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Ms. Yaprak Baltacioğlu  
Secretary of the Treasury Board of Canada  
Treasury Board of Canada Secretariat  
Office of the Secretary of the Treasury Board of Canada  
140 O'Connor Street  
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Canada

21 October 2013

## Review of Public Safety and Anti-Terrorism (PSAT) Reconstruction Exercise

Dear Ms. Baltacioğlu:

Ernst & Young LLP (“Ernst & Young”) was engaged by Treasury Board of Canada Secretariat (TBS) to perform a review of TBS’s Public Safety and Anti-Terrorism (PSAT) reconstruction exercise (“the reconstruction exercise”). The objective of the assignment, as per TA #12131TA013, was to validate the reasonability of the methodology used to carry out the PSAT reconstruction exercise for the purposes of reconciling the \$3.1 billion identified in the Spring 2013 Report of the Auditor General of Canada, Chapter 8, Spending on the PSAT Initiative. Our review of the methodology, defined in Appendix A, was conducted during the months of September and October 2013 based on information available at that time.

### TBS Objectives:

The reasonability of TBS’s methodology must be considered in the context of TBS’s defined objectives in performing the reconstruction exercise. The objectives, as defined by TBS, are as follows:

- ▶ To complete the reconstruction of \$12.9 billion allocated to PSAT initiatives between 2001-2002 and 2008-2009 with associated expenditures. More specifically, identify and clarify \$3.1 billion of previously “non-reported” expenditures.
- ▶ To meet the original assurance expectations of PSAT reporting. As the PSAT reporting exercise itself was not intended to provide audit assurance, TBS equally did not intend the reconstruction exercise to constitute an audit.

### Scope of the review:

The objectives of our review included determining whether:

1. The design of TBS’s methodology for carrying out the reconstruction of the financial elements of the PSAT initiative, in the context of the objectives as stated by TBS, is reasonable. Specifically, we:
  - ▶ Held discussions with TBS’s key stakeholders to gain a fulsome understanding of the process used to develop and apply the reconstruction methodology.

- ▶ Performed a review of completed departmental PSAT reconstruction forms and templates on a sample basis to confirm our understanding of the process.
  - ▶ Confirmed that the methodology developed and used for the reconstruction exercise is reasonable, in the context of the TBS stated objectives of the reconstruction exercise, and allowed TBS to gain greater clarity on the complete accounting of the allocated PSAT funds.
2. The methodology developed by TBS was clearly communicated, understood and consistently applied as intended by the other government Departments/Agencies tasked with providing the necessary information to reconcile the PSAT funds. Specifically, we:
- ▶ Selected a sample of Departments/Agencies who participated in the PSAT reconstruction exercise and interviewed key stakeholders responsible for completing the respective analysis for the selected Departments/Agencies. A judgemental sample of Departments/Agencies was selected based on risk, materiality and complexity of the PSAT allocations.
  - ▶ Performed a detailed walkthrough of the PSAT reconstruction exercise for selected Departments/Agencies to determine whether TBS's methodology was consistently understood and applied across the sample of Departments/Agencies.

#### Review Findings:

Based on the procedures applied, as detailed in the scope section above, the following findings have been identified with respect to the review objectives:

1. TBS developed a methodology which addressed its stated objectives for the exercise. The nature of information required for the exercise was clearly defined and the approach to gather existing information and create a consistent basis of results documentation for the Departments/Agencies was reasonable. The overall design of TBS's methodology for carrying out the reconstruction of the financial elements of the PSAT initiative, in the context of TBS's stated objectives, is reasonable.
2. The methodology developed by TBS was clearly communicated, understood and consistently applied as intended by the other government Departments/Agencies tasked with providing the necessary information to reconcile the PSAT funds, specifically:
  - ▶ TBS provided ongoing assistance to Departments/Agencies throughout the exercise.
  - ▶ The reconstruction process, which involved several Departments/Agencies completing the exercise in a short period of time, would not have been possible had the methodology/instructions from TBS been unclear.

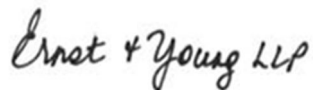
Conclusion:

In conclusion, the TBS PSAT reconstruction methodology was reasonable in meeting the stated objectives of identifying and clarifying \$3.1 billion of previously “non-reported” expenditures within the expectations of the original PSAT reporting. As noted, this was a reconstruction exercise, not an audit, and as such there are variations in the levels of support and assurance inherent in the results.

While we performed the procedures detailed above and considered appropriate under our mandate, we were not engaged to, and did not, perform an audit or review for the purpose of expressing an opinion on the PSAT reconstruction exercise in accordance with standards established by the Canadian Institute of Chartered Accountants or the Institute of Internal Auditors. The work detailed in this letter was performed for TBS on information provided by TBS and select government Departments/Agencies and, as such, any third parties who may choose to make use of or rely on our findings do so entirely at their own risk.

Please do not hesitate to contact the undersigned if you have any questions on this letter.

Sincerely,



Bill Kessels, CPA, CA, CIA  
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## **Appendix A – TBS Methodology (Source: Treasury Board Secretariat)**

To address the \$3.1 B difference noted by the Office of the Auditor General, the Treasury Board Secretariat (TBS) reconstructed PSAT reporting from a financial perspective, listing relevant PSAT allocations, by initiative, and the associated expenditures, with a focus on understanding or reconciling the reasons for variances between the allocations and expenditures. No additional assurance was planned beyond that provided by the original PSAT reporting exercise, as such:

- TBS did not define a level of materiality or precision to which Departments/Agencies were requested to use when completing the exercise.
- TBS did not define a level of support/evidence for Departments/Agencies to follow when identifying reconciling items.

The TBS undertook the following reconstruction and reconciliation exercise with those organizations that received allocations and implemented the initiatives:

- Review their Department's PSAT allocations and the PSAT reports that were submitted to the TBS by the accountable DM over the period 2001 – 2009. To assist in this process, TBS provided these documents to the Departments/Agencies for their reference, and
- Search through available paper and system records for information to trace the use of the funds allocated to their Department for PSAT to:
  - Validate that the expenditures presented in PSAT reports represent the full expenditure of the Department on those PSAT funds between 2001 and 2009;
  - Identify what happened to funds that were not reported as spent on PSAT initiatives.

The TBS developed a template for Departments/Agencies to complete for each PSAT initiative, outlining the detail necessary to provide a more complete accounting of the allocated PSAT funds. For each fiscal year for which funding was allocated, the Department was asked to highlight the total approval for Treasury Board submissions, any difference between the approval and ultimate allocation, as well as the total expenditure reported by the Department in its PSAT report. The difference between the allocation and the expenditure was defined as the variance, and the Department was asked to categorize the variance according to a pre-defined set of categories.

Departmental Chief Financial Officers were asked to sign off on the data provided by Departments/Agencies. The templates provided by Departments/Agencies were reviewed for completeness and internal consistency. Information from the templates was also compared to expenditure management information to assess its reasonableness.

The information from Departments/Agencies involved in significant machinery of government changes were checked to ensure that financial information was neither missed nor double-counted. As well, the attestations were reviewed for qualifications and caveats that would have a material impact on the confidence of the overall findings. Where organizations indicated a lower level of confidence in their information, TBS reviewed related material over the time period, noting a lower level of confidence in instances where there is only indirect evidence to support categorization or lack of formal documentation.