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## Standing Committee on Public Accounts

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**Thursday, September 28, 2006**

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**Chair**

**The Honourable Shawn Murphy**

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Thursday, September 28, 2006

• (1525)

[English]

**The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)):** Ladies and gentlemen, I want to welcome everyone here to the meeting of the Standing Committee on Public Accounts. *Bienvenue à tous.*

I want to welcome our witnesses here today.

From the Office of the Auditor General of Canada, of course we have the Auditor General, Sheila Fraser. With Mrs. Fraser are Douglas Timmins, Assistant Auditor General, and Frank Vandenhoven, principal.

From the Treasury Board of Canada Secretariat, we have the Comptroller General, Charles-Antoine St-Jean, and Bill Matthews, senior director.

From the Department of Finance, we have Chris Forbes, director of fiscal policy division.

I don't believe there is anyone else.

I want to extend to each and every one of you a very warm welcome.

Mr. Williams, you have a point of order. I recognize you.

**Mr. John Williams (Edmonton—St. Albert, CPC):** Thank you very much.

I was in the House today at routine proceedings, which, of course, start after question period. I had some petitions to present that are very important for my constituents. The meetings are now starting at 3:15, and I have a conflict between presenting petitions and being here at the committee. Why are we now starting at 3:15 rather than at the normal time of 3:30?

There were some points of order and privilege in the House after question period. I was caught in the conflict, but here I am, and I still haven't had my petitions presented.

Do we have to start at 3:15, Mr. Chair?

**The Chair:** It's something that the committee can take back to the steering committee, Mr. Williams, but I can tell you where we were coming from.

It's been our experience that a lot of members try to schedule other events at 3:30, whether it be interviews, meetings with people, or going back to offices. On a lot of occasions, which you as former chair know, it's very difficult to get started at 3:30. In fact, many

times we start at quarter to four. We thought we would try to start at 3:30.

If it presents a major problem for members of the committee, we can certainly revisit it. That's the reason behind it. As you can see, we're starting now and it is very close to 3:30.

But again, I'll put that on the agenda, Mr. Williams, at the next meeting of the steering committee, and we'll see what the views of the members are.

Is there anything further?

Before we ask the Auditor General for her opening remarks, I want to note a point of information.

We approved by motion the report on the Department of Public Works and Government Services that deals with the leasing of government office space. Of course, we circulated it to each and every member. According to committee practice, we gave everyone 24 or 48 hours to comment. We did not receive any comments. The report will be finalized and translated, and it will be presented in the House at the first opportunity.

If time allows, perhaps we could spend the last 20 minutes in camera, reviewing the most recent draft of the gun control report. As members are all aware, we spent a considerable amount of time on the report; however, certain amendments were made. Those amendments were made in both official languages and circulated to the committee. We want the committee to have one last look at the report. We will do that later today at the end of this meeting.

Having said that, I am now going to ask our Auditor General for her opening comments.

**Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you, Mr. Chair. We are pleased to be here today to brief the committee members on our report on the audited 2005-06 financial statements of the Government of Canada.

With me today are Doug Timmins, Assistant Auditor General, and Frank Vandenhoven, principal, both of whom are responsible for the audit of the financial statements of the Government of Canada.

I am pleased to see that the committee was able to hold this hearing on the day that the public accounts were tabled. The public accounts are a key accountability report of the government.

The Comptroller General will be explaining the main points in the government's financial statements to the committee, and I will talk about the highlights of my audit opinion and observations.

[Translation]

My report on the 2005-2006 financial statements is included on page 2.4 of the Volume I of the Public Accounts.

My opinion provides Parliament with the assurance that the government's financial statements are fairly presented in accordance with Government's stated accounting policies, which conform with Canadian generally accepted accounting principles.

My opinion can be referred to as a "clean" opinion. Our Office has been able to issue such an opinion on the Government's financial statements in each of the past eight years.

Mr. Chair, I would like to point out that this is the first year in which our audit opinion indicates that the government's financial statements conform with Canadian generally accepted accounting principles. This change was made because the standards of the Public Sector Accounting Board were recognized as generally accepted and auditors are now required to opine against those standards.

Given our legislative mandate to report against the Government's stated accounting policies, my opinion indicates assurance in that regard as well.

I commend the Government for producing financial statements that are fairly stated in conformity with Canadian generally accepted accounting principles. Parliamentarians and all Canadians can be assured that the financial statements provide sound financial information, and in our view, Canada continues to demonstrate leadership in financial reporting for national governments.

I would like to discuss two key accounting issues that we dealt with during our audit.

• (1530)

[English]

Firstly, this year the government applied the Public Sector Accounting Board's revised standard on the government reporting entity. Under this new standard, organizations are considered to be part of government if they are controlled, and controlled in an accounting sense, by the government. In essence, these organizations are treated as part of the government reporting entity, and as a result their assets, liabilities, expenses, and revenues are included in the government's financial statements.

Transfers to such organizations are not treated as expenses until these organizations use the funds for their intended purposes. This was a challenging standard to implement and resulted in the following entities being included in the government's financial statements for the first time: the Canada Foundation for Innovation, the Canada Millennium Scholarship Foundation, the Canada Foundation for Sustainable Development Technology, the Aboriginal Healing Foundation, and the St. Lawrence Seaway Management Corporation.

This issue has been a long-standing item of discussion with government, and in fact the public accounts committee recommended that the government address this issue. The implementation of this new standard resulted in a reduction in the government's opening accumulated deficit of \$5.1 billion. More details of the

impact of this on the financial statements are found in note 2 on page 2.11 to the financial statements.

I am pleased to report that I believe the government followed a reasonable approach in implementing this standard and that it addressed this difficult issue. This results in a more complete and accurate picture of the government's financial position and results.

Secondly, the government's financial results include \$3.6 billion in expenses pursuant to authority given to the government through Bill C-48, An Act to authorize the Minister of Finance to make certain payments. Of this, \$3.3 billion related to transfers to provinces and territories. The government created this obligation prior to March 31, 2006, by communicating its intention to transfer funds to provinces. The actual amount of the transfer was dependent on the size of the surplus.

[Translation]

The Government's accounting treatment was acceptable for these reasons: the Government obligated itself to pay the funds; it did not stipulate any conditions on the transfers; and it had authorization from Parliament to make the payments.

These matters are discussed in more detail in our Observations, which are found starting on page 2.29 of the Volume I of the Public Accounts. In these Observations, I have also provided an update on issues raised in previous years. I am pleased to report that the issue of "netting" has been resolved. The Government continues to work on the other issues, which while important, were not so significant as to affect our audit opinion. We will continue to monitor progress on these issues.

In conclusion, I would very much like to thank the staff of the Office of the Comptroller General and of all of the departments involved in this work. The actual tabling of these accounts reflex many hours of painstaking work.

Mr. Chair, we would now be pleased to answer any questions the Committee may have.

[English]

**The Chair:** Thank you very much, Mrs. Fraser.

Monsieur St-Jean.

**Mr. Charles-Antoine St-Jean (Comptroller General of Canada, Office of the Comptroller General, Treasury Board of Canada Secretariat):** Thank you for the invitation to appear before this committee to discuss the public accounts.

[Translation]

The preparation of the financial statements for the Government of Canada is a challenging task that requires sound judgment in the application of professional accounting standards. This process also requires the frequent and thorough discussion of issues with the Auditor General and her office. We are extremely pleased that, for the eight consecutive year, the Auditor General has issued an unqualified opinion on the Government's financial statements.

Canada is one of only three countries in the world, the others being Australia and New Zealand, to have such a track record of unqualified audit opinions on its consolidated financial statements. This is an accomplishment of which we should all be proud.

