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Chair

Mr. David Christopherson

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• (1530)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I now declare this 77th meeting of the Standing Committee on Public Accounts in order.

Colleagues, you will know that today we are studying the public accounts for 2012.

We have with us folks from the Office of the Auditor General, the Treasury Board Secretariat, and the Department of Finance.

I would ask the head of each of those delegations to introduce themselves and their delegates, please.

Nancy, I will start with you.

Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chair.

My name is Nancy Cheng. I am the assistant Auditor General responsible for the audit of the public accounts.

With me is Madame Louise Bertrand, one of two principals responsible for this work.

Mr. Jim Ralston (Comptroller General of Canada, Treasury Board Secretariat): I am Jim Ralston, Comptroller General of Canada.

With me are Sylvain Michaud, an executive director in my office, and Tom Scrimger, assistant Comptroller General.

The Chair: Mr. Nevison.

Mr. Douglas Nevison (General Director, Economic and Fiscal Policy Branch, Department of Finance): I'm Doug Nevison, general director of economic and fiscal policy branch from the Department of Finance.

The Chair: Excellent. Welcome all. We are looking forward to a productive afternoon.

Unless there are any interventions from colleagues, I will commence the rotation.

It looks like we're all good. Therefore, we will kick off with Mr. Saxton, who now has the floor, sir.

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

Thanks to our witnesses.

The Chair: Oh, I'm sorry. I jumped ahead. Not only that, I forgot a nicety, too. It's been so long since we've had a public hearing I've forgotten how they work.

Voices: Oh, oh!

The Chair: Mr. Opitz is here today, replacing Mr. Aspin.

Welcome, Mr. Opitz. It's good to have you with us, sir.

Mr. Ted Opitz (Etobicoke Centre, CPC): Thank you, Mr. Chair.

The Chair: Yes, indeed, my mistake. I apologize. Of course, we'll begin with opening remarks.

First will be Madame Cheng. You have the floor, Ma'am.

Ms. Nancy Cheng: Yes, Mr. Chair.

Thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Canada for the 2011-12 fiscal year.

As I mentioned, I am accompanied today by Louise Bertrand, one of two principals responsible for this audit.

We thank the committee for taking an interest in the *Public Accounts of Canada*. This is an important accountability report of the government. The statements show the types and amounts of taxes that have been raised, where tax dollars have been spent, and the fiscal balance, all in comparison against the budget. They also provide a picture of the government's financial position as at March 31, 2012, including the net debt and changes to the net debt position during the year.

The Comptroller General will be explaining to the committee the key points in the government's consolidated financial statements. I will focus on our audit opinion and observations.

As you are aware, the *Public Accounts of Canada* are tabled in three volumes. Our audit covers the consolidated financial statements. These statements, our independent auditor's report, and the observations of the Auditor General are contained in section 2 of volume I. Unless otherwise noted, all other sections of this volume and the two other volumes are government information that is unaudited.

Our independent auditor's report on the 2011-12 consolidated financial statements can be found on page 2.4 in volume 1 of the *Public Accounts*.

Mr. Chair, for your reference we have attached the independent auditor's report as well as the AG's observations to the opening statement.

This marks the 14th year that we have given a clean audit opinion. We commend the government for its efforts and due diligence in preparing these statements.

• (1535)

[Translation]

Our observations highlighted the fact that many government entities were required to transition to new accounting frameworks in 2011-12. We noted that certain transitional adjustments were required within the public accounts for entities transitioning to International Financial Reporting Standards, or IFRS. We have reviewed these adjustments and are satisfied that the consolidated financial statements adequately reflect the adoption of the new accounting standards for these government entities.

I would also like to draw your attention to two specific items noted in our observations.

Last year, we raised concerns about how departments and agencies charge their capital expenditures against the capital vote and the operating vote. We asked the Treasury Board of Canada Secretariat to study this issue to better support parliamentary authority and government accountability to Parliament.

This committee, in its 8th report, also urged the government to clarify this matter. The secretariat agreed to assess the circumstances in which capital votes are required and the factors that determine which expenditures are to be charged to capital votes rather than operating votes.

We are pleased to report that good progress has been made during the year. This includes reaffirming the \$5-million threshold for establishing a capital vote and revising the definition of "capital expenditures" to better align with the government's accounting policies. These changes are expected to take effect for the 2013-14 main estimates.

[English]

The second item of note relates to long-standing issues in the financial reporting of inventory and asset-pooled items at National Defence. In the audit of 2011-12 public accounts, we continued to find differences that required adjustments related to pricing, verification of quantities, and the timely reporting of the department's inventory and asset-pooled items. In addition, we observed various issues related to the recording and amortization of its tangible capital assets.

We note that National Defence is working on several initiatives to improve its financial reporting capabilities. We wish to emphasize the importance of active monitoring of these initiatives by management.

The observations also include other matters that we have reported for the past several years. They are listed on pages 2.40 and 2.41, in volume I of the *Public Accounts*. We are pleased to note that the government is taking action to address these matters.

[Translation]

We thank the Comptroller General and his staff, as well as others in the departments that were involved in preparing these accounts. A

great deal of work was involved, and we appreciate the cooperation and assistance that were provided to us.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer the committee's questions.

[English]

The Chair: Excellent. Thank you, Madame Cheng.

Now Mr. Ralston, for your opening remarks.

Sir, you have the floor.

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

Hello to you and the other members.

[Translation]

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

For the 14th consecutive year, the Auditor General has issued an unmodified opinion on the government's financial statements. This is a testament to the high standards of the government's financial statements and reporting.

