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Chair

Mr. David Christopherson

Standing Committee on Public Accounts

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• (1530)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I call this 17th meeting of the Standing Committee on Public Accounts to order.

I'll be going to Mr. Kramp for a business matter before we begin the meeting, but I would ask the indulgence of colleagues to extend a very warm welcome back to Parliament Hill and to this committee to a former chair and someone who a number of us on this committee consider to be a mentor in the business of public accounts, a hell of a fine parliamentarian, and a good friend: Shawn Murphy has returned here.

Shawn, it's great to have you back again.

Some hon. members: Hear, hear!

The Chair: His is a happy-ending story. He's not here because he chose not to run, as opposed to not being here because he wanted to come back and the folks said no.

Mr. Kramp, you have the floor.

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

Chair, I'd like to propose that we break at 5:15 today so that we have an opportunity to deal with future business. Of course it will be setting an agenda item for Wednesday, but that's all that needs to be said now.

I ask the chair's cooperation in ending today's meeting with our witnesses at 5:15.

The Chair: My understanding is there's been consultation with the opposition parties, and they're okay with that.

With that in mind, I'll accept that we have a motion before us to have an order of the day at 5:15 to do business on the next meeting.

(Motion agreed to)

The Chair: With that, we'll begin our hearing.

Welcome, Mr. Ralston and Ms. Cheng. I'll ask you to begin by introducing yourselves and your colleagues who are with you.

Mr. Jim Ralston (Comptroller General of Canada Treasury Board Secretariat): I'm Jim Ralston, Comptroller General of Canada. With me is Gonzague Guéranger, who is executive director of financial management policy; and Paule Labbé, who is executive

director, management accountability framework and risk management.

Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada): I'm Nancy Cheng. With me is Mr. Michael Pickup. He's the principal responsible for this audit.

The Chair: I'm going to 'fess up here, folks. I got back late last night from 24 hours of travel, and I'm severely jet-lagged, so we're going to take this nice and easy and careful, if you don't mind.

Having said that, do we have opening remarks? Yes.

Ms. Cheng, please begin with opening remarks. You have the floor.

Ms. Nancy Cheng: Thank you, Mr. Chair.

We welcome this opportunity to discuss chapter 1 of our spring 2011 status report, "Financial Management and Control and Risk Management".

Canadians expect their government to be managed well and to be accountable for the safeguarding of public assets. The government is responsible for stewardship—that is, the efficient, effective, and economical use of public funds.

Financial control and risk management are central to managing any organization effectively, including government entities. These activities contribute to an organization's ability to safeguard its assets, use its resources economically and efficiently, and produce accurate and reliable financial information. Reliable information is key to developing a complete and accurate picture of financial performance.

In this follow-up audit, we examined the government's progress on commitments it made in response to our previous observations and recommendations. We audited the Treasury Board of Canada Secretariat, including the Office of the Comptroller General, and seven large federal departments.

[Translation]

Overall, we found that the Treasury Board of Canada Secretariat and the departments have made satisfactory progress in acting on their previous commitments, in particular, in developing policies, frameworks and relevance guidance on internal controls, and in implementing risk management measures.

Through the Office of the Comptroller General, the Treasury Board of Canada Secretariat has demonstrated leadership by developing a new and strengthened financial management policy suite, clarifying roles and responsibilities, and supporting deputy heads in their role as accounting officers, as set out in the Financial Administration Act. Most of the selected departments told us that they found the secretariat's initiatives and approach to be helpful.

As well, financial human resource capacity has improved significantly since our last report. In 2010, we found that 82% of chief financial officers in the 22 large government departments held a professional accounting designation. In 2002, this number was only 33%. We noted that the Office of the Comptroller General has put in place various measures to enhance its capacity.

All seven audited departments have developed a corporate risk profile that summarizes an assessment of the department's key risks, with processes in place to update these profiles regularly. The integration of risks into planning, reporting and decision making has improved.

We also noted a number of matters that need attention. In particular, we would like to you to focus on the following.

Departments have still not fully assessed their internal control systems to identify and address weaknesses. According to their action plans, this work will take years to complete. Mr. Chair, our audit work was completed in fall of 2010. The committee may wish to ask the Comptroller General for an update, including information on when he expects all large departments to have their internal control systems fully assessed and on how the OCG intends to monitor the government's actions in doing so.

• (1535)

[English]

Another issue is accrual-based budgeting and appropriations; it dates back as far as 1998. The former Auditor General, Sheila Fraser, raised this issue previously, as did this committee.

The government has not completed its evaluation of accrual-based budgeting and accrual-based appropriations and has not yet decided whether it intends to fully adopt either or both of these approaches. Accrual-based appropriations would provide Parliament with the same basis for control and approval over voted spending as over the government's overall financial plan and the summary financial statements.

The committee may wish to discuss this matter with the Comptroller General to obtain his current views. The secretariat and the audited departments have agreed with our recommendations. They have also made commitments for action related to their responses.

Mr. Chair, this concludes my opening remarks. We'd be pleased to answer the committee's questions.

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

Mr. Ralston, you have the floor, sir.

[Translation]

Mr. Jim Ralston: Mr. Chair and members of the committee, thank you for the opportunity to speak to you with respect to

chapter 1 of the Auditor General's 2011 Status Report, tabled in June of this year. That chapter is titled Financial Management and Control and Risk Management.

As you know, the Federal Accountability Act and the corresponding action plan were designed to strengthen accountability and transparency in government. The act and the action plan also designated deputy heads as accounting officers responsible for maintaining effective internal controls.

[English]

My office supported this plan by strengthening internal controls and financial reporting through the renewal of Treasury Board financial management policies, including a new policy on internal controls. We have also worked closely with the financial management community to support professional development and capacity-building.

[Translation]

Departments and agencies have worked diligently to implement these policies in a timely fashion, thereby strengthening their financial management capacities.

• (1540)

[English]

Although there is still work to be done, I am pleased that the Auditor General has recognized the government's significant progress in these areas.

We would now welcome the committee's questions.

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

Now we'll begin our rotation, beginning with Mr. Saxton. You have the floor, sir.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair. Welcome back. We missed you.

The Chair: Thank you. That's nice of you to say. I hope you feel that way at the end of the meeting too.

Mr. Andrew Saxton: Thanks to our witnesses for being here again today.

My first questions are for Ms. Cheng and the Office of the Auditor General. It's clear that financial controls and risk management are extremely important in reducing the risk involved in dealing with public assets. In your opinion, are the necessary financial controls now in place?

Ms. Nancy Cheng: Thank you.

The chapter looked at how the government had taken action to deal with the recommendations we had put in place in the past. What we saw are essentially laying the groundwork and making sure there is good policy and guidance to support the community, professionalization of the community, and also its plans in terms of when it would be able to complete the evaluation of its systems of internal control.

At this point in time, there is an exhibit in the chapter itself. If I may draw the attention of the committee to page 14, exhibit 1.4, you can see that in the case of the seven departments we had looked at, all of them were in a position to document their key business processes, but not all of them have in fact been able to evaluate their systems of internal control. Very little work has actually taken place in terms of actually testing to make sure those controls have been implemented. At this juncture, it would not be possible to indicate all the controls are in place to make sure we have a strong system of internal control.

Mr. Andrew Saxton: There are a good number of controls that are currently in place.

Ms. Nancy Cheng: They would have been. We certainly do work independent of this particular performance audit. For example, as you are aware, we audit the accounts of the Government of Canada. In there, in some instances, we're able to look at some of the departmental controls and place reliance on them. They are not a comprehensive picture. At this point, I would not have enough information to assure the committee that all controls are in place, nor could I really make that assertion.

Mr. Andrew Saxton: Thank you.

In order to implement strong financial controls and risk management, there needs to be a strong directive in place from the top. There needs to be strong, effective leadership. Can you tell us how the Office of the Comptroller General or the Treasury Board Secretariat are demonstrating this leadership and describe their efforts to improve policy implementation?

