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Chair

The Honourable Shawn Murphy

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• (1530)

[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): I'd like to call this meeting to order and welcome everyone here.

This meeting is called by the committee to review and report on the *Public Accounts of Canada*. This is a three-volume report detailing all revenues, expenses, taxes, transfers to persons, and transfers to other levels of government for the fiscal period April 1, 2008, up to and including March 31, 2009.

This might not be the most exciting meeting of the committee, but in my view it is probably the most important meeting the committee holds each year. It is the final stage of the financial accountability process of government. It starts with the budget the Minister of Finance tables each spring, which sets out the government's financial plans for the upcoming year. That is followed by the estimates process, the business of supply, where the actual moneys are appropriated by Parliament. Then, of course, we have the public accounts, which are prepared by the government but are audited by the Auditor General; they're tabled in Parliament and the cycle is complete.

I want to welcome our witnesses. The committee is very pleased to have with us today, first of all, from the Office of the Auditor General of Canada, the Auditor General, Sheila Fraser. Ms. Fraser is accompanied by Assistant Auditor Nancy Cheng. We have, from the Department of Finance, Paul Rochon, who is the senior assistant deputy minister, economic and policy branch. We have, from the Treasury Board Secretariat, the Comptroller General of Canada, Mr. James Ralston.

Mr. Ralston, first I want to congratulate you on your new appointment. I understand this is your first appearance before the committee, so welcome to the committee.

Mr. Ralston is accompanied by Assistant Comptroller General Bill Matthews—Bill has been here many times before—and Susie Gignac, the executive director, government accounting policy and reporting, financial management and analysis sector.

Welcome to each and every one of you.

We'll start with opening remarks. I understand, Ms. Fraser, you have a five-minute opening presentation, and Mr. Ralston, you have five minutes of opening remarks. I understand the Department of Finance does not have opening remarks.

I turn the floor over to you, Ms. Fraser.

Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada): Thank you, Chair.

We thank you for the opportunity to present our audit report on the 2008-09 financial statements of the Government of Canada.

As you mentioned, I'm accompanied by Nancy Cheng, assistant auditor general, who is responsible for the audit of these financial statements.

We are pleased to see that the committee is holding this hearing on the *Public Accounts of Canada*, a key accountability report of the government. The Comptroller General will be explaining to the committee the main points in the government's financial statements, and I will focus on the highlights of our audit opinion and observations.

[Translation]

My report on the 2008-2009 financial statements is included on page 2.4 of volume 1 of the Public Accounts.

The opinion provides Parliament with the assurance that the government's financial statements are presented fairly, in accordance with the government's stated accounting policies, which conform with Canadian generally accepted accounting principles. It can be referred to as a "clean" opinion. Our office has been able to issue such an opinion in each of the past 11 years.

We commend the government for producing financial statements that are presented fairly in conformity with Canadian generally accepted accounting principles. In our view, Canada continues to demonstrate leadership in financial reporting for national governments.

I would now like to discuss several issues that we have presented in our observations.

[English]

In view of the global economic downturn, the government announced a number of stimulus actions in its fiscal update and economic action plan. We observe that the majority of the stimulus activities and actions will take place in the 2009-10 fiscal year. Our audit next year will focus on the accounting of these transactions to ensure that they are properly presented in the government's financial statements.

As described in note 17 to the summary financial statements, most of the stimulus spending will take place in 2009-10 and 2010-11. For the 2008-09 audit, we reviewed the government's accounting and disclosure of initiatives it undertook during the year in response to the downturn. We concluded that the government's accounting and presentation are appropriate and that its commitments are adequately disclosed.

As well, I am pleased to note that volume 1, section 1, of the public accounts includes a discussion about the economic stimulus commitments made during the fiscal year, such as investment in infrastructure spending. In our observations, we again raised the question of accrual-based budgeting and appropriations by departments and agencies. As we have noted in the past, the government has yet to commit to a date for adopting accrual appropriations or explain why it would not be prudent to do so.

• (1535)

[Translation]

We are also pleased to report that we have issued an unqualified opinion on the Department of Justice's financial statements—the first audit opinion for departmental financial statements. In addition, during the fall of 2009, my office will undertake a review of the readiness of Industry Canada for a controls reliant approach to the audit of their financial statements.

More details and several other matters are discussed in our observations. They also include an update on issues raised in previous years. These observations can be found on pages 2.34 to 2.39 of volume 1 of the Public Accounts.

In conclusion, we would very much like to thank the staff of the Office of the Comptroller General and those in all of the departments involved. These accounts reflect many hours of painstaking work.

[English]

That concludes my opening statement. We would be pleased to answer any questions that committee members may have.

Thank you.

The Chair: Thank you very much, Ms. Fraser.

We're now going to hear from the Comptroller General, Mr. James Ralston.

Mr. James Ralston (Comptroller General of Canada, Treasury Board Secretariat): Thank you, Mr. Chair. Good day to you and to members of the committee.

[Translation]

Thank you very much for the invitation to appear before this committee to discuss the Public Accounts of Canada. I am pleased to be here in my new role as Comptroller General of Canada.

[English]

With me are two members of my staff: Mr. Bill Matthews, assistant comptroller general, financial management and analysis sector; and Ms. Suzie Gignac, executive director, government accounting policy and reporting.

[Translation]

For the 11th consecutive year, the Auditor General has issued an unqualified opinion on the government's financial statements. This testifies to the highest standards of the government's financial statements and reporting.

[English]

I would like to thank the Auditor General and her office for the continued professional working relationship that we have enjoyed.

[Translation]

Mr. Chair, we have tabled a slide presentation outlining some of the key financial results for the fiscal year ended March 31, 2009. We can go through the presentation, or if you would prefer, we can simply table the presentation and go directly to the questions of the committee.

[English]

Thank you.

The Chair: I don't know, Mr. Ralston. I've gone over your slide presentation and I think it's pretty well self-explanatory. I don't think we need to go over it. We could just go right to questions, and if anyone wants to hear further, they can ask you specific questions.

Mr. James Ralston: Certainly.

The Chair: The slides present in summary form the major changes in the financial position of the government from the fiscal year ending March 31, 2008, to the fiscal year ending March 31, 2009.

We're going to go to the first round of questions. Before we do that, I just want to remind members that if they're putting a question to any of the witnesses on these specific public accounts, refer to the actual page, because the page in the French documents might not be the same in the English documents.

That said, I'm going to go to the first round. It's eight minutes.

Mr. Lee.

Mr. Derek Lee (Scarborough—Rouge River, Lib.): Thank you, Mr. Chair.

I think I should also commend the whole chain of command who have participated in the production of these public accounts. It's a massive undertaking; it has the seal of approval of the Auditor General, and I think that's tremendous.

Having said that, it's a two- or three-inch thickness of documents that detail the expenditure of more than a couple of hundred billions of dollars, so there's a lot of territory.

The fiscal year we're talking about ended more than half a year ago, so I note, as a highlight before I ask my questions, that the government managed to walk us into a deficit before the recession really started to bite. I could say that it's only \$5 billion or \$6 billion, but it's still a deficit, which may have been unexpected by a lot of Canadians.

In any event, one of the highlights of this, from my point of view, is the quantity of the lapsing, the money not spent in the fiscal year in which it had been planned to spend the money. The amount of lapsing is in the billions—maybe \$5 billion, \$6 billion, \$7 billion, as I and my researchers have added it up—and I'm puzzled by that. I know that lapsing happens, and for a number of reasons, including administrative. I suppose when you're spending \$230 billion-odd, you can have a hiccup and you don't get the money out the front door. But some of the lapsing here is in relation to programming that I would have thought the government and Canadians wanted spent, wanted to have out there.

I'm going to direct my question to the Comptroller General. He may not feel equipped to answer it, but I'm wondering whether there is any kind of pattern of lapsing visible here. For example, the language instruction for newcomers under Citizenship shows a 32% lapse of about \$82 million; the apprenticeship incentive grant at HRSDC, a lapse of 46%, about \$45 million; in the enabling accessibility fund—this is for Canadians who need accessibility—there's a lapse of 100%: the full \$21 million of the program was not spent. The government talks the talk on the crime agenda, and yet when it comes to crime prevention, the crime prevention budget of \$46 million left \$12 million unspent. Grants in support of safer communities was 87% lapsed, with \$5 million or \$6 million unspent.

Let me ask the Comptroller General whether he has noted either an increase or a decrease in the incidence of lapsing, and what may be causing it. This programming is important. The stuff I just read through is important to many Canadians, and if anything, it ought to be torqued, but surely not lapsed.

