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Chair

The Honourable Kevin Sorenson

Standing Committee on Public Accounts

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• (1545)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good afternoon, everyone. This is meeting number 51 of the Standing Committee on Public Accounts, Wednesday, April 5, 2017.

I will remind everyone that we are televised today, so we should mute our telephones and communications devices. I will also mention to our viewers, our audience, and our guests today that bells are ringing, and we will be interrupted. In about 20 minutes, we will have to leave and go for a vote.

Today, we're holding a hearing on the government's main estimates for the years 2017-18, vote 1 under the Office of the Auditor General. As well, we're considering the report on plans and priorities for the years 2017-18 of the Office of the Auditor General, and finally, the performance report of the Office of the Auditor General for the years 2015-16.

We're joined by officials of the Office of the Auditor General, Michael Ferguson, our Auditor General; Sylvain Ricard, assistant auditor general, corporate services, and chief financial officer; Susan Seally, principal, human resources; and Ronald Bergin, principal, strategic planning.

I will invite you to give us your statements. I'm told by the clerk that I need unanimous consent to begin, and I see that we have that. We welcome you and your statement today, sir.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada): Thank you.

Mr. Chair, we're pleased to have this opportunity to discuss our office's 2015-16 performance report and our 2017-18 departmental plan.

[Translation]

As the legislative auditor of the federal government and the three territories, we provide independent and objective assurance, advice, and information about government financial statements and the management of government programs. The Commissioner of the Environment and Sustainable Development is responsible for environmental and sustainable development issues that fall under our mandate.

We conduct all our audits in accordance with Canadian auditing standards. Our audits and our system of quality control are subject to internal practice reviews and independent external reviews to provide assurance that you can rely on the quality of our work.

In addition to our audit work, we help to advance legislative audit methodology, accounting and auditing standards, and best practices. We also work internationally to support projects funded by Global Affairs Canada, build professional capacities, share knowledge, and promote better-managed and accountable international institutions.

[English]

As reflected in our financial statements, our net cost of operations was \$90.7 million in the 2015-16 fiscal year, of which \$13 million was services provided without charge by other government organizations. The balance was provided through the main estimates, including the \$68.3 million that was approved under vote 1.

We had a budget of 557 full-time equivalent employees, and employed the equivalent of 546 full-time employees. With these resources we delivered 88 financial audits, four special examinations, 17 performance audits, and the audit of senators' expenses. This represents all planned audit work, except for one special examination that we delayed.

In our 2015-16 performance report, we note that parliamentary committees reviewed 55% of our performance audits. This number represents an increase from 44% in the 2014-15 fiscal year, although it's below our target of 65%. In total, we participated in 20 parliamentary committee hearings and briefings on our audit work.

• (1550)

[Translation]

Audit committee chairs and senior managers of the organizations for which we perform financial statement audits continue to believe that our audits are understandable, fair and timely, and that the audits add value. For senior managers in the organizations that are the subject of our performance audits, results are below our target. To address the concerns they raised, we're now communicating our findings and recommendations earlier in the audit process.

[English]

Our measures of organizational performance remain generally positive. In particular, our practice reviews, which serve as a key quality control in our audit methodology, found that our audit reports were appropriate and supported by proper evidence. Our 2015-16 performance report identifies several indicators of the impact of our work, along with measures of our operational performance, which are attached to this statement as appendix A.

Turning now to our 2017-18 departmental plan, our strategic framework identifies a number of client, operational, and people management objectives that we use to manage the office and to direct our continuous improvement efforts. In the 2017-18 fiscal year, we will focus on the following three priorities.

[*Translation*]

First, to develop and maintain a skilled, engaged, and bilingual workforce, we'll continue to support our audit managers as they adopt their new roles and responsibilities. We'll closely monitor the development and execution of second-language learning plans, and our employees' professional development activities.

Second, we want to maximize the value and impact of our audit work. To do this, we'll improve how we scope and report our special examinations. We'll review some of our financial audits to ensure that we provide value as efficiently as possible. We'll focus on the financial control environment in the government, particularly in our annual audit of the Government of Canada's consolidated financial statements.

Third, to improve the governance and management of our office, we'll review the federal legislative, regulatory, and policy requirements to ensure we can demonstrate our compliance. We'll also renew our information technology and physical security risk assessments.

[*English*]

For the 2017-18 fiscal year, the program expenditures of the Office of the Auditor General under vote 1 for this committee to consider reporting to the House is \$68.3 million. Our planned number of full-time equivalent employees is 560. With the resources allotted to us we expect to complete more than 85 financial audits, 24 performance audits, and nine special examinations.

In conclusion, Mr. Chair, my staff and I look forward to continuing to serve Parliament with products of the highest quality and value in the coming year. We thank you for your ongoing support of our work. We would be pleased to answer your questions.

Thank you.

The Chair: Thank you very much, sir.

I'm at the disposal of the committee. We have probably 23 minutes. Do you want to continue into the first round?

We'll begin with Madame Mendès.

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you very much, Mr. Chair.

[*Translation*]

Thank you, Mr. Ferguson. I also want to thank your team.

I think we all want to congratulate you on your excellent work on behalf of Canadians to ensure parliamentarians can hold the government accountable for its financial choices. I'm happy to see an increase in the number of studies conducted within the context of the committee.