Ms. Nancy Cheng: Mr. Chair, as the member pointed out, it is absolutely important to make sure there is that central leadership. Starting right from the Federal Accountability Act, designating an accounting officer, placing the responsibility squarely on the deputy head of an agency is very important. The requirement for the deputy head to appoint a qualified chief financial officer is another important step.

Within the Office of the Comptroller General, we have highlighted some of the work it has been doing to support the community. This is in addition, of course, to the policy suite renewal, whereby they have promulgated four particular policies that are also described in the chapter.

If we turn to page 12, under paragraph 1.19, you see that we indicated how the Comptroller General has been providing ongoing support. That includes having policy centres, which provides guidance and tools to the community. It also includes some efforts of monitoring through what we call the MAF—the management accountability framework. The Office of the Comptroller General will also be conducting some audits to support the information it receives from departments and agencies.

Mr. Andrew Saxton: In your opinion, has good leadership been demonstrated?

Ms. Nancy Cheng: Yes. We recognize that, and for that reason we are expressing that satisfactory progress has been made since the last audit.

Mr. Andrew Saxton: Thank you very much.

Mr. Ralston, the Auditor General concluded that the Office of the Comptroller General has made satisfactory progress on several items in the audit. Would you be able to summarize the role of the Office of the Comptroller General of Canada in regard to financial management?

Mr. Jim Ralston: My role is first and foremost to help establish policy. As Ms. Cheng has mentioned, we also do some monitoring of the status of things through the management accountability framework and others. We also support the community through training, networking, and that sort of thing. We are particularly interested in succession planning for the leaders in the financial community.

● (1545)

Mr. Andrew Saxton: Thank you very much.

Thank you, Mr. Chair.

The Chair: Okay, good. Thank you.

We'll go over to Madame Blanchette-Lamothe. You have the floor, ma'am.

[*Translation*]

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): Thank you very much.

I want to emphasize the progress and the positive elements that were mentioned in the Auditor General's report. However, I would like to get a better understanding of the recommendations and the areas still in need of improvement.

When it comes to assessing internal control systems, apparently, the timelines set for the departments were rather long. Do you think that they are too long? Do you know why the assessment of internal control systems was set for 2014-2015?

[*English*]

Mr. Jim Ralston: Thank you for the question.

Mr. Chair, the essence of our strategy was to ask departments to do a risk-based evaluation of internal controls. Departments are huge organizations, and controls are many and varied. There are many financial activities and many systems and processes involved. It's not in fact a simple matter to document and evaluate all of these. It does take time to do it thoroughly.

First and foremost, we wanted departments to think about which areas of their operations represented perhaps the most important and the most high-risk activities. We asked them to concentrate their efforts on evaluating risks first in those areas and to then implement appropriate controls.

At the same time, departments are busy with other things. When it comes to the plans to, say, remediate any deficiencies that are noted, we had to also allow for the fact that departments needed to place those demands in the context of other demands and decisions that the accounting officer had to make.

That being said, we are monitoring to get a sense that progress is steady, but we didn't feel it was appropriate to put in place fixed timelines.

[Translation]

Ms. Lysane Blanchette-Lamothe: One of the recommendations was to review the timelines set for completing a full risk and effectiveness assessment. That recommendation was accepted. Do you feel it is realistic to review those timelines and shorten them?

[English]

Mr. Jim Ralston: As I said, we had a three-year implementation plan. We wanted the largest departments to go first, and then the second tier and a third tier. In fact, built into the timeline was a sense of getting the biggest bang for the early efforts. Again, as I repeat, I don't believe the strategy is inappropriate under the circumstances.

[Translation]

Ms. Lysane Blanchette-Lamothe: In terms of using accrual accounting for allocating funds, or budgeting, the government has not completed its evaluation and has not decided what method it would use. Would you like to comment on that? What is your opinion on that?

[English]

Mr. Jim Ralston: The first point to make is that we are on the timeline that we indicated. When we undertook to study the matter we set out a goal for the phases we would go through. There was a first phase that involved the production of future-oriented financial statements in departments, and we determined that we were going to do an evaluation thereafter. These steps are progressing; we are not in any way late in terms of the plan we initially set forward. In that sense, the Auditor General continues to seek an early decision, but in point of fact we're on track to make the decision according to the timeline we first set out.

In terms of what that decision may be ultimately, the other key point to realize is that at the same time that we're studying the matter, other countries have been experimenting, and results are coming in from those countries. Frankly, the results are somewhat mixed. It's far from a certainty that accrual appropriations in particular would be automatically a chosen strategy.

• (1550)

[Translation]

Ms. Lysane Blanchette-Lamothe: The government feels that it has taken the necessary measures. However, the report indicates that those measures are neither sufficient nor appropriate.

How do you explain that difference? Do you not agree with the report? Do you feel that this difference of opinion is valid?

[English]

Mr. Jim Ralston: As I've indicated, we're pursuing the timeline we had set out. We had indicated we would do an evaluation in 2012-13, and we intend to do so.

In terms of the merits of whether or not the recommendation is a good idea, there are many aspects. This has been a long journey. We adopted accrual-based accounting; we have adopted accrual-based budgeting at the government level as a whole. We are working at accrual-based budgeting at the departmental level through the initiative I just spoke of, the future-oriented financial statements. The final element is to look at the issue of accrual-based appropriation.

So much has been accomplished; many decisions have been made. Certainly accrual-based accounting and accrual-based budgeting at the national level are well entrenched and are significant accomplishments. As I say, the jury is still out on the last element.

The Chair: Time has expired.

Ms. Cheng, did I see you indicate? Given that this has been a longstanding issue, I'll give you just a moment to respond, Ms. Cheng.

Ms. Nancy Cheng: Thank you, Mr. Chair. I have a small point of clarification.

There is a distinction between the budgeting side and the appropriation side. So where the report indicated that we didn't think the initiative had gone far enough was on the budgeting side at the departmental level. From what we saw at the time of the audit, the future-oriented financial information project wasn't really making an impact, and that's what the report was trying to say.

Thank you.

The Chair: Thank you.

Now over to Mr. Kramp. You have the floor, sir.

Mr. Daryl Kramp: Thank you very much, Chair.

I swore that I would never say those words "accrual accounting" again after the number of years we have been discussing this issue.

I'm certainly pleased, Mr. Ralston, to see that we have some acceptance. Whether it should be embraced completely, of course, is up in the air. I think we'll probably have a perennial tug-of-war between the OAG and the Comptroller General on this issue.

That having been stated, Mr. Ralston, perhaps you could give us some indication. Obviously there's significant cost to implement a system like this across the government. What other risks would be associated with implementing both accrual budgeting and appropriation?

Mr. Jim Ralston: I think it would be fair to say there's not a generally accepted understanding of what that would mean. We've defined it in a way that we thought was meaningful for us, which is to say future-oriented financial statements. That will restate appropriations in a manner that would facilitate easier comparison later on, with actual results once the financial statements are completed. It is meant to facilitate a budget-to-actual kind of comparison.

I think we certainly can say we've achieved the production of the numbers. The point that remains to be evaluated is whether the users, the MPs and others, have found that effort to be useful or not. Until we find out if it's being used by the very people who asked for it, we can't say for sure whether it's been a success.

A certain amount of cost is involved in the systems to convert these appropriation numbers into this new format. Therefore, it is a bit of a burden on the financial community to produce the results, but that's the extent of it.

On the accrual appropriation side, I think it goes beyond that, because you're then going to be fundamentally changing the way Parliament has controlled expenditures for many years. I think that's an institutional change that surpasses a mere accounting change, and I think that needs to be thought through very carefully.

• (1555)

Mr. Daryl Kramp: Thank you.

From your response alone, I think we can now understand the complexity of the issue, particularly for parliamentarians who really do not have an accounting background and/or a serious amount of study in this field.

Ms. Cheng, one of the challenges we parliamentarians face is having a simple 101 executive summary of this issue to be able to offer some sound direction to the Comptroller General and departments. Could we ask you to provide a quick 101 on this, with a thought or a suggestion? Maybe Mr. Ralston can give us an executive summary of what he just said so we can see where we either need to go or can't go. We parliamentarians could certainly use some simple advice on a very complex issue.

