



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

**THE OFFICE OF THE AUDITOR GENERAL OF
CANADA'S 2013–2014 DEPARTMENTAL
PERFORMANCE REPORT AND 2015–2016
REPORT ON PLANS AND PRIORITIES**

**Report of the Standing Committee on
Public Accounts**

**David Christopherson
Chair**

JUNE 2015

41st PARLIAMENT, SECOND SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

NINETEENTH REPORT

Pursuant to its mandate under Standing Order 108(2) the Committee has studied Main Estimates 2015-16: Report on Plans and Priorities for 2015-16 and Performance Report for 2013-14 of the Office of the Auditor General of Canada and has agreed to report the following:

THE OFFICE OF THE AUDITOR GENERAL OF CANADA'S 2013–2014 DEPARTMENTAL PERFORMANCE REPORT AND 2015–2016 REPORT ON PLANS AND PRIORITIES

INTRODUCTION

As part of the estimates process, federal departments and agencies prepare and present to Parliament reports on plans and priorities and departmental performance reports. Reports on plans and priorities outline an organization's priorities, its planned allocation of financial and human resources, as well as the expected results of its activities and performance indicators to determine whether the results have been achieved. Performance reports provide information about what resources were used during the fiscal year and what results were achieved in comparison to the targets outlined in the corresponding reports on plans and priorities.

As the House of Commons Standing Committee on Public Accounts (the Committee) has a role to play on behalf of Parliament and Canadians in holding the Office of the Auditor General of Canada (OAG) to account for its past performance and future plans, it reviews the OAG's departmental performance report and its report on plans and priorities in conjunction with its consideration of the OAG's main estimates.

The Committee held a hearing on the OAG's 2015–2016 Main Estimates, 2013–2014 Departmental Performance Report¹ and 2015–2016 Report on Plans and Priorities² on 4 May 2015.³ The Committee met with Michael Ferguson, Auditor General of Canada; Sylvain Ricard, Assistant Auditor General, Corporate Services and Chief Financial Officer; Lucie Cardinal, Comptroller; and Kimberly Leblanc, Director, Human Resources Services. The Committee presented its report on the 2015–2016 Main Estimates to the House of Commons on 11 May 2015.⁴ This report represents the Committee's observations on the OAG's departmental performance report and its report on plans and priorities.

1 Office of the Auditor General of Canada, [2013–14 Estimates—Performance Report](#), Ottawa, 2014.

2 Office of the Auditor General of Canada, [2015–16 Report on Plans and Priorities](#), Ottawa, 2015.

3 House of Commons, Standing Committee on Public Accounts, *Evidence*, 2nd Session, 41st Parliament, 4 May 2015, Meeting 58.

4 House of Commons, Standing Committee on Public Accounts, [Main Estimates 2015–2016: Vote 1 under Auditor General](#), Eighteenth Report, 2nd Session, 41st Parliament, May 2015.

PAST PERFORMANCE

According to its 2013–2014 Departmental Performance Report, the OAG accomplished the following activities during 2013–2014:

- 29 performance audits and 1 study;
- 100 financial audits; and
- 2 special examinations.⁵

The departmental performance report summarized some of the OAG's results during the year:

- In its follow-up performance audits, the OAG found that departments had made satisfactory progress in addressing five of the ten recommendations reviewed;
- Of the five qualifications identified in financial audit reports issued in 2012–2013, two were addressed in 2013–2014. Of the three qualifications not addressed, two were for late filing of annual reports or financial statements and one was for the inability to obtain sufficient audit evidence for inventory;
- For one of the two special examinations of Crown corporations completed during the year, there had been a significant deficiency in the previous examination, which had been addressed; and
- In 2013–2014, the OAG participated in 23 committee hearings and briefings, down from 27 in 2012–2013. The percentage of performance audits reviewed by parliamentary committees decreased from 30% to 21%, but the number of times the OAG appeared before the Committee was consistent with previous years.