[English]

I would like to thank the Office of the Auditor General for the continued professional working relationship that we have enjoyed.

• (1540)

[Translation]

Mr. Chair, we submitted a slide presentation outlining some of the key financial results for the fiscal year ending on March 31, 2012. We can go through the presentation, or if you would prefer, we can go straight to the questions from the committee.

[English]

Thank you.

The Chair: Thank you.

I understand that ends our opening remarks, and now we will do the rotation.

I notice that when I said we would go to rotation, nobody jumped in to save me; you all let me fall off the cliff there.

Okay, Mr. Saxton, you have the floor, sir.

Mr. Andrew Saxton: Thank you, Chair.

And the clock has been moved back, I assume.

The Chair: There is no clock. Be nice.

Mr. Andrew Saxton: Okay.

Thank you, Chair.

Thanks to our witnesses for being here today, and welcome back.

My first question is regarding the fact that this is the 14th consecutive year that the Auditor General has provided a clean audit opinion on the Government of Canada's financial statements.

Can you please comment on what that means for Canada?

This question is for the assistant Auditor General.

Ms. Nancy Cheng: Thank you, Mr. Chair.

It is a very commendable result for the Government of Canada. It speaks to the high quality of the preparation in the first instance. It also speaks to a good working relationship between both sides. When we have come across differences, there has been a lot of openness in discussing them and making adjustments when necessary.

It is very exceptional, in terms of results in comparison with other countries, to have this type of audit report 14 years in a row.

Mr. Andrew Saxton: Could you please share with the committee the requirements necessary for the government to achieve this?

Ms. Nancy Cheng: Essentially, the audit opinion speaks to the fair presentation of the financial statements in comparison to its accounting policies, which conform with the public sector accounting standards. So the extent to which the financial reporting and the various results fall in line and are consistent with the framework earns that clean opinion.

In the first instance, there need to be good systems in place to capture financial information, there needs to be proper roll-up, and then there are the various adjustments and consolidation efforts needed to come to the consolidated financial statements of the Government of Canada.

Mr. Andrew Saxton: Okay, thank you.

How would Canada stack up against other countries in this regard?

Ms. Nancy Cheng: This is not based on audited information, but based on our contacts with our colleagues in other countries. This is quite outstanding in its own way. In many other jurisdictions they don't even have consolidated financial statements, let alone have clean audit opinions. When they have summary accounts, they may not have earned clean opinions, as we have here in Canada.

Mr. Andrew Saxton: Thank you.

The consolidated financial statements show that the annual revenue of the government has increased over the past year. Do you know whether this was anticipated?

Ms. Nancy Cheng: This question would be better posed to the Department of Finance, because you're asking a question about comparison with the budget.

Mr. Andrew Saxton: Would somebody else like to answer that question?

Mr. Douglas Nevison: I believe the forecast was roughly in line with the budget projections, reflecting the growth in the economy that we've seen since the recession.

Mr. Andrew Saxton: This is a very important point, because during this period of time, corporate tax rates have actually gone down in Canada. In fact, I think they are almost at an all-time low. So we have seen a situation in which government revenues have increased at the same time as corporate taxes are declining.

Can you explain this?

Mr. Douglas Nevison: In general, a number of international organizations, such as the IMF and OECD, would note that lowering corporate tax rates has a positive impact on the economy, largely in the sense that it increases the rate of return to investment and reduces the cost of capital. You expect to see a strong investment response to that.

Obviously, with the recession there's a bit of a cyclical aspect here. But most recently, investment, as one of the components of domestic demand, has been relatively strong. In fact, Canada is the only G-7 country that has now achieved its pre-recession level of business investment during this time period.

Mr. Andrew Saxton: Can you tell us how Canada now stacks up with its corporate tax rate in comparison, for example, with our neighbour to the south?

Mr. Douglas Nevison: If you look at the marginal effective tax rate on the business side, Canada now has the lowest rate in the G-7.

Mr. Andrew Saxton: That explains why some companies are actually moving their headquarters back to Canada from the United States as well.

Mr. Douglas Nevison: It would be expected to be a positive contribution to inflows of business investment, yes.

Mr. Andrew Saxton: Thank you very much.

My next question goes back to the Auditor General.

With regard to the financial statements, what can you tell us that will assure Canadians that these figures are indeed accurate?

● (1545)

Ms. Nancy Cheng: Significant audit effort is being mounted to audit the accounts of the Government of Canada. First and foremost, we do work at the component level; by that, I mean the various parts that make up the whole of the public accounts. This means that we need to have all the plans for major components, such as significant departments and agencies. Then there are also crown corporations and other entities that form part of the public accounts. Again we need to derive audit assurance to be able to come to an overall conclusion that supports a clean audit opinion.

In this particular year it was rather challenging, in the sense that this was the year that many organizations changed their accounting framework, as I have indicated in my opening statement. This means that some organizations were perhaps changing from the old Canadian GAAP—Canadian generally accepted accounting principles—to the public sector standard, the PSAB standard. When they do that, there is not too much that we need to do, because they are aligned with the underlying accounting framework for the Government of Canada. But wherever you have some of the entities that are moving to IFRS, some adjustments are needed.

In fact, when you look at the statements on page 2.5 you will see that there are transitional adjustments. This is near the bottom of the page. There was no budgetary figure for it, but “Transition Adjustment (Note 11)” notes it as \$3.3 billion.

So there are significant adjustments that got rolled up, and we needed to come to terms with the Comptroller General's side in terms of how to account for them. Some of these adjustments, because they are incorporated from a pick-up perspective as opposed to a line-by-line consolidation, actually change the investment line indirectly to the accumulated deficit line.