Are you talking specifically about the Standing Committee on Public Accounts or about standing committees of the House in general?

•(1555)

Mr. Michael Ferguson: Most of our performance audits come from the Auditor General, but some are prepared by the Commissioner of the Environment and Sustainable Development, who is a public servant from our office.

[*English*]

Mrs. Alexandra Mendès: I'm talking about the increase from 44% to 55%.

Mr. Michael Ferguson: Okay.

Mrs. Alexandra Mendès: That's what I mean. Is it just public accounts, or has it been a general increase in all the committees of the House?

Mr. Michael Ferguson: I'm going by memory here. Certainly, most of the increase would have been an increase in hearings of the public accounts committee.

Mrs. Alexandra Mendès: My colleague, Mr. Arya, would like to ask a question.

The Chair: You still have five minutes.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair, and thank you, Mr. Ferguson.

I think you're asking almost the same, \$68.3 million this year.

I know bilingualism is important, and you're doing your best to make sure that all employees are trained in both official languages. My concern is whether the bilingual requirement is affecting the recruitment of entry-level professional staff.

Mr. Michael Ferguson: The bilingual requirements we have tend to be mostly at the supervisor level. Certainly, for support staff, people who have to provide services to the whole office, there is a requirement for them to have the ability and skills in both official languages.

In terms of our audit staff, it's more at the supervisory level. Auditors can come in with a competency in one language or the other. Then we help them obtain their second language throughout the course of their career. If they're coming in at a supervisory level, to supervise others, they have to be able to do that with a certain level of competence in both official languages.

Mr. Chandra Arya: You did mention that the 2015-16 committee review was at 55%. Was that because of the election year? There was some gap there instead of your target of 65%.

Mr. Michael Ferguson: The 55% versus the 65%...?

Mr. Chandra Arya: Yes.

Mr. Michael Ferguson: In fact, the 55% was an increase from before. I think I mentioned that.

Mr. Chandra Arya: You said a 44% increase.

Mr. Michael Ferguson: It had been 44%, and it went to 55%.

Mr. Chandra Arya: I was noting that you had a target of 65%, and committees reviewed 55% of your performance audits. I think that may be due to 2015 being the election year.

Mr. Michael Ferguson: I don't think so. I would have to go back to be sure.

Fundamentally, we were pleased that it's going in the right direction. It had gone from 44% to 55%. We hope to get it to 65%, because the work that Parliament does on our audits is important to get the messages through and to get departments to react to it. We were happy it had gone from 44% to 55%, but there's still more work to go because we think 65% is the right target.

Mr. Chandra Arya: What kinds of services are provided without charge by other government organizations, which you mentioned here?

Mr. Michael Ferguson: We get an amount voted in our main estimates. That amount tends to be used mostly for the direct cash transactions of things we have to pay for. We also produce a set of financial statements using generally accepted accounting principles. In the course of preparing that set of financial statements, we collect information about other services that other departments might provide.

It's fundamentally through the Department of Public Works, things like accommodation. We don't pay rent on the space we occupy. It was about \$8 million in that. Health and life insurance are things we aren't paying for directly, but we try to accumulate all of that to give you a picture of the overall cost to government of running our organization, which is actually beyond just the main estimate amount, because other departments are incurring some costs on our behalf.

• (1600)

Mr. Chandra Arya: Thank you, Mr. Chair.

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

Mr. McColeman, for seven minutes.

Mr. Phil McColeman (Brantford—Brant, CPC): Thank you, Chair.

I want to extend my compliments to you, Mr. Ferguson, regarding the actual presentation of this information. I know when you do audits, you go in and you bring us back information, and you give the departments information. Do you give them best practices in terms of presenting things? This presentation today and the materials you provided, for me, are a template for other parts of government to use. Do you recommend those kinds of things when you're doing audits?

Mr. Michael Ferguson: We don't say to departments, "Here's how we do it, so you should do it this way." We point out where we think the way they're presenting information isn't conveying the information clearly. We hold ourselves to the same standards. We always go back and look at what we're doing and ask ourselves whether we're preparing things clearly.

You will see in our indicators that on some things we didn't meet our targets, and we're not trying to keep that information from Parliament. We set some targets—some of them we meet and some we don't meet. We feel that our job is to report to you what our

situation is. We try to point out to departments when we feel that they aren't living up to those same standards, but we hold ourselves to the same standards we hold departments to.

Mr. Phil McColeman: When I look at the raw numbers, it appears that you're continuing with a pretty level budget, not much increase in spending, yet you're doing more audits, whether or not they're of a different nature, in your projected business plan. Given that there are internal pressures to meet increased payroll costs and other added expenses that come along in your budgeting process, you're keeping it level. How do you explain being able to manage in this fashion over your planned period for the business plan you've presented us?

Mr. Michael Ferguson: One thing we are doing right now is that we are going through a thorough review of our budget level to get a good picture of what the next number of years will look like for us. Regarding the year in question, in terms of the budget, things are staying more or less the same in respect of our number of full-time equivalents. Maybe we increased the number of audits a little bit, but some of that can be based on when an audit gets released, as opposed to all of the work on the audit. The number of hours on audits is essentially the same.