[English]

The government reported a surplus of \$13.2 billion last year, which resulted in a reduction of the accumulated deficit from \$494 billion to \$481 billion. This is the ninth consecutive year that a surplus has been recorded.

The surplus of \$13.2 billion was more than the forecasted surplus of \$8 billion, as announced by the Minister of Finance in the May 2006 budget. Revenues were \$1.3 billion higher than forecast, primarily as a result of a \$1 billion foreign exchange adjustment on Canada's investment in the International Monetary Fund, which was reflective of the strengthening of the Canadian dollar. Program expenses were \$4 billion lower than forecast, primarily related to lower-than-expected program spending and year-end adjustments.

• (1535)

[Translation]

This is also the first year that the Government's financial statements include the results of four foundations that met the revised definition of control for financial reporting purposes. This adjustment resulted in a \$5.1 billion decrease to the opening accumulated deficit.

[English]

I would like to stress that accounting standards are evolving both nationally and internationally. The pace and complexity of these changes are not without their challenges for both preparers of financial statements and auditors. Currently on the horizon are new standards related to segmented reporting, government transfers, and financial instruments, which will significantly impact the government's financial statements.

The international scene is also changing, with movement to harmonize standards for the private sector. One can assume that the public sector standards will eventually follow this trend. It was announced earlier this month that the International Public Sector Accounting Standards Board will be relocating its offices to Canada. This is a significant event, and it further solidifies Canada's reputation as a world leader in public sector financial reporting.

[Translation]

Mr. Chairman, we have tabled a presentation outlining some of the key financial results for last year. That presentation is now available.

[English]

Before starting to make the presentation, I would like to thank the Auditor General and her office for the continuing professional working relationship we have enjoyed.

I would also like to publicly thank all the many government officials in Public Works and Government Services Canada, Canada Revenue Agency, all departments, and my office for the very long hours and great work in enabling the tabling of these accounts.

Thank you very much. I look forward to our discussion.

**The Chair:** Thank you very much, Monsieur St-Jean.

Mr. Forbes, do you have any opening comments?

**Mr. Chris Forbes (Director, Fiscal Policy Division, Economic and Fiscal Policy Branch, Department of Finance):** I do not, Mr. Chair.

**The Chair:** Thank you very much.

I want to again thank you for being here on the day the public accounts are tabled in Parliament. I think that's appropriate.

It always startles me that the Government of Canada can get their public accounts out in September but the provinces struggle to get them out by the end of December. In some provinces it's well into January before they get them out. Of course, they're only a fraction of the size. It's amazing how we can get it done here but not in smaller entities.

We're going to go to questions now in the first round. Liberal Party, Mr. Proulx—

**Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC):** Mr. Chairman, will we be going through the deck?

**The Chair:** Do you want to go through it?

**Mr. Charles-Antoine St-Jean:** I could go through the presentation, if it would be helpful for the members. Or we could go directly to questions.

**The Chair:** I'm at the total discretion of the members. It's been circulated and people can read it. I don't think there's any need for it.

Mr. Sweet.

**Mr. David Sweet:** Whatever the majority of the committee feels is fine with me.

**The Chair:** Mr. Williams.

**Mr. John Williams:** It's bedtime reading. I'm sure Mr. Sweet will want to fall asleep with this, because it's really riveting stuff. This is very important. I suggest we take it home and study it in great detail.

**The Chair:** Does anybody else have any views on how we should proceed?

You'll refer to it in questions and answers, Mr. St-Jean, and we'll proceed without your going through it. The way it's presented makes for very quick and easy reading. We certainly appreciate the way it's done. I'm sure members have perused it here.

Mr. Proulx.

[Translation]

**Mr. Marcel Proulx (Hull—Aylmer, Lib.):** Thank you, Mr. Chairman.

Good afternoon, Ms. Fraser and Mr. St-Jean, and welcome also to the people who are with you today. I am glad to see that you have both extended your congratulations and thanks to each other. That is a very good sign. It means that there is harmony within the Canadian government family.

Just for my own information, I would like someone to explain why the inclusion of four foundations and one corporation makes a difference. Ms. Fraser, am I to understand that you now audit these foundations and this corporation?

• (1540)

**Ms. Sheila Fraser:** No.

Mr. Chair, we are not responsible for auditing the financial statements of these foundations and this corporation. In 2005, however, our mandate was broadened so that we are now authorized to carry out what are called management audits. That means that we can audit certain aspects of their operations. Indeed, three foundations are currently being audited as part of broader, more extensive audits. At the same time, we do rely on private sector auditors who audit the financial statements to include them in the results presented for the Government of Canada.

**Mr. Marcel Proulx:** Since you include these foundations and this corporation in the Government's financial statements, am I right to assume that they are subject to the Financial Administration Act?

**Ms. Sheila Fraser:** This is not legal control. According to accounting standards, when it is in a position to influence its operations and set the objectives, policies, as well as the overall direction of an organization, the government is deemed to control that organization. Some of these foundations were established under an Act of Parliament and have very limited objects.

For example, they cannot borrow money; they use the fund provided to them by the government for very specific purposes. It is assumed that the federal government controlled the operations of these foundations, even though it did not do so on a day-to-day basis. The fact remains that it does control their objectives. For that reason, the results must be included in the Government of Canada's financial statements.

**Mr. Marcel Proulx:** Am I to understand that they are included in the financial statements even though there has been no actual control of how the funds were used? I understand what you are saying. I realize that there is a broader audit or understanding in terms of their mandate and compliance with the policies which were relied upon to create these foundations or manage the corporation. If the use of funds is not controlled, how can you include these results in the Government of Canada's financial statements?

**Ms. Sheila Fraser:** In the case of both the foundations and the corporation, I believe the financial statements are in fact audited. However, that audit is carried out by private sector firms. A financial statement is produced and a financial audit is carried out. We rely on these auditors to provide us with accurate financial data.

As regards the attainment of goals, compliance with legislation and the use of funds, that is a different type of audit. Some organizations are required to do that every five years. The Secretariat may ask that these specific items be subject to an audit. We do not audit these things on a regular basis. I would even say that until recently, we did not even act as the auditors for a number of fairly significant Crown corporations. We rely on other Auditors. In some cases, we do additional work that we consider necessary in order to express an opinion.

**Mr. Marcel Proulx:** As regards these foundations and this corporation, do the private sector experts carry out their audits using accounting standards for the industry, or according to the Government's accounting standards?

**Ms. Sheila Fraser:** All auditors, whether they are private sector or legislative auditors, are required to comply with the standards set by the Auditing Standards Board. That organization establishes auditing standards for Canada as a whole, and we are all required to follow them. The Government does not set standards for auditing.

● (1545)

**Mr. Marcel Proulx:** That is an industry council.

**Ms. Sheila Fraser:** It is a council of the Canadian Institute of Chartered Accountants, which includes members of other professions. A monitoring committee is responsible for setting standards. Of course, there is quite a lot of resemblance. There are also international standards.

**Mr. Marcel Proulx:** There is clearly a question of trust involved here. Private sector auditors audited one of these foundations, and you consider that audit to be accurate and complete. You then include those results in the Government of Canada's financial statements. Is that correct?

**Ms. Sheila Fraser:** We accept their results as regards the financial information.

**Mr. Marcel Proulx:** I see. Thank you.

Thank you, Mr. Chairman.

**The Chair:** Thank you very much, Mr. Proulx.

Mr. Laforest, you have eight minutes.

**Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ):** Good afternoon, Ms. Fraser and Mr. St-Jean.

In the report tabled today, and specifically in the part with respect to Employment Insurance, I see that the year-end balance is now at \$50,816,000,000 which, compared to last year, represents an increase of \$2,269,000,000. Indeed, the amount then was \$48,500,000,000. In addition, there was an increase last year of \$2,000,000,000 over the previous year. Basically, what we have been observing for several years now is an increase of about 5% per year in the consolidated annual surplus.