So we put a lot of audit efforts through in order to be able to support this audit opinion. It is the largest financial statement audit within the Office of the Auditor General.

Mr. Andrew Saxton: Thank you very much.

The Chair: Thank you, Mr. Saxton.

We move over to Mr. Allen, who now has the floor.

Mr. Malcolm Allen (Welland, NDP): Thank you very much, Chair.

Thank you, all of you, for coming.

Mr. Nevison, I would ask for some help in finding, somewhere in those three lovely big volumes, that piece you found that said that lower tax rates actually made headquarters come here. I know it was a question Mr. Saxton led one to. I'm assuming that this is a subjective conclusion based on some sense. Or is it in the document somewhere? If it is, point it out for me.

Mr. Douglas Nevison: I don't believe it's in the document itself, but it's a common finding that has been made, as I mentioned, by international organizations, such as the OECD.

Mr. Malcolm Allen: And I don't doubt the conclusion that you've drawn with your expertise. I just happened to be looking at the public accounts today and I couldn't find it. When our folks out there hear these types of questions, they think it's in the public accounts.

But I think, Ms. Cheng, as we would know, this is actually the *Public Accounts of Canada*, which has had an audit performed on it; it's not actually an economic plan per se. So it really is a numbers thing, something I've done in the past—with smaller organizations, obviously, but I've done this one as well.

I'll go back to Mr. Ralston about the issue of accrual. This is something that comes up here every now and again: the accrual method of accounting, and whether we're headed down that road or not. I know there's a report coming in, I believe, March of this year.

Can you give us a sense of how this is coming along? I recognize that there are some viewpoints here about whether we should or should not go down this road. I recognize that the AG's office has an opinion perhaps sometimes different from that of the other side, at the treasury.

Can you give us a sense of where this is at this moment?

Mr. Jim Ralston: There are really three things that deserve comment, and there's only one of the three for which the jury is still out.

First, with respect to accrual accounting, it has been in place for over a decade. The summary financial statements of Canada have been prepared this year, as for the past decade, on an accrual basis of accounting. So really there's no difference of opinion on that score.

The next element is preparing the federal budget on an accrual basis. That too is done and has been done for a number of years. Those two documents are aligned in terms of accounting principles.

The outstanding issue effectively would apply to something such as main estimates. That is whether appropriations also ought to be prepared on an accrual basis, and indeed there are differences of opinion.

That question has been examined recently by a parliamentary committee, and as you point out, a report is expected of us by the end of March. We expect to provide our conclusion based on the studies that have been done.

● (1550)

Mr. Malcolm Allen: Thank you for the overview, because it's helpful for folks to know what we're really talking about. Sometimes this stuff gets a little “inside baseball”, if you will, when it comes to how we do these things.

I'll take it from what you said that a report is probably going to be finished by March and will be available once it is released. Is that fair to say, that it looks as though it's going to get done? Is that the objective, basically?

Mr. Jim Ralston: We've committed to provide our response to the committee by the end of March, and I understand we will meet that deadline.

Mr. Malcolm Allen: That's wonderful. I'm not trying to pin you down, Mr. Ralston, to saying “you're going to get it right at 12 o'clock on the 31st”. This is just to get a sense of how we're marching along.

Ms. Cheng, in the report itself we still, it seems, have some questions that linger out there about how the defence department is able to charge, or to have a sense about how much equipment it has and the value—those sorts of things, to use lay terms, if you will.

Do you still have concerns around that? Do you see any progress? Do you see a sense of where they're headed, or should there be more progress made? Or is the progress satisfactory, in the sense that we are headed on a path whereon we really understand what we have as an inventory?

It's one place in which we probably have the largest financial inventory of any department in this government—not in “this government”, but in “the government”, period.

Ms. Nancy Cheng: Thank you, Mr. Chair.

Yes, indeed, the inventory at National Defence accounts for most of what we own as a government as a whole; I believe it's about \$6 billion out of \$7 billion.

The issue is inventory as well as what they called asset-pooled items, which are like repairable spare parts. The problem that we find year after year is that when we do inventory counts, including these asset-pooled items, we continue to find lots of differences.

So we're not able to reconcile what actually shows up in the books with what we can actually count. There are ins and outs that way. There are also parts, which perhaps are larger components, that are a work in progress, concerning which you're going to have to start to think about tangible capital assets and whether they're being captured properly.

I think there are issues that they need to work on. There are a number of things that they seem to be embarking on that will improve the situation, including having a better inventory count policy, including having a resource management system that starts to pull various parts together. Part of the problem is that it's such a big entity; they have lots of subsystems and what have you. The more you have there, the more reconciliation it calls for, and they don't all come together in the end. There are a number of things that are under way, but like any large department, it's taking a while.

Let's not forget that, as Mr. Ralston pointed out, the government adopted accrual accounting in 2003; we're now in 2013. So we're highlighting the fact that we really need to put more focus on it and make sure we don't fall back, and we need to make sure that these initiatives are carried out so that we can improve the reporting on inventory, on the asset-pooled items, and on tangible capital assets.

The Chair: Thank you very much. Time has expired.

Now we go over to Mr. Kramp.

You now have the floor, sir.

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

I'd like to thank Mr. Allen for mentioning those little words "accrual accounting". It's been a hobby horse of mine for a few years, so thank you so kindly for broaching the subject.

And Mr. Ralston, thank you so kindly as well for giving a very clear and concise realization of where we are.

