I doubt that increased financial disclosure at departmental level is a new thing. I think that's probably been happening around the world for some time now.

**Mr. Terence Young:** I meant making it so accessible on the Internet and that sort of thing.

**Mr. John Wiersema:** I believe some of that may have been happening for some time as well.

**Mr. Terence Young:** Thank you.

Did you want to comment? Please do.

**Mr. Bill Matthews:** If I may, Mr. Chair, regarding the quarterly disclosure, I'm not aware of any countries that are requiring all departments and all crowns to do quarterly disclosure of their financial situation.

In terms of our new disclosure that you will see tomorrow under the policy of internal control, the only other country that I'm aware of that does such disclosure is the United Kingdom.

**Mr. Terence Young:** Are there any other best practices in the U.K. or Australia, or elsewhere, that we should be emulating but we're not?

**Mr. Bill Matthews:** Mr. Chair, when we do our policy development, we do consult with colleagues in Australia, U.K., New Zealand, and the United States to make sure we're capturing the relevant best practices. I would say that our policies reflect consultation with those countries, to make sure they reflect developments.

**Mr. Terence Young:** Are they moving towards consolidated financial statements?

**Mr. Bill Matthews:** Mr. Chair, the Government of Australia already produces consolidated financial statements, as Mr. Wiersema mentioned, with a clean opinion, as does New Zealand. The U.K. does not yet produce consolidated financial statements.

The U.S. does produce a consolidated financial statement, but it is unable to obtain a clean audit opinion on that statement. It is a goal; they're just unable to get there right now.

**Mr. Terence Young:** Thank you.

Mr. Matthews, you commented before that the cost estimate associated with having the 22 largest departments undergo audits of their financial statements was around \$300 million. That goes to improving documentation; it goes to improving accounting information systems. Then later the Comptroller General said that part of the cost would also be improving internal controls.

But how much of that has to be done anyway?

**Mr. James Ralston:** In a perfect world, it would have always been done. We had the belief that improvements were required, so we put in place these policies to try to cause those improvements to happen, but more importantly to allow us to monitor that they were happening.

But on your basic point, yes, that's good housekeeping. We hope that through these policies we'll get to where we probably should have been in the past.

• (1245)

**Mr. Terence Young:** A lot of those things have to be done for ordinary financial management, day-to-day, so the \$300 million might in fact not be new money in overall operations costs.

**Mr. James Ralston:** You're right; I mean, we've asked departments to direct their effort to improving those controls, and the cost that is cited is the value of that effort.

**The Chair:** You have ten seconds left.

**Mr. Terence Young:** I'm going to give that time to my colleague.

**The Chair:** Oh, no, you just used it up.

**Voices:** Oh, oh!

**The Chair:** Okay, we'll go to Mr. Bains.

**Hon. Navdeep Bains:** Thank you very much, Chair.

Mr. Ralston, we discussed at length the one-time cost associated with the new internal controls that are being put into place. That's why the \$300 million keeps on coming up again. Those costs have been incurred; those are one-time costs. You've indicated that you don't have any number on any incremental cost, going forward, for maintaining these internal controls. In particular, when we ask about incremental costs associated with putting forward departmental financial statements, you say they're expensive, but there's no number associated with that.

We have a precedent set by the Department of Justice that has prepared a statement, so it has been done before. It can be done and it has been done. And we have Mr. Wiersema saying that it's up to the government to provide direction. It's not really up to the AG's office; it's up to the government.

I have a response here from the government to a report tabled in the House. It was presented to the House on February 27, 2007, by this government in response to a recommendation made by this committee, indicating that it is the intent of the government to have departmental financial statements audited by the Office of the Auditor General of Canada. Again, the government clearly indicates, in its response in 2007, that it has the full desire to have financial statements prepared by the department.

Why the mixed signals? If there are no costs that can be attributed to it—the government has given direction, it's put it in writing—then why the mixed signals, Mr. Ralston? Why don't you just fulfill the mandate, especially because the government has given you clear direction on it?

**Mr. James Ralston:** As I have explained in the past, statements were made in the past about taking a particular direction where we're meant to achieve certain goals. We have not altered our goals, we've altered the means. It's a question of choosing the best tool for the job.

On retrospect, we decided the best tool for the job was not departmental audits...an automatic audit of all departments, but that the better tool for the job was the disclosures route with the ability to selectively audit.

**Hon. Navdeep Bains:** Who made that decision, then? The government clearly indicates in writing in its response that it has a desire to prepare financial department statements. Who made the decision to change it?