The report also noted a couple of areas for improvement:

- The OAG did not meet its target of having 80% of performance audits and 80% of special examinations completed within their budgets; instead, 73% of performance audits were completed within their budgets and 50% (one of two) special examinations were completed within their budgets; and

5 Office of the Auditor General of Canada, *2013–14 Estimates—Performance Report*, p. 8.

- The OAG's practice reviews identified a need to improve the documentation of the nature and extent of oversight by senior auditors.⁶

A. Follow-up

Periodically, the OAG follows up on whether departments and agencies have made progress in implementing recommendations made by the OAG in previous audits. When asked about the fact that the OAG determined in 2013–2014 that departments had made satisfactory progress in addressing only five of the ten recommendations followed up, Michael Ferguson, Auditor General of Canada, described the recommendations: two of the recommendations were from a follow-up audit on internal controls over financial reporting, one recommendation pertained to monitoring lookouts in an audit on preventing illegal entry into Canada, and two recommendations related to an audit by the Commissioner of the Environment and Sustainable Development on the ecological integrity of national parks.⁷ Mr. Ferguson said that the OAG's target of having satisfactory progress for 75% of recommendations followed up is based on a recognition that it occasionally takes a few years for departments to put in place improvements to deal with the recommendations.⁸

Mr. Ferguson provided some advice to the Committee when selecting audits. He said, "When the committee is choosing which audits to have hearings on, it is very important to consider whether any follow-up audit we have done has shown that a department's progress in complying with the recommendations has been unsatisfactory."⁹ He also observed:

One message that has been very helpful to us, coming from this committee, is the message to departments that you don't want to be coming back to the public accounts committee talking about recommendations you said you were going to fix. We have repeated the message to departments fairly often over the last couple of years, and reiterated from this committee, that it's expected they will follow up, they will meet their commitments, and they will bring forward action plans. Those things, being a very clear message from this committee, are very helpful to us as we go about the work on follow-ups.¹⁰

B. Performance audits reviewed by parliamentary committees

The OAG believes that its appearances before parliamentary committees help parliamentarians in fulfilling their oversight role and provide the OAG the opportunity to

6 Ibid., p. 3.

7 Meeting 58, 1620.

8 Meeting 58, 1625.

9 Ibid.

10 Meeting 58, 1645.

increase awareness and understanding of the issues raised in its reports.¹¹ The OAG has a target of having 65% of its performance audits reviewed by parliamentary committees. According to further information provided to the Committee by the OAG, the OAG produced 23 performance audit chapters in 2011–2012, 23 chapters in 2012–2013 and 29 chapters in 2013–2014.¹² Mr. Ferguson listed the percentages of performance audits reviewed by parliamentary committees over the past number of years, stating, “in 2008-09, it was at 57%; in 2009-10, 68%; in 2010-11, 62%; and then 48% [in 2011-2012], 30% [in 2012-2013], and 24% [in 2013-2014].”¹³ He observed that the target had been set when the result was in the 50% to 60% range.¹⁴ In response to the overall trend of a declining percentage of performance audits being reviewed by parliamentary committees, Mr. Ferguson asked, rhetorically, “Does it mean that we are producing reports that are of less interest to parliamentary committees? Does it mean that we are producing more reports than the committees can handle?”¹⁵

With respect to the 2013–2014 result, Mr. Ferguson said that there were 14 hearings and briefings with the Committee,¹⁶ and, according to further information provided by the OAG, three hearings and briefings were held with Senate committees and six with other House of Commons committees.¹⁷ He also commented that while the number of appearances before the Committee was not exactly the same as previous years, it was essentially the same, or consistent, with the previous two years.¹⁸ In 2014–2015, the Committee met with officials from the OAG on 14 occasions.

When asked whether audits that were not studied by the Committee were any less valid, Mr. Ferguson replied:

We present the report to the departments, present the recommendations to the departments, and get the response of departments as well as their action plan. Of course all of that happens. Our job, however, is to report to Parliament, so we do present the reports to Parliament. Obviously when I present reports, such as for example, the recent spring report, there's a hearing and there's an opportunity there for the committee to ask questions about every one of the audits that has been put in place. But that's not the same as the opportunity to have a full hearing on a report, and to include departmental representation at the hearing.

11 Office of the Auditor General of Canada, *2013–14 Estimates—Performance Report*, [p. 18](#).

12 Michael Ferguson, Letter to the House of Commons Standing Committee on Public Accounts (re: information requested at the hearing of 4 May 2015), 15 May 2015.

13 Meeting 58, 1555.

14 Ibid.

15 Ibid., 1555.

16 Ibid., 1635.

17 Michael Ferguson, Letter to the Standing Committee on Public Accounts.

18 Ibid.

There is still a lot of value, obviously, in the audits that we do, even without a hearing, but I think we maximize the value of those audits by fulfilling that part of our role, which is to report to Parliament and to help Parliament understand, through committees, the significance of what we have found, and to give Parliament the opportunity to hear the perspective of the departments we have audited with regard to those audits. So I think there's more value from the audits when we have a hearing.¹⁹

FUTURE PLANS

As outlined in its *2015–2016 Report on Plans and Priorities*, the OAG identified three strategic objectives as priority areas for improvement in 2015–2016:

- ensuring effective, efficient and accountable governance and management;
- developing and maintaining a skilled, engaged and bilingual workforce; and
- ensuring a culture of empowerment.