In the year in question, we are having to use up our carry-forward. In past years, we didn't use all the money allotted to us and we had an amount that was carried forward. When a department doesn't spend everything allotted to it, it can carry that amount forward. For the last number of years, we've been able to keep rolling that forward without ever having to use it. The idea was that if we ever needed to use it on a big one-time expenditure, that's what we would do.

For the 2017-18 year, we're going to end up using that carry-forward to keep our operations at the same level. That indicates that we may end up being under more severe budget pressure by the time 2018-19 comes around, but we're working through that right now. We are doing a full analysis of our budget, and we are trying to work that issue through the system. Things are tightening on us because we have had to use that carry-forward.

• (1605)

Mr. Phil McColeman: Can you give us a ballpark figure of what that carry-forward amount would have been?

Mr. Michael Ferguson: It would have been around \$3 million.

Mr. Phil McColeman: Still, on a budget of this size, it's admirable that you're able to keep your costs under control. Payroll is perhaps the major cost, and that's ever-increasing. Congratulations on that front.

Those are all my questions, Mr. Chair.

The Chair: Thank you.

We'll go to Mr. Weir.

Mr. Erin Weir (Regina—Lewvan, NDP): Thanks very much for appearing before our committee for a bit of an abbreviated sitting. I wanted to ask about some of your targets, specifically the target of having 65% of your reports reviewed by parliamentary committees. I'm wondering how you or your office arrived at that figure.

Mr. Michael Ferguson: Actually, we probably put that in as a target a couple of years ago. It would have been based on looking at historical trends and how many reports we produce. First of all, we would probably have asked ourselves how many of our reports the public accounts committee would have the capacity to look at, also taking into account that our reports are of value in some instances to other committees. Then there are the reports of the commissioner of the environment and sustainable development, which go before the environment committee.

We would have put all of that together based on historical trends as well as the number of meetings we thought the public accounts committee would hold. At that point, we would have determined that about 65% of the audits we produce, given the number of audits we were producing, would be of sufficient interest to parliamentarians that these audits would end up being the subject of a committee hearing.

Mr. Erin Weir: When you say it's based on historical trends, you noted in your opening remarks that there had been a significant increase, in just the past few years, of the percentage of your reports reviewed by parliamentary committees. Are you suggesting that historically it was closer to 65%, and it had fallen lower in recent years, and now it's coming back?

Mr. Michael Ferguson: If you go back over a 10-year period, I think that, yes, you will see a wide variety in the percentage of our audits that were subject to a committee hearing. Some of that, as was asked in the previous question, may have been because of election years, when there aren't as many sitting days for committees. We've had to factor some of those types of things into it as well.

Mr. Erin Weir: Does it make sense to conceive of 65% as an annual target, or is it more an average that we would expect over time, with potentially significant variance from one year to the next?

Mr. Michael Ferguson: If the number of sitting days is reduced for whatever reason, then obviously the 65% would have to be adjusted. I think the 65% would be our target for any year when there are a normal number of sitting days.

The Chair: I'm going to cut us off here, just to be safe, so that everyone gets the chance to get to the vote. The bells are ringing and the lights are flashing. We will come back immediately after the vote. We still have six minutes to get there. I will pick up with Mr. Weir again. You still have time.

We're going to suspend. I apologize to our guests for this. This happens on occasion. With a minority government, it happens much more, but with this Parliament it seems to happen a fair bit as well.

•(1605) _____ (Pause) _____

•(1625)

The Chair: We'll call this meeting back to order. We've just come back from votes, so we have quorum.

We'll now go back to where we ended up.

Mr. Weir, you still have nearly five minutes left.

Mr. Erin Weir: Thank you very much.

I'd like to ask about your executive committee. I believe you've reduced the size of it and you plan to further reduce the size. I wonder if you could just tell us about how that might affect the functioning of your office.

Mr. Michael Ferguson: Sure. In fact we now have the executive committee down to the size we were targeting. When I originally joined the office, the executive committee was about 18 members. It's now down to nine members, which we think is the right size for our size of organization.

Also, as you see in our document, we talk a lot about roles and responsibilities. Over the course of probably about the last three years we've looked at the organization, the levels in the organization, and we've determined who we believe should be doing what. We felt there were people at fairly high levels in the organization who we weren't allowing to do the jobs they were capable of doing. Now that we've properly defined the roles and responsibilities, we've been able to reduce our senior executive group from 18 members to nine.

Mr. Erin Weir: Do you feel that's the right number because that's the minimum number you need, or do you think it's easier for that size of a group to make decisions?

Mr. Michael Ferguson: I think it's certainly easier for that size of a group to operate as an executive team. I think it also establishes the right number for direct report all the way through the organization of people reporting to people. I think when we had 18 members, the executive committee was too much in the details, rather than actually just managing and letting the auditors deal with the details.

Mr. Erin Weir: At the risk of getting into detail, I did want to ask you about the reduction of your planned spending by \$2 million from 2017-18 to 2018-19. I just wonder what explains that decrease.

•(1630)

Mr. Michael Ferguson: Which numbers are you referring to, for the record, so I know which numbers I'm dealing with?

Mr. Erin Weir: It's the planned spending figures. I think they would include those services that come from other departments and agencies that may not be billed for.