**Mr. James Ralston:** The current position is in a policy of the Treasury Board. It is a policy that has been established by the Treasury Board ministers.

**Hon. Navdeep Bains:** Who approved that policy?

**Mr. James Ralston:** The Treasury Board ministers.

**Hon. Navdeep Bains:** Okay: the Treasury Board minister, right? So the government has changed its direction now. In 2007 it had every intent of preparing financial department statements, and now the government is saying, no, that's no longer the case.

**Mr. James Ralston:** In 2007, and as early as 2004, there had been public statements made indicating a policy direction, but there had never been a Treasury Board policy, as such, designating the requirement for audits.

**Hon. Navdeep Bains:** The reason I—

**Mr. James Ralston:** So what happened was that when an actual policy decision was made as opposed to these announcements, the policy decision is the one that we've been discussing today—

**Hon. Navdeep Bains:** I understand, but this is the response I have from the government, and then we have the Department of Justice also preparing financial statements for its department. So we have a written response from the government and we have a department following through on that. So it's very clear there was a desire to do that.

Who made the decision to change this policy, and when?

**Mr. James Ralston:** The Treasury Board.

**Hon. Navdeep Bains:** When was it?

**Mr. James Ralston:** In May or June of this year.

**Hon. Navdeep Bains:** Okay.

I have a quick question for the Auditor General's office. The government indicates that it will cost 20 times as much—on a couple of occasions today—to prepare these financial department statements.

Can you comment on this claim, based on your analysis, based on the current controls, based on the fact we've already incurred the one-time cost? Is this number that they're claiming somewhat accurate? Or where are they coming up with this figure?

• (1250)

**Mr. John Wiersema:** Thank you for the question, Mr. Chairman.

I think the comment was made in relation to the fact that the audits, the departmental financial statements, would cost 20 times as much as what we currently spend on the public accounts of Canada. No, I do not believe that is a correct statement. I think it is a significant exaggeration of the cost of auditing the large 22 departments as compared to the cost of auditing the public accounts of Canada.

The Office of the Auditor General has not—I will be totally transparent here—estimated how much it would cost to audit all 22

large departments, because, frankly, that was not a reality we had to deal with in the foreseeable future. The indications we were getting was that most large departments would not be ready until 2015, 2016, or perhaps even later than that.

So given that it is so far out in the time horizon, we have not attempted to estimate the cost of audited departmental financial statements. But I can say with confidence that it will not be 20 times the audit of the public accounts.

**The Chair:** Thank you.

Mr. Dreeshen.

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

I'm sure many, as I am, are looking forward to what will come out tomorrow. You speak of the good housekeeping. I'm sure we're going to be wanting to see the details, and we'll have people looking at the effectiveness as well as the ease of communication. I know that when we get things onto a website people will be quite interested in seeing what's taking place.

I have a couple of questions, perhaps to Mr. Ralston first.

I'm wondering if you could expand upon the provisions, on the policy for financial resource management information and reporting...as it assigns to the Comptroller General the responsibility to decide on who requests an audit.

**Mr. James Ralston:** As I say, through the consolidated work, all of government is audited today. The policy has said that we're not going to require a blanket drilling down so that all departments would be audited.

By the way, that's all departments, not the largest 22. It would be all. The original statement in 2004 concerned all departments. So in fact it's not, as Mr. Wiersema has referred to, the cost of auditing the largest 22. If we were to actually pursue that earlier direction in its entirety, we would be going down to the smallest of the small departments: all means all.

So in opposition to that idea, we said, no, it makes more sense to be selective. Let's go where we think there are risks, where we think there are particular areas of interest; in the end, that will be far more cost-effective than chasing low-dollar-value departments that maybe are not particularly risky, and this will be a far better use of taxpayers' money to be able to apply that sort of risk lens and be selective.

**Mr. Earl Dreeshen:** You also mentioned, in making some of these decisions, that you are setting up professional standards as guidelines for the materiality to be used by the auditors. In some of the earlier discussions as well, you were talking about doing the consolidated accounts of Canada, and the fact that, again, you're also going in looking for different opinions.

Is there a way in which the two can be done at the same time? I'm wondering if there are different types of audits that could make that happen, so that when you are going in and looking at the consolidated accounts you're also doing that with the mindset of also looking for some of these efficiencies.