In the section of the report that provides supplementary information, you stated in 2004 that the Chief Actuary for Human Resources Development Canada had said that a reserve of \$15 billion was adequate. Based on the figures available at the time, you concluded that the government had not complied with the spirit of the Employment Insurance Act. However, that increase has continued, and more money is being accumulated on an ongoing basis. And yet you are not expressing the same opinion this time around.

Would you make the same comment today?

**Ms. Sheila Fraser:** As you say, we are not expressing the same opinion. Under the previous legislation, rates had to be established on the basis of an economic cycle in order to ensure stability, which meant taking into account any accumulated surpluses. For five or six years running, we expressed concerns about the fact that the surplus exceeded the amount recommended by the Chief Actuary, and the Government was unable to justify that additional surplus.

In 2005, the legislation was amended. That amendment meant that surpluses are no longer taken into account for the purposes of rate setting. It is considered that every year, the account must be self-funding—in other words, that the premiums paid by employers and employees should be roughly equivalent to the amount paid out in benefits.

Page 4.17 of the English version presents detailed information with respect to revenues and expenditures for the Employment Insurance Account. The amount of \$1.3 billion reflects interest credited to the account. That is not actual money; rather, these are book entries. That amount is not taken into account as regards self-financing. There will always be a surplus that is at least equal to the amount of interest, in a self-financing scenario. This year, the surplus is a little higher.

Normally, we would still expect there to be surpluses, albeit not as large as the ones we've seen in the past. Of course, if there were a surplus of \$10 or \$15 billion, we would have to say that the legislation is not being complied with, because revenues from the Fund would exceed the amount paid out in benefits in the course of the year.

• (1550)

**Mr. Jean-Yves Laforest:** In relation to today's document on the Government of Canada as a reporting entity, and in light of what Mr. Proulx just said about organizations controlled by the government, on page 2.32, it states the following:

In the analysis that it was required to undertake prior to adopting the current standards, the government focussed on larger entities and on entities deemed mostly likely to be controlled.

This strikes me as a strange way of putting it. It's almost as though you're not certain that they were not controlled or are not controlled.

**Ms. Sheila Fraser:** Mr. St-Jean may be able to add something. For several years now, we have been having quite animated discussions with the government with respect to the foundations. We kept asking whether the foundations were or were not controlled by the government. The new standard and the analysis that we conducted have allowed us to conclude that some of them were, while others were not. I believe that the situation has been clarified.

It is possible—and Mr. St-Jean can certainly confirm this—that other organizations have collected more information over time or that circumstances have changed to the point where they should now be added to the Government of Canada's reporting entity, but we are satisfied that the government has carried out the appropriate analysis for this year and that the financial statements accurately reflect the current situation.

**Mr. Jean-Yves Laforest:** Are you authorized to conduct these audits under the Access to Information Act? Is there a connection?

**Ms. Sheila Fraser:** There is no connection between the two. Our mandate flows from the Auditor General Act or the enabling statutes of Crown corporations. It has nothing to do with access to information.

**Mr. Jean-Yves Laforest:** So, the financial statements of these organizations or foundations are not subject to the Access to Information Act.

**Ms. Sheila Fraser:** No, not necessarily. I don't have the details for each organization, but I believe that some of them are subject to the Act, whereas others are not. In fact, I believe that most of them publish their financial statements on their website.

**Mr. Jean-Yves Laforest:** Thank you very much.

**Mr. Charles-Antoine St-Jean:** Just to complete Ms. Fraser's explanation, I would add that a number of these foundations—

probably the majority of them—do in fact publish their financial statements on the Web for the information of their own members, and are also required to file their financial statements with the Government under the contribution agreements they have signed. Most people can easily access that information.

[English]

**The Chair:** Thank you very much. *Merci beaucoup, Monsieur Laforest.* Thank you, Ms. Fraser, and thank you, Mr. St-Jean.

Mr. Williams, please go ahead. You have eight minutes.

**Mr. John Williams:** Thank you, Mr. Chairman.

Again, welcome to the Auditor General and the Comptroller General. It's always nice to see that we have a clean audit, and we're all confident that the books of the Government of Canada are beyond reproach. Speaking about being beyond reproach, as you know we've just been dealing with this issue of authorization of funds in the gun registry. Can we be assured that this year and in subsequent years we will not have that kind of fiasco, and that everything has been approved and voted on by Parliament in the appropriate way to ensure that the government has the authority to spend the money?

Yes, Mr. St-Jean.

**Mr. Charles-Antoine St-Jean:** The different bases of accounting for authorization for the appropriation and for financial reporting are always a bit difficult to deal with. We're trying to resolve this situation to make sure there are no surprises for anybody. We had instituted a new cut-off routine this year for the public accounts. We asked every single CFO or SFO in the Government of Canada to report whether there was any transaction that could lead to misinterpretation or a difference of opinion.

We have gone through this routine this year, and we'll do it every year to make sure there are no surprises.

• (1555)

**Mr. John Williams:** We didn't think it was complex.

Talking about surprises, Mr. Chairman, look at volume III, page 2.18. The bottom line says, "Sponsorship contract"—doesn't that ring a bell?—"\$.2 million under losses of public money due to an offence, illegal act or accident—occurrences or discovery in 2005 - 2006."

Now, I thought, Mr. Chairman, Madam Auditor General, and Mr. Comptroller General, that we had beaten this thing to death. Mr. Guité is off to jail, and there have been a few other things along the way, and we're still finding that it's raising its ugly head again. On the next page, 2.19, in the footnote it says, "The amount of reported loss"—\$.2 million—"is the confirmed loss to date. It is still preliminary to estimate a total amount of loss to the Government".

Now, this is a surprise, Mr. St-Jean. This sponsorship scandal—is it finished or is it going to be dragging on for years, with more to be unearthed in the years to come?

**Mr. Bill Matthews (Senior Director, Financial Management and Analysis Sector, Office of the Comptroller General, Treasury Board of Canada Secretariat):** The information presented in the public accounts includes a history of the losses as well as recoveries against those losses during the fiscal year. That is why the information is presented in this manner. There are a number of ongoing legal proceedings related to the sponsorship file that will, in the end, determine the final amount recovered. Until that is finally known, you will continue to see this accounting provided here in what we hope is a transparent manner.

**Mr. John Williams:** Well, certainly I hope it's transparent, but my point is that this has been brought to our attention for the fiscal year ending 2006. The sponsorship scandal, I thought, was brought to an end by Paul Martin a couple of years ago. Why have you discovered this in this particular fiscal year, and is there any more to come in future years? You say here, "The amount of reported loss is the confirmed loss to date. It is still preliminary to estimate a total amount of loss to the Government". So when are we going to get the final tally of how much we've actually lost to this sponsorship scandal?

**Mr. Bill Matthews:** There's the amount of the loss itself, and then you net that against recoveries. It's actually the recoveries against that loss that are in question, and we're reporting on that here in this year because there is an update on the recoveries against that loss in this fiscal year.

**Mr. John Williams:** Well, this is not very transparent, if you're trying to tell me that this is a previously reported loss that you're just reporting again.

**Mr. Bill Matthews:** We're reporting the recoveries against it, and that's the relevant matter for today.

**Mr. John Williams:** No, you just say this is the amount expected to be recovered; you don't say that you have recovered it. Does Mr. Guité have this kind of money?

Okay, I'd like to move on, Mr. Chairman, to some random thoughts here.