Would that be possible for you to provide that to this committee, Ms. Cheng?

Ms. Nancy Cheng: It might be quite a challenge to try to capture all of that on a very simple level. Essentially, you set your financial plan based on your federal budget and your final financial performance through your reporting on an accrual basis. The supply process in between is on a cash or near-cash basis, and it needs some gymnastics to be able to reconcile all of that. So whether the preparers try to reconcile all of that for you or you try to see how they all come together is really the question between the two sides.

The question has been studied a number of times by various committees, including this one. I believe the government operations committee has also studied it a fair bit, and I believe you were on that committee, Mr. Chair. There are definitely some obstacles and risks involved.

We're not saying that this is a natural thing to do and we should just go into it without giving it due consideration. Certainly we have to give government credit for thinking through the various implications, risks, and impediments.

Coming into this hearing I was looking at it again, and I think there are three points that may be useful to highlight. First and foremost, the subject matter is quite complex. Trying to implement it is not without risk, so there is a risk of not implementing it properly. I think some of the international experience Mr. Ralston is referring to falls into that particular vein. Seeing how people have implemented it incorrectly and some of the risk areas and going into it with our eyes wide open is extremely important, should the government choose to proceed.

Second, as Mr. Ralston said, it's a different way of doing business. Right now we have a way and means that all parliamentarians and most preparers are familiar with. We're voting on a cash basis. Everybody understands it that way. If we move to an accrual basis it is absolutely paramount and imperative that both the preparers and the users understand what the new numbers represent. Then when

you vote on it and make decisions you're making decisions with the right frame of mind.

A somewhat parallel example is what happens in the accounting world when we switch over to IFRS. It affects the bottom-line calculation in some cases. As far as performance bonuses, remuneration, and all of that, boards of directors need to understand what those implications are. So not quite from a profit or loss perspective, parliamentarians need to understand what this new way represents. If you're voting on a capital asset that has a long tail and involves certain costs, we're not allocating and approving ceilings each year for the cash outlay. What does it mean? So all of that has to be well understood before we put through the full implementation. If we proceed, we need to proceed slowly to make sure everybody's there.

The final point I would make is that it's a big change in management. It is machinery that has been there for a long time, and it's not without problems. People see problems from time to time, and they pop up here and there. But people are more comfortable dealing with the devil they know than the devil they don't. It's a change management philosophy. There's an inertia there. If people don't want it, it will not succeed, so the will has to be there.

For some of those reasons, even though we have a strong view and we feel that the accounting profession is with us in all of that, we make the point, but we don't actually impose it on government and say "thou shall move that way". It is important that the government feels comfortable and wants to proceed down that road, because those are critical success elements.

Thank you, Mr. Chair.

• (1600)

The Chair: Thank you.

The time has certainly expired, but I wanted to give a little latitude there, as I did before, because of the nature.

Perhaps with the agreement of the committee, we could ask Jeff, who's the lead researcher on this one for us, to provide the committee with a one-pager on accrual accounting and what it is, and then people could follow up from there. I think that's what Mr. Kramp was getting at. We understood some of the dynamics that Ms. Cheng was mentioning, but it is really complex. I've been looking at this for seven years, and it's still complicated.

We'll start with that and get that, because it's going to keep coming up. Some of you will be around here for 20 years and there will probably still be aspects of it that aren't yet resolved.

Mr. Ralston, I see you flagging me away furiously. I gather you'd like to get an oar in the water on this one too.

Mr. Jim Ralston: It's just a very quick comment, Chair.

The Chair: Keep it to 30 seconds, please.

Mr. Jim Ralston: First of all, I welcome the question, and I would love to see the analysis.

I think this sounds very appealing at a conceptual level. If it's done at the government level, why can't it be done at the departmental level? But I think operationalizing that is quite another matter, and I think it's been left to us to define how that would be done. I would be interested to hear how the OAG thinks it could be operationalized.

The other point is that Ms. Cheng mentioned that the accounting profession was with the OAG on this. I'm not aware of any pronouncement by any accounting standards body actually endorsing this, so I'd be interested in hearing about that too.

The Chair: Good. Maybe we'll get a chance for that response to find its way to the floor during subsequent questioning.

We're back to our rotation. Monsieur Dubé, you have the floor, sir. *[Translation]*

Mr. Matthew Dubé (Chambly—Borduas, NDP): Thank you, Mr. Chair.

I'm not an accountant. However, if I may, despite the request our chair just made to our researchers, I will ask a few last short questions, given the comments made.

I'm surprised to see that the Auditor General seems to be, according to her report, very much in favour of this accrual accounting method. She says that, since 2006, there has been monitoring of the different problems in financial management and control. That seems to be one of the measures recommended. However, you're now saying that the results vary in other countries. So, I'm wondering why the Auditor General is so eager to see such measures implemented at various levels.

[English]

Mr. Jim Ralston: First of all, just to clarify, as I've said already, we endorse accrual accounting and accrual budgeting at the federal level, and we're making best efforts at the departmental level. We chose the particular strategy of future-oriented financial statements after consulting with members of Parliament at the time to try to get some precision with regard to what they thought would be useful. The particular test we're running is one that was thoughtfully chosen.

There is the element of accrual appropriations. The reason no international consensus is emerging is that in fact—and I think Ms. Cheng has already alluded to this—most countries had a long tradition of dealing with cash-based appropriations. People understood them. When the change was made, it actually created more confusion than enlightenment. It seemed like a good idea, but in practice it seemed to be ultimately a source of some confusion in the countries that tried it.

• (1605)

[Translation]

Mr. Matthew Dubé: That being said, one of you two—I'm sorry, but I don't remember who—said earlier that this was an institutional change. Clearly, I understand very well that changing the way accounting is done may have a major impact, especially in the beginning. Reading the Auditor General's report makes me see that there were problems beforehand that led to this recommendation in terms of accrual accounting.

In addition, you said earlier to my colleague that you were following your timeline, meeting your long-term goals and your

objectives. However, I think the report indicates that this problem has been around for a long time. My colleagues also said so.

Of course, I understand that this is a very complex issue. As I said, I'm not an accountant. However, I would like to understand why the Auditor General seems to think that this problem is nowhere near resolved, while you say that you are able to follow your timeline.

[English]

Mr. Jim Ralston: Just to clarify, as I said, we did a consultation with members of Parliament some years ago to find out, because at the end of the day, the information that is being supplied and that we're being asked to supply is meant for MPs' use. Ultimately, it would be MPs who would be the judge of what the problem is today. What are they struggling with today? It would be MPs who would have to make the judgment about whether anything that we did differently would be an improvement over what we do today. It is really not an issue for us, in a sense; it is an issue for the MPs who will be using the information.

That context having been given, when we did our consultations the most important point that was brought to our attention was just the structure of the appropriations. The estimates are around votes, and when you look at a set of financial statements, of course, they look completely different. Just the mere fact that similar information was being presented in different formats was a major source of confusion, so that was why we thought an important starting point would be to try to get around the formatting issue and see if, step by step, that would help. The final step would be whether we actually change the basis of control.

The Chair: Ms. Cheng, you wanted in on that one too?

Time has expired, Monsieur.

[Translation]

Ms. Nancy Cheng: Perhaps an example would shed some light on the situation.

[English]

I think a typical example people would use to try to explain some of these issues is when you buy capital assets. You could buy assets right at the outset and have a major cash outlay in one year, or you could actually have a financial lease, which is really a financial arrangement over a period of time, so that you acquire the same asset but your payment stream is different.

Under a cash or near-cash appropriation basis, they actually would be coming forward to Parliament asking for very different sums, but in essence it's the same decision you're trying to make.

When you look at that, the two of them are not the same, but if you look at it on an accrual basis, the cash equation or the cost equation would be identical under both cases.