**Mr. James Ralston:** I think that's a great point. The fact of the matter is that the Auditor General has the mandate to audit. The Auditor General chooses the materiality. So if the Auditor General were to choose to drill deeper for any reason at all, even in the context of the consolidated audit of the financial statements, they could drill deeper. They wouldn't have to drill deeper everywhere. They could be selective themselves about drilling deeper, but they could do it today, whether it's due to a signal that we might send about our interest or a signal that you might send about your interest.

• (1255)

**Mr. Earl Dreeshen:** Mr. Wiersema, if you could please comment on that as well, I'd appreciate it.

**Mr. John Wiersema:** Very quickly, Mr. Chairman, if the Office of the Auditor General was auditing departmental financial statements and giving an opinion on those financial statements, we would not need to do any significant additional work to audit the public accounts. So yes, in fact there is a huge amount of leverage. We do the audit once. If we've got comfort on the numbers at the departmental level, no further work is required except to consolidate those numbers of the public accounts, so there are lots of efficiencies.

As to the point about the standards for the audit, the Office of the Auditor General follows the standards set by the accounting and auditing profession. We do try to do our work efficiently. If we have to audit the public accounts, we audit to the materiality that's relevant there, and do that efficiently. If we're auditing a much smaller financial statement...obviously a great deal more work is required at that level.

**Mr. Earl Dreeshen:** And so therefore, you find, if you are able to find the efficiencies, it's sometimes a case of just happening to go into these departments and widening your scope somewhat, then?

**Mr. John Wiersema:** Well, we would have no reason to do that, Mr. Chairman, if the government weren't pursuing audited departmental financial statements. If we're in the Department of Justice as part of the public accounts audit, we will do enough work to satisfy our obligations for the public accounts audit. We would have no reason to go off to do extra little fishing expeditions or other exploratory work.

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

Mr. Ralston, what is the size of the budget for your department?

**Mr. James Ralston:** Do you mean the Comptroller General's office? We have about 150 people. That's the size of it.

**The Chair:** Would it be \$100 million?

**Mr. James Ralston:** No, it's not that high. I think it's more in the order of about \$25 million or \$28 million or something like that.

**The Chair:** How did you come up with that figure of \$300 million? It seems to me that when I divide that by 22, it comes out to about \$14 million per department.

Is that what you did to come up with \$300 million?

**Mr. James Ralston:** Maybe I'll ask Mr. Matthews to explain that process.

**Mr. Bill Matthews:** Thank you, Mr. Chair.

I believe that at the last session I described that it was not a scientific estimate. That figure was arrived at in consultation with the chief financial officers of the 22 departments. They came back and said that given their state of readiness, the documentation, and the systems upgrades they may require to move to a controls basis, that was their first guess at the number. There were some cautionary notes from one department that their number was not necessarily fulsome and that it was probably even higher than that.

But this was not a scientific exercise, let's be clear. The number—

**The Chair:** I would have thought that if it was going to be unscientific, it would have come from somebody around *this* table. We're looking for more scientific or mathematically sound responses from somebody else in the department.

**Mr. Bill Matthews:** I just wanted to add that the number was split equally between systems investment and policies and procedures.

**The Chair:** The Auditor General's department already has a budget of about \$80 million. They used to have \$100 million. And while they can do whatever they wish, more or less, they can do all of those things....

Mr. Wiersema, I know that you gave an answer here a moment ago, so I'll leave it with you.

Madam d'Auray wants to have an opportunity to respond to this.

You know, I'm looking at that same item that one of my colleagues mentioned, that the intent of government is to have departmental financial statements audited by the Office of the Auditor General of Canada. That's the stated intention of the Government of Canada.

Madam d'Auray, how come your department has a different policy?

**Ms. Michelle d'Auray:** The statement was a statement of intent. It wasn't a policy. The policy, in fact, has been approved by the Treasury Board ministers. It was approved in June. June 2010 was the policy on financial management. The policy on internal control was approved in April 2009. So those are policies that are, in fact, approved by the Treasury Board, and they are the policies of the government.

The intent at the time, the underlying objective, whether it was in 2004 or expressed again in 2007, was, in fact, to strengthen controls and strengthen the reliability of financial information. Audited statements were a means to an end. The end has never changed. The means by which we are achieving that end has shifted.

**The Chair:** I'm sure to have an opportunity to pursue this more.

This committee room is going to be required by somebody else. That's lucky for some. I'm going to call the meeting to an end.

We'll adjourn the meeting, but I'm going to speak to a couple of colleagues regarding our steering committee tomorrow. I'll do that off-item.

Is there a motion for adjournment? Thank you.

The meeting is adjourned.







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