• (1540)

Mr. James Ralston: Thank you, Mr. Chair.

As you noted, essentially the appropriation sets out an upper limit to spending and directs some general purposes to which the spending is meant to apply. Typically, I think the government does a fairly good job of planning to spend that money, but from time to time, as you noted, lapses occur.

My experience has been, certainly when I was in a department, that the explanations were rarely the same from year to year. Many different things can go into causing a lapse, and it's important to study the components of the lapse. You noted many different departments, and I'm sure there are many different explanations for each of those cases. I must confess that I'm not familiar with what the stories are in each of those instances. But I will say that we expect departments to try to plan and to do the very best they can to make good use of the moneys appropriated by Parliament.

Mr. Derek Lee: Well, sure, they do: they come to Parliament half a year before they come for the estimates, and then we go through the estimates and we authorize the spending and then we go through the whole fiscal year. So there's lot of notice here. But you're saying you haven't noticed a particular pattern.

The lapse rate, on a percentage basis, appears to be about 3%, and you could say, when you're spending \$230 billion, “Who's going to miss \$6 billion?” But I'm concerned that programming that Parliament approves—funding for programming that we have approved and that we expect should be out there—is lapsing; it's not getting done.

Is it ineptitude? Is it unforeseen events? We're getting short-changed in programming for sure, and I'm in opposition, so I'll certainly be looking for some kind of cynical “bait and switch” whereby the minister can announce the great program—“We have thirty million bucks for this great program”—but actually isn't going to spend it. It's going to lapse and it gets shifted somewhere else or it pays down the debt.

So you haven't seen.... Has someone from Finance?

You're not going to admit to any kind of pattern here.

• (1545)

Mr. Paul Rochon (Senior Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Well, the last

Mr. Derek Lee: Mr. Rochon, are you? Do you see a pattern of lapsing?

Mr. Paul Rochon: There is a pattern in lapses. If one goes back, say, to the late 1990s, there is a pattern of increasing lapses from about 1999-2000 until 2007-08, and I would say that's largely a function of an expansion in spending over that period of time and of spending that takes some time to implement, either in an absolute sense, because they're federal programs that are being designed, or because they involve some partnership or negotiation with a third party—in particular, provinces and municipalities.

The lapse this year is down by somewhat over a billion dollars in aggregate compared with last year, and it is something that the Treasury Board Secretariat—not the Comptroller General, but the secretariat—is looking at when they prepare the estimates.

Mr. Derek Lee: Thank you, Mr. Chair.

The Chair: Thank you, Mr. Lee.

We're now going to go to Madame Faille.

Madame Faille, vous disposez de huit minutes, s'il vous plaît.

[Translation]

Ms. Meili Faille (Vaudreuil-Soulanges, BQ): Thank you.

I have just spent the past two weeks going through these accounts. Indeed, I have to correct my colleague: the books are not three inches thick, they are eight inches thick. As the Auditor General is aware, our meeting last week focused on intellectual property. The Auditor General revealed government mismanagement of innovation.

I do not know whether you have as yet had the opportunity to read the committee blues, but a number of questions are raised. Among other questions, the cost to the federal government of this mismanagement was raised. Often, parties have to undertake legal action to protect their intellectual property.

I was wondering whether you have looked specifically at this question. A number of witnesses, including the deputy minister for Treasury Board, wanted this question to be brought to your attention.

[English]

Mr. James Ralston: I'll ask my colleague, Mr. Matthews, to respond.

[Translation]

Mr. Bill Matthews (Assistant Comptroller General, Financial Management and Analysis Sector, Treasury Board Secretariat): Thank you.

Yes, I have read the minutes of the committee meeting.

[English]

On that front, we know we have a little bit of research to do, but do the public accounts contain information that will point you to the amount of money that was lost through that process? No, absolutely not. This is an accounting of how the government spent its money.

We recognize that there is some work to do on that file, but the meeting was just last week, so we haven't had the time to do any great amount of research on that front.

[Translation]

Ms. Meili Faille: Fine. So you will be able to do some research to give us an idea of how much the government's mismanagement will cost the Canadian taxpayers?

[English]

Mr. Bill Matthews: We're going to start by looking at our policies and making sure we support the process properly. When we get information on losses in the public accounts, when there's a loss due to damage or fraud, that will be reported. But when you're looking at what someone spent to protect intellectual property, I'm not convinced that our systems properly capture that information. So I'm not sure we'll be able to get back to you. We'll have to do some investigation.

• (1550)

[Translation]

Ms. Meili Faille: Very well. Thank you.

I have a question concerning the Employment Insurance Fund. As of March 31, 2009, the accumulated surplus of the Employment Insurance Fund will reach \$57 billion, or an annual increase of over \$200 million.

How will the Employment Insurance Fund be affected by the recession? What is the expected impact on employee and employer employment insurance contributions?

Mr. Paul Rochon: The recession will have an enormous impact on the account. We foresee cumulated deficits of approximately \$15 billion between 2009 and 2011. The 2009 contribution level was set at \$1.73 for every \$100 of taxable income under the account. The government froze the contribution level for 2010. Starting in 2011, the provision set out in Budget 2008 will come into force, i.e., the contribution rate will increase over a period of five years in order to balance the cumulative account.

Ms. Meili Faille: Thank you.

The government speaks of a sustained spending increase on professional and special services.

Do you believe that the spending is justified? What measures could the government take to reduce that expenditure item? I have the same question concerning the procurement of materials and business inputs. What measures could the government take to reduce those expenditure items?

[English]

Mr. James Ralston: I think it's fair to say that the general approach to budgeting and resource allocation in the government is to focus on the programs, to make sure that spending is for appropriate purposes and directed at useful ends. The choice of particular business inputs, whether it's professional services, staff, or anything else is really a program decision that the deputy ministers of the departments involved would have to make. These decisions rest on their judgment of what combination of business inputs will best deliver the programs.

[Translation]

Ms. Meili Faille: Thank you.

The reason why I asked these questions is that, last year, I focused on losses within government, including the loss of equipment such as BlackBerrys, laptop computers, suitcases and memory sticks.

In your response to the committee, which we received this morning, you state that improvements have been made to various internal controls. As well, the government has to incur a number of expenditures to rectify mistakes made by public servants.

An article in Ms. Thompson's newspaper compiles a long list of problems. Just think about the widely reported story of the lost gold bullions, the explanations that were reported recently in the newspapers and the amount of money that people were forced to pay. I have read that some \$300,000 were paid to Deloitte & Touche to carry out audits.

Are those some of the changes that you suggested to the various departments in order for them to improve their controls?

[English]

Mr. James Ralston: I think central to your question was your observation on the reporting of losses. What I'd like to say about that is we see each year there's a certain level of loss reported that occurs in government. Again, there are a variety of reasons, some of them are accidental, some of them may be due to other circumstances. Once again, my view is that it would obviously be much better if we could reduce that sort of loss. But frankly, I think the best way to approach it, because of the diversity of the circumstances, is that when a loss occurs the department that experiences it has to look at the situation that caused it, try to address those causes, and put in appropriate fixes for it.

Once again, it's just something for which, due to the diversity and breadth of government, it's hard to prescribe a single answer. It really requires analysis of the details.

• (1555)

[Translation]

The Chair: Thank you, Ms. Faille.

[English]

Mr. Christopherson, eight minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Chair, and thank you all for your attendance today.

I want to begin by just underscoring the last sentence in paragraph 4 of the Auditor General's comments: "In our view, Canada continues to demonstrate leadership in financial reporting for national governments."

I'm one of the quickest and loudest to jump when things aren't the way they should be, and I think it's important to acknowledge how blessed we are in Canada, especially those of us who have an opportunity to travel to other countries and see the corruption they're faced with, not only at senior government levels but right through their entire society. It's so frustrating and demoralizing and difficult for ordinary citizens in those kinds of corrupt systems. We have our challenges and we have our problems and we have our corruption, but it's not on that same scale.

I want to thank all of you who are involved in that, those who aren't in this room, who are involved in the staffing side of giving us that reputation—and hang on tight because I'm not going to do it often, but I'll give my dues to the Conservative Party while they're in power for ensuring that we've continued, and to the Liberal Party when they were in power. We do have our problems and we'll continue to face those challenges, but in the broader scheme, when you get out there and see what else exists in the world, we are so blessed in this country; we truly are.

Having said that, I'll move to some questions and take some of our challenges on.