In order to meet these objectives, the OAG plans to:

- move to a smaller executive committee;
- define new senior management roles and responsibilities;
- redefine desired outcomes and measures with regard to maintaining a skilled, engaged and bilingual workforce;
- assess the degree to which employees feel empowered to do their work; and
- develop plans to address any issues arising from the research on empowerment.²⁰

In 2015–2016, the OAG plans to complete:

- 21 federal and territorial performance audits;
- 95 financial audits;
- 5 special examinations; and

19 Ibid., 1600.

20 Office of the Auditor General of Canada, *2015–16 Report on Plans and Priorities*, pp. 7 and 8.

- an audit of senators' expenses.²¹

A. Strategic Objectives

Mr. Ferguson told the Committee that in order to identify its strategic objectives, the OAG went through a strategic planning exercise using a balanced-scorecard approach, looking at the office from customer, financial, internal, and learning and growth perspectives, which led to the identification of 12 strategic objectives.²² As the OAG can't work on all of the objectives every year, the OAG prioritized three objectives and associated activities for 2015–2016, and a project management group is monitoring progress on each of the objectives.²³

With respect to the OAG's plan to define new senior management roles and responsibilities, Mr. Ferguson explained that the OAG is "making sure that the decision-making authority within the organization is done at the level of people with the skill and the experience to make those decisions."²⁴ The OAG will be reducing its executive group from 16 to nine, and in doing so, it will be making assistant auditors general more strategic-oriented about what the OAG should be doing and principals will be responsible for delivering audit products.²⁵

When asked about training and development, including official language training, Mr. Ferguson commented that in order to deliver its mandate, the OAG needs to ensure that its employees have the necessary professional and linguistic competencies.²⁶ The OAG is currently undertaking an exercise of determining where training gaps exist and updating its official languages strategy to support its staff in maintaining or obtaining their language skill level.²⁷

Mr. Ferguson also told the Committee that the OAG is working to make its performance audits more accessible and clearer to readers by changing the format of the reports to focus on audit findings.²⁸ The result will be audits that are more "information dense." Additionally, the OAG is developing a report that will help parliamentarians

21 Ibid., p. 1.

22 Meeting 58, 1615.

23 Ibid.

24 Meeting 58, 1540.

25 Ibid.

26 Ibid.

27 Ibid.

28 Ibid., 1550.

understand its work on financial statement audits. The report will communicate the results of the OAG's financial audit practice as a whole.²⁹

B. Budget

As part of the 2015–2016 Main Estimates, the OAG is requesting a parliamentary appropriation of \$78.3 million, and it will have the equivalent of 557 full-time employees.³⁰ Mr. Ferguson indicated that about half of the OAG's budget goes towards performance audits and the other half goes towards financial audits.³¹ The OAG also has a professional practices group that supports both the financial and performance audits groups.³²

Mr. Ferguson told the Committee that the OAG was able to reduce its financial and human resources requirements in the past several years by reducing the required number of financial audits by 19, making fairly significant reductions in support services, and rationalizing the number of senior management positions from 16 to nine.³³ With respect to the issue of whether the OAG has sufficient funds to fulfill its statutory mandate, Mr. Ferguson noted that the OAG has a statutory mandate to conduct financial audits and special examinations of specific organizations, and while it has a statutory responsibility to do performance audits, the number of performance audits to be conducted is not specified.³⁴ He concluded:

[W]e're now still at a level where we are able to produce within that historical range of the number of performance audits that we have produced. I think any reduction from here, and any requirement to absorb any additional costs, will start to get us below that traditional amount of performance audits. We can continue to do performance audits, as our mandate requires, but we're at the point where any reduction will cause us to produce fewer performance audits than we historically have.³⁵

C. Audit Planning

With respect to the planning of performance audits, Mr. Ferguson noted that the OAG selects audit topics on the basis of a strategic planning process. He said, "During that process we have a lot of conversations with departments and organizations, and we try to identify the risks that those organizations face and assess those risks to determine if there is something we should audit, relative to those risks, and bring to the attention of

29 ibid.

30 ibid., 1535.

31 ibid., 1540.

32 ibid.

33 ibid., 1610.

34 ibid., 1640.

35 ibid.