Mr. Michael Ferguson: Again, without knowing exactly which numbers I'm dealing with, certainly from year to year, for example, one of the things we get in our budget is an amount for things like employee benefits. When we get an actual amount, it is based on just the value of the employee benefits for that year, but then the next year we will have an estimate again in the main estimates and it can change significantly.

I think probably some of that may be a matter of estimating the actual employee benefits and estimating what those employee benefits might be. It might also be putting a value on some of those services provided without charge, because again I think the numbers you are looking at are all in the estimates. It's not just our main estimates. Sometimes some of those estimates of additional costs we get without charge may vary, depending on what value we put on things like accommodation and that sort of thing.

The Chair: Thank you very much.

Our time is up, Erin.

We'll now move back to the government side with Mr. Maloney, please.

Mr. James Maloney (Etobicoke—Lakeshore, Lib.): I just want to pick up on the thread from earlier with respect to the parliamentary committees. You said it had increased from 44% to 55%, with a target of 65%. I'm just curious as to whether there are any trends as to which committees tend to do this more than others.

Mr. Michael Ferguson: Certainly, it's this committee, the public accounts committee, where we have the majority of our reports as the subject of a hearing. In terms of that increase, I think most of that increase has also been that this committee has been more engaged in more of our audits.

Mr. James Maloney: Thank you.

For my next question, I'm looking at your 2017-18 departmental plan. Two of the three priorities that you indicate you'll be focusing on relate to your department. The Office of the Auditor General is an arm's-length independent body, is it not?

Mr. Michael Ferguson: I guess it depends.... Certainly we are independent, and we conduct all of our work in an independent, objective, and non-partisan manner.

Mr. James Maloney: Okay. The second item you referred to was "to maximize the value and impact of our audit work", and then the third item was "to improve the governance and management of our Office". Maybe I'm misunderstanding this, but are you in effect auditing yourselves? Is that what you're going to be doing?

Mr. Michael Ferguson: I guess by definition one can't do that, but certainly—

Mr. James Maloney: That's what I thought too.

Mr. Michael Ferguson: Certainly it's part of our quality control, so what we are doing is saying, for example, that we want to identify all of the different rules and policies that we are supposed to comply with, and then we are doing a self-assessment of whether we believe we are complying with all of those rules. It is very much an internal assessment of our governance and oversight practices.

Mr. James Maloney: Will these two reviews take the form of an actual audit, which will generate a report that is then going to be reviewed, presumably by this committee?

Mr. Michael Ferguson: Only when it becomes part of our performance report and we come back and we say what we have done on these things, but all of these are sort of how we do our work. They're not the end product of our work.

For example, for the selection of audits that have significant impact and value, what we are saying is that we need to put more

emphasis on how we add value and when our reports are bringing value to Parliament. That's more a matter of us trying to understand what is the value of our reports and trying to put more emphasis on audits with more value. It's not producing a report of any kind in that type of situation.

In terms of something like "effective, efficient, and accountable Office governance", yes, we have projects under way. For example, I just mentioned a compliance project to make sure we're complying with what we are supposed to. That will result in a document. It won't result in a report, but it will result in an inventory of all of the different things we're supposed to comply with, whether we believe we're complying, and how we know whether we're complying and that type of thing. It's an internal management tool that we weren't planning on presenting to this committee. It would be a lot of detail.

• (1635)

Mr. James Maloney: Okay. The outcomes of these two priorities, then, are purely internal. It doesn't come to this committee or go to any other body?

Mr. Michael Ferguson: What we expect and hope is that by us putting the emphasis on how we do things, it will allow us to produce better audits and better audit reports, which will then bring more value to the committee and to Parliament. What we are hoping is that as the end result of this, while you won't see any reports specifically about this, hopefully over time it will allow us to keep improving the reports that you do see from us.

Mr. James Maloney: Okay. The answer to my question, then, is no. This is a "for your eyes only" outcome. Is that right?

Mr. Michael Ferguson: I wouldn't quite put it that way. If the committee is interested in seeing what we do here, we would be more than happy to bring it forward.

Again, in terms of something like the compliance project, it will be a long inventory list of all the different instruments that we think we're supposed to be complying with, whether we believe we are complying, how we know we're complying, and what we need to do if we feel that we're not doing what we're supposed to be doing. If the committee is interested in going through all of that detail, I wouldn't have a concern with that.

Mr. James Maloney: Is this self-audit or self-review process a standard operating procedure? Is this something that the office does periodically every few years?

Mr. Michael Ferguson: It's something that we started up a couple of years ago. We're still working our way through it. I think I would say that we decided to do it because we hadn't done it in a number of years.

Mr. James Maloney: All right. Those are my questions. Thank you.

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

We'll now move to the second round. We'll go to Mr. Jeneroux, please, for five minutes.

Mr. Matt Jeneroux (Edmonton Riverbend, CPC): Thank you.

Thank you, Ron, Michael, Sylvain, and Susan for being here today and for being patient with the votes.

I just have a couple of questions for you from my end.

Under the special examinations of crown corporations—correct me if I'm wrong—you audit every department every year, but for crown corporations, is it selective? How is that determined? Is that by you? For example, I understand you're auditing CMHC this year. Is that because there has been significant public attention due to mortgage rules that have been changed? How is that process done?