In volume III, page 2.20, under "Public Works and Government Services", lo and behold I see the words "Sponsorship Program"—I hear "scandal", but I read "Sponsorship Program". This is under "Losses of Public Money due to an Offence, Illegal Act or Accident". We all know about the millions that were lost, some of it still not found or identified, but this is now registering in this fiscal year: \$2,140,000 lost, only \$32,808 has been recovered so far, and \$120,000 is expected to be recovered. That leaves \$1,987,192 we're not going to get back.

Is this the infamous sponsorship program, or is this something new?

Mr. Bill Matthews: Thank you for the question.

It is, indeed, the previous sponsorship program. The reason you're seeing new losses reported here is that sometimes when there are investigations into potential losses, they wait until they are a certain way down the path before they can actually articulate, do we have a loss or do we not? And it involves court action. In this case, there were some actions under sponsorship that were pursued this year. There are still losses being calculated. We do annually report on those losses, the new ones, as well as recoveries of the losses previously reported. In this case, the Department of Public Works and Government Services provides additional disclosure. They keep a website up to date on sponsorship recoveries and actions.

In the case we've got here...and I'm going from memory, but the reason that is reported as not being recovered is the firm or person in

question has declared bankruptcy, and there's a loss there. It's just not felt likely that we will get a recovery.

Mr. David Christopherson: How many more years are Canadians going to continue to see the losses under this sponsorship program? Do you have any idea?

Mr. Bill Matthews: I can't say. It depends. The actions are still before the courts.

Mr. David Christopherson: But it is going to be ongoing years that we're going to continue to see this?

Mr. Bill Matthews: I'd say for a couple of years, yes.

•(1600)

Mr. David Christopherson: I'm looking at volume I, page 11.9. This is "Transfer Payment Agreements, Fixed Assets, Purchases and Operating Leases as at March 31, 2009". In every single province except one, Mr. Chair, which you'll find interesting... It names the governments. For the Government of Ontario, for example, at the bottom of the page, under "Building Canada Fund—Communities Component", it shows \$362 million was the estimated cost, with \$362 contracted and nothing spent. I found nothing spent for every province except P.E.I., which managed to spend \$1 million out of the hundreds of millions that are here.

Can you tell me why there's so much money being teed up for communities but it's not being spent when we need it?

Mr. Bill Matthews: In this case you're dealing with the fund, and there are negotiations involved between the federal government and the provinces. So setting aside the amount is the first step. Then there are detailed negotiations that allow you to actually proceed to spending, and those are often time-consuming and delayed. It's once those agreements are reached that you'll actually see some spending take place. It takes some time.

Mr. David Christopherson: You know, under normal circumstances I'd probably accept that and move along. But in this case, the government and all the opposition parties and the public and every mayor and every premier have been talking about things being shovel-ready, getting the money out the door, getting the stuff going where you can without doing any damage, accelerating procedures to get the paperwork going. I'm led to believe that of all the governments we have in Canada and all the bureaucrats and all the politicians, the only province that managed to get something done and actually had money go out the door was little P.E.I., to the tune of \$1 million.

That's the best this government could do in this kind of crisis?

Mr. Bill Matthews: I can't speak for the department in question, but remember this is as of March 31, so the bulk of the spending under the economic action plan will occur in the current year and the next fiscal year. So if you're referring to those projects, this was at March 31.

Mr. David Christopherson: Fair enough. I'm not going to belabour it. I know you can only say what you need to say. But I have to tell you, given the priority and the importance, if we saw small amounts, I would think I could buy into it. But there's nothing in any province except P.E.I., which managed to get \$1 million. So with all that money and all that talk, we ended up with \$1 million in one province. Something is not right there.

Anyway, moving on, for as long as my time holds, to volume III, page 2.34, this caught my eye. This is under the category of "Losses of Public Property due to Accidental Destruction or Damage". Under Transport, the damage to hopper cars is \$53 million, and \$40 million of that is not going to be recovered. Now I happened to look over at National Defence, where I expected to see a huge number...and I realize this is accidents, and I would assume most of their damage is not necessarily by accident; somebody wanted to do the harm. But still, with all the equipment they're moving around and all the potential for ordinary human.... They don't have a number anywhere near that. They don't have one line item that breaks \$1 million. But hopper cars are costing us a loss of \$40 million a year plus.

Can you help me understand why?

Mr. Bill Matthews: That one I can, because it caught our eye as well.

Mr. David Christopherson: I'll bet.

Mr. Bill Matthews: This is an error, from the department's perspective. What happens here is there are hopper cars leased to CNCP, and if they're damaged there's a settlement. The loss has been incorrectly calculated here by the department. So CNCP reimburses the government for a certain amount based on the book value of the hopper car. Because of the nature of their use, hopper cars are more subject to damage than your average rail car. In fact, it was not a loss. It was actually a gain of \$3 million in terms of the compensation they received. So there were hopper cars damaged during the year, but the amount compensated to the government was actually in excess of the book value. So it was an error.

Mr. David Christopherson: But it does beg the next question, which is, when did they find that out?

Mr. Bill Matthews: They found out they had reported an error in the last week, when we asked the same question.

Mr. David Christopherson: I wonder if I can just close this, Chair, please.

The Chair: Yes, go ahead.

Mr. Bill Matthews: When did they find out they had reported an error?

Mr. David Christopherson: Yes.

Mr. Bill Matthews: In the last week, when we asked the same question.

Mr. David Christopherson: And my question to the Auditor General is whether there is not some requirement for department heads to let us know when there's something wrong in the printed document that's especially this big, prior to our sitting here and deliberating.

•(1605)

Mr. Bill Matthews: In something this thick, we do from time to time discover errors. Once the department finalizes the numbers, we

do post updates on the Public Works and Government Services Canada website.

Mr. David Christopherson: Fair enough, but for a \$50 million mistake or a \$40 million mistake, I would have expected, given the sophisticated level of all of this, that somebody would have had a note on our desk saying, "By the way, on page so-and-so, we really didn't lose forty million bucks."

Mr. Bill Matthews: And we will do that once we finalize the actual number.

Mr. David Christopherson: With great respect, that still doesn't help us for the purposes of this meeting.

Thank you, Chair.

The Chair: Thank you, Mr. Christopherson.

Mr. Saxton, eight minutes.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

I'd like to begin by welcoming our witnesses, and a special welcome to Mr. Ralston, who appears before us for the first time in his new role as Comptroller General. Thank you for coming today.

My first question is for the Auditor General. I'd first like to echo the praise that my colleague Mr. Christopherson has for you and for our system. We are indeed very fortunate to be living in a country like Canada.

Now, Madam Auditor General, you mentioned that for the eleventh consecutive year the government has received a clean audit opinion on its summary financial statements.

Can you please comment on what this means? And how does Canada stack up against other countries?

Ms. Sheila Fraser: Thank you, Mr. Chair.

I would say this is a very significant achievement. First of all, there are very few countries that actually receive what we call a clean opinion. In many cases the auditors have some difficulty in certifying the accounts. As well, there are very few that have as long a history, if you will, of clean opinions. That is why we really do believe that the Government of Canada is a leader internationally in its financial reporting, especially since the government is doing its accounts on what we call the accrual basis, not the cash basis, which makes it even more difficult to do a lot of the estimations and to do a lot of the numbers that go into the accounts. So it is a very significant achievement.

Mr. Andrew Saxton: Thank you.

My second question is also to you, Madam Auditor General.

In the past you have raised concerns about Treasury Board policy and how it relates to your office. You have stated in this committee that you have been working with Treasury Board to clarify these policies. On September 18, the President of the Treasury Board wrote a letter to this committee regarding amendments to enhance the independence of agents of Parliament and to clarify respective rules and responsibilities. This appears to be a positive outcome.

Madam Fraser, are you pleased with the dialogue that you had with Treasury Board and the resulting changes?

Ms. Sheila Fraser: Thank you, Chair.

We are very pleased with the way that project was handled and the results. As I mentioned to the committee—and when we have the hearing on our report on plans and priorities, we will go into this perhaps in more detail—there were a number of clauses or provisions in Treasury Board policies that applied to officers of Parliament, which we felt were inappropriate. There was a review of those policies. Many of them have been corrected. I would add, though, that we are still not completely satisfied, because the communications policy has yet to be addressed. But many of the other policies have been addressed and we are very pleased with the progress that has been made.

Mr. Andrew Saxton: Thank you.

On page 2.34 of the public accounts, you mentioned that you are “...pleased to note that...the Public Accounts includes a discussion about the economic stimulus commitments made during the fiscal year...”

Can you comment on this, since you did mention it in your observations? Can you also explain why you're pleased?

Ms. Sheila Fraser: Thank you, Chair.

