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CANADA

February 26, 2014

The Honourable Noël Kinsella
Speaker of the Senate
Room 280-F, Center Block
The Senate of Canada
Ottawa, Ontario

Dear Mr. Speaker:

SUBJECT: MANAGEMENT RESPONSE TO THE AUDIT SUBCOMMITTEE REGARDING CONTROL DEFICIENCIES IDENTIFIED IN THE AUDIT OF FINANCIAL STATEMENTS FOR THE YEAR ENDING MARCH 31, 2013

As agreed by the Standing Committee of Internal Economy, Budgets and Administration at its meeting yesterday, Tuesday, February 25, 2014, management's response to the KPMG's management letter regarding the Financial Statement hereby follows:

Senate management acknowledges KPMG's finding of a control deficiency. Nonetheless, the Senate's adoption of the 25th Report of the Standing Committee on Internal Economy, Budgets and Administration provides for additional control and implementation of additional provisions in Senators' Travel. (<http://www.parl.gc.ca/Content/SEN/Committee/411/ciba/rep/rep25may13-e.htm>).

The Senate has determined that the Primary and Secondary Residence Declaration form in force during the scope of the investigations of senators in the last session of parliament was amply clear. Senators who declare that their *primary* residence is "more than 100 kilometres from Parliament Hill" are eligible to claim living expenses in the NCR. To claim living expenses, any residence owned or rented by a Senator must be a *secondary* residence, not the place where he or she ordinarily lives, for use by the senator while in the NCR for Senate business. The Senate has concluded that this language is unambiguous and, plainly, if a senator resides primarily in the NCR, he or she should not be claiming living expenses for the NCR.

The Senate Administration notes that KPMG has commented that "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." While new controls have been established to provide proof of primary residence within a Senator's province or territory of appointment (three indicators are now required), KPMG has made four specific recommendations for implementation in the 2013-14 fiscal year. Senate management agrees with these recommendations and its responses follow:

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1) Pursuant to recent audit reports, to the adoption of 25th Report, and to the Senate Administration's Policy Development and Management Framework, which requires policy monitoring and cyclical review, the Senators' Travel Policy and related policies have recently undergone a thorough review that will help to provide clarification on matters of interpretation. Further, Senate management agrees to develop guidelines on the interpretation and application of the policies to specific situations.

2) Senate management agrees to design improved training sessions on financial matters for new Senators and their staff, as well as update modules for experienced Senators and staff. The Standing Committee on Internal Economy, Budgets and Administration will be asked to consider making this training mandatory.

3) The Internal Economy Committee agreed on March 8, 2012, to "implement regular reviews of past financial transactions and audits of Senators' expense claims." These reviews were identified in the Multiyear Audit Plan on an ongoing basis. Internal Audit will proceed in the audit of transactions upon adopt of the Multiyear Audit Plan after completion of the OAG's audit of Senators' expenses, so as not to overlap or duplicate the efforts of the OAG.

4) The Standing Committee on Internal Economy, Budgets and Administration will be asked to consider making the annual submission of a signed compliance declaration with respect to individual Senators' adherence to the expense policies mandatory.

Sincerely,

A handwritten signature in black ink, appearing to read "G. O'Brien", with a long, sweeping horizontal stroke extending to the right.

Gary W. O'Brien

c.c. KPMG