Mr. Michael Ferguson: In terms of our financial audits, we do the audit of the financial statements of the federal government every year, so that will take us into some departments every year but not all departments.

We also do audits of financial statements of most crown corporations, so again, that will take us into those crown corporations every year to audit their financial statements. We audit the financial statements of CMHC every year, for example.

Under the Financial Administration Act, we have a mandate to do special examinations of crown corporations. That mandate tells us that we have to do a special examination of every crown corporation once every 10 years. We put together a schedule over a 10-year period to make sure that we get in and we do that special examination of each of those crown corporations at least once in that 10-year period.

For example, for something like CMHC, it's just that their time in that schedule is coming around for us to do that special examination, but as I said, we'll be in there every year to do the audit of their financial statements.

Mr. Matt Jeneroux: Is there ever a time that you would do a special examination outside of the 10-year schedule?

• (1640)

Mr. Michael Ferguson: We could because, under the Financial Administration Act, it just sets a minimum that indicates that we have to do every crown corporation at least once every 10 years. If we had a particular concern about a crown corporation—if we issued a special examination that had a number of significant deficiencies—we might decide to go back in and do another one before the 10-year cycle came up again.

Generally, that doesn't happen. Generally, we just try to get into each of the crown corporations once every 10 years.

Mr. Matt Jeneroux: My second question is based on the performance indicators. We often see a number of departments come before us and they haven't met their performance indicators. You have a number of performance indicators. Can you provide an explanation of how you determine your performance indicators and then also how you quantify that they have been met?

I turn to an example on page 9. You identified a target of 80% as your performance indicator of the “percentage of senior managers in the organizations we audit who find that we are independent, objective, and non-partisan”. That seems strange and it jumped out at me. Why only 80%? I would assume that target would be 100%, as opposed to 80%. I'm just curious about how you come up with your numbers.

Mr. Michael Ferguson: Overall, we have 11 strategic objectives.

We broke our organization down, looking at it in a number of ways, looking at our internal processes, looking at how we manage

our people, looking at the product that we produce externally. We looked at our organization through a number of different lenses and came up with these 11 strategic objectives. Then, for each strategic objective we looked for indicators to help us understand whether we are achieving that objective or not. That's out of the whole list of performance indicators that we have in the reports.

In terms of the particular indicator that you talked about, in order to get the results of that, we do a survey at the end of every audit, of the people we have audited. Setting those targets is a little difficult.

I would say that fundamentally we want everybody to believe and understand that we are approaching our work independently and objectively. I think that the probable reason that we set it lower than 100% was that sometimes some of the audits are difficult, and on occasion, I think departments will use the survey tool as their opportunity to express that they weren't necessarily happy with the way that the audit rolled out.

It may or may not be a real indication. It's probably more that they're expressing some concern about whether they felt we were objective, not about the independent or non-partisan side. Sometimes I think departments will wonder whether we were objective.

We do a lot of work to try to make sure that we are being objective, so getting their point of view is important for us to help improve on the audit, but I don't think we ever get too many questions about us being independent or non-partisan. I think it's more that sometimes departments feel that we haven't understood their point of view enough, even though we spend a lot of time trying to make sure we do.

The Chair: Thank you, Mr. Jeneroux.

We'll now go to Ms. Shanahan, please, for five minutes.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you, Chair, and thank you to Mr. Ferguson and the Office of the Auditor General for being here with us today.

I just want to refer to your comments in paragraph 8. I find that very interesting because it has certainly been part of the work that we've been trying to do here on public accounts, improving performance and improving management practices so that our citizens can get better service at the end of the day.

Can you comment further on this statement, “To address the concerns they raised, we are now communicating our findings and recommendations earlier in the audit process”?

You are dealing with senior management earlier. It's not a surprise when you give them the final report.

• (1645)

Mr. Michael Ferguson: That's one change that we are trying to make, particularly, again, in our performance audits, not waiting until we get a draft of the audit to present what we are finding to the department, but trying to get the key findings in front of them as early as we can, so that if there is a disagreement about them, they can bring more evidence early on.

Maybe we've had a bit of a misunderstanding. Maybe we just need to reword the way that we have identified something. The earlier we can bring the findings to the departments, start to have a conversation about exactly what we find, and either get agreement on it or access to all of the evidence that exists, then the easier it will be to prepare the report.

The worst situation is when we are trying to resolve an issue right at the very end, trying to prepare a report when everybody is under a time crunch. We're trying to move those types of conversations to earlier in the process, to allow people enough time to understand exactly what we're saying and to bring whatever evidence they feel they need to bring to us. That way, they don't feel like they're under a time crunch.

Mrs. Brenda Shanahan: Thank you. It's very much appreciated.

Another issue you brought to our attention in the past, which we need to be looking at down the road with organizations, is the whole idea of data collection, information technology, and the quality around IT systems. Here I see that, for your office, this is one of the key risks you've identified. Could you expand on that?

Mr. Michael Ferguson: Yes. We have some systems that have been around for a while. We do put a lot of effort into making sure that the data we are collecting is of quality, but we have, perhaps, some systems that don't talk to each other and that are collecting similar data.