As I noted in my opening comments, most of the programs and initiatives that the government took under the economic action plan would not have an effect in the year ended in March 2009. There is some disclosure in the statements, but the bulk of the transactions and the more significant transactions will occur in the current year. I think given all of the attention that was being paid to the economic action plan, we were very pleased to see that the government has made this disclosure and is giving Canadians some indication of the spending that will occur over the next three years so that they understand how that is rolling out, if you will, and the fact that there is very little in the statements for March 2009.

Mr. Andrew Saxton: Thank you.

My next question is for the Department of Finance, Mr. Rochon.

We have heard repeatedly that Canada's fiscal position remains the best in the G-7 and how this fiscal advantage will serve Canada well in the years ahead. I understand that the IMF is projecting that Canada's total government net debt-to-GDP ratio will reach 28% this year.

Can you compare that with our partners in the G-7—the U.K., the U.S., Germany, France, Japan, and Italy? Where do we stack up in the G-7?

• (1610)

Mr. Paul Rochon: Currently we have the lowest net debt ratio by far in the G-7. As you indicated, the IMF projects that while our debt ratio will go up somewhat—it's in the order of five percentage points measured in relation to gross domestic product—that's really quite a small increase compared to the massive increases that are taking place in virtually every other G-7 country. It's perhaps small comfort that we're doing better in a relative sense because other countries are doing worse, but that is definitely the case.

Mr. Andrew Saxton: How does that look for the year 2014? What is the trajectory for Canada's net debt by that year?

Mr. Paul Rochon: Canada's net debt through 2014 will be only slightly higher than it is now. Again, what we're talking about here is the total government net debt, so it is the combined federal-provincial net debt, plus the balances in the Canada and Quebec pension plans. It's calculated that way so we can compare across countries, many of which are unitary states. I'm going from memory, but my recollection is that our net debt will be in the order of 34% of GDP on a total government basis in 2014 in Canada.

Mr. Andrew Saxton: How does that stack up against our partners in the G-7?

Mr. Paul Rochon: They would have debt ratios that are considerably larger than ours. I don't have that data right off the top of my head.

Mr. Andrew Saxton: Okay. You just mentioned that we're doing very well.

Mr. Paul Rochon: We're doing well, and we're well below anybody else.

Mr. Andrew Saxton: Thank you very much.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Saxton.

The clerk has just informed me that there is going to be a vote in the House on a procedural motion, so what I propose to do is just continue on until five minutes before the vote. It's only one vote. At that time we'll suspend for a 15-minute period and then continue the meeting after the suspension. I just wanted to let you know that. We'll let you know how we're getting along timewise.

We can start round two.

Ms. Crombie, you have five minutes.

Mrs. Bonnie Crombie (Mississauga—Streetsville, Lib.): Thank you, and welcome to our guests, especially Mr. Ralston.

I've got quite a number of questions, so just giving really short answers is fine.

I do want to ask about the shift in our position, because in 2007-08 we posted a surplus, as we know, of \$9.6 billion. Then there was a \$15.4 billion shift and now we find ourselves in a \$5.8 billion deficit. Does that concern you? What factors led to that, because that was sort of pre-recessionary planning?

Mr. James Ralston: Right.

Mr. Paul Rochon: Why don't I speak to that from the Department of Finance's perspective.

In large measure, the deficit in 2008-09 reflects the onset of the recession. You see that when you look at budgetary revenues, particularly the large drop in corporate income tax revenues. You'll recall that the global recession really accentuated in the last quarter of 2008 and the first quarter of 2009. Canada and other countries experienced very sharp declines in both output and incomes, and that fed through directly into our revenue base.

Mrs. Bonnie Crombie: Thank you.

Now that the accumulated deficit is upwards of \$463 billion and we know interest rates are starting to rise, what's the strategy to offset the increased costs of servicing the debt?

Mr. Paul Rochon: The debt service costs are projected to rise in part because interest rates are historically low right now, but it's also because we are taking on more debt. In September, the government sent out an update where it indicated an overall general approach to return to balance, and that approach was centred on controlling spending and reducing the overall growth rate in spending.

• (1615)

Mrs. Bonnie Crombie: Mr. Rochon, I wonder if you might help me understand this chart you've given me, based on our financial results and interest-bearing debt. It seems to me that the unmatured debt here in 2008-09 is \$514 billion versus \$390.7 billion in 2007-08, a change of \$123.3 billion or 31.6%. What does that mean specifically?

Mr. Paul Rochon: The unmatured debt has gone up by \$120 billion—and that is recorded in the government's liabilities—but it is offset by a roughly commensurate increase in assets. The reason is that the bulk of the increase in that unmatured debt is due to, one, the purchase of mortgage-backed securities by the CMHC from the chartered banks in order to provide liquidity to our banks, and two, a fairly large increase in liquidity for the Bank of Canada that was funded through an increase in unmatured debt. This increase in the debt was used to purchase assets, financial assets in this case, so that the net debt, if you will, or the accumulated deficit, shows a much smaller amount, a deficit of \$5.8 billion.

Mrs. Bonnie Crombie: Farther down that chart, you seem to be reflecting a total pension and other liabilities increase of \$5 billion. Is this a concern to you? That's almost a 3% increase.

Mr. Paul Rochon: I'm sorry?

Mrs. Bonnie Crombie: I'm looking at total pension and other liabilities—\$5 billion.

Mr. Paul Rochon: Is this the employee vets? Is that what we're talking about?

Mrs. Bonnie Crombie: I'm referring to pension and other liabilities.

Mr. Paul Rochon: Right, this is what I might describe as the natural increase in liabilities associated with public sector pensions and veterans, the so-called “current service costs” of those plans.

Mrs. Bonnie Crombie: Okay.

Mr. Paul Rochon: Each year the government records in its accounts an increase to reflect the cost, effectively, of pensions of the people who are employed by the government.

Mrs. Bonnie Crombie: In volume III, you're showing \$9.4 billion spent on professional and special services in 2008-09. I recall an earlier time, in 2004-05, when the spending was only \$6.5 billion. So here we have an almost \$3 billion increase. That's 42% more. Where do these increases come from? Are you concerned about the amount being spent on professional and special services?

Mr. James Ralston: Although the amount appears as a single line item in the consolidated financial statements, the expenditures are in fact made across the government in many departments and in respect of many different programs. In each case, it would be the managers

of those programs who would need to decide what was an appropriate—

Mrs. Bonnie Crombie: Right, but the increases should be concerning.

I note, too, that \$586 million was spent on consultants. CRA spent \$155 million on consultants; Environment, \$31 million; Foreign Affairs, \$20 million; Health, \$42 million; HRSDC, \$82 million. It goes on and on. Public Works spent \$178 million on management services. Are these not large numbers spent on consultants, and do they not concern you?

Mr. James Ralston: They're large numbers, but there's not any particular reason to be concerned with that business input as opposed to any other. You would have to look at the results obtained from those expenditures. They may very well have been the best way to get value for money. It would have been a programming decision. You can't form useful conclusions based solely on the nature of the input.

The Chair: Thank you, Ms. Crombie.

Mr. Kramp.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Mr. Chair.

It should maybe come as no surprise, but I actually have a question on accrual accounting I'd like to ask both Madam Fraser and our Comptroller General.

Before I get to that question, though, I have another question for our Auditor General with regard to the integrated relocation contract. This is an issue that goes right back to when the chair and Mr. Christopherson and myself originally sat. I can remember A.E. LePage, Envoy, the whole thing. We spent a lot of time on it. It subsequently went to the government operations committee. The same process went on there. It is now, of course, before the courts. Thankfully, the recommendations came from our committees suggesting that there had been potentially some improprieties, so it would be looked at, and it is now in the course of legal action.

What concerns me now, of course, is that we now have a new contract that was established under the fairness monitor and the recommendations of the Auditor General and of the committee. Of course, in this only one company made a bid. The one company that did not make a bid but is of course involved in the action right now is Envoy.

There were no complaints about the process, due obviously to the inclusion of the fairness monitor. The one company that put the bid in, Brookfield Relocation, won the bid. Obviously, they were under the impression that they had healthy competition because the bid came in at 15% less than what had happened before. So we're happy with that. But now that the contract has been awarded, we have some difficulty because we have a lobbyist on the Hill—and I'm not shy in stating that it's Mr. Boudria, who is acting on behalf of Envoy. He's been lobbying—opposition members, government members, whom-ever, and that's his job, that's his duty—to ask that the contract be extended on the original one. Now they have a civil action going against the original company and yet he wants to extend that contract. Of course, we have a circumstance here that if an award is made to that contract and then subsequently that contract is renewed without going to tender, there could be civil damages extended to extending the contract without giving advice.