On volume I, page 2.32, this is the Auditor General with her observations. But before we go there, there was another one I wanted to raise—back to volume III, page 2.14. Again, we had an interview with the CRA, Mr. Chairman. I just want to point out that on page 2.15 of volume III, under "Cases before the Court (CRA's estimate of the amount of tax evaded or fraudulently obtained)": income tax, almost \$82 million; goods and services tax and harmonized sales tax, \$102 million. Combined there is \$200 million in taxes, Mr. Chair. That is CRA's estimate of the amount that's been evaded or fraudulently obtained.

Do you have any comment on that, Mr. St-Jean?

**Mr. Charles-Antoine St-Jean:** This is the information that is reported by CRA when they do their analysis of all their recovery; it's the assessment. That represents \$200 million of the money that is being assessed—

**Mr. John Williams:** That's a lot of money, right?

**Mr. Charles-Antoine St-Jean:** I appreciate that, and our friends at CRA are diligent in recovering the moneys they can. They are disclosing their best estimate of what these amounts are.

**Mr. John Williams:** As the chief government accountant, what do you think about these numbers?

• (1600)

**Mr. Charles-Antoine St-Jean:** I'm not happy to see any amount of money that is not recovered by the Government of Canada, but they are doing appropriate action, you see, to recover what they can.

**Mr. John Williams:** Now I'm going to move to volume I. It's volume I, page 6.13, on capital leases.

I thought we had a good credit rating, Mr. Chairman. It's the Government of Canada, triple-A, and our borrowing capacity is pretty good, I thought. I'm taking a look under capital leases, Public Works and Government Services. At 269 Laurier Avenue West in Ottawa, the implicit interest rate, according to this, is 71.38%.

I hope there's a good explanation for this, because I think we're being taken to the cleaners, or somebody has got us over a barrel.

**Mr. Bill Matthews:** There actually is a very good explanation for this. We raised the same question. The way they have calculated the effective interest rate on this lease is incorrect. I've asked them to recalculate, but it is not 71.38%, and I will certainly endeavour to report back when we get the correct number.

**Mr. John Williams:** Okay. That would be appreciated, because 71.38%, Mr. Chair, I thought was a little bit outrageous. I'm glad somebody picked it up before we picked it up, and I'm glad they're going to be looking at it.

I'll move back to page 6.11, the maturity of government debt. This is more of a management concern. We've had a period of very low interest rates for some years, and I know we carry a large amount in treasury bills just to ensure liquidity in the market, but in the long-term debt from 2022 to 2026, I see we've got \$21 billion outstanding at an average rate of 7.18%, which is pretty expensive.

Is there anything we can do or should have done to mitigate that expense, Mr. St-Jean?

**Mr. Charles-Antoine St-Jean:** Maybe I could ask my colleague from the Department of Finance to answer that question.

**Mr. Chris Forbes:** If you look at the overall structure of the government's debt in terms of maturity, the Department of Finance does lay out a debt market strategy, a debt management strategy, in which we mix our short-term holdings and our long-term holdings appropriately, or attempt to find the right mix. As you know, we are moving towards more short-term debt—

**Mr. John Williams:** More short-term debt?

**Mr. Chris Forbes:** We are moving towards more short-term debt, towards a higher share of short-term debt versus long-term debt—not significantly, but over time raising that proportion, so that may address a bit of your concern. Of course, the government is reducing its debt and paying off some of its market debt over time, so we do take decisions on which debt to pay off and what to buy back.

I'm not sure that answers your question entirely, but—



**Mr. John Williams:** I would have thought, Mr. Chairman, that given the historically low rates we've had for the last three, four, and five years, the Government of Canada would have done everything it could to lock in these low interest rates for 10, 20, 30, 40, or 50 years if it could, so that we would get a good return to the taxpayers of Canada, and 7.18% on \$21 billion for the next 15 or 20 years is a fairly expensive bill that we're going to have to pay.

**The Chair:** I have a question, Mr. Williams. Now that the Conservatives are in power, are you saying that interest rates might go up?

**Mr. John Williams:** No, I just said they've been historically low, Mr. Chair. I didn't say for how long they will remain historically low; I just said that they have been.

**An hon. member:** They were at 21% when Trudeau was Prime Minister.

**The Chair:** Mr. Rota, you have eight minutes.

**Mr. Anthony Rota (Nipissing—Timiskaming, Lib.):** Thank you, Mr. Chair. Whenever there is uncertainty, I believe interest rates go up, but we won't talk about that.

The government has committed to having departments produce their own individual financial reports rather than having one large consolidated report. How close are we, and when do we see that happening, if we're not there yet?

**Mr. Charles-Antoine St-Jean:** Thank you very much for the question.

The plan is that by 2009 the 22 or 23 largest departments will be subject to an annual audit, and we're making progress in having some of those departments go through this process. Many of them are going to an audit readiness process. One of the departments, the National Research Council, obtained a clean audit opinion this year, and there's a lesson learned on how to go about it, so work is under way to bring it up.

That would bring about 94% of all government spending subject to a direct audit on an annual basis, but it's going to be tough. It's going to be a lot of work. By 2009 we should start seeing a lot more of those departments audited. This year, for the first time, they all report their financial statements in their departmental reports, but they're unaudited; in 2009 we hope to have all of them—the 22 or 23—audited.

**Mr. Anthony Rota:** I'm just not quite clear on that. Maybe you can clarify why they can't do that now. What's keeping them from doing it? You tell me it's difficult, but they have their departments and they're operating them, so why can't they do that now?

• (1605)

**Mr. Charles-Antoine St-Jean:** Well, we do it; it's at the consolidated level.

It really depends on the strategy that was adopted in the prior years. Different countries will do it starting by department, and then they go to the consolidated level. The strategy of governments was to do it at the consolidated level and get the audited opinion at that point in time.

The materiality level for the consolidated department is \$1 billion, if I recall. As I say, at the departmental level, the materiality level

will be much lower. It would take a lot more work to do the proper accounting for the fixed assets, the liability, and there would be much tougher work in the cut-off routines. We're not there yet. We don't have that maturity as yet, but we're making progress.

Back in 1990, the U.S. had the CFO Act that mandated that the 25 largest departments be audited. Some 15 to 16 years later, they still have 16 departments with a clean audit opinion; they have eight departments with a qualified audit opinion, and some of them also have a denial of audit opinion.

It takes many years. We hope we're going to be able to ramp up fast, but we don't have the system capacity to do that yet. We're working hard to build it.

**Mr. Anthony Rota:** How does it differ? You have your consolidated statement and you have the individual departments. How would the two differ? A statement is a statement. I'm just wondering what causes that difference?

**Mr. Charles-Antoine St-Jean:** The level of the materiality is one difference. When the Auditor General does her audit of the public accounts, she does it at the consolidated level. So some of the departments are audited in very much detail because they're important, and some others will be reviewed.

**Ms. Sheila Fraser:** I'd also like to add, Mr. Chair, that until about seven or eight years ago, the accounting systems of the Government of Canada were largely centralized and all the departments fed information into this one central accounting system. The decision was made to move the accounting back to the departments, so each one has its own accounting system. But there are still certain amounts that are managed centrally. Until fairly recently, things like environmental liabilities, land claims, big lawsuits and things like that were managed centrally. That responsibility has to go back to the departments if you're going to have a proper departmental financial statement.

It's part of that management decision about where balances are managed. It also affects the departmental financial statements. When we do the audit of the summary financial statements—and there's a great deal of difference in the audit—as we said, we have a materiality or what we call a relative importance of \$1 billion.

Quite frankly, there are some departments we will only visit once every few years because it would be almost impossible for them to have an error of \$1 billion in their accounts. When we start auditing them, it won't be \$1 billion anymore, it will be much, much lower, so the level of precision they have to have in their own accounts will go up.