In terms of our main systems, for example, the systems in which we collect and store the evidence that we use in audits, we spend a lot of time making sure that those systems are properly maintained, that they're properly updated, and that the information we have in them is accurate. There are some of our supporting systems that are older. Some of the systems we use to track our time, for example—because we track all of the time we put on audits so we know how many hours we have put on every audit—are older and harder to maintain, and perhaps they don't talk to other systems in the office. We are having a bit of a challenge in terms of some of our older systems.

Mrs. Brenda Shanahan: Now I'm going to ask you a last question, which you have told us yourself, Mr. Ferguson, that we're to avoid asking departments when it comes to audits. Do you have sufficient financial resources to meet your mandate?

Mr. Michael Ferguson: Again, that's something we are looking at very seriously at this point. We are concerned that at the end of this year, we will not have any carry-forward anymore, and we are going to have to use our carry-forward as part of our operations. We're looking at that very seriously and are starting to have some conversations within the machinery of government to try to establish what our level of budget should be. We're okay for the short term, but I'm not exactly sure yet what our situation's going to be for the longer term.

The Chair: Thank you very much.

We'll now go back to the opposition side, to Mr. McColeman, please, for five minutes.

Mr. Phil McColeman: Mr. Ferguson, I know you've been involved, and I'm wondering if you can update Canadians watching this regarding your audit of the Phoenix pay system.

Mr. Michael Ferguson: That's an audit that is under way. What I should say is that we are actually doing three different pieces of work related to the Phoenix pay system.

As part of preparing an audit opinion on the financial statements of the Government of Canada, one of the big expenditure items in there is payroll, of course. We have to audit the results of the payroll calculations that come out of the Phoenix pay system to know whether the amount recorded by the government as pay expense is accurate or not.

In the past we were able to rely on the controls around the pay system, which meant we didn't have to look at as many individual transactions to make sure those transactions were right. Now we can't rely as much on the controls around the system, so we're having to look at more individual transactions, which means that's increasing the amount of work we have to do on the audit that we have of the financial statements of the Government of Canada.

In addition to that, we have one performance audit under way, and we have another performance audit that is in the planning stage. The performance audit that is under way right now, which we plan to report on in the fall, is essentially about what the departments are doing to manage the situation and get things back on track. The other audit that is in the planning stages, which I think we would report in the spring of 2018, will be backward-looking. How did this happen? How did the situation roll out? How did it get to where it was? That would be the second performance audit. The first performance audit is more looking at what the departments are doing to get the system back on track.

• (1650)

Mr. Phil McColeman: Do you have any idea of the timing of that first part?

Mr. Michael Ferguson: In terms of the first performance audit, that should be released this fall. That's our target.

Mr. Phil McColeman: Okay.

Mr. Michael Ferguson: The second one, the one that's looking backwards, would be released in spring 2018.

Mr. Phil McColeman: Okay.

Mr. Chair, I'm going to yield to my colleague Mr. Jeneroux.

The Chair: Mr. Jeneroux, you have two and a half minutes.

Mr. Matt Jeneroux: Great.

Mr. Ferguson, I want to get two quick questions out there. If you could answer them both that would be wonderful.

First, this is just following up on a line of questioning from Mr. Maloney, maybe put more bluntly. Can you explain who audits you? Do you essentially audit yourself? Is there a third party that audits you? Would you just clarify that?

Also, I'll go back to my line of questioning. It seems like that 80% target for "independent, objective, and non-partisan" for your office is set to be met, essentially, as opposed to identifying any problems. It seems like there's a 20% buffer there. It says where deputy ministers.... I imagine deputy ministers don't want to be audited by you, but it's part of your role and part of the role of the deputy minister.

Perhaps you can comment again in a bit more in depth on those two questions. Thanks.

Mr. Michael Ferguson: In terms of who audits us, as you will see in our performance report, we prepare a set of financial statements every year and there is an external auditor who comes in and audits our set of financial statements. We have an audit committee that oversees that process, made up of three external members; they're not employees of the office. We prepare a set of statements. We have an external auditor come in and do that audit.

We are also subject to investigations by other agents of Parliament. On anything related to information, privacy, official languages, they can come in and look at what we're doing at any time. We're subject to examination by provincial accounting institutes as well. We train accounting students. They can get their accounting designation through our office. In order for us to be able to do that, we have to meet the standards of the chartered professional accounting bodies across Canada, so they will come in from time to time and review our work.

We have an internal practice review process, so we have our own group of internal audit and practice review, and they go and look at the files of our auditors to make sure they are complying with professional standards. Then, once within the mandate of every Auditor General—so about once every 10 years—we are subject to what's referred to as a peer review. The last one was completed in about 2010. It was led by the Australian National Audit Office, and it looked at how we conduct our work. We're in the process now of planning the next one, and we have three or four countries, I think, that have agreed to be part of the peer review team. One is the Government Accountability Office, from the United States. Another one is the national audit office of South Africa. I think there are a couple of others that will come in and review what we do. We do subject ourselves to quite a bit of external review on how we conduct our work.

In terms of the 80%, I'm going to take that as a very useful suggestion for us to go back and see whether it's time to re-establish where we've set that target. Perhaps we should be increasing that. Maybe we have set that too low to make it too easy for us to meet it.

• (1655)

Mr. Matt Jeneroux: Thank you.

The Chair: Good. Thank you, Mr. Jeneroux.

We'll now move to Ms. Mendès, please.