Madam Auditor General, this really disturbs me, because Mr. Boudria's client would get even more compensation, of course, actually as a result of the legal action, if they're allowed to extend the contract rather than accepting the process that we have now under the consideration of the fairness monitor, a new contract that's already been allotted. I'm wondering, do you find this is something that should consume the committee again? Quite frankly, we now have a motion before this committee on behalf of the opposition—and honestly, I'm a little bit surprised at the NDP and Bloc presenting this motion before committee—to go back in now and suggest that this tender should not be valid, should potentially be opened up and go back to the original.

Do you really believe that lobbyists, such as Don Boudria and so on, who really are trying to derail the fair and open process...? Is that something we should be looking into again?

• (1620)

Ms. Sheila Fraser: Mr. Chair, all I'm aware of in this is that the committee passed a motion asking us to review the relocation contracts and processes from 1999 to date. I have replied to the committee that we will make some preliminary inquiries. I don't know if you've received the letter, but we will make some preliminary inquiries and we will inform the committee within the next couple of weeks as to whether we will undertake an audit or not.

Mr. Daryl Kramp: Thank you, because the timing is obviously very, very important to this. It's time sensitive in that if we have a contract that will be allowed to be extended rather than allocated, and then there's a civil judgment and that civil judgment then goes through to the extension, in essence, we as a committee have been aiding and abetting the remuneration of a civil action. I have some deep concerns with that.

Anyway, going back to the accrual accounting situation, if I may, we've all been a proponent—

The Chair: You only have seven seconds left.

We'll allow you the question. Go ahead.

Mr. Daryl Kramp: Very quickly, we've all been a proponent, and this worked relatively well. Yet there appeared to be some difficulties with the application, particularly from the elected representatives in Australia.

Could the Comptroller General, and possibly even the Auditor General, comment on some of the difficulties? Can we expect the same here?

Mr. James Ralston: A number of countries have had experience with it. We've read with interest a report put out by the OECD, and it indicated there were mixed reviews, you might say, specifically with the use of accrual appropriations.

I recently received a report from the CICA in Canada, and it cited that same OECD report. Basically it gives a bit of “on the one hand, on the other hand”. On the one hand, there are many purported benefits, but on the other hand, the experience has been that in some cases the results have not necessarily matched expectations.

The conclusion seems to be that any government that wants to go down that road should be very thoughtful and consider the particular circumstances and the manner in which implementation is made. I think the OECD, for example, talks about instances where only certain types of expenditure might be subject to accrual appropriations and modified cash might be used in other situations.

For our part, my colleagues in the Treasury Board Secretariat have been looking at a pilot as a precursor to perhaps an eventual move towards accrual appropriations. It will first look at a kind of restating of the cash basis appropriations we now have to produce a pro forma presentation that might facilitate at least one element of the benefits, which is greater comparability down the line when the financial results become available.

We would like to see whether that in fact helps. When accrual basis financial statements can be compared to these pro forma appropriations in the future, maybe that will address some of the elected members' concerns.

It is a matter we're taking measures on, studying, and we are attentive to the experience of other countries, but we have yet to conclude.

• (1625)

The Chair: I believe the Auditor General has a comment.

Ms. Sheila Fraser: Chair, I would add that I am aware that accrual appropriations may not have the same enthusiasm in Australia that they once had. I would remind members—certainly members who were on the committee that did the study—that there are many provinces in Canada that have been using it now for several years. There was testimony given that they felt it was actually very beneficial. I think it would be important to have a broader view than to simply look at the Australia experience.

The Chair: On a point of privilege, Mr. Christopherson.

Mr. David Christopherson: To be very clear, Mr. Kramp left the impression, and all but said, that we were aiding and abetting, and that he was surprised.

Mr. Daryl Kramp: [*Inaudible—Editor*]

Mr. David Christopherson: Hang on, Daryl, I listened to you, and I'll listen again if you want to take the floor.

This was corrected by the Auditor General. I want to underscore the correction and that Mr. Kramp was inaccurate in his recollection of our motion. We sent new information to the Auditor General and asked whether in her opinion that new information warranted this to be looked at.

Mr. Kramp, the impression was clearly left that somehow you were shocked that the Bloc, the NDP, and I, were somehow willing to help a Liberal who is now a lobbyist. That's a pretty strong allegation, and that's not the case.

The Chair: If I may, Mr. Christopherson, I was going to make a statement too. I'll just read the last part of the motion:

That the Committee ask the Auditor General to conduct an audit of the Integrated Relocation Program (IRP) as of April 1999, including the tendering and awarding of the 2009 contract, and to present her findings to Parliament.

As I pointed out when this motion came before the committee, we do not have control over the Auditor General's workload or her agenda. All we can do is make a motion. She and her office have their own methodologies on risk and what she will and won't audit. That was a recommendation and nothing more. We weren't going to extend or disallow contracts; it would be a performance audit on the actual awarding of that contract. That's certainly my interpretation of the motion.

Again, it's entirely up to her office as to the next step. She did indicate that she would get back to us.

Am I correct, Madam Auditor General?

• (1630)

Ms. Sheila Fraser: That is correct.

Mr. Daryl Kramp: I would just note that this was not a unanimous request from the committee. Certainly there's no ill intent, but a number of the government members and I felt that this could open up a liability down the road for the government, which we've looked at again and again.

Mr. David Christopherson: Fair enough.

The Chair: Colleagues, it's 4:31 right now. We're down to probably seven or eight minutes before the vote, so I'm going to suspend this meeting. The meeting will reconvene immediately after the vote, so I ask every member to come back.

We apologize for the inconvenience to the witnesses.

• _____ (Pause) _____

•

• (1650)

The Chair: We have seven people here, so we will start.

Monsieur Paillé, you have five minutes.

[*Translation*]

Mr. Pascal-Pierre Paillé (Louis-Hébert, BQ): Thank you, Mr. Chair.

If I am given the opportunity, I would like to share my time with my colleague, Ms. Faillie.

I would like to come back to page 5 of the document you handed us. It states that the accumulated deficit is \$463.7 billion, a

\$99.2 billion decline since the high-water mark of \$562.9 billion reached in 1996-1997. Based on what I understand from the explanations of the Minister of National Revenue, there will be a rather sizeable increase in the deficit over the next few years.

Do you expect that we will exceed the amount reached in 1996-1997, in the short term?

Mr. Paul Rochon: I can answer that. The debt has decreased by approximately \$100 billion over the last 10 years. The government foresees a deficit of about \$56 billion for the current fiscal year and approximately \$44 billion for 2010-2011. Thereafter, forecasts show that deficits will decrease in the medium term.

In absolute terms, the current string of deficits will more than offset the debt reduction of the last 10 years. However, that is a bit misleading because our economy has grown to about twice the size it used to be.

• (1655)

Mr. Pascal-Pierre Paillé: Are you referring to the GDP?

Mr. Paul Rochon: That is correct.

Mr. Pascal-Pierre Paillé: Very well.

Do we know who our creditors are? Do you know the percentage of foreign creditors? So half of Quebec's debt is attributable to Quebecers. Do you know exactly to whom the money is owed?

Mr. Paul Rochon: First of all, the Government of Canada debt is issued primarily in Canadian dollars. However, debt is handled on international markets and at present, approximately 15% of the debt is held by foreigners.

Mr. Pascal-Pierre Paillé: That means that 85% of the debt is owed to Canadians.

Mr. Paul Rochon: Yes.

Mr. Pascal-Pierre Paillé: All right.

I have one last quick question before giving the floor to my colleague. Page 8 of the same document shows that benefits for children are the same in 2007-2008 and in 2008-2009.

Was there a re-orientation of programming for children or a drop in the number of children? I am wondering about that. Why is the amount for two consecutive years the same?

Mr. Paul Rochon: That is a good question.

Mr. Pascal-Pierre Paillé: In terms of the percentage, there is a 0.1% variance. Nevertheless, while there is an increase everywhere, there is none on that line.

Mr. Paul Rochon: The \$11.9 billion figure is accurate. It is the Canada Child Tax Benefit, in other words, a set amount. There is one benefit per child. However, it is indeed curious that the amount is exactly the same as the previous year.

According to the forecast for the month of September, the Canada Child Tax Benefit was to go from \$11.9 billion for last year to \$12.2 billion for this year.

Mr. Pascal-Pierre Paillé: I'm going to quickly give the floor—
[*English*]

The Chair: You have only about 10 seconds left.

Do you need more time to give a more elaborate answer to that last question?

Mr. Paul Rochon: I think we just need to verify that the \$11.9 billion for 2008-09 is correct.