In some of the international experience they're running into a problem whereby if you allocate a ceiling or a certain sum of funds to be used for a particular purpose and not all of that is being expended in that year because it's a capital lease—and lease payments actually get paid out later on—or something of the sort, it's the management and the transparency of how that fund is going to be kept. Is it money kept aside for some other purposes that the government might have in mind?

It causes a lot of confusion in that sense. So those are some of the problems people run into, whereby if we go forward, we need to be careful about how we manage those kinds of issues.

Those are the basic differences between the two approaches, if that helps.

The Chair: Very good. Merci.

Over to Mr. Shipley. You have the floor, sir.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair.

Thank you, witnesses.

I'd like to go, Madame Cheng, to your report that you gave me. I'm trying to understand for clarification a little bit. This is actually your number seven.

You talked about the financial human resource capacity. It has improved significantly since your last report. I think the last report was 2006. Is that correct?

•(1610)

Ms. Nancy Cheng: Thank you.

There were two reports. There was one in 2003 and there was one in 2006. The 2003 one was the one that deals with financial management information, which referred to the statistics of the professionalization of the community. The 2006 report was more focused on risk management.

Mr. Bev Shipley: I think that's important also. I'm just trying to understand. You said 82% of the chief financial officers in 22 large government departments held a professional accounting designation. In 2002 this was only 33%.

Does everyone need to have a professional accounting designation? Or if that number were where it should be, what would that 82% be? Would it be 90%? Would it be 95%? Do you have any idea?

Ms. Nancy Cheng: I'll comment on that, and maybe the Comptroller General would like to express his views on this as well. Essentially, the policy requirement is that we need to have a qualified CFO, chief financial officer.

There are guidelines that the Office of the Comptroller General has promulgated that indicate they should carry an accounting designation, such as CA, CMA, and CGA. Those are the guidelines that the OCG had put forward to help deputy heads to establish what would be qualified CFOs. If you follow that particular guidance, the expectation is that ultimately we would like everybody to be able to demonstrate that they have the financial competency to operate at the level of the CFO and/or the deputy CFO level.

Mr. Bev Shipley: I wonder if you could add and grow on that. I don't know what you're at now. This is 2010. Can you talk to us about any progress or your thoughts on where you should be at this stage and where you are?

Mr. Jim Ralston: To clarify our expectations, we need to start with a little bit of context. This might be particularly true in smaller departments. Under the same assistant deputy minister, for example, there might be finance combined with IT. In another department, an ADM might be dedicated only to finance. To accommodate both scenarios, we stipulate that either the CFO or the deputy CFO must have an accounting designation. To use the small department example, it might be that the assistant deputy minister comes from a discipline other than accounting, but we would then expect a director general to be a DCFO who is a qualified accountant. Basically, in 100% of the cases we would see a qualified accountant in one or the other of those positions, and often you might see them in both. We don't insist that the person designated as the CFO be an accountant in all circumstances, because of these organizational realities.

Mr. Bev Shipley: But depending on the department, growth is leading to where it should be, then.

Mr. Jim Ralston: I'll ask my colleague Mr. Guéranger to comment, but I believe we have pretty much 100% compliance—do we not?

[*Translation*]

Mr. Gonzague Guéranger (Executive Director, Financial Management Policy, Treasury Board Secretariat): It is expected that most, if not all, chief financial officers carry an accounting designation, especially when it comes to major departments. If that's not the case, it is expected that the deputy chief financial officer have an accounting designation.

In smaller departments, as the Comptroller General just mentioned, the positions often involve administrative, and not only financial, duties. Therefore, that flexibility, the possibility of not necessarily holding an accounting designation, is maintained for practical reasons.

[*English*]

Mr. Bev Shipley: I want to congratulate you on the progress you've made in working with the departments.

I'd like to go to the comments regarding the seven departments. You've developed a corporate risk profile. A number of the seven departments documented key business process controls. Then there's the testing design. There's only one that is still partially complete. The rest of them are either complete or moderately complete. They talked about a planned date to complete the first assessment. Most of those years are either now or a year or two away.

Mr. Ralston and Ms. Cheng, I'd like some clarification. Those seem to be reasonable dates. Are they?

•(1615)

Mr. Jim Ralston: We felt that the persons best able to judge the reasonableness of the timelines would be the accounting officers themselves, the deputy ministers. I would also point out that these deputy ministers for the large departments are obtaining advice from their departmental audit committees. We felt that they would be in the best place to judge an appropriate timeline. We can't impose a more informed timeline on them.

Ms. Nancy Cheng: I think this needs to be understood in terms of what this job represents. There are many steps to be taken before they have good systems of internal control in place. First and foremost, you need to know what they are. That is the documentation step. Then we have to have a view about whether the system as designed is going to be effective. This is testing the design of the internal control. Then we have to make sure that the controls are in place. Remember, we said we don't need more rules, but we have to apply the ones we have. We have to test whether we have them there. We need to know whether the controls are good and that they are functioning. In most cases, it would be extremely unlikely that you would come back and say everything's good. That means there would be gaps. When you identify the gaps, time must be taken to remedy the gaps and get things functioning. This is why we say there's still a fair bit of work involved. We could not sit back and say that those dates are good and we need not keep a close eye on them.

The Chair: Thanks, Mr. Shipley. That will be the time.

Now over to Mr. Byrne. You have the floor, sir.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thanks very much, Mr. Chair.

And thank you to our witnesses for appearing before us. Congratulations on the many laudable achievements that have been noted within the Auditor General's report.

The impact of this work is to create efficiency, effectiveness, and economical use of public funds. I am struck by a particular government initiative right now to improve efficiency, effectiveness, and economical use of public funds, and that is the whole notion of the program review or budgetary cost-cutting exercise, which all departments must engage in. It strikes me as odd that the very organizations or groups that improve efficiency, effectiveness, and economical use of public funds are also being included for cuts for the sake of efficiency, effectiveness, and economical use of public funds.

The interim Auditor General appeared before our committee not too long ago and outlined very specifically to us, as a committee, exactly what cuts would be made to the Office of the Auditor General. He outlined \$6.2 million by 2014-15, and 60 positions.

Mr. Ralston, I gave your office a heads-up late last week that I would ask this question. What the committee would like to know is if you would be able to outline, in a similar fashion, cuts to the Office of the Comptroller General—

Mr. Andrew Saxton: Mr. Chair, I have a point of order. What does that have to do with this report on financial management? It's a completely different subject. I think it's out of place.

The Chair: I hear you, I'm listening, and I'm going to allow a little more latitude. I'm going to give a little more discretion on it, but I'm bearing in mind what you're saying.

At committees, as you know, there is a lot more latitude to allow members the opportunity to address questions that are relevant to them. Therefore I'm going to allow a little more along this line.

I'm think you're okay. Keep going.

Hon. Gerry Byrne: Mr. Chair, I'd like to respond to the point of order without interfering with my time allotment, if I could.

The Chair: Yes.

Hon. Gerry Byrne: That's without the clock running on my regular time allotment.

This is about risk management and financial control. The government has indicated on numerous occasions that it has achieved great success in this because they have added additional financial resources to those that conduct this particular activity. For the purpose of responding to the point of order, I'd like to ask those appearing before us now whether the cutback of those resources will indeed impact their future performance.

I think it is very much in order.

•(1620)

The Chair: Close enough. I'm going to allow it. Go ahead and keep going. You're in order.

Your time will be reinstated.

Hon. Gerry Byrne: Mr. Chair, if I could get back to my regular time, I will ask Mr. Ralston to outline for the committee the impact of the required government reductions in staffing and financial resources for his department, the Office of the Comptroller General, and also for other departments.

In particular, you're responsible for the internal audit function, which is a centrepiece of risk management, control, and providing good accurate data to the government for performance improvement. Would you be able to provide similar information, as the Auditor General has done, as to the consequences to the internal audit function across government departments?

Mr. Jim Ralston: Mr. Chair, I trust the member is aware that there is a process in place to consider departmental proposals. That process continues, and the final decisions on what measures will be taken will not be announced, I believe, until the budget. I think it's premature to pose the question.

Hon. Gerry Byrne: Thank you very much for your honesty and forthrightness.