It's about changing systems, changing people, and changing the attention and discipline that they pay to their account balances. It has been very challenging in the ones we have done. Over the years, there have been three agencies—the Canada Revenue Agency, Parks, and the Food Inspection Agency—that have been required to have their financial statements audited. In the early years, and even yet, there are problems with the quality of data and the capacity of the people to produce really good financial statements.

To do it for the 22 departments is not an insignificant exercise.

**Mr. Anthony Rota:** I hear what you're saying. We're getting information, and the integrity of the information isn't always there. It's not always there. What you're doing is feeding it into one consolidated report.

But if the information you're getting from the departments is not integral, how can you guarantee the integrity of the consolidated report? If you have bad stuff going in, how do you come out with a good report in the end? I'm not being facetious, I'm asking a very honest question.

**Ms. Sheila Fraser:** It's to a level of precision, and we're now using \$1 billion as that level of precision. Are there errors in the financial information? I would say absolutely, there probably are errors, but it would be errors, I hope, of \$50,000, or \$1 million here or \$1 million there. I know these are large numbers, but in—

•(1610)

**Mr. Anthony Rota:** I know, with the margin of... I'm thinking back to my friend across the hall who mentioned the gun registry. We heard \$2 billion, then it ended up being \$900 million. And we still don't know exactly. There's a little more than \$1 billion. Is the error margin \$1 billion within most departments?

**Ms. Sheila Fraser:** In our audit, we do all of our auditing and our testing and everything to give a level of assurance that there is not an error greater than \$1 billion. But that doesn't mean there can't be an accumulation of errors that are \$300,000 or \$400,000. And every audit works with that, because it would be impossible for us to audit everything. We can't audit everything, so to what level of precision do you then work?

**Mr. Anthony Rota:** Thank you.

**The Chair:** Thank you very much, Mr. Rota.

Thank you, Mrs. Fraser.

Mr. Fitzpatrick, eight minutes.

**Mr. Brian Fitzpatrick (Prince Albert, CPC):** I'm going to try to stay away from this tough accounting stuff and stick to something I might know a bit more about.

I take it that the response to Mr. Williams is that we don't have any of these creative accounting features in there. I'm still mystified by the terminology of a recorded or unrecorded liability, and I'm hoping we don't have any of those things in these financial statements anywhere. If there are, I think there's cause for concern.

However, I do want to go to a matter, and I went through the court awards. I notice under court awards there's an awful lot of law firms in this country receiving payments for fees and disbursements. Oh, I guess you could go to page 832; there's a whole slew of them right throughout the whole section. "Social development"—I see one there right off the bat.

**The Chair:** Mr. Fitzpatrick, could you give us the volume and the page?

**Mr. Brian Fitzpatrick:** Oh, it's volume III, page 832. But I simply picked out one there. It's \$1,737,000 for fees and disbursements. I see a whole bunch of them. There's page after page of fees and disbursements.

Are these cases in which law firms are acting for people who have claims against the government? And I'm quite sure, if I looked through some of the other sections of the financial statements, I'd see some of these same law firms working for the Government of Canada. It seems to me that when I practised law we called this a conflict of interest. If a law firm was acting for one client, they couldn't go ahead and start acting for the other client, the ones they're suing. That was a conflict of interest.

Am I missing something here? How does it take place in Ottawa that we have large law firms in one breath helping people sue the government and in other cases doing legal work for the government?

**Mr. Charles-Antoine St-Jean:** I would refer these questions to my colleague, the Deputy Minister of Justice, who might come and answer that question.

**Mr. Brian Fitzpatrick:** You might put a red flag on that one for further inquiry later on, because it seems to me rather strange. I'm only a small-town lawyer, but it seems to me we understood that you couldn't act on both sides of a case. But I'll leave that for now.

**The Chair:** To bring closure to it, Mr. Fitzpatrick, do you want the witness to follow up and get back to you with a response?

**Mr. Brian Fitzpatrick:** I would like that, if you would.

There's another area I'm interested in too. I notice that some of the inmates are winning claims against the Government of Canada, I guess in terms of the quality of care they're receiving in our correctional institutions. I'm assuming some of the payments under the court awards and so on would be to pay the fees and disbursements for their lawyers. I'm curious. Do you know whether any of these inmates would have been accessing the court challenges program for their claims against the government?

**Mr. Charles-Antoine St-Jean:** I could not answer this question, but I'll get back to you.

**Mr. Brian Fitzpatrick:** Okay. I'd be interested.

I also notice there's a section in volume III that goes through what I would call money that was lost by the government because of illegal activities—things like, in Canada Revenue Agency, illegal use of credit cards and what I would call embezzlement, money taken out of accounts and so on. It seems like every department has some of these occurrences. The credit card one jumped out at me.

I'm assuming, sir, that people who would misuse credit cards, abscond with other people's money through credit card usage.... First of all, I'd assume they were charged under the Criminal Code, because to me that's a Criminal Code violation. Secondly, I'm assuming, as a matter of discipline, that they are no longer working for the Government of Canada. Are those safe assumptions?

•(1615)

**Mr. Charles-Antoine St-Jean:** That's on page 216. Is the unauthorized \$2 million withdrawal from one CRA credit card what you're referring to?

**Mr. Brian Fitzpatrick:** Yes, but they show up in other departments too.

**Mr. Charles-Antoine St-Jean:** I cannot give you a definite answer on this. I'll get back to you on what happened in those cases.

**Mr. Brian Fitzpatrick:** The other point I wanted to get to is the public debt charges. I see they're almost \$34 billion.

There are people who subscribe to the point of view that this is nothing to be too concerned about. In fact, we had one NDP government in Ontario that figured you could just borrow yourself into prosperity. There was no end in sight. Apparently he's taking his wisdom elsewhere these days.

Would the payment on the debt charges be the federal government's single biggest expenditure?

**Mr. Charles-Antoine St-Jean:** The transfer to people would be the single largest expense. The \$33 billion out of \$220 billion is a big one, but not the largest.

**Mr. Brian Fitzpatrick:** What would the next one after that be?

**Mr. Charles-Antoine St-Jean:** You have transfer to people, then the transfer to government, about \$40 billion.

**Mr. Brian Fitzpatrick:** But it's a significant portion of the total expenditure, and all we're really doing is paying interest to creditors, right?

I want to understand this point too. By paying \$13 billion down on our debt, we're decreasing our expenditures under this section by something between \$600 million and \$700 million a year. Is that a correct assumption?

**Mr. Charles-Antoine St-Jean:** The \$13 billion is the year's surplus, and this is applied against the accumulated deficit. The actual debt to the Government of Canada, if I'm getting it right, went down by about \$6 billion. The other \$6 billion was used for other items, to finance new receivables. I believe that's how our accounts.... The receivables went up by a certain amount, but the accumulated deficit went down by \$13 billion. So to a great extent, that reduces the interest costs in future years, but it's not one and one.

**Mr. Brian Fitzpatrick:** Right. But those savings are freed-up money every year going forward. They can be used for new programs, government services, and tax reduction. And it's not a one-year deal; it's something that would happen every year going forward.

**Mr. Charles-Antoine St-Jean:** Of course, and this is in line with the stated government policy of bringing down the deficit to close to 25%—

**Mr. Brian Fitzpatrick:** The chair doesn't want me to pursue this any further, so I'll cut my questioning.

**The Chair:** It should be pursued forever. Thank you very much, Mr. St-Jean.

Thank you very much, Mr. Fitzpatrick.

Colleagues, we're now starting round two. Ms. Ratansi, five minutes.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** Thank you.

I have three questions for you.

In the presentation, you said that for nine years in a row we've had a surplus and we are one of three countries that have had an unqualified opinion from the Auditor General.