Mr. Bill Matthews: It is correct. The numbers in the presentation are rounded. It's not the exact same number, but when you round, they both work out to \$11.9 billion. They are correct.

The Chair: *Merci, Monsieur Paillé.*

Mr. Shipley, you have five minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much, and thank you, witnesses.

I want to follow up on the comment that Mr. Ralston made—and this might also go to Mr. Rochon.

The accumulated deficit of \$463 billion decreased by \$100 billion from its peak of \$562.9 billion in 1996-97. Your indication is that we have an accumulated deficit of \$56 billion this year, and maybe \$44 billion in the coming year, which might take us back. Thankfully, I think Canadians know and appreciate that actually \$40 billion was paid off prior to this happening—the crunch, I think you said, in March.

Do you know when was the last recession of this magnitude? There are a lot of questions about where the money went. When we look at the current global recession, can either of you remember when we were in a global recession of the magnitude that we're in now?

• (1700)

Mr. Paul Rochon: In terms of global recession, this is the largest one since World War II, since the system's national counts were developed. You'd have to go back to the Great Depression. This isn't anywhere close to the Great Depression, but that would be the next most important event globally.

Mr. Bev Shipley: What were the numbers, in terms of a stimulus package in total, that have been committed to stimulating the economy? Would you have that number for us?

Mr. Paul Rochon: Sure. The total value of the government stimulus package over the two years, 2009-10 to 2010-11, is \$46.5 billion. When combined with moneys from provinces that are there to be partnered with federal programs, the total is \$61 billion over the two fiscal years.

Mr. Bev Shipley: I think that helps in terms of the net numbers that we're talking about, because that's one of the things I wasn't picking up out of this. I suspect it doesn't lay out the equalization that happened with the provinces. I think that was \$23 billion. They're rebuilding the military, and there's the provincial equalization and the download of health. Actually, we've continued improvement in terms of health. I'm trying to get a full picture when the question is asked, "Do you know where the money has gone?" I think it's likely a combination of those areas.

I think the biggest part is respecting that we're in a global recession unseen since the Great Depression of 1933. When I look at our debt-to-GDP ratio, as has been mentioned before, I think we're pretty fortunate to be in Canada, and for what our banks and what

governments in the past, and in fact now, are doing that has put us in a strong place.

There has been a change. When I look at the numbers, you talked about the lack of corporate revenues, and there seemed to be an increase in the personal tax. Has there been a change in the methodology? It just doesn't seem to ring true that there would be an increase in personal taxes. They've dropped on the corporate side. Has there been a change in the methodology in terms of determining personal tax?

Mr. Paul Rochon: There has been no change in the methodology.

Well, there have been some improvements.

Go ahead, Bill.

Mr. Bill Matthews: You may recall that in previous years the Auditor General has observed that we could improve our methodologies for estimating tax revenues. So we've continued to do that, and one of the changes that we implemented in the last fiscal year resulted in a catch-up adjustment on personal taxes. That's part of the reason you saw the increase in personal tax.

Mr. Bev Shipley: Okay.

Just for clarification—and this will be my last question for now—when we talk about the losses in public money, I think when we see that, the flags go up. I think you gave an example. You said there would be losses. Would those be computer losses or losses that go out of a department? Is that what those losses are?

What other countries disclose that, and how long have we been doing it? Are we the only country? Are we just tracking what every other country does, or is this something that's unique to Canada? Do you know?

Mr. Bill Matthews: I haven't done an official survey, but I do chat with my colleagues from other countries, and I can tell you our Australian colleagues think we're crazy to disclose this amount of information. So I haven't done a comparison across the board, but to my knowledge, no other country matches us on this level of disclosure.

Mr. Bev Shipley: Thank you very much.

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

Mr. Christopherson, five minutes.

Mr. David Christopherson: Thank you, Chair.

In volume III, page 8.4, under Parks Canada Agency.... We're now into "Payments of Claims Against the Crown". There's a number that stands out like a sore thumb, and I'm wondering if somebody can help me with it. It's \$1,661,718, a claim against the crown for a contravened lease agreement, and that number is way out of line. Almost every number on the page is \$2,000, \$8,000, \$13,000, but nothing like this \$1.6 million. How did we lose \$1.6 million in a lease agreement?

• (1705)

Mr. Bill Matthews: I can tell you that in this section we disclose claims that are judgments, but I'm not familiar with the details on this one. You'd have to follow up with the actual department that's responsible for this one to get details on that.

Mr. David Christopherson: I appreciate that. I understand you can't defend every line, but it stands out so big, and I already got a sense that you've gone through and looked for areas you thought you might get questions on. I'm a little surprised, but I accept that.

Let's move on then within the same volume to page 2.24, under the heading of "Losses of Public Property Due to an Offence or Other Illegal Act". Under Fisheries and Oceans, there's the theft of computer equipment, as you said, but the number is so big compared to everything else. There are the 26 cases of computer equipment and—lest anyone think that includes everything—the next line is "Theft of electronic equipment", which is an even bigger number, \$63,000.

In almost all the other departments, there are some, and I accept that these things happen. But again, this number is so out of whack. Do we have a reason why? I wouldn't have thought it would be that ministry, of all of them, but I'm listening.

Mr. Bill Matthews: What you'll find is that the departments that are regionalized, with many small operations, are more susceptible to this sort of fraud. It's not like they have one building with commissionaires guarding the entrance. So in this case, you've got a fairly widely distributed organization with many access points, and that's typically the type of organization you'll see with more losses than others.

Mr. David Christopherson: Yes? Year over year?

Mr. Bill Matthews: Not always Fisheries, but it's those organizations that are regionalized. If you compare them to something like the Department of Finance or TBS, where we're all largely in the same building, you'll see the losses are less than in these departments where there are many regional centres.

Mr. David Christopherson: Okay. I'll follow up on that. Thank you.

Assuming I have time, let's jump back a couple of pages, if you would. Under "Losses of Public Money Due to an Offence, Illegal Act or Accident", under Foreign Affairs, CIDA, in the middle of the page, it lists "False or fraudulent claims for grants and contributions". There are five cases at \$2.991 million—almost \$3 million, and all but half a million of it is gone. Again, any idea what the issue is here?

Mr. Bill Matthews: In this case, these were uncovered, I believe, as part of an internal audit. It's basically an audit of claims claimed under the agreement. They'll go through and audit the claims that are made and make sure the expenses are in accordance with the agreement.

I'm going from my memory here, but they found five cases where there were significant issues with the claims made. I don't have an answer on why they don't think these items are recoverable. Typically, it's because the organization no longer exists or is no longer solvent. That is often the reason.

Mr. David Christopherson: That's a big chunk of money.

Madam Auditor, do these come by you? I know you find these things when you do your reviews. Are there any other ways that things that jump out come to you, by exception? Would this cross your desk at all?

Ms. Sheila Fraser: The only way it would cross our desks is if it was the result of an internal audit, for example—we are aware of internal audit reports—or if it was something really significant. Generally the departments will advise us of these kinds of cases.

Mr. David Christopherson: Well, you might want to do a little follow-up.

I don't have a lot of time, Chair. One of the things I wanted to do, though, is to ask if you would be kind enough to put a review of the policy vis-a-vis the tabling of these documents on the next agenda of the steering committee, just going back to the \$40 million error. I accept that it was an error. What I have problems with is that it was known before we sat here and met. This is where the rubber hits the road. There really needs to be some notification that hey, folks, there are some problems in there. Could you just have us discuss that at the steering committee? I'd appreciate it very much.

Thank you, Chair. Thank you all.

The Chair: We'll put it on tomorrow's agenda.

Thank you, Mr. Christopherson.

Mr. Weston, you have five minutes.

Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC): Thank you, Mr. Chair.

I think as members of this committee we're all somewhere between sensing...Mr. Christopherson used the word "blessing", of being in a country with the kind of record that you have outlined, and a sense of gratitude for the people who work hard to keep it that way.

Here is the question I'd like to pose to the panel. What do we do with this in terms of attracting investment to Canada, encouraging people to do business here? What is the message that you think we should be broadcasting as parliamentarians, particularly in this Olympics-Paralympics year? What are you wishing that we would get that we're not getting when we travel or when we're interfacing with people from abroad?

I would put the question to you, Ms. Fraser and Ms. Cheng, as well as to Mr. Rochon and Mr. Matthews, if you have thoughts on that.

What should be in our press releases?