Also, I understand quite well, Ms. Cheng, that this has been an issue of concern for the Auditor General's office for a number of years. It seems it is actively being addressed right now.

Ms. Cheng, I have a question. There were a couple of significant transactions related to the transfers between the federal and provincial governments, namely the harmonized sales tax, of course, the transfers from B.C. of \$1.6 billion and then transfers to the federal government, and the transfers from the federal government of \$2.2 billion to the Province of Quebec. I'm not concerned with the numbers—we understand what those are—but I'd like to know how the large transfers are reported. Were they accurately and appropriately disclosed?

• (1555)

Ms. Nancy Cheng: Thank you, Mr. Chair.

The information that the member was referring to can be found on page 2.15. In note 3(vi), you see the two significant transactions that have been referred to. Both of them have to do with the HST.

In the case of B.C., we'd signed an agreement with them to assist them in the harmonization process. Then the decision was to not continue with that track, and therefore there was an amount recoverable. We needed to have assurance that the amount indeed

would be coming back. There was agreement that essentially the money would be sent back in five installments, I believe.

One installment has been received, and there are four more to come. Because the amount is clearly accepted as an economic benefit that Canada can draw from in the future, we're able to recognize that full amount in the current year, so that \$1.6 billion is recognized as a receivable.

The other one is in relation to Quebec. It's also relating to sales tax harmonization, but it's helping them to modify and amend their processes. The agreement requires that the federal government provide \$2.2 billion to the Province of Quebec. As it says right here, the payment will start with the implementation in January of 2013.

It is an accrual that we recognize in the books of the Government of Canada, with the payment to come as the payment will pay out. So it's recognized as a payable.

Mr. Daryl Kramp: Thank you very much for the clarification on that.

I know this is not in your purview at this particular point, but just from your conversations amongst professionals, are you aware of whether or not the province has accounted and/or reported this in a manner that would be complementary to the direction you've just stated?

Ms. Nancy Cheng: That is a difficult question. I'd rather not address that, because I think different provincial colleagues have their views about treating transfer payments. It is indeed a fairly complex issue that the accounting profession is struggling with.

Mr. Daryl Kramp: Thank you. I appreciate your clarity on that.

Actually, there's an organization called GOPAC, the Global Organization of Parliamentarians Against Corruption. I'm a chair, and of course Mr. Christopherson is a member. The purpose of that is to aid and abet institutions and/or countries around the world that really don't have an acceptable set of standards when it comes to accountability and transparency.

As such, we're tremendously pleased, and we understand the enormity of the task you are doing. We've talked to countries where, quite frankly, they hadn't even looked at estimates in 25 years—and you wonder why there is a problem with accountability in that country. So a tremendous amount of work has gone into this.

I'm wondering, Mr. Ralston, when we discuss with not only our own constituents...but certainly the role of Canadians as well. This is a significant task to do what both the auditor and you have done on this, but it's critical to knowing where we're going as a nation and as a country in the long term.

I just need to have a little bit more clarity on the outline of the process, really, to remind the members of this committee what's actually involved in the assembly of all this documentation that we have here today. Obviously it isn't just a matter of going out and asking departments for some information and putting together a spreadsheet.

Can you give us a bit more of an overview of what's involved in the entire process of preparing the public accounts?

Mr. Jim Ralston: I'll start. I may need to call upon colleagues.

The Chair: Just so you know, we're at the five-minute mark. This is an important question, so I don't want to shorten it, but I don't have time for a three-minute answer, either. Please respond accordingly.

Mr. Jim Ralston: Okay. I'll give you the *Reader's Digest* version.

In my office, the Office of the Comptroller General, basically we set the accounting policies. We help determine the disclosures in the final product that you see. We also guide departments in terms of the policies they must follow. They do the detailed accounting. The Receiver General for Canada basically keeps the general ledger of Canada. The Receiver General also performs the mechanics of the consolidation effort, and we oversee it.

Those are the major players and roughly their roles.

• (1600)

Mr. Daryl Kramp: [*Inaudible—Editor*]...GOPAC.

The Chair: If you want to pick up on it in the next round, you can.

Mr. Daryl Kramp: Fine.

The Chair: Thank you very much.

Sorry I had to shorten that a bit, but if the government wishes to pursue that, you can in the next round and we can pick up right where you left off. Thank you for respecting the time limitations.

Now we go to Monsieur Giguère.

You have the floor, sir.

[*Translation*]

Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP): Thank you, Mr. Chair.

I want to discuss how the financial statements are presented.

In 2002, a new basis of accounting was introduced. The problem we've been seeing in recent years has to do with the lack of a column for amounts committed, in other words, commitments made now that will affect a department's financial capacity in future years.

I'll give you a simple example. Environment Canada launched a \$9.4-billion program to control greenhouse gas emissions. That money is allocated across a number of departments. When we try to find that \$9.4 billion in your documentation, we can't.

There is no way to know, on a yearly basis, how a share of that \$9.4 billion was spent and to what extent it limits the department's capacity in future years. If it's not obvious to you, just imagine what it's like for us. Of that \$9.4 billion, we have no way of knowing how much money was spent and by which department. Was it the Department of Finance, for example?

[*English*]

Mr. Jim Ralston: It's certainly true that the summary-level financial statements of the Government of Canada don't typically get into a level of detail that might pick up an individual program. It is a consolidated statement. There is some segmented information that gives expenditures in total by departments and that sort of thing, but

indeed there's a limited amount of fine detail in the audited financial statements.

Of course, the other volumes of the public accounts, and the other sections of volume I in which the summary report is embedded, do contain more detail. There are also other accountability documents prepared, departmental performance reports and that sort of thing, and quarterly financial statements.