As a member of the public accounts committee...if I were in private life, I know what an unqualified opinion would be—everything is audited and materiality is much lower. So how does the Auditor General give an unqualified opinion, and help me be comfortable that the accumulated errors are not going to be a problem? I think all members here want to ensure that we look after the funding of the government.

This will be the second question, so I might as well give it to you, so you know where I'm coming from. We were looking at departments, and departments seem to have less accountability, so therefore, when you're consolidating the information, the departmental financial statements may not be as kosher as you want them to be. How does the AG, as the external auditor, have a comfort level? I know you have a billion-dollar materiality, but what else gives you comfort that you can give an unqualified opinion?

• (1620)

**Ms. Sheila Fraser:** We do our audits in accordance with the norms and standards that are generally accepted for auditors around the country, so we use the same professional standards that auditors in the private sector would. If there were an auditor in the private sector that had a corporation with revenues of \$200 billion, they would be using a materiality, I'm sure, somewhere around \$1 billion or more. The way we establish our importance level is based on professional standards that are recognized throughout the profession.

As well, we don't only do our audit at the Comptroller General's shop. We spend literally thousands of hours auditing through departments. I think probably our audit of the public accounts, if we include our audits of Revenue and the agencies, would be 50,000 hours or more—probably even more than that. Just the Public Accounts of Canada, without the Revenue Agency, is about 50,000 hours—

**A voice:** It's 30,000.

**Ms. Sheila Fraser:** —or 30,000, and there are another 15,000 or so in Revenue, so we would be up to 50,000 or 60,000 hours of work. And our staff go into all of the major departments and the other less significant ones on a rotational basis. All the significant balances are audited every year.

We take our professional responsibilities very seriously and make sure that when we give this opinion we believe we've done sufficient work to give an opinion on the summary financial statements. But that should not equate to giving an opinion, for example, on a departmental financial statement, because that would be a quite different level of work.

**Ms. Yasmin Ratansi:** I don't want to put any slight on your professionalism; I have the highest regard for you. My question really stems from how we can better understand. For example, there have been discussions about quarterly financial statements for departments so that we know—we're not the operating body, so we need to understand—where the buck stops. And when the buck stops, does it stop so that we have a comfort level? I think the Canadian firearms situation and everything else gives a lot of discomfort to everyone.

First, should departments be producing quarterly financial statements? Second, would you have the ability currently to ever do an audit of the departments; and if so, how many departments would you be able to do? I know you do it on a rotational basis. And third, how do we bridge the gap between departments reporting on a probably cash or a modified cash basis and the accrual accounting? That's going to be the bane of our existence here.

**Ms. Sheila Fraser:** There are many challenges right now in producing the year-end summary financial statements. For example, I'd say one of the major ones is the way revenues are calculated. At the end of the year, the government goes through a very extensive calculation of the receivables and estimating all the revenues on an accrual basis, whereas previously it was on a cash basis. There is not a methodology currently in place that would allow the government to do that every quarter.

There are other aspects that are really only reviewed, I think, at year-end, and until that changes in government and there is more rigour—and I think that's one of the purposes the Comptroller General has in asking for departmental financial statements—I personally think it's going to be very difficult for government to produce financial statements on a quarterly basis to the same level of quality as the year-end financial statements.

I think there's a question there about the level of effort it will take and whether parliamentarians and government want to put the level of effort and the resources into doing that or to programs, for example. There's a trade-off there.

We would not have the capacity currently to audit it. We do not in fact now have the capacity to audit all of the departmental financial statements, and we're waiting to see, when the plan comes along, what it will entail. It will certainly require more resources on our part to be able to audit the 22 large departments.

• (1625)

**The Chair:** Thank you very much, Ms. Ratansi, and thank you very much, Mrs. Fraser.

Mr. Poilievre, you have five minutes.

**Mr. Pierre Poilievre (Nepean—Carleton, CPC):** I have two questions. You've largely addressed them in your presentation.

The first relates to the fact that crown corporations and others are considered part of the finances of the nation. When I was reading through the public accounts today, I was struck by that, because I know for most holding companies, for example, that own holdings in other companies that are separate corporate entities, the parent company does not consider the income of the companies they hold as part of its income. It only considers the disbursements it receives from the subsidiary as being income.

So I'm curious as to why it is done that way.

**Ms. Sheila Fraser:** Mr. Chair, if you're talking about the financial statements strictly of the holding company, it's correct that they will only record the dividends or whatever received. But most corporations will produce what they call consolidated financial statements, and they will include all of the corporations they own or in which they have interest. That is very similar to what the Government of Canada is doing.

**Mr. Pierre Poilievre:** Okay.

Second, I'm just wondering where in the *Public Accounts of Canada* we can find evidence of repayment by the Liberal Party of the \$1 million-plus it promised it would repay in the aftermath of the sponsorship scandal.

**Mr. Bill Matthews:** Mr. Williams actually referred to that part earlier, when he was looking at the losses related to the sponsorship scandal. I can certainly get back to you with details on how much has been received in terms of repayments. It would come through the Receiver General via Public Works and Government Services Canada.

Mr. Williams was focused on the right section, but I will certainly endeavour to get you details on that.

**Mr. Pierre Poilievre:** Would there be any way to get a documented public record of that?

**Mr. Bill Matthews:** I can certainly look into it.

**Mr. Pierre Poilievre:** But the payment has been received?

**Mr. Bill Matthews:** To the best of my knowledge, but I will verify that.

**Mr. Pierre Poilievre:** We would appreciate that.

I'd like to invite Mr. Williams to pose any additional questions.

**Mr. John Williams:** Thank you, Mr. Poilievre, and Mr. Chairman.

I'll go right back to the sponsorship contracts on page 2.18.

You indicated, or led me to believe, Mr. Matthews, that this was a loss in a previous year, that now the money is being recovered or expected to be recovered. But this is under the heading, "Losses of public money due to an offence, illegal act or accident—occurrence or discovery in 2005-2006". That's this fiscal year, the one we're just talking about, not back a couple of years ago, when we were dealing with the sponsorship scandal before the public accounts, as brought to our attention by the Auditor General. So it seems that you're still uncovering more money that has been lost or illegally misappropriated or stolen—whatever word you may want to use.

Am I correct in saying that?

**Mr. Bill Matthews:** There are various proceedings under way to try to recover that money—

**Mr. John Williams:** No, I'm not talking about recovery, I'm talking about identifying more and more losses.

**Mr. Bill Matthews:** I'll have to either speak directly with Public Works and Government Services Canada or invite them to this committee, because I cannot speak to that.

**Mr. John Williams:** Can you get a report to us, Mr. Chair?

I'll say again, the heading is "Losses of public money due to an offence, illegal act or accident—occurrence or discovery in 2005-2006"; \$1.2 million under the sponsorship contracts. Then it says, in a footnote, that "The amount of reported loss is the confirmed loss to date. It is still preliminary to estimate a total amount of loss to the Government."

I would like to have a detailed answer to those two particular questions. How much loss is yet to be expected to be uncovered, and what's the scoop regarding that?

**The Chair:** Are the witnesses clear on what the examiner wants?

**Mr. Bill Matthews:** Very clear, thank you.

**Mr. John Williams:** Now to the Auditor General, Mr. Chairman.

This is with regard to volume I, page 2.32, where it says, "Status of items reported in previous years." We're talking about the reconciliation of Canada Revenue Agency's tax revenues.

You seem to have a problem there, Madam Auditor General. Any chance that's going to get resolved and reconciled soon?

• (1630)

**Ms. Sheila Fraser:** I would certainly hope so, Mr. Chair. The difficulty in the Canada Revenue Agency is that the systems were never designed for accounting purposes; they were designed to track account balances with taxpayers. This was done at a time when the government recorded revenues on a cash basis. When we moved to an accrual basis, the systems didn't support that. So there's a lot of manual reconciliation, and systems don't always balance.