● (1710)

Ms. Sheila Fraser: Mr. Chair, I'm not sure I can respond to the question of investment in Canada, because I think it goes far beyond the transparency of the public accounts and the accountability to a parliamentary committee. But certainly the fact that the Government of Canada produces these financial statements that receive clean audit opinions and give this level of detail and transparency around our finances is I think a credit to the country and an indication of the accountability and transparency that exists here.

Mrs. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada): I don't think I have very much to add. I think it's really the comparison when you leave Canada that you recognize how well regarded we are. I remember in one forum—and I don't remember where it was—where the French were complimenting themselves because they actually had a qualified opinion with 12 exceptions that year. We have had a clean opinion for 11 years, and that's quite a comparison, I would say.

Mr. John Weston: Thank you.

Mr. Paul Rochon: I think it's a number of things. I guess I'd start in terms of investment by pointing out that we will soon have the lowest tax rate on new investment in this country of any G-7 country. We'll have a tax rate that is less than half of the current tax rate in the U.S. and well below the G-7, or the OECD average, for that matter. That's low levels of taxation in the context of a fiscal situation that's much better than in any other country. So if you're making an investment or contemplating an investment, you can do so in Canada without having to worry about the tax situation, for example, that the U.S. is now facing.

Couple that with a very sustainable public pension system and a highly educated workforce and I think basically over the last 15 years Canada has developed many of the attributes that one would want to have to attract investment and to be competitive globally.

Mr. John Weston: Thank you.

I'm going to share my time with my colleague, Mr. Young.

Mr. Terence Young (Oakville, CPC): Thank you.

Madam Fraser, how many countries—I think there are 192 at any given time at the United Nations—in the world could claim as high a level of financial competence as Canada has, as reflected in these reports?

Ms. Sheila Fraser: I would say probably 10 at most.

Mr. Terence Young: Are we on a scale within that 10 or just in the top 10?

Ms. Sheila Fraser: First of all, very few countries produce financial statements on the accrual basis of accounting, which is a much more complete and comprehensive accounting of assets and liabilities. Very few countries receive clean audit opinions. So I would say that there probably would be at most 10. I would say that Canada has certainly been a leader for many years in financial reporting.

Mr. Terence Young: Thank you.

Mr. Ralston, we've seen in the Province of Ontario how hiring consultants, not following the rules, and getting no results can be a waste of money. Can you explain to the committee how hiring consultants can actually save the federal government money?

Mr. James Ralston: What I would say is that hiring consultants can provide value for money. There are many cases where you need a specialized expertise for a short period of time, and it simply makes more sense to acquire as much of it as you need rather than to try to put someone on staff permanently who may be underutilized. That, to me, is the prime example of when using a consultant is appropriate, when the specialized expertise and the service are only going to be required for a relatively short period of time.

• (1715)

The Chair: Thank you very much, Mr. Young and Mr. Weston.

Ms. Crombie, you have five minutes. You will be sharing your time, I understand.

Mrs. Bonnie Crombie: That's correct.

I want to point out as well that the amount that was spent on professional and special services, \$9.4 billion, is almost twice what the deficit will be this year, at \$5.9 billion. It is an inordinately large number.

Let us look at volume III, at ministers' offices, if we could. Page 10-26 was the first one I looked at. I thought it might be helpful, to keep things in perspective. I don't know whether you've ever given consideration to doing the dollar amount, the variance, and the percentage increase and decrease, which would have made it useful.

Is \$59 million on ministers' offices an increase or a decrease over the previous fiscal year?

Mr. Bill Matthews: I'm not certain. We haven't presented these on a comparative basis. You may remember that this comes out of a commitment made under the Federal Accountability Act to produce these on an annual basis. We would have to check last year's public accounts to see what the change is.

We thought about providing a comparison, but we didn't do it, simply because ministers' portfolios often change, making tracking comparatives very difficult, so we decided to do year over year. Where there has been a change in minister throughout the year, you will see a split between the two ministers, however, to see what they

Mrs. Bonnie Crombie: I did see that. Thank you. That was useful.

I was very interested to see who the large spenders were. Of course, the Minister of Finance I almost predicted; then, of course, the Minister of National Defence, because there would have been travel. Natural Resources, at \$2.2 million, seemed high. But then when I got to the Minister of Agriculture and Agri-Food, the \$2.2 million number seemed inordinately high for agriculture.

Is there a reason why the Minister of Agriculture's office would spend that amount of money? There wouldn't be any foreign travel, I wouldn't think.

Mr. James Ralston: I think this is a situation in which the question would best be posed to the organization.

Mr. Bill Matthews: Let me add that you will see some that may surprise you in their size, when a minister has regional responsibilities included. I believe agriculture has the Canadian Wheat Board as well. You may see increased travel because of it, but I'm speculating.

Mrs. Bonnie Crombie: I still wouldn't think that would warrant that minister's being in fourth position.

Again, is the \$10.5 million spent on foreign junkets and conferences an increase or decrease from the previous year?

Mr. Bill Matthews: Again I'm not certain. We'd have to check last year's public accounts. We don't do this on a comparative basis.

Mrs. Bonnie Crombie: In various places you also reference proceeds from the disposal of surplus crown assets. Is it possible for you to provide a list of what sorts of crown assets have been disposed of, what and which assets, and by which departments?

Mr. Bill Matthews: I can tell you that most crown asset disposals are run through the Department of Public Works. There's a process to go through to dispose of those. Typically it relates to small-dollar equipment types of things. They don't just get rid of them; they try to auction them off or sell them. It's many small items, but I don't have details on which ones. The Department of Public Works runs that process.

Mrs. Bonnie Crombie: The cumulative total may be quite large as well.

Under Public Appointments Commission, I notice that \$689,000 lapsed.

Whatever happened to the public appointments commissioner, and why did that money lapse? It's on page 21-7.

Mr. Bill Matthews: I can't answer what happened to the public appointments commissioner. I can tell you that the actual versus the appropriation is what was reported, but I can't give you any details on what happened to that office.

Mrs. Bonnie Crombie: Public Safety and Emergency Preparedness is very salient for us, because we've just reviewed the report. The Auditor General made some rather astounding findings that we were not prepared for a national emergency, and yet \$384 million lapsed. Why would this be?

Mr. James Ralston: I think these questions are going to have to be posed to the organizations.

Mrs. Bonnie Crombie: I'm going to give some time to Mr. Lee as well.

The Chair: Mr. Lee, you have time for one question.

Mr. Derek Lee: I have one question, a very short one.

Under the finance department, there was an amount planned to be spent for Public-Private Partnerships Canada—the P3 initiative. It looks as though it never got off the ground, and there was about \$92.6 million allocated but unspent. I don't think any of it was spent.

Oh, 95% of it was spent.

Why didn't it get off the ground, particularly in a year when we were trying to get infrastructure built? That is what this initiative was targeted at.

• (1720)

Mr. Paul Rochon: The office is up and running now, and that, I would submit, is related to... Infrastructure will be longer-term in nature. It's not the kind of infrastructure that would be necessarily amenable to stimulus spending.

Mr. Derek Lee: There is nothing like the present to get the thing going. If we're looking at the long run, why wait a year? What was the obstacle? Was it the crush of the need to get shorter-term investments out the front door?

Mr. Paul Rochon: I can't speak to that specific file, other than to tell you that the office is up and running now. I could provide the

chair with a note as to what the nature of the delay was, if that would be helpful.

Mr. Derek Lee: Thank you, Mr. Chair.

The Chair: Thank you, Mr. Lee.

Thank you, Ms. Crombie.

Mr. Young, you have five minutes.

Mr. Terence Young: Thank you, Chair.

Mr. Ralston, despite the worldwide recession and our economic action plan, we're spending really an unprecedented amount of money in a short period of time, but the ratio of deficit to GDP still went down 0.9% last year. What does that reflect?

Mr. James Ralston: Mr. Rochon spoke to this a little earlier. Obviously, against a trend of growing GDP and in the long term a growing economy, we have been successful in keeping a tight grip on government spending, and the manner in which it has been financed has been prudent.

Mr. Paul Rochon: I think what you will find is that the full impact of the recession will be felt in the current and the upcoming year, and that in part, the fact that the deficit was reasonably small in 2008-09 is a reflection of the timing of the recession—that it took place in the latter part of the year.

Having said that, the deficit-to-GDP ratios that the federal government and Canada writ large will incur are much smaller than those occurring in other countries.

Mr. Terence Young: Do you want to go ahead?

Mr. John Weston: Sure.

Again, we thank all of you for being here today. It's been an extremely interesting session, and you have given us some hopeful news in terms of our jobs in working with our international counterparts.