[*Translation*]

Mrs. Alexandra Mendès: I have only one question. Mr. Ferguson, let's say the committee wanted to conduct a special examination of one of the departments, or of one of the programs in a particular department, and it asked you to conduct an examination at a very specific time, such as in the last six months or the last

quarters. Given the current circumstances, could you and your team respond positively to this type of request?

Mr. Michael Ferguson: Of course. If the committee requests this type of audit, we consider the request important. However, it's a bit difficult to adjust our audit plans because our employees are assigned to specific audits. It's a bit difficult to adjust our staff.

Mrs. Alexandra Mendès: You make plans for the year.

Mr. Michael Ferguson: Yes. However, if the committee requests a specific type of audit, it's important. We'll try to arrange to conduct the audit, but we can't change all our plans right away. We need time to respond to this type of request.

[*English*]

Mrs. Alexandra Mendès: I have a secondary "motive", if you wish, in asking this question. Following our trip to Britain and seeing how their public accounts committee has the opportunity of asking the equivalent of the Auditor General's office to do these spot checks on certain departments and certain ministries, we thought it could be useful for us, as the public accounts committee, to have the possibility of requesting your assistance when we would like to dig into something more specifically. I totally understand what you are telling us, that in terms of planning you have to have 10% or 15% of your overall resources for the year planned for these kinds of things and right now it's not a practice. Maybe we could discuss it further for next year. You could perhaps start looking at reserving resources for something like that, if we actually agree as a committee to go into that.

I believe that would improve our work as a committee too, to be able to do some of these spot checks when necessary. It's more just a wishful, aspirational thing that I'm putting out there, but I'm glad you answered us for now.

Mr. Michael Ferguson: Quite frankly, we would like to be able to do it, whether the request came from the committee or other places, to have a team that could look at these types of issues. Of course, to have a team that can be that flexible and that nimble, we would have to make sure that anything they were looking at would have to be of short duration.

Our performance audits tend to take us 18 months to complete, so it would be a whole different type of product and report for us. We would have to carve out a certain number of employees to be able to do that, and again, right now all our auditors are scheduled throughout a whole year.

We have a scheduling piece of software. We know who all our people are. We know all the audits we're going to do. We have people scheduled across all of that, and once we've done that, there isn't a lot of flexibility. We would have to figure out essentially which audits.... We would have to cut back on some audits so we could set aside a team of auditors who would be able to react in that way.

•(1700)

Mrs. Alexandra Mendès: This is why I'm putting it out there to consider for next year's planning. If the committee really does decide to go this way, we can count on your collaboration to proceed, and I imagine your human resources department will have to look at the whole planning of it.

Thank you very much.

The Chair: Thank you, Ms. Mendès.

We'll move to Mr. Weir again, please.

Mr. Erin Weir: Regarding your studies on the Phoenix pay system, I'm wondering if either or both of the reports will include a tally of the costs for fixing Phoenix.

Mr. Michael Ferguson: At this point I can't say what will end up in the report so I can't comment. We're still in the process of working our way through it. I haven't seen any preliminary findings.

Mr. Erin Weir: Okay, I'll rephrase it as a comment rather than a question. That would be quite a valuable thing to produce because, of course, in the last budget we didn't see any numbers about the cost of Phoenix. We have an estimate from the government on the cost of the temporary pay centres but we haven't seen any figures on the cost of compensating employees who incurred penalties or interest charges because they were not paid on time. Some sort of overall accounting of what the boondoggle has cost would certainly be of great interest to parliamentarians and to Canadians.

Mr. Michael Ferguson: Again, I can take this suggestion of understanding the cost of the system back and see what we are planning on doing in terms of the audits that we have under way.

Mr. Erin Weir: I appreciate that.

To go back to your 2015-16 performance report, it noted that several audits were delayed by issues with client readiness. Could you elaborate on what that means, and what problems it created for your office?

Mr. Michael Ferguson: That probably refers to a number of the audits that we do in the northern territories. Remember that we don't just do audits for the House of Commons. We also are the Auditor General for each of the three northern territories. We report directly to the legislatures of the three territories. We do audits of crown corporations of those territories. In some cases, they struggle with capacity issues, and that can put us behind schedule.

I know we had a special examination planned of Atomic Energy Canada Limited in this time frame, but because it was undergoing a change in its model and how it delivered services, it made sense for us to put that special examination off a little bit. That would have been an example in the federal government realm where it wasn't ready for the special examination, but that was because it was going through a significant change in its structure and model, as opposed to the types of issues we come across in the territories where sometimes they just have capacity issues that can put us behind schedule.

•(1705)

Mr. Erin Weir: Are there any issues relating to client readiness that you think we could make some recommendations to deal with, or is it really just an underlying lack of capacity in the territories?

Mr. Michael Ferguson: There was one issue, in particular, that I forgot in my first answer. It would be important for this committee or others to work on or help with, and we've raised it before, the audit of the Canadian Forces reserve force pension plan. We've tried to go in and do an audit of that pension plan a few times, but the information isn't in good enough shape for us to be able to produce an audit opinion on the reserve force pension plan. That situation has been going on for a number of years. The Department of National Defence has been before this committee before to talk about that issue.