The interim Auditor General did provide us with that information prior to the budget, and I understand that 60 positions will be lost and that \$6.2 million will be reduced.

If you can't provide that information to the committee as the Auditor General has done, would you be able to speak to the value of the increase in resources to the Office of the Comptroller General since the implementation of the Financial Accountability Act and its impact on your successes in achieving increased policy effectiveness and the ability to steward or mentor the policy improvements that have been noted by the Auditor General? You have spent a lot of time and energy and you have had a lot of success in that.

Will there be a casualty in any way, shape, or form in your performance as a result of any budget reductions? Is there anything about your organization that is inefficient, ineffective, and uneconomical, and that is deserving of cuts?

Mr. Jim Ralston: I think the process I go through in my own office each year is that we have a number of goals—implementing different initiatives and implementing some of the things we've talked about, the future-oriented financial statements, etc. These are projects in a way. They may last a while. We resource them, they are completed, and we go on to other priorities. Although I have a baseline of resources, the work we're doing at any point in time—the projects we're undertaking—is in a constant state of change because some are completed and new ones are started. I expect I will continue to have the capacity to do that into the future.

Mr. Daryl Kramp: Mr. Chair, this is just a suggestion. I understand Mr. Byrne's line of questioning, and he has every right to ask that. My only thought would be that this is the public accounts committee, not the government operations committee. In the public accounts committee we deal with what has happened and the reflection of learning from those examples. The government operations committee deals with the present and/or implications thereof. I would suggest that the chair might consider that in his discussion with both the witnesses and the questioner.

The Chair: Very good.

Mr. Byrne, you have time for one more question and a short response. Go ahead, please.

Hon. Gerry Byrne: Thank you.

I appreciate, Mr. Chair, that your intervention to allow a response to a point of order is not taken off the time of the intervenor at the moment.

I think this line of questioning is very appropriate. I'm investigating whether or not those who were involved in a very positive report by the Office of the Auditor General will have the resources in the future to be able to continue with that standard of performance. I think it's very relevant to the topic we're investigating here today.

To be honest with you, I would like it if we had more definitive information available to us on such functions and the consequence of cuts, in particular to the internal account auditing function, but we don't. We'll probably investigate that in the future as well.

• (1625)

The Chair: I'm listening to all the points, and let's keep in mind that each person gets five minutes. How they choose to use it or throw it away is up to them in terms of whether they're focused on the matter at hand. There are certain times when comments and questions go across the line. That mostly plays a role when people

are clearly running the clock—when they have the floor and they want to hold it, and opposition members are making the points of order to force them to stay in line in the hopes that they can't finish the quasi-filibuster. In this case, it's an individual member's time. I'm not seeing anything overt enough for me to rein in the questioning.

As usual, Mr. Byrne is very skilled at getting close to the line, but in my determination he has not yet crossed it.

You have time for a very short question, sir, and a very brief response from our witnesses. Please go ahead, Mr. Byrne.

Hon. Gerry Byrne: Thank you, Mr. Chair.

I ask the Assistant Auditor General, Ms. Cheng, if you would be able to respond to any observations you have made, not only in this audit but in past audits, in your past review of the Treasury Board Secretariat and the Comptroller General, as to whether increased resources to those departments and to those functions have assisted and aided in the successful report, which you've now tabled as of June 2011.

Ms. Nancy Cheng: Thank you, Mr. Chair.

The important point that I would note is the professionalization of the function of the CFO. It is important to have the right people in place, as opposed to necessarily the quantum of people. The combination between the CFO and the deputy CFO to have the financial literacy and the competency to manage finances is very important.

In terms of resource reduction, when we did the audit we actually interviewed a number of the department heads. Most of them indicated they see the value of the function; it's not going to be one whereby they would strip away the competency they have worked so hard to build, and it does not appear it would be a logical place to cut. That's basically what we heard back from the deputy heads.

The Chair: Good. Thank you both.

We go over now to Mr. Albrecht.

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Thank you, Mr. Chair.

I will thank our witnesses for being here. My apologies for not being here at the first part, but I did read through your opening statements. I won't pretend to understand accrual accounting. I'll leave that to Mr. Kramp and his experts.

Ms. Cheng, in your opening statement you commented on the value of financial control and risk management. I see these as clearly preventive measures that are very important. I want to point out that they contribute to the organization's ability to safeguard its assets and so on. Later in the report, as Mr. Shipley pointed out, you pointed out the dramatic improvement in the number of CFOs who have a professional designation, going from 33% in 2003 to 82% in 2010.

In your fourth point you go on to point out you examined the government's progress in commitments. You indicate in your fifth point that overall you found satisfactory progress has been made in the various areas. I'm just wondering, in terms of risk management specifically, if you could give me and the committee some more specific examples of how these improvements have been made and how we, as parliamentarians and Canadians in general, should take some solace in the fact we're working hard to safeguard their financial resources.

Ms. Nancy Cheng: Thank you, Mr. Chair.

Risk management is very important and fundamental to how well a department can manage its resources. The observation that was made in the past was that there really wasn't a holistic and integrated risk management approach. While departments might have had some risk elements they managed from a program-to-program basis, there really wasn't something at the corporate-wide level. Since that time, we reported that all departments we've audited have a corporate risk profile. They're able to bring their various risks together so they can see and prioritize at a departmental level.

The other aspect about identifying risk is to assess them to look at their likelihood and then to assess how much risk tolerance we can take, and what kinds of risk mitigation plans we should have. The departments we've looked at have risk mitigation plans. The risk tolerance definition is still a bit weak. While we're saying there has been good progress, it doesn't mean we have wrestled this one firmly to the ground. In fact, if you speak with most of the deputy heads, they indicate the groundwork has been laid, but we really have to get in to make sure we have the right risks identified and the proper risk management plan.

The internal audit function and the departmental audit committee both have a risk focus, and together they help strengthen the risk management ability of the entities.

• (1630)

Mr. Harold Albrecht: I'm wondering if Mr. Ralston would like to comment on specific measures that have been taken to address those issues. You go from 2003 to 2006 and then 2011. Clearly, we have made progress. I'm a non-professional accountant. Could you help me understand, with some examples, how you may have achieved the recommendations the Auditor General has been making? You've had to put them in place.

Mr. Jim Ralston: Mr. Chair, if I may, I would like to ask my colleague Ms. Labbé to speak on this.

Ms. Paule Labbé (Executive Director, MAF and Risk Management Directorate, Treasury Board Secretariat): Thank you, Mr. Chair.

First, I'm pleased that the findings of the audit recognize a lot of the work that was done by the Treasury Board Secretariat to ensure we gave departments a lot of support and guidance in the context of integrated risk management. That's my area of specialization.

As Madam Cheng mentioned, when we're looking at integrated risk management, we're really looking at the holistic approach the departments take. Risk management is nothing new in the Government of Canada. We've been doing it for a long time in the context of health and safety and national security. In the context of

financial risk management and human resources risk management, what was being considered was how a lot of that risk identification and risk management is done on a holistic level at the departmental level.

In the private sector, we talk about enterprise risk management. One of the key elements in that area is the corporate risk profile: departments will identify some of the key risks and determine which of those they are going to be addressing in the context of their strategic and operational priority setting.

In 2003 this was an area departments had been working toward achieving, but they needed some guidance with respect to how best to put those processes in place. The Centre of Excellence on Risk Management was created. We provided guidance and tools for departments. We spent a lot of effort sharing best practices with departments. We're finding that essentially they pretty well all have good corporate risk profiles that are used as part of strategic and operational planning. You'll find the richness of those corporate profiles in the risk analysis and the RPPs, reports on planning and priorities. A section of the RPPs identifies the key risks of the departments and how they are planning on addressing them within the planning framework.

Mr. Harold Albrecht: Is there any straight-line correlation between the increased percentages of CFOs with professional accounting designations and the improvement in risk management scores, or is this sort of coincidental, do you think? I mean, it's probably not fair, because you probably haven't had the chance to do an actual examination of that. But it seems to me to make sense.