The public accounts serve a particular purpose. It's not the only accountability document, and you would need to look at other sources for certain questions.

[*Translation*]

Mr. Alain Giguère: I am going to ask Ms. Cheng to comment.

[*English*]

Ms. Nancy Cheng: I guess I would just add to what Mr. Ralston said. The purpose of the financial statements, the public accounts, is to look at the financial results.

What the member is looking for are program results in terms of how much money is being spent there, and perhaps for what purpose and all of that. Often you find that in departmental performance reports, in DPRs. So in their own reporting they should have that information.

The difficulty that often comes about, and we see this in many of our performance audits, is that when it comes to information for Parliament on a program, that is spread between multiple entities. There isn't a logical mechanism for government to report back. Often we comment on the fact that there need to be better ways for parliamentarians and members to see what the results are, how much money is being spent, and for what purpose. But that is a little bit different from what we see here in the public accounts.

[*Translation*]

Mr. Alain Giguère: I understand your logic. Those were, in fact, the type of questions I had when I was speaking with the director of sustainable development.

There is a clear announcement of \$9.4 billion. That's not pocket change. But you're not able to tell me which shares of that \$9.4 billion were actually spent this year. And the reason isn't that we did not go through your documents. We went through them line by line. I asked for documentation and your own auditor told us that departments did not take that kind of expenditure into account. I am citing your own documentation.

I am asking you how, going forward, you will go about finding a solution to fix this?

•(1605)

[English]

Mr. Jim Ralston: Well, I can only repeat that for the purposes of the summary of financial statements, obviously we will continue to report in accordance with the standards that we follow, the public sector accounting standards, as established for Canada. All senior governments in Canada follow that process.

If we are to continue to enjoy our clean opinions, we will need to

Mr. Alain Giguère: *Non, non—*

The Chair: Hold on, Mr. Ralston.

Monsieur Giguère, you have a point of order?

[Translation]

Mr. Alain Giguère: Mr. Chair, point of order.

Mr. Ralston, I understood the first answer you gave. You don't have to repeat it a second time. I understood you perfectly.

As I pointed out, the current accounting standards clearly do not allow politicians to track the progress associated with a program announcement. With that in mind, I am asking you whether you intend to change the accounting rules. I know you can't give me an answer right now. I realize that and I don't hold it against you. I am simply asking you whether you are going to make any changes so that we can track programs over time.

Thank you.

[English]

The Chair: Sorry, Mr. Ralston, but you will have to make it a very brief answer.

Monsieur Giguère, you can pick it up in the next round.

Go ahead, Mr. Ralston.

Mr. Jim Ralston: I'll make two comments.

First of all, as regards the standards that guide us in our preparation of this, they're not our standards. We follow the standards set by the public sector accounting standards board. If there are changes in generally accepted accounting principles for governments, they would emanate from that body.

Now, with respect to other reporting vehicles, such as estimates or departmental performance reports or any sort of ad hoc reports that a department might need to make for accountability purposes, obviously we would have flexibility there to...but that would be outside my purview. I'm afraid I can't comment on that situation. It's kind of outside my purview once we leave these financial statements.

The Chair: Sorry, we're way over the time. I'm going to have to call it there. Thank you.

Mr. Dreeshen, you have the floor, sir.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you, Mr. Chair.

Thank you to our witnesses today.

To come back to what we were just talking about, there is a worldwide approach for taking a look at public accounts. I know that

when we've gone to various conventions with all of the different public accounts of Canada, all the different provinces and so on, we have an opportunity to look at the types of things that are being presented.

I know that what we do is well respected, not just here and within our different jurisdictions, but also at the international level. There are times when we are invited to go to different international conventions to talk about public accounts.

What types of things are we able to share? I know that in the past the auditors general have gone to different places in the world. What types of things are we able to share about the way we do things versus what is happening elsewhere?

Ms. Nancy Cheng: We do have an international strategy within the Office of the Auditor General. One tranche of that is really trying to help other jurisdictions, other legislative auditors, to advance their work. Within that strategy, it does call for us to be at a forum that is called INTOSAI. That is a natural forum where legislative auditors of different countries come together and share practices. We also have opportunities to receive visitors from other audit offices and have exchanges with them.

Another mechanism is what we call peer review. From time to time, an organization might choose to ask another jurisdiction to come and look at their audit practices, so we would go; Canada does participate. We have participated in peer reviews of the United States GAO, the U.K., and also the EU. We have been quite prominent in terms of helping other jurisdictions to see if they can gain from our audit methodology and our audit approach.

But independently from the government side, there are also financial management workshops that the Government of Canada is a sponsor of—Mr. Ralston can speak to that a bit as well—just to have an exchange of issues relating to financial reporting and financial management.

All of those are good exchanges where we can help one another out when there are issues that could be common between legislative organizations or the auditor side.

•(1610)

Mr. Earl Dreeshen: That's perhaps going to my point with Mr. Ralston. When we see these books and go through them, I understand there's so much detail that is involved, and I'm sure at times many people would like you to kind of go step by step, even if you were to take certain line items and just show us what's going on. But is this the type of thing you would see when you were discussing how you assess public accounts, the types of materials that are presented to legislators? How do you see what we are doing here in Canada versus what you expect to see or you are seeing in other areas?

Mr. Jim Ralston: Somewhat along the same lines that Nancy just mentioned in the context of the AG's connections with international organizations, we too are plugged into a network of preparers. First and foremost, the International Public Sector Accounting Standards Board sets international standards. Canada participates in that process. In fact, Canada is the host of that organization; it's headquartered in Toronto. So we actively participate in the production of those standards; we contribute one voice among many others, but an important voice because of our experience here.