The Canada Revenue Agency has been working on it. The situation is improving—I can say that—but we are still concerned that the accounting systems are not robust enough that they don't have these unexplained differences at the end of the year.

**The Chair:** Mr. Williams, we'll get back to you.

*Monsieur Laforest et monsieur Nadeau, cinq minutes.*

[Translation]

**Mr. Jean-Yves Laforest:** Ms. Fraser, in your May Status Report, you referred to reviews and audits you had conducted in a number of departments and agencies.

In your 2004-2005 report tabled last spring, you noted that a number of deficiencies identified previously had not been corrected, which can give rise to inaccurate and incomplete financial information. Basically, that feeds into the audit process you undertake in anticipation of your annual report.

On the one hand, you present these facts in your report, but on the other hand, you say that this probably does not represent a major problem, even though you don't express it exactly in those terms. You audited or reviewed 11 separate departments and agencies.

What is a deficiency as compared to an error?

**Ms. Sheila Fraser:** One thing that is very important when producing financial information is the rigour and quality of the systems and controls that are in place, particularly in relation to computer systems. The auditor audits those system controls in order to determine whether they are adequate and rigorously maintained.

For several years now, our systems audits have allowed us to identify a certain number of weaknesses as regards Parliament. For example, control of access is inadequate. Some people have more access than they should to certain things. Normally, if the controls in place are robust and adequate, as auditors, we can rely on the systems that are there and have less work to do in terms of corroborating the information. But because the systems are not as

reliable, we must corroborate the information, meaning that we have to test and examine many different documents. There may be a deficiency, but when we carry out our audit, we have to compensate by doing all kinds of other things. If the system meets my expectations, before the end of my mandate, we will be able to rely on those controls and reduce the amount of corroborative work that is required. My sense is that this will be a task for the next Auditor General.

**Mr. Jean-Yves Laforest:** Thank you.

**Mr. Richard Nadeau (Gatineau, BQ):** Overall, the federal government's budget amounts to some \$200 billion, which is an astronomical amount of money. There is a lot of machinery involved in producing a budget.

Do you carry out these audits on a rotational basis where there is a chance that it may be more contentious or when public opinion demands that there be an audit?

**Ms. Sheila Fraser:** No. There is planning involved. If the Committee is interested, at some point, we could provide information with respect to our planning and our audit approach. I would be very pleased to discuss that with you.

We audit the 25 or 26 largest departments every year, without exception, particularly Public Works and Government Services, National Defence, Indian and Northern Affairs, Agriculture and Agri-Food Canada.

As for smaller departments—Immigration Canada, for instance—expenditures there are considered to be less risky. Also, they are mainly for wages, and there is no significant litigation involved, as for the Department of Indian and Northern Affairs. Thus the risk level is deemed to be lower, and as a result we carry out a detailed audit only about once every three years. If we consider the systems to be adequate and the figures to be correct, we see no need to go back every year.

As regards even smaller departments—such as Justice Canada, for example—there we are talking mainly about salaries. We audit salary systems for the Government as a whole, and for that reason, do not feel it is necessary to...

• (1635)

**Mr. Richard Nadeau:** I'm not sure whether I am correct about this or not, but I believe that National Defence is one department that has a large amount of expenditures—or at least, if there are not a lot of them, they certainly deal with equipment that is extremely costly. And with Public Works and Government Services Canada, we're talking about buildings, equipment, and so on. When you audit this kind of department, I suppose you proceed compartment by compartment—the word "compartment" probably isn't right—or rather, item by item. In that context, I guess you make different choices.

**Ms. Sheila Fraser:** Yes. Let's take the Department of National Defence, for example. Because we have audited capital expenditures up to the opening balance, we can then audit all significant purchases made during the year. On a yearly basis, we audit the inventory system, because the inventory figure is important.

For the Department of Indian and Northern Affairs, we audit all legal proceedings to which they are a party. This same department also conducts an annual analysis of all litigation, of provisions, and of expected payables. We then re-audit each of these items every year.

We focus on the most significant items and those that present the highest risk, but at the same time, we do a general survey of the department's expenditures, to ensure that it is complying with the necessary authorizations, that its expenditures are accounted for, and so on.

[English]

**The Chair:** Thank you very much.

Back to you, Mr. Williams, for five minutes.

**Mr. John Williams:** Thank you, Mr. Chairman.

I have a couple of questions, Madam Fraser.

You have a note in here about accrual appropriations, and the committee has taken a hard stance on that over the years. Where are accrual appropriations at today, and can we expect that will be implemented soon?

**Ms. Sheila Fraser:** Mr. Chair, I'm not sure that I'm the person you should ask on that. We are still calling for it. The government operations committee, as some of the members here will know because they're on the committee, has undertaken the study of that. We had a meeting on it last week, and another meeting is going to be called shortly.

We are urging government to take a position. To my knowledge, that has not been done.

**Mr. John Williams:** I think it was determined that the public accounts committee should be recommending to the government that they adopt that, because it's too difficult for them to work on cash appropriations and accrual accounting. So we should discuss that in committee and perhaps report it to the House.

My second question, Mr. Chairman—I know we may want to get on to another issue—is on volume III, p. 2.11. We're talking here about debts, obligations, claims written off or forgiven. It adds up to just under \$3 billion, which is a significant amount of money even for the Government of Canada.

Have you any comments on this, Mr. St-Jean? I notice that a lot of the writeoffs, Mr. Chair, are theft of computers and staff defalcations and money stolen from the RCMP—you would think it would be safe there—and border security selling vehicles that they've impounded, and unfortunately, keeping the cash—

**The Chair:** It seems that somebody stole 50 taxi chits too.

**Mr. John Williams:** Is anybody looking at the small stuff, because it adds up to \$3 billion?

**Mr. Charles-Antoine St-Jean:** As you said, this is a significant amount. If I'm not wrong, the biggest amount is with the Canada Revenue Agency, where they collect \$220 billion of personal and corporate tax, and GST, and so on. They have procedures in place to collect—to identify it and vigorously go after that debt—but the question is whether this is enough. There are some business decisions being made. If there are no assets to be recovered, you can

press until the lemon is dry, but the important part is that this is reported, so the amounts are tracked and vigorously followed, and systems are being put in place to report it, also.

● (1640)

**Mr. John Williams:** It does sound to be about 1.5% of revenue—\$200 billion in revenue, \$3 billion being written off for lost, stolen, misappropriated, or whatever the score may be.

**Mr. Charles-Antoine St-Jean:** It's not an expense. They're written off during that year.

**Mr. John Williams:** I thought it was an expense.

Anyway, I hope somebody is on top of it as a government policy, rather than just writing it off and moving on, Mr. Chair.

**The Chair:** Thank you, Mr. Williams.

Mr. Proulx, for five minutes.

**Mr. Marcel Proulx:** I'll be very short, and I'll be sharing with Mrs. Ratansi.

[Translation]

Ms. Fraser, I'd like to continue in the same vein as Mr. Nadeau as regards your audits.

In the different departments that you audit, are expense accounts audited or do you simply assume that the figure is for total expense accounts and move quickly on to something else?

**Ms. Sheila Fraser:** I do not believe that we audit expense accounts when we audit the financial statements. When we conduct a management audit, we may extend the scope of the audit to include such accounts.

**Mr. Marcel Proulx:** On what basis would you decide to include an expense account?

**Ms. Sheila Fraser:** It depends on the program we're auditing. When it's a smaller agency, we often audit all financial management. With a department, we believe there is a lower risk, particularly since public disclosure has become a reality. Generally speaking, departments have good controls in that regard.