Ms. Paule Labbé: In the context of integrated risk management, we're looking at all the risks faced by a department. To the extent that you have a professional chief financial officer who works towards what the financial risk management would be that would feed up into the larger integrated risk management process, there's no question that professionalization of the service is an improvement.

The Chair: Thank you both very much.

We're now over to Mr. Allen. You have the floor, sir.

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

Thank you to our witnesses.

Mr. Ralston, I would go back to page 14 in the lovely chart Madam Cheng has put together. I should say that Mr. Pickup actually put it together, since it's his report and he's the principal, but Madam Cheng gets to be the person who sits here with us and tells us that it's all a good job. I think that reflects on Mr. Pickup, who actually did it.

We can notice the lovely blue coloured circles that say “substantially complete”, which means that it is basically close enough to being complete that people think it's good. You documented the business risk in the process controls and what you intended to do as part of IRM, and that is all done in the major departments. Let's just say that it is done. But when we go to the testing design of the internal part, as wonderful as the document is, we don't know if it works unless we test it. It's like having a car. We think that the engine is in it, but we're not sure until we actually turn it on and see if it works. Then we find out if there's an engine in the car.

There's only one department, Veterans Affairs, that has actually done the testing. They haven't done the effectiveness of the testing, because they quite clearly say that it's partially complete, and then they say that they'll have it completed this fiscal year, 2010-11. Let's answer that one first. Are they done? This is 2010-11.

Mr. Guéranger, you're saying yes. Is that correct?

• (1635)

Mr. Gonzague Guéranger: They have finished their testing, and it's the same with another department. The other departments, the five other departments, are going to finish as planned, based on the most recent information they provided to Parliament with their DPRs. They provided public reports, the second public reports on their progress, and all the information indicates that the seven departments are progressing as planned, including two that have completed.

Mr. Malcolm Allen: Okay.

The two that are indicated here as departments that should be completed you're saying are completed.

Mr. Gonzague Guéranger: Pardon me?

Mr. Malcolm Allen: The two listed here as 2010-11 you're saying are completed. Is that correct?

[Translation]

Mr. Gonzague Guéranger: Yes.

[English]

The two departments that have a deadline of 2010-11 have finished, yes.

Mr. Malcolm Allen: Okay, that's perfect.

The next part comes when we're trying to compare departments that are relatively close in size. HRSDC is not something you want to compare with others, because it's mammoth. It's a huge department, so I wouldn't want to try to do that, because that really is the proverbial apple and orange, if you will.

But you can perhaps look at the Department of Foreign Affairs and what is listed—incorrectly, actually—as INAC. I think Mr. Dreeshen would probably correct it, as it's no longer INAC. I know that it has had a name change. Probably when this went to press it didn't have a name change. In any case, it does. We'll note for later that it's no longer INAC.

When we look at them, it says that the testing concerns are moderately complete in INAC, as it's listed in here, just for the sake of using it, and the Department of Foreign Affairs is partially

complete. Both have not started as far as testing goes, yet INAC is saying that it will be complete in 2014-15 and Foreign Affairs is saying 2012-13. Can you tell me why there's such a discrepancy between the two departments? They're pretty close in size, I would think, dollar-wise at least, as far as number-wise is concerned. Clearly INAC is ahead of the curve compared to Foreign Affairs, in testing and design, yet it's a year behind at the end of the day.

Mr. Jim Ralston: In each case the question really needs to be posed to the departments. As I said, the choice was theirs in terms of looking at their understanding of their risks and their capacities and setting a realistic timeline for them, and I don't know enough about the details of the considerations they—

Mr. Malcolm Allen: That's fair enough, Mr. Ralston. I hate to cut you off, but you know I get only five minutes.

I hear what you're saying: Ask them, and maybe they can tell us.

So let me draw back to when you talked about the accrual method, and we had this lovely discussion. I won't restate the discussion, but let me just ask a question. You talked about the phasing of it. It started in 1998 as a suggestion from the AG, and we talked about the fact that this is now 2011, so it's a long process. It's a complex process, I'll give you that.

You said you were on this phasing process. So for me it's a pretty easy question now: when do you think a decision is going to be made?

Mr. Jim Ralston: We have indicated we're going to do an evaluation in 2012-2013, and we'll make some decisions at that point in time.

The Chair: Your time has expired.

Mr. Malcolm Allen: So that's about a year or a year and a half out, then?

Mr. Jim Ralston: Yes.

The Chair: Mr. Hayes, you have the floor, sir.

Mr. Bryan Hayes (Sault Ste. Marie, CPC): Thank you, Mr. Chair.

Welcome back. It's nice to see you all again.

I want to come right back to accrual accounting for one minute.

This is directed to Ms. Cheng. I'm getting a little bit confused. Your report makes the point of accrual accounting, but in your statement earlier you said that you do not impose it. I'm trying to understand why you would not impose it. You also made a statement to the effect that if you go forward, you need to be careful in how you deal with these types of issues, and you gave some examples of accruals.

In my mind, I'm thinking either your department is imposing accrual accounting or it isn't. I think a very clear direction would certainly be beneficial to this committee and perhaps to the Comptroller General, but I'm really getting mixed messages. So I'm trying to understand why you are saying it's up to our discretion whether or not we want to use it.

Secondly, what would your response be if we determined, after our studies—we being the government or the Comptroller General—that we were not going to use accrual-based accounting? You're not forcing it upon us, so what would your response be if we chose not to go that route?

• (1640)

Ms. Nancy Cheng: Thank you, Mr. Chair.

First, I apologize if I confused the committee about our position. Our position is very clear: we're solidly behind accrual-based budgeting as well as accrual-based appropriations. What I was explaining was that it is not for the auditors to say that this has to be the government's position. In my view, it is the government's call which method they choose to put forward parliamentary votes.

I hope that clarifies things with regard to your first question. All along we have been solidly proposing the position of accrual-based appropriation.

I think I've also indirectly answered the second part. In my view, it is not our call. So if the government decides not to pursue that, we can only put the question on the table. Much as the case with any other recommendations, we can highlight an issue we think is relevant for parliamentarians to consider, and then we would leave it at that. We have neither the mandate nor the role to impose a position on the government or on Parliament as a whole.

I hope that's clear, Mr. Chair.

Mr. Bryan Hayes: That's clear. Thank you.

Next is a question for Mr. Ralston.

I was a senior financial analyst at Ontario Lottery Corporation for 12 years, and I'm a certified general accountant by trade. While I was there, I would always look through various departments to take that next level up, and there were always positions available for CGAs and certified management accountants and chartered accountants. That being said, when people left a position, all of a sudden there was a hole that might not be so easily filled.

Could you speak to your succession strategies?

Mr. Jim Ralston: The phenomenon that you just described is something we see in the federal government as well. There is a lot of movement. A lot of people think that what with the baby-boomers retiring there will be an increased risk of turnover.

What we're trying to do for the leaders is get an assessment of who's capable of taking the next step. We're trying to get some sense of what the supply is like. We have a sense of what the demand is going to be like. We are also trying to get a better understanding of what the supply is like. In addition, we're trying to get a better understanding of the areas in which individuals might need further development, and whether we are providing the correct development opportunities.

So we're trying to look at this as a systems flow, and we plan to manage it better. To some extent, it was okay in the past to let nature take its course, but we see now that this might be a risky strategy for the future, so we would like to be a little more active in monitoring the supply situation.

Mr. Bryan Hayes: Do you have a philosophy of promoting from within, and training staff accordingly? Do you ask them to consider getting their designation, and offer to pay for the training towards that designation?

• (1645)

Mr. Jim Ralston: We have a number of programs that support individuals. Part of it is the individual's choice and initiative, how one might want to manage one's career and aspirations. We try to be supportive of development, regardless of where an individual might want to go with his career. We give attention to recruiting throughout. We have some excellent recruiting programs. The FORD and the IARD programs are great successes. So I think the support is there.

Mr. Bryan Hayes: Thank you.

The Chair: Over to Mr. Byrne. You have the floor, sir.