Parliament.”³⁶ The strategic planning process results in three-year plans of audits, and the OAG has limited flexibility to change those plans, especially when budgets are tighter.³⁷ Mr. Ferguson indicated that having a larger budget would give the OAG more flexibility and permit it to cover a wider range of topics, but the OAG is not totally in control of determining when an audit can be conducted.³⁸ Flexibility is required not only by the OAG but also by the organizations audited, as being ready for an audit takes preparation, time and planning on the part of the organizations being audited.³⁹ Also, as it takes about 18 months from planning to completion of a performance audit or a special examination, it is difficult for the OAG to react quickly in response to requests for audits of particular topics.⁴⁰ Mr. Ferguson summarized this in the following words:

We've never really had a lot of flexibility in terms of being able to change those plans midstream. Certainly when budgets are tighter, there is less flexibility, but we've always been in a process of trying to plan out. We've never made a practice of changing things a lot midstream. We want to make sure our auditors know what they're working on and they can do that preplanning. We also need to inform the organizations we're auditing that we will be coming in and doing an audit on them so that they can be prepared to receive our auditors when they come on site.⁴¹

When asked why the number of performance audits conducted per year was decreasing, Mr. Ferguson pointed out that the reduction was due in part to having five special exams scheduled for 2015–2016, whereas two were completed in 2013–2014, and doing more special exams means fewer performance audits.⁴² The other factor is the audit of senators' expenses, which has taken more resources than anticipated, and is the equivalent to two or three performance audits.⁴³ Adding the extra special examinations and the audit of senators' expenses to the 21 performance audits planned for 2015–2016 brings the total to 26 or 27, compared to 29 in the previous year.⁴⁴

D. Peer Review

Periodically, the OAG has had peer reviews of its audit practice conducted. The last peer review was completed in 2010 and was led by the Australian national audit office.⁴⁵ Mr. Ferguson told the Committee that this review found that the OAG's audit methodology

36 Ibid., 1605.

37 Ibid., 1545.

38 Ibid.

39 Ibid.

40 Ibid., 1605.

41 Ibid., 1545.

42 Ibid., 1610.

43 Ibid.

44 Ibid.

45 Ibid., 1625.

was out of date, so the OAG put in place a project to renew its audit methodology and now has an ongoing process to prevent the methodology from becoming outdated again.⁴⁶ Mr. Ferguson also indicated that the norm is to have a peer review conducted at least once during the mandate of each auditor general, and he expects to have a peer review conducted later in his mandate, possibly in 2018–2019.⁴⁷

E. Senate Audit

The OAG is conducting an audit of senators' expenses. Mr. Ferguson told the Committee that the OAG plans to provide the final audit report to the Speaker of the Senate in the first week of June.⁴⁸ He indicated that it is a fairly large audit in terms of the time taken to complete it and the number of transactions reviewed, but it is fairly simple in terms of what is being audited—expense claims and payments.⁴⁹ The budget for the audit will come out of financial and performance audit lines and will be reported to Parliament.⁵⁰ Mr. Ferguson noted, “As I've said a number of times, once we have presented that report we will put together the full cost estimate in terms of how much we spent on contractors, how much we put towards the direct cost of staff, fully loaded, and all of that. We'll make all of that information available on our website the moment we present that report.”⁵¹

CONCLUSION

Through its audits, the OAG seeks to ensure that proper financial records are kept, public funds are spent with due regard for economy and efficiency, and mechanisms are in place to report on effectiveness. This Committee has an important role to play in monitoring whether federal departments and agencies address the OAG's recommendations, especially in follow-up audits. While the number of performance audits reviewed by this Committee has remained consistent with the previous two years, the percentage of performance audits reviewed by parliamentary committees has declined. Looking forward, the OAG has set several strategic objectives and has reduced its budget while continuing to fulfil its audit mandate; though any further reductions may lead to fewer performance audits being produced. The OAG has a three-year planning process in place for its performance audit practice, but it had sufficient flexibility to conduct an extensive audit of senators' expenses.

46 Ibid.

47 Ibid.

48 Ibid., 1645.

49 Ibid., 1550.

50 Ibid., 1650.

51 Ibid.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Office of the Auditor General of Canada	2015/05/04	58
Michael Ferguson, Auditor General of Canada		
Lucie Cardinal, Comptroller		
Kimberly Leblanc, Director Human Resources Services		
Sylvain Richard, Assistant Auditor General Corporate Services and Chief Financial Officer		

MINUTES OF PROCEEDINGS

A copy of the relevant *Minutes of Proceedings* ([Meetings No. 58 and 63](#)) is tabled.

Respectfully submitted,

David Christopherson
Chair