There is probably a higher risk where the smaller agencies are concerned, because people may be less familiar with policies, and so on.

**Mr. Marcel Proulx:** Thank you.

[English]

**Ms. Yasmin Ratansi:** I have a question for Monsieur St-Jean. If you've been asked this question, tell me that you were asked the question and that you responded, because I was late.

In paragraph 8, it says, "Currently on the horizon that will significantly impact the Government's financial statements are new standards related to segmented reporting, government transfers, and financial instruments." What do you mean? How will it complicate your life?

**Mr. Charles-Antoine St-Jean:** Well, if I take the example of government transfers, there is currently an exposure draft that explains the proposed new accounting standard. It would in effect demand the expensing of the transfers under certain conditions, but it would also force provinces, as we transfer money to the provinces, to recognize the transfer as revenue in the year they receive it.

This is no doubt a controversial exposure draft. Many departments of finance across the country are struggling with it. This is a standard that's been under development for three to four years. But it will change the relationship between the federal government and the provinces and the way they interact. It might have an impact on the way programs will be designed. These are fundamental changes that are coming up.

**Ms. Yasmin Ratansi:** On how I read the financial statement, will it have an impact on the federal government?

**Mr. Charles-Antoine St-Jean:** For the federal government, most of our transfers are expenses at the end of the year. Under Bill C-48, this year the expenses will be \$3 billion plus.

For the federal government, at the moment, it would not change that much. But in the provinces, I would suspect there will be some tension.

**Ms. Yasmin Ratansi:** Thank you.

**The Chair:** Thank you very much, Ms. Ratansi.

I have a couple of questions.

First of all, back to you, Mr. St-Jean. Mr. Williams raised a point about accrual accounting in the budgets and the appropriations. This recommendation has actually been made before by this committee to government. One of the responses was that the Treasury Board has done a consultants' report on the whole issue. Are you in a position to share that report with this committee?

• (1645)

**Mr. Charles-Antoine St-Jean:** On the study, I believe it was this Tuesday that we met the government operations committee, where we shared some of the major findings of the study. I cannot tell you when the study will be released, but the key elements of the study were released.

The study indicated that there are different ways that we can do an accrual basis of accounting, and we're presented with a matrix in which it can be done. It also made reference to the challenges we would have to deal with. It also made reference to the proposed timeline if we were to adopt it and how much time it would take.

The key elements have been released. I will have to get back to you in terms of when the actual report will be released.

**The Chair:** In any event, I assume you gave a deck to the government operations committee.

**Mr. Charles-Antoine St-Jean:** Yes, indeed.

**The Chair:** If you could share that with us, it would be helpful.

**Mr. Charles-Antoine St-Jean:** I will do so with pleasure.

**The Chair:** The last issue that I wanted to talk about goes back to you, Ms. Fraser. It is a contentious issue that this committee has dealt with over the last six or seven years, and that is the entire reporting

on the employment insurance account. We've made recommendations, and changes have been made.

Looking forward, you always like to see the financial statements reflect the true economic substance of the transactions in government, but I see that we're still reporting on this \$50 billion fund. It's called a fund, but I still find it misleading to the public. You try to simplify things, but we know, and you know, and everyone in the room knows there is no fund out there.

Tomorrow in question period the Minister of Human Resources will be asked a question: what is she going to do with this \$50 billion fund that she's sitting on?

I honestly think that the employment insurance premiums should reflect the benefits paid. I know there are economic cycles that you have to take into account, but is it not a little misleading to report on this \$50 billion fund every year? Could I get your comments on that?

**Ms. Sheila Fraser:** Well, certainly, the fund is only a notional account. There is no money in a bank account. All of the premiums collected and paid by employers and employees go into the consolidated revenue fund and the benefits are paid out of that. There is a requirement under legislation to do it this way, or the legislation has to change.

It was simply to become a program like any other program in government and not have a separate fund. I mean, that is a possibility, but it is, of course, up to parliamentarians to do that.

**The Chair:** Because we want the published statements of the government to reflect reality, do you, as auditor, have any opinion as to whether or not this committee should be recommending a change to legislation to do away with this so-called reporting on a fund, which I think is somewhat misleading to the public? A lot of people out there think there is a \$50 billion fund at the Toronto-Dominion Bank on Sparks Street, just sitting there unspent.

**Ms. Sheila Fraser:** Certainly, Mr. Chair, I think it's an issue worth looking at. I don't know if government may have already looked at it in the past.

I would suspect there are probably legal issues around this. For example, I've been told in the past that the government can't tax other governments, so it has to be called "insurance". I don't know if that's true or not—I'm not a lawyer—but I have a feeling there are legal issues that have resulted in the program being set up in the way it has.

If you want to explore this further, I think it would be up to government. I'm sure the government can come and explain whether or not there are any constraints like that.

**The Chair:** Do any of the other witnesses have views or comments to add to this issue?

**Mr. Charles-Antoine St-Jean:** We could come back to you, Mr. Chair, and explain some of the issues.

**The Chair:** Okay, that concludes both rounds.

Mr. Sweet.

**Mr. David Sweet:** If I may, I have a point on the last question.

You were charged with the responsibility for the oversight of public accounts, and I'm wondering why there's some resistance from Treasury Board to tabling the consultant's report with this committee?

•(1650)

**Mr. Charles-Antoine St-Jean:** I will ask what the protocol is for tabling that kind of information. I know there's some protocol to be followed regarding the advice of ministers, and so on. So I'll get back to you.

I tabled the major conclusion on this at the government office. I might review that with my minister, if it's okay with the members.

**The Chair:** Members, that concludes both rounds.

What I propose to do now is ask the witnesses for any concluding remarks they may have. At that point, I'm going to adjourn this portion of the meeting to go in camera to talk about the firearms report, which has been circulated.

Again, I want to thank all the witnesses for appearing here today.

Sometimes we take partisan jibes against each other in this meeting, but certainly we have a lot to congratulate each other on. This is an excellent report; it's a clean report. From the comments I received, this country seems to be a world leader in financial reporting, accounting, and auditing.

A lot of credit goes to your office, Mrs. Fraser, and to your office, Mr. St-Jean, and the tremendous staff who work with you, the minister, and the Department of Finance.

At this point, I ask for concluding remarks.

Mrs. Fraser, is there anything you want to say?

**Ms. Sheila Fraser:** Thank you, Mr. Chair. I'd like to thank your committee for the interest in this.

As I said in my opening remarks, I think it's encouraging to see the committee holding a hearing on the day that the accounts are actually tabled. There were many very good questions for what I know was a very short period of time to prepare.

As you said, I think the government has a lot to be congratulated for; there is an unqualified opinion.

As well, I'd like to thank the Comptroller General and his staff again, and all the staff in the departments. It takes an awful lot of work on everybody's part to be able to produce this. So thank you.

**The Chair:** Thank you, Mrs. Fraser.

Mr. St-Jean.

**Mr. Charles-Antoine St-Jean:** I'd like to thank the Auditor General and her staff for good work.

My colleague has reminded me to say that one of our members, Frank, will be retiring six weeks from now. He's been with public accounts. It's been a pleasure working with Frank.

Again, thank you very much to all the members. It was my pleasure.

**Mr. John Williams:** On a point of order, Mr. Chair, I think the committee should pass a vote of thanks to Mr. Frank Vandenhoven. If he's dedicated his career to auditing the Public Accounts of Canada, I think he deserves—

**The Chair:** He deserves a round of applause.

**Some hon. members:** Hear, hear!

**The Chair:** Again, I want to thank you.

We'll adjourn and go in camera to talk about the firearms registry report.

*[Proceedings continue in camera]*

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