Hon. Gerry Byrne: Thank you, Mr. Chair.

On the issue of professionalization of the senior accounting function, of recruiting and retaining individuals with a professional designation in accounting, does that add an additional burden of cost to the department? In the past, have those functions been staffed? You mentioned that in the past only 32% or 33% held a professional designation in the senior accounting function, but now it's upwards of 80%. Is there a consequence on the overall resourcing of the function?

Mr. Jim Ralston: I can give only a general answer to that. To the best of my knowledge, there's always been an understanding that in a profession such as finance most of the professional associations have expectations of continuing professional development. So we've long understood that if we want to have top-quality individuals, there is a necessary element of constant refreshment and training, and we've always had programs in place to support that. It would take some effort to try to extract what the level of investment might have been across the government, but I know it took place. It was there, and it continues to be there.

Hon. Gerry Byrne: The Assistant Auditor General said that one of the most significant achievements here is professionalization. That's actually the best part of the report, according to the Assistant Auditor General. The professionalization is the grail that has been secured. But you wouldn't be able to tell me whether or not that has come with additional costs in recruitment, ongoing professional development, and retention? It would seem to me that if someone did not hold a professional designation his employment costs would be significantly lower.

Mr. Jim Ralston: Just to reiterate, Mr. Chair, I don't think I could answer that question today. I think it would require some analysis to obtain an answer with respect to the costs.

Hon. Gerry Byrne: Mr. Ralston, when you conduct your reviews, in particular the overall impacts of the program review exercise or the cost-cutting exercise, do you actually engage in an analysis of potential consequences for the President of the Treasury Board or others to be able to determine whether or not there are either foreseen or unforeseen consequences to those functions?

Mr. Jim Ralston: Again, I think the process has to be completed. I think it's not my role to really say at this time what I think the outcome would be. Our concern is always systemically that we have sufficient capacity. It's partly people; it's systems; it's business processes. There are many aspects, taken together—a sound policy framework. There are many elements to building sound and sustainable financial management capacity. Frankly, I think the member's focus on one element of that is maybe not doing justice to the whole complexity of it.

• (1650)

Hon. Gerry Byrne: The Auditor General said not long ago, Mr. Ralston, that one of the key criteria to successful programs was consistency in funding. That was a principal tenet of the Office of the Auditor General in a summation of his term as interim Auditor General: consistency in sustained funding for an initiative. That's one of the things I'm exploring here, which you can appreciate, I'm sure.

We've had a certain amount of progress and success in the comptrollership function in terms of controlling financial management and risk management. I was probing to find out whether or not part of that success was related to increased resources. I received information from the table that it had a very inconsequential impact on it and that it was more related to professionalization. Now I'm trying to find out whether we'll be able to sustain that success with the professional bodies we have in place, and the professional people we have in place, with fewer resources.

The Chair: Be very brief, please.

Mr. Jim Ralston: Looking at some of the initiatives, some of the values we're promoting through our various policies, we don't believe that the financial management today is necessarily as efficient as it could be. If you look at what our policies promote, you'll see we promote improvement of business processes, standardization, better use of systems. All of those elements we're promoting could have the effect of improving the delivery of financial management at potentially a lower cost than today. I think you have to look at the success of all those things and whether, for example, we do achieve greater efficiency through standardization of business process before you could jump to the conclusion that fewer resources was somehow an inferior outcome.

The Chair: Thank you.

Now we'll go over to Mr. Aspin. You have the floor, sir.

Mr. Jay Aspin (Nipissing—Timiskaming, CPC): Thank you, Chair.

Good afternoon, everyone.

My question is directed to Ms. Cheng. Accountability in government departments is critical, and this report seems to support the government's commitment to reinforce accountability throughout all departments. Could you perhaps summarize for us some of the findings in the report that confirm the commitment to accountability, strong internal control, and governance?

Ms. Nancy Cheng: Thank you, Mr. Chair.

Accountability is germane to public administration. In the Financial Administration Act, designating the deputy head as the accounting officer, it also means that the accounting officer is accountable for the various results and performance of the

organization he or she leads. That individual relies significantly on the chief financial officer in terms of being able to provide the information so that indeed the accounting officer can be held accountable. Hence, the linkage is there to support the broader accountability.

The other aspect is that without good financial reporting it is difficult to see what the results are, and it would be difficult to generally hold that organization accountable for the resources that have been vested with it.

Mr. Jay Aspin: Thank you.

My second question, Chair, could perhaps be posed to Ms. Cheng or Mr. Ralston.

Monitoring and constantly strengthening the internal financial controls across government should be a priority if there is an expectancy for strong financial reporting. From what I gather, the policy on internal control is moving ahead and all departments are continuing to work to implement them. Could you update us on the status of this policy and perhaps on how the OCG and TBS can continue to ensure that departments are on track?

• (1655)

Mr. Jim Ralston: If I may, Mr. Chair, I'll ask Mr. Guéranger to talk a bit about our monitoring of these efforts.

Mr. Gonzague Guéranger: First of all, I'd like to mention that the policy on internal control really has strengthened significantly the requirements imposed on departments to demonstrate their accountability with respect to maintaining affected systems of internal control. With this policy, which is relatively new, all departments across government now have to complete an annual assessment of the effectiveness of the key controls, based on risk. But more than that, they are mandated to provide an action plan, and we show in the report of the Office of the Auditor General some examples of that, on the results of those assessments. They also have to publish every year a report on progress. So that's the first thing I wanted to mention.

In terms of monitoring, I can tell you that the 22 largest departments that are in the first group of departments to implement the policy on internal control—and which represent 90% of government spending—on November 17, two weeks ago, produced their second public report. Based on these two first reports, we can say that there are significant improvements in the progress of departments with respect to meeting the requirements of the policy on internal control.

In 2010, about 50% of the departments were in the middle stage. They were not in fact proceeding with operating testing, effectiveness testing. This year, based on the second report, we can say that over 80% of them have commenced this kind of activity. So we are monitoring the progress of those departments, and we can see progress.

We are also using the management accountability framework process, which is an annual assessment managed by Treasury Board Secretariat and the Office of the Comptroller General, to assess every year the management performance of departments in different areas, including internal controls.

We also leverage on the internal audit departments and also we leverage on the departmental audit committees that exist in departments to monitor on a periodic basis, with deputy heads, progress made in each department.

Mr. Jay Aspin: Thank you.

The Chair: Very good, thank you.

And on to Madame Blanchette-Lamonthé. You have the floor, Madame.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Thank you.

My question is for Ms. Cheng.

At the beginning of your report, you emphasized the fact that the Office of the Comptroller General has not yet established the process for monitoring the completion of those assessments or for assessing the actions taken by the departments. Could you explain to me, in layman's terms, what exactly that means?

[*English*]

Ms. Nancy Cheng: Thank you.

The first audit question that we pose has to do with recommendations we laid out before on how the Comptroller General's office would try to improve the system of internal control. And there are various elements. One of the elements is to see that they would be monitoring the progress of what is happening in the large departments and agencies. So at the time of the audit—this was taking place in the latter part of 2010—we indicated that they have not actually set up the monitoring process. For that reason, we indicated that this was still an area of work that is required. Hence, you see in our recommendation that more emphasis would be put on the monitoring side.

What we saw was that there has been very good progress on the policy front. We have the policy suite there. There are tools and guidance and there is professionalization. But the monitoring side seems to be just in the early days, and hence we made the recommendation.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Mr. Ralston or Mr. Guéranger could perhaps tell us what will be done or what has already been done since the study on monitoring.

[*English*]

Mr. Jim Ralston: I think I'll ask Mr. Guéranger to add to what I'm going to say if he so wishes.

The first point to make is simply that we haven't necessarily put in place new monitoring mechanisms. The fact of the matter is that, through the management accountability framework, we do some regular monitoring. We also are able to do, fairly simply, the kind of monitoring Mr. Guéranger just spoke of, which is observing what changes get posted.

We still believe that the primary responsibility for keeping these things on track is with the deputy heads and their audit committees. It's not primarily the OCG that should be taking charge of this.