There's also a working group that is sponsored by the OECD, and we participate in that annually. Canada and the United States alternate hosting a somewhat less formal international conference where we try to share our best practices. Something that's kind of ad hoc is that just this past December I was invited to a conference in Europe that was sponsored by an international accounting firm. The subject of the conference was encouraging countries that had not yet done so to adopt accrual accounting, etc. I was invited to talk about the Canadian experience in making that advance. Our leadership is well recognized in the world.

Mr. Earl Dreeshen: Thank you very much.

The Chair: You're right on the money. What we'll do is we'll send Mr. Kramp to those countries and get them.... That'll fix it.

Moving along, Mr. Byrne, you have the floor, sir.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thank you, Mr. Chair.

Thank you to our esteemed witnesses for appearing before us.

I want to initiate a discussion about two statutory programs that are providing support to seniors. Looking at the public accounts, not just from this year but from several years, there is reporting of some quite significant budget variations in old age security payments and guaranteed income supplement payments. In fact, the department has quite often overbudgeted for them in the main estimates, and then in its reporting in the public accounts over the last number of years there is a balance that they have been able to give back to the consolidated revenue fund or it is to be spent in other parts of the department.

Is anyone at the table qualified to provide me with information as to whether it is unusual for a statutory program, where the payments should, I think, be considered to be somewhat predictable—given mortality rates, past usage, and other things—to have a wide variation in estimates budgeting versus final reconciliation through the public accounts?

• (1615)

Mr. Jim Ralston: In general, I would say that in the main estimates statutory programs are forecast and there are updates throughout the year. We may see one forecast in the main estimates; we may see updates to those forecasts in supplementary estimates, and we may see updates to those forecasts in budget documents. It is fundamentally a forecast, as you said, and the actuals will invariably differ from the forecast. Now, by what margin is another matter.

In terms of a specific program and the forecasting methodology that goes into those programs, I would not be able to answer that question. I think you'd have to refer it to the department that

administers those programs, unless one of my colleagues can offer something.

But I think that's a question you'd best address to the department.

Hon. Gerry Byrne: Thanks very much.

The Treasury Board Secretariat has asked for, and been granted by the president, certain exemptions in terms of its reporting. Specific details have been left out of the public accounts, and it has been explained to us as a committee why they've been left out.

I have two questions. For the purpose of clarity, without asking for specifics or details of these payments, can you, as Comptroller General, provide me with a broad-based description as to when payments to inmates have been exempted from inclusion in the public accounts? What exactly would a payment to an inmate be comprised of? What are we talking about there?

Mr. Jim Ralston: I would point out that in some cases names of individuals are not reported, but in terms of a description of the broad nature of the payment, it is still supplied. It's really the names that we're talking about that are not provided.

In terms of the particular program you're referring to, Tom or Sylvain, do we have something on that?

Mr. Tom Scrimger (Assistant Comptroller General, Financial Management and Analysis, Treasury Board Secretariat): Thank you, Jim.

The Correctional Service of Canada can make a number of different payments to inmates, and I don't know the source of all of them. They feel that for some parts of the payments a publication waiver is useful, to avoid any prejudice to the individual as the individual transitions into the community. It's the sense of not providing public knowledge on individuals who have received sums of money from the government.

I really can't give you any more detail than that.

Hon. Gerry Byrne: This was approved by the President of the Treasury Board.

Do the public accounts provide an aggregate of this figure for payments to prisoners on an annual basis? I wasn't able to find that in the public accounts.

Mr. Jim Ralston: I believe there is an aggregate, but we're verifying that.

Hon. Gerry Byrne: Ms. Cheng, because there are these exemptions in terms of the reporting, does your office actually conduct some sort of analysis or audit to ensure that while they are exempt from public publication, they are indeed that for which they have been reported or suggested, and that you can verify that? For example, there's a broad category for non-disclosure resulting from confidentiality agreements. It's tough to establish a rules process under which something would constitute a just confidentiality agreement versus having what might be a discretionary decision to establish a confidentiality agreement. One of the things we are always concerned about is that a confidentiality agreement not be entered into simply to provide a means of cover.

Does your office provide any analysis of that, based on the specific categories of exemption from publication? Do you cover that within your audits?

Ms. Nancy Cheng: The information the member is referring to is not part of section 2. We audit only section 2 of volume I, so that's not actually subject to audit.

•(1620)

The Chair: Sorry, time has expired.

Hon. Gerry Byrne: So it is a discretionary...? But is there a simple reference? Did you find a reference? I wasn't able to find it.

Mr. Sylvain Michaud (Executive Director, Government Accounting Policy and Reporting, Treasury Board Secretariat): No.

The Chair: Of course, you'll have another opportunity coming up, Mr. Byrne, if you wish to pursue that line of questioning.

Mr. Shipley, you have the floor, sir.

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

Thank you to our witnesses.

In the public accounts, we recognize, and we're seeing, that the economy posted modest growth through 2011 and then early into the first half of 2012. We know there were reasons. My colleague raised the question of corporate tax. This is just a comment. I think it's important to recognize the strength of our economy, and why, when corporate tax, business tax, and personal tax are kept in control and there is money in the pockets of the people, it's important.

We talk about Canada's economy, and I think it's important, in terms of the accounts of what Canada does to make sure we stay healthy, to recognize that we have a responsibility to our provinces to not cut those transfers. We have done that so that they meet their obligations.