I'd like to return to that international theme. Consider us your advertisers for our fellow countrymen and countrywomen. In the next 100 days we're going to have people from all over the world coming to our country, certainly to British Columbia and to Vancouver/Whistler. If you are sitting with them—imagine counterparts from other countries, business people—what would be some best practices that we could talk about, in terms of our accounting and financial system, that create this transparency?

Maybe we can start with you, Mr. Rochon and Madam Fraser, and then anyone else who wants to can chip in on this.

Someone famous once said that the 20th century was going to belong to Canada. Someone famous said that; had it been a Conservative, he would have said the 21st century—he would have been right up to date.

Please go ahead.

Mr. Paul Rochon: Maybe what I could simply review is the Government of Canada's reporting practices in financial matters. We normally table a budget in the early spring, in the February-March period. Over the course of the year, the Department of Finance issues monthly fiscal monitors, such that each month the government reports on revenues and expenses in the month that ended roughly six weeks prior. In the fall of each year, the government provides a medium-term view of the fiscal situation, normally over the next five years. That is preceded normally by the public accounts and the annual financial report, which report on the outcome for the year that had ended March 31.

• (1725)

Mr. James Ralston: What I'd like to point out is that the purpose of this meeting, of course, has been to review the government's financial statements. It kind of points us to the pinnacle, the end of the road, one of the most visible outputs perhaps of the government's financial management system. But one thing I think deserves mention—and one thing my office is particularly responsible for—is nurturing a strong community of strong financial professionals, strong internal audit professionals, who work around the year in all of the departments and agencies, applying sound policies, sound principles, and a lot of due diligence. It's really a lot of the efforts of those kinds of professionals that produce this. To support them, my office has, through the Treasury Board, issued some important policies on financial management governance, on internal control, and on internal audit. I believe that framework is fundamental to the continued health and the continued good results we see, not just clean opinions but also actually sound spending.

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

I just have a question perhaps to Ms. Fraser and perhaps to Mr. Ralston, and that's regarding the changes you found in the CRA methodology in projecting corporate and personal income taxes. It seems to me—and this goes back 10 years—that we've had difficulties in projecting the actual end-of-year surplus or deficit. If you went back seven or eight years, the surplus seemed to be becoming higher than what the Department of Finance was thinking at the time, right up until year-end. Now, I'm not so sure that we might be into the opposite regime, that they're coming in perhaps lower than what Finance is projecting. When you analyze it and you talk to people, a lot of the blame is put on the projections that come from CRA. The government probably has a pretty good idea what the expenses are going to be, especially at year-end and on March 31, but when they publish the financial statements in September, the surplus is higher. It may not be substantial, but when you're talking \$8 million or \$9 million, it's a lot of money in my circles.

Ms. Fraser, do you think the new methodology will correct this problem, or do you still have a concern as to the numbers that are being projected by Finance?

Ms. Sheila Fraser: Chair, we had concerns over the revenue numbers in two aspects. One was that the estimates were actually underestimating the revenue. When we would go and look at actual assessments and collections later, we would find they were higher. There have been a number of modifications that have been made in the last year, but quite frankly, only time will tell—when we actually get the assessments—how much closer that assessment is.

I would say, though, from year to year the difference, sort of, in the opening and closing balances was never really a lot different, so the revenues within the year were fairly close. It's when we compared it to the assessments; there was always this difference that seemed to be going on. So we are hopeful that some of the adjustments that have been made in the current year will make it better.

The other area where we had expressed some concerns in the past was the methodology for determining the allowance for doubtful accounts on the taxes receivable. Again, there have been a number of improvements made this year. You can understand that with the recession, we were quite concerned that maybe the methodology, because it's based on past experience, may not reflect all of the potential losses. We went in and looked actually at specific sectors and did much more rigorous testing and are comfortable with the allowance now. We have indicated, though, to the revenue agency that we think it important that they continue to track this through the recession to see if the methodology in the model that has been developed will stand up going forward.

• (1730)

The Chair: Mr. Ralston, do you want to comment on the methodology? Are you satisfied that we will be getting accurate numbers going forward?

Mr. James Ralston: I've had an intimate relationship with those numbers for the past decade. Let me just say that on the estimate of the revenues themselves, what we're experiencing is a growth in understanding that comes with experience. When we first embarked on the estimation process with accrual accounting for tax revenues about six years ago, we actually placed a high value on being able to tie the estimates to actual transactions. Effectively, what we tried to do was look at experience subsequent to the year-end to get a good fix on what the reality had been as of the financial statement date. That was a deliberate choice, and I think, frankly, it was a choice that was welcomed by the Office of the Auditor General at the time.

But as we began to understand our methodology and understand some of its systematic biases, we've corrected those over time. We're always willing to make the corrections. However, we make the corrections once we're in a position where we're confident that any change we make will be a change for the better. That process will continue, so I expect we will continue to improve.

With respect to the accounts receivable, the allowance for doubtful account methodology, it took a strong act of will last year to change the methodology from what was happening in the past to what we're going to be doing going forward. We certainly believed at the time that the change was fundamental and very valuable. I think it's obviously early days to declare it a success, but I think so far it's holding up. Frankly, we will follow the same process that I just described, which is to continue to monitor. We will not hesitate in making changes that are required to improve it, if it becomes evident that it's necessary.

The Chair: On that issue, Mr. Rochon, we seem to be a moving target on the deficit. It wasn't that long ago your department was announcing the surplus, and it went to a \$32 billion deficit. Now it's \$56 billion in October, and the fiscal year ends March 31, 2010. Again, I think you have a pretty good grasp on expenses, although there is some fluctuation, especially with employment insurance and other variables that have to do with the recession. The big variable would come down to the methodology, and of course a lot of the information comes from CRA.

Are you satisfied with the information you're getting? Are you satisfied with the methodology? Most importantly, are you satisfied with the \$56 billion figure that's being published now?

Mr. Paul Rochon: We're definitely satisfied with the information we're getting from CRA. I think there's been a tremendous improvement over the last several years. One should not stop making improvements; however, both the methodological changes that have been put in place and the frequency and quality of the data we get from the agency have improved tremendously.

In terms of the projections of the department, I think what one needs to bear in mind is the underlying volatility out there in the economy. Going to your point on the revision in the deficit for the year that's under way, half—not quite half, almost half—of that revision was due to greater expenses related to the auto sector, and the other half, roughly, was due to the further deterioration in the economy vis-à-vis what we expected at the time of the 2009 budget.

I'd give you just one number by way of example. In 2007-08 corporate income tax revenues were \$40.6 billion, and we're projecting them to be \$23.8 billion in 2009-10. That's tremendous volatility, and it's something we have to deal with. Yes, we'll forecast as best we can, as do others, but the amount of uncertainty that's out there is still tremendously high. It's not going away. We provide the best projections we can, but I don't think one should underestimate just how difficult it is to come down on a point estimate when one has roughly \$500 billion in combined expenses and revenues. For me, that's the biggest issue.

• (1735)

The Chair: Before I ask for closing remarks, I want to repeat some of the comments that were made earlier. Canada is blessed with a sound financial accounting system. Our level of transparency, openness, timeliness, and adherence to public sector accounting principles is second to none. On behalf of the members of

Parliament, I want to thank you for all the effort that goes into preparing these financial statements. You do a great job for us all.

Before we conclude, I want to ask the witnesses for final remarks. Once we've received the concluding remarks, I will adjourn the meeting.

Ms. Fraser, we'll start with you.

Ms. Sheila Fraser: I would like to thank the committee for their interest in the public accounts. It is a critical accountability document, and I appreciate that there was this hearing on the accounts and on our audit of the accounts.

The Chair: Mr. Ralston, we weren't too hard on you on your first appearance. Any concluding comments?

Mr. James Ralston: You weren't too easy on me, either.

Voices: Oh, oh!

Mr. James Ralston: I would like to reiterate the comments that you made at the beginning. This is the end of a cycle that starts with budgets and goes through main estimates, with hearings on main estimates and supplementary estimates before we see the final results. It is the whole process that is important, and the scrutiny that parliamentarians provide is fundamental to the success of the whole enterprise. So I thank you.

The Chair: Mr. Matthews?

Madam Gignac?

Mr. Rochon?

Mr. Paul Rochon: I would like to thank the committee for your interest. The public accounts is the product of a lot of work across a number of departments—all departments but primarily the central departments of the Receiver General, the Treasury Board Secretariat, the Comptroller General, the Auditor General, and from time to time the Department of Finance. It's a very professional relationship. We sort out our differences and we do it in a professional way. For 11 years we have come to an agreement. That's an achievement, and I want to thank my colleagues for it.

The Chair: I want to thank you once again for your appearance here.

The meeting is adjourned.

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