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Mr. Gary O'Brien
Clerk of the Senate
The Senate of Canada
40 Elgin Street
11th Floor
Ottawa, Ontario

September 17, 2013

Dear Mr. O'Brien:

In planning and performing our audit of the financial statements of The Senate of Canada ("the Senate") for the period ended March 31, 2013, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Senate's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR. Accordingly, we do not express an opinion on the effectiveness of the Senate's ICFR.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

IDENTIFICATION

Please refer to Appendix A for the definition of a deficiency in internal control.

A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

We identified a control deficiency that we determined to be a significant deficiency in ICFR, which is described in Appendix B. We understand that the implementation of our recommendations will require action by the Audit Subcommittee and the Standing Committee on Internal Economy, Budgets and Administration.



USE OF LETTER

This letter is for the use of management and those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purpose or anyone other than management and those charged with governance. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

cc: Audit Subcommittee



Appendix A

Terminology	Definition
DEFICIENCY IN INTERNAL CONTROL	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.



Appendix B

EXPENSE CLAIMS OF SENATORS

Background

In fiscal 2013, and subsequent to year-end, the travel expenses and housing allowances in the expense claims of four Senators were subject to forensic audits. As a result of these audits, the Standing Committee on Internal Economy, Budgets and Administration required reimbursement of certain amounts from the four Senators.

Description of Significant Deficiency

Expense claims submitted by Senators for reimbursement are reviewed by Senate administration to verify that the amounts claimed are appropriate and supported by sufficient documentation. However, the Senate expense claim policies related to housing allowances and travel expenses were not sufficiently detailed with respect to eligibility and documentation requirements to ensure amounts claimed were appropriate. The potential effect of this deficiency is that ineligible expenses may be approved and paid.

Recommendation

All expense claim systems, including the Senate's, require a level of self-reporting by individuals, who submit expense claims under the policies and procedures of the organization. By their very nature, there is a risk in all expense claim systems that ineligible expenses are paid. Ineligible expense payments can be caused by administrative mistakes or oversights, a lack of knowledge of expense policies and processes, misinterpretations of expense policies, or intentionally claiming ineligible expenses.

Due to the self-reporting nature of expense claims, it is difficult and expensive to design and implement a centralized expense claim approval process that mitigates all of the risks of ineligible expenses being paid. In particular, the risks of inappropriate approval of expenses not incurred in support of the organization's business, or for which the claimant is not eligible, are very difficult to mitigate through a centralized approval process. However, these risks can be reduced through periodic policy reviews and updates supported by on-going education initiatives and monitoring processes.

We therefore provide the following four recommendations for the consideration of the Senate. We believe that these recommendations should be implemented in the 2013-14 fiscal year.

- 1) We recommend that the Senate management continue its process of periodic review and revisions of expense policies to help ensure that policies remain up-to-date and provide clarifications on matters of interpretation. We also recommend that management develop guidelines on the interpretation and application of the policies to specific situations.
- 2) We recommend that the current training program on the policies and processes relating to Senator expense claims be revised to incorporate a combination of group, one-on-one and technology-enabled training. The training program should include sessions designed for individuals new to the Senate and an annual update module. We also recommend that the Standing Committee make the completion of this training program mandatory for Senators and for the individuals in the Senators' offices who prepare the expense claims for Senator signature.



- 3) We recommend that the Senate's Internal Audit department perform audits of Senator expense claims on an annual basis. We recommend that these internal audits be planned and performed on a Senator office basis and that a sample of Senator offices be selected annually on a random basis. These internal audits should focus on the processes for the preparation and authorization of the expense claims in the Senator office and the performance of audit procedures on a sample of expense claims submitted by the Senator.
- 4) We recommend that all Senators be required to submit a signed compliance declaration with respect to their adherence to the expense policies of the Senate to the Standing Committee, on an annual basis.