That is perhaps the one that concerns me the most, because it's a long-standing issue. It's not caused by a one-time event. It's an issue that the Department of National Defence needs to resolve.

Mr. Erin Weir: Thank you.

The Chair: Thank you, Mr. Weir. I would like to ask one question.

In part of your report, you talked about cost recovery from international audits. We've heard that representatives from Australia are involved in doing some of the audits with your department. How many of these international audits would you do?

You also audit for the Canadian Council of Legislative Auditors, and we get paid for that. I guess you contract with these guys, and then they pay...who? Is it the Government of Canada? Does it go into general revenue? You go on to say:

Cost recoveries related to International Audits and to CCOLA become available for use when funds are received. Other refunds and adjustments are considered to be earned on behalf of the Government of Canada and are not available to discharge the Office's obligations. As a result, these recoveries are deducted as costs recovered not available for use.

Can you explain that? Is there a problem there? Is there a remedy to the problem, or is this typically the way that it has always been done and the way it's done everywhere?

Mr. Michael Ferguson: In terms of the international work, until recently we were the auditors for the International Labour Organization, which is a UN organization. We had a mandate to do their financial statement audit every year and to do a little bit of performance audit work. The International Labour Organization paid us for the work that we did.

The Chair: By "us", you mean whom?

Mr. Michael Ferguson: That's "us" as the Office of the Auditor General. The money went back into our budget. Doing the audit of the International Labour Organization essentially didn't affect our budget.

Our mandate for that audit has now terminated, but we have recently started up a mandate as the auditor of Interpol, doing the audit of their financial statements. Again, they are paying the Office of the Auditor General of Canada for that. That money, again, will go into our budget and it doesn't have an effect on our budget.

We feel that we should be involved in those types of international audits as a regular part of our business, particularly in terms of the UN organizations. Interpol is not a UN organization. At all times, we try to make sure that we are involved with at least one UN organization, whenever UN organizations put out a request for proposals on audits, but again on a cost-recovery basis. That's something we try to pursue in a way that whatever we charge those organizations gets paid to us. Essentially it becomes revenue to us for the work that we do.

Just so that the committee is aware, in addition to that, we do other international work. We participate in various committees that look at audit issues that all legislative audit offices around the world are dealing with.

We work through a program funded by Global Affairs Canada and managed by the CCAF whereby we bring performance auditors from other countries over to work with our performance auditors. In fact, sometimes they will come over and be housed or they will work with a provincial auditor general office, but we always have two to four members within our office who come from audit offices of other countries, usually African countries such as Tanzania, Ghana, and Cameroon, but also Vietnam. They will come over and work with us for nine months. Those auditors then go back and take with them what they have learned to help the performance audit practices in their countries. That's another piece of work we do on the international front, through a program funded by Global Affairs Canada.

In terms of CCOLA, that's the community of all legislative audit offices across Canada, being the provincial auditor general offices and ourselves. On that front, we run a secretariat for that group, which keeps everything organized for us as a committee. We do have an agreement with provincial audit offices, because some of them don't have a lot of capacity. For example, the Office of the Auditor General of Prince Edward Island has maybe 17 to 20 people, so we help them through methodology or other advice, or legal support, that type of thing. We have agreements with the other legislative audit offices. They will pay us for that, which again is money that will go into our budget.

Beyond those things, though, there might be other small items that we end up charging for that just go back into the consolidated revenue fund and don't come into our office's budget.

● (1710)

The Chair: Is there much of that? Are we speaking of hundred of thousands of dollars, or how much?

Mr. Michael Ferguson: In terms of costs recovered in 2016, on international audits, we recovered about \$1.3 million. In regard to other costs recovered, part of that would have been the CCOLA. However, \$178,000 would have been costs that were recovered but weren't available for our use. That's in the set of financial statements.

The Chair: Thank you very much. I don't see any other questions that are ready to be posed, so I want to thank you for coming.

We also have to go through a couple of votes in regard to the amount granted in interim supply, so I will, right now, without suspending, move to the question. Shall vote 1, less the amount of \$17,067,274.75 granted in interim supply, carry—

Go ahead. I should have called on you to explain.

The Clerk of the Committee (Mr. Michel Marcotte): Technically, the vote for the Office of the Auditor General this year, as in the main estimates, is \$68,269,099, but the House approved interim supply a couple of weeks ago. You cannot vote on that.

Technically, you can approve the \$68 million minus the \$17 million and a few pennies.

Mrs. Alexandra Mendès: It's \$51 million and something. Okay, perfect. We get it.

The Chair: I'm not sure if that's as clear as you'd like it, but—

Mrs. Alexandra Mendès: It's very clear.

Mr. Phil McColeman: That was catching us by surprise.

The Chair: This always happens after we deal with the main estimates, if interim supply has already been voted on allowing some funds to be made available. Now we go back less the amount of interim supply.

OFFICE OF THE AUDITOR GENERAL

Vote 1—Program expenditures.....\$68,269,099

(Vote 1 agreed to)

The Chair: Shall the chair report vote 1 under the Office of the Auditor General to the House?

Some hon. members: Agreed.

The Chair: Thank you all for being here at our committee meeting today.

To our guests from the Auditor General's office, thank you for appearing for our main estimates, and also for the good work you do. I look forward to our meeting next week.

We're adjourned.

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