● (1700)

[*Translation*]

Ms. Lysane Blanchette-Lamothe: So, you do not share the opinion expressed in the report, which states that more monitoring activities are needed.

Do you agree with that or not?

[*English*]

Mr. Jim Ralston: I sense that perhaps the Office of the Auditor General was looking for something tailored to this particular monitoring task. As I've said, we've tried wherever we can to do the monitoring. It's really a question of whether or not we can achieve that monitoring by relying on some of our existing monitoring tools.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Unless I'm mistaken, you have no intention of changing anything as far as monitoring goes.

[*English*]

Mr. Jim Ralston: Hopefully, the earlier comment made by Mr. Guéranger points out that we believe we do have a fairly good handle on what's going on out there through the means that we have chosen to use.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Ms. Cheng, what do you think?

[*English*]

Ms. Nancy Cheng: Thank you.

I don't think there is a sense of disagreement. What we're indicating is that when we look at the audit, all these DPR disclosures were in the very early days. The earlier model of just looking at some of the math of the management accountability framework results seems a little bit light. It doesn't give the Comptroller General's office, in our view, the overall picture as to how the government is progressing.

What we're looking for is that we know how the government may be progressing towards improving internal control. In essence, if things are moving in the right direction the Comptroller General's office may not have to do very much more. But if things are not progressing and if everybody is slow and we're running into a stalemate, then we would expect the centre to have a bit more of a step-up role. That's where we're coming from.

The monitoring we saw at the time of the audit was too early for us to say they had enough information to manage that.

The Chair: Your time has expired.

Merci, to both of you.

Over to Mr. Dreeshen to wrap up our questioning of witnesses. You have the floor, sir.

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

Thank you to our guests.

Ms. Cheng, you mentioned in your opening remarks about the Treasury Board Secretariat's role regarding the development of the policy frameworks and relevant guidance on internal controls and the implementation of risk management measures.

You also talked about a demonstrated leadership in the development and strengthening of financial management and the policy suite that is associated with it. You've gone so far as to say that in your audits of financial management internal auditing, there are descriptions of improvements that were significant, in your mind.

Could you discuss the significance of those particular changes? Are those improvements broad enough in scope that they would be what you would consider best practices that could be used?

Ms. Nancy Cheng: Thank you.

The government has laid excellent groundwork to improve financial management and internal controls by having senior people in the financial shop who have the financial competency to support all of that.

There are several aspects here. In terms of the internal control, there are plans under way. We will assess them, know what the gaps are, and then we can have an action plan to remediate them. If they are following their timeline—we're so close to 2012-13 anyway—then we're probably on a good track.

On the risk management side, there needs to be an appreciation that when we talk about corporate risk profile, it is more than financial risk. Earlier there was a question about whether we would have better risk management if we had more people with an accounting designation. Well, risk management is broader than the financial risk. It has to take into consideration the strategic risk, environmental risk, operational risk, and program risk, which are beyond financial risk. The two elements are not necessarily lined up, and we're not talking about apples and apples here.

But what we saw with the professionalization of the chief financial officer were some on-the-ground differences. They're participating more in strategic discussions. For example, if we talk to deputy heads, they say that they have a financial adviser who understands the program they run but who also has the financial wherewithal to give the right kind of advice when they talk about resource allocation and prioritization.

I think we've got the groundwork laid to help build on improving controls and financial management, and supporting this management.

• (1705)

Mr. Earl Dreeshen: Mr. Ralston, you also have a role in looking for those best practices. I believe that Mr. Guéranger was speaking to some of those as well. I wondered if either of you could comment on some of those best practices.

Mr. Jim Ralston: Gonzague, would you like to comment on best practices?

Mr. Gonzague Guéranger: If I understand the question, based on leading jurisdictions around the world and within Canada, the requirements that were implemented through the policy on internal controls are really the best practices of leading jurisdictions. The fact that we are asking departments to complete an annual assessment, to

develop an action plan, to remedy the weaknesses, and to make public those actions plans and assessment results is a significant best practice that we see in the private sector, for instance.

Mr. Earl Dreeshen: Ms. Cheng, just as a last question with respect to financial management, can you tell us what government measures have been particularly important to the improvements that you found?

Ms. Nancy Cheng: Thank you, Mr. Chair.

I believe, first and foremost, that the policy suite requiring departments and agencies to maintain effective systems of internal control, and that they have assessments on an ongoing basis, so that they know they have proper controls in place, are elements that are really critical in terms of improving controls over financial reporting.

Mr. Earl Dreeshen: Thank you, Mr. Chair.

The Chair: Thank you very much.

If I might, I would like to do a quick follow-up to Mr. Allen's questions regarding page 14, exhibit 1.4, where it speaks to the status of departments' assessments of financial reporting controls as of September 30, 2010. In a question from Mr. Allen, you stated, Mr. Ralston, that the Department of Finance and the Department of Veterans Affairs have met their deadlines. I'm certainly not at all questioning your word, but my dad always taught me to trust everybody but always cut the cards.

Madame Cheng, can you confirm that completion has indeed taken place?

Ms. Nancy Cheng: Mr. Chair, we're not in a position to confirm that. The audit we did at the time was to look at the plans. We have not actually audited against those plans to see if they are in fact supported.

The Chair: What would you recommend in terms of how we could satisfy ourselves that it is indeed done—just a direct ask of them? Would you do it? Mr. Ralston, what would you suggest?

Ms. Nancy Cheng: I have a couple of thoughts. You can certainly ask the departments directly to explain what work they have actually done. Another way of looking at it might be to leverage off some of the audit work that the Comptroller General's office intends to undertake.

Remember, when we talk about monitoring, they talk about the fact that they're going to analyze some of this information. But they were also going to do some specific audits.

The Chair: I do recognize that your snapshot was September 30, 2010.

Ms. Nancy Cheng: Yes.

The Chair: That leads me to my next question, the last one, which is again to focus on the Department of Foreign Affairs and International Trade. That's the worst report here on the chart. They are supposed to be in place by 2012-13. They got the poorest grade on the testing, and of course haven't tested the design, haven't tested effectiveness. Are you satisfied that the Department of Foreign Affairs and International Trade is going to indeed meet their deadline?

Ms. Nancy Cheng: According to the chart, it looks somewhat ambitious to meet 2012–13, but we have not specifically studied that, so we're not in a position to say that they cannot meet it. But on the surface, it does look ambitious.

The Chair: You're being very diplomatic.

Is it fair for us to assume that there will be a further follow-up by the Auditor General within a reasonable period of time, so that we'd know whether they met their deadline, and if not, why not?

Ms. Nancy Cheng: Currently there is no plan to do a further follow-up, but the committee might recall that at one stage we looked at the subject matter of auditing departmental financial statements, and this committee made a recommendation that we do some work. Internally, we have looked at our plans to see how we can do more work on assessing controls, and we may wish to conduct a separate performance audit, not in the nature of a follow-up, but to look at the progress in a number of departments and come back and report to this committee.

• (1710)

The Chair: Very good. I'm sure the committee will take your comments under advisement as we're writing our report.

Many thanks to our witnesses. We appreciate your being here and answering the questions today, as always.

Colleagues, if you're in support, the chair will see the clock as 5:15.

Some hon. members: Agreed.

The Chair: The witnesses are excused. There's no need for you to sit and watch us do what we're about to do.

Thanks so much. We appreciate the work you do.

We have now completed our hearing and are now into our next order of business.

The main thing we need to do right now, folks, is we don't have Wednesday covered off. If we don't get a plan now, if we wait until the steering committee, which won't be set until the end of this meeting, we're going to miss Wednesday's workday. So the goal is to establish right now what we want to do on Wednesday.

With that in mind, I will turn to Mr. Kramp.

Mr. Daryl Kramp: Mr. Chair, as usual, I would expect that we would go into in camera, as it is committee business.

The Chair: That's fair. No, that's fine, not fair.

I have a motion to go in camera.

(Motion agreed to)

[Proceedings continue in camera]

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