This will go to the financial folks. The stimulus phase of the economic action plan was from January 2009-10 to 2010-11. It was something the provinces embraced and endorsed with us, and we thank them for that.

We needed something to cushion the economy. Can you give us any benchmark, in fact, of how it contributed to our recovery?

Mr. Douglas Nevison: I think as you rightly noted, the stimulus package that you referred to, Canada's economic action plan, was equivalent to four percentage points of GDP, so it was quite

significant. It was one of the largest in the G-7. As you rightly noted, it was a combination of federal support and provincial support.

Given how the Canadian economy has performed over the last few years, it's regained its pre-recession level of real GDP, and it has more than recovered all of the jobs that were lost over the recession and then some. We're now at about 400,000 jobs higher than we were before the recession.

If you look at international groups like the IMF and the OECD, which I've mentioned before, they have attributed that performance and success in part to the stimulus. Those also reflect the fact that Canada had very strong fundamentals going into the recession. It had a low debt-to-GDP ratio and a strong banking sector, so a number of positive attributes were there beforehand as well.

Mr. Bev Shipley: You bring up another lead-in for me, and that was part of a question—and we didn't get you to go through your slides.

On page 3 you talk about the ratio of the accumulated debt to GDP as being 33.8%. I think it's also important to note that it's actually about half—and that is coming out of the worst recession since the depression of the thirties—of the peak that was in 1996, after a dip in the economy of 68.4%.

I'm wondering if you can help me understand. That's the lowest, I understand, among the G-7 countries, which are the industrialized countries. What sort of range is there in the debt-to-GDP ratios among the most industrialized countries in the world?

Mr. Douglas Nevison: In terms of the G-7, if you were interested in that sort of comparative range, on page 1.13 you will see the net debt level for the G-7 countries: Canada in the low thirties, ranging up to Japan at about 125% GDP. The next lowest country compared to Canada would be Germany, which is in the low fifties. Just to be clear, though, this is at the total government level, so it includes the provinces as well as the federal government, and it also includes the assets of the CPP and QPP.

•(1625)

Mr. Bev Shipley: Just to help me understand a little bit, and maybe some of the folks who might be listening, what does this actually mean, though? What does this actually mean to a Canadian who is looking and asking whether we are a model or whether we are still in trouble? What does that mean to the recovery of our country, in terms of maintaining a low debt-to-GDP ratio?

Mr. Douglas Nevison: A low debt ratio, as I mentioned, was one of the reasons Canada was able to respond as it did, again at the provincial level and the federal level, to the global recession. It gave the flexibility to provide a stimulus program without sacrificing or jeopardizing fiscal sustainability. Some of the general benefits include keeping interest rates low, which has a positive impact on investment. In terms of planning, both businesses and households can expect interest rates to remain low, tax rates to remain low, and public services to remain sustainable. So there's a certainty there from a planning perspective.

There are a lot of benefits that go along with having a sustainable debt position.

The Chair: Sorry, Bev, we're out of time.

We'll move along to Monsieur Giguère.

You have the floor, sir.

[*Translation*]

Mr. Alain Giguère: Thank you, Mr. Chair.

Someone pointed something out. Even though the deficit is \$26.2 billion, our debt has increased by \$35.2 billion.

Can anyone explain that to me?

That comes from the Library of Parliament's briefing notes, point 9.

[*English*]

Mr. Jim Ralston: Was the essence of your question that the increase in debt is different from the amount of the deficit?

Mr. Douglas Nevison: Sorry, I misunderstood the question. Was the question about the difference between the increase you saw in the accumulated deficit versus the budgetary balance? Why it was larger than—

[*Translation*]

Mr. Alain Giguère: Exactly.

[*English*]

Mr. Douglas Nevison: When it comes to, obviously, the financing requirements of the government, there are also non-budgetary transactions that are involved. In that case, most of the financing, the increase in the deficit, was due to the \$26 billion deficit that you mentioned, but there were also non-budgetary transactions of \$6 billion that were required. They reflect a lot of things, such as loans and investments, accounts payable, but they're considered off-budget transactions. So they contributed to the increase in unmatured debt that occurred over and above the financing that would be required to fund the deficit.

[*Translation*]

Mr. Alain Giguère: Did the Canadian government incur \$6 billion in non-budgetary expenditures, and without statutory authority on top of that?

[*English*]

Mr. Douglas Nevison: No, the authority is there. These non-budgetary transactions are part of the process. They are part of the government's opportunity to manage its finances. So, for example,

they would be reflected in the debt management strategy that is approved by Parliament.

[*Translation*]

Mr. Alain Giguère: Can you give us a few examples of what that \$6 billion covers?

[*English*]

Mr. Douglas Nevison: Yes, I could tell you in a sentence. They're responsible for non-financial assets; loans, investments, and advances; accounts payable and receivable; and foreign exchange activities. Again, they're non-budgetary transactions.

[*Translation*]

Mr. Alain Giguère: But the things you're naming I can find in the budget.

[*English*]

Mr. Douglas Nevison: Yes, you can, in the "Financial Source/Requirement" section.

[*Translation*]

Mr. Alain Giguère: Does that mean the \$6 billion is part of the budget, but added at the end?

[*English*]

Mr. Douglas Nevison: It comes back to the issue of cash and accrual. Again, the budget is on an accrual basis, but from a cash perspective, the government needs cash to undertake certain transactions like the ones I mentioned. In the budget there is a section that always goes through that requirement.

[*Translation*]

Mr. Alain Giguère: So it still goes through the budget, which has had to incorporate everything since the 2000s. You are saying, then, that since 2000, that correction has not been made and, therefore, has not been incorporated into the government's budget.

It would be a good idea to fix that. If you're telling us that those kinds of expenditures are not included in the government's operating budget, incorporating that correction going forward would be a good idea. Rather than having a \$26-billion deficit, we would have a \$35-billion deficit, as the increase in debt shows.

• (1630)

[*English*]

Mr. Jim Ralston: Just by way of an analogy that might help you to understand, in the case of a corporation, if a corporation spends money to acquire a long-term asset, that asset will be capitalized on the balance sheet. It will have no impact on the profit and loss statement. But if that asset were financed with debt, there would be debt associated with it. This is not an exact example, but I'm using it because it kind of illustrates what we're talking about here. It's whether something belongs on the statement of operations versus belonging on, say, our statement of financial position.

The Chair: Time has expired. We're right on the nose.

We'll move along now to Mr. Hayes.

You have the floor, sir.

Mr. Bryan Hayes (Sault Ste. Marie, CPC): Thank you, Mr. Chair.

First off, I want to thank Mr. Ralston and his staff for putting together the slide presentation of the *Public Accounts of Canada*. I'm surprised that we actually didn't step through the slide presentation.

The Chair: I noticed that.

Mr. Bryan Hayes: We normally have in the past, but for future reference—

The Chair: Do you want to contribute your five minutes? It's a suggestion. I'm trying to help.

Mr. Bryan Hayes: That's fine.

I want to step back a little bit to the transition to new accounting standards. I just need some clarity on this, because the different standards are a little bit confusing, and I just want to see if I am understanding this correctly.

Our government is using the Canadian public sector accounting standards, yet it would appear, if I'm reading this correctly, that some of the crown corporations are using something other than the public sector accounting standards. Why would that be? Was that information captured accurately with regard to reporting? Why would they not be using the same standards? Is there some type of recommendation moving forward that they should be using the same standards?

That is for Ms. Cheng first.

Ms. Nancy Cheng: Thank you, Mr. Chair.

The important distinction is the accounting framework that supports that reporting entity. In the case of crown corporations, a lot of them are government business enterprises, so in the first instance they are not reliant on appropriation from Parliament. They have a business stream. They have revenues to sustain themselves. Under those circumstances, the accounting standards they should follow should be just like those of any other private sector firm. Therefore, they would follow the IFRS, the more normal, commercial kind of financial reporting framework.

To bring those accounts into the Government of Canada would depend on the nature of those entities. Because some of those entities rely on the government, we tend to consolidate them line by line, in which case, if we're going to take some of their accounts receivable and group them with our accounts receivable, they had better be on the same accounting basis; otherwise we would be adding apples to oranges. All of those have to be converted back to the public sector standard before we add the numbers together.

For those that are the GBEs, government business enterprises, because the underlying framework is IFRS, the standards allow for us to pick up just the portion of the gain or loss in that year right into the accounts of the Government of Canada, and the rest of it really just shows up in the investments/loans line. Some of them also have unrealized gains and losses because of financial instruments, which are standards that have not yet been recognized in the public sector standards, so they show up in these odd numbers, like "other comprehensive income", which is the term that's used there.

The transitional adjustment that you see is a one-time thing because they changed accounting frameworks from the private sector generally accepted accounting principles to IFRS, and on transition there were a lot of adjustments they had to absorb. Big ones tend to involve employee benefits, and they amount to a huge sum. What do you do with that amount? That amount doesn't flow through the budgetary measures that Mr. Nevison talked about. It shows up in the line at the bottom, which is that \$3.3 billion I'm referring to.

There are reasons for using different accounting frameworks in different parts of the Government of Canada, but when we bring those to the public accounts, there are ways and means of making sure we are adding apples to apples.

• (1635)

Mr. Bryan Hayes: And everything was captured accurately?

Ms. Nancy Cheng: That's what we had to spend the time and effort to audit, and we are satisfied that those transition adjustments, as well as the line-by-line consolidation work, are properly conducted.

Mr. Bryan Hayes: Is there ever any attempt to work backwards and change the Canadian public sector accounting standards to the standards of IFRS?

It seems that's becoming a worldwide thing. I know at Ontario Lottery we went through the transition. We were using GAAP at the time and we went to IFRS. It was hugely cumbersome, but we were doing it because that seemed to be becoming the norm.

Can you speak to that at all?

Ms. Nancy Cheng: I would make a few comments, but I'm sure Mr. Ralston would like to jump in because he is a member of the public sector accounting board. Auditor General Michael Ferguson is also a member.

Essentially, a lot of these standard-setting bodies try not to reinvent the wheel. They look at one another's conceptual framework, and where it needs to differ is when they define the differences; they articulate them in individual standards that we need to follow.

In the case of PSAB, basically we could look at the IFRS framework. We could also look at the international public sector framework. From there we decide whether there is a Canadian difference in what the public sector needs to do and then we articulate our own standards accordingly.

Mr. Bryan Hayes: Mr. Ralston, if you care to weigh in, please do so.

Mr. Jim Ralston: Yes. I'd like to add one point that maybe hasn't come out clearly so far.

There always have been two sets of accounting standards used in Canada, one for the public sector and one for the corporate sector or the private sector. In the past, it was public sector accounting standards and Canadian GAAP. Public sector accounting standards haven't changed, but Canadian GAAP has disappeared and has been replaced by IFRS. It is those entities that were formerly using "the blue book", as we refer to it, that have had to transition to a new set of standards. To the extent that they are part of the government accounting entity, their transition activities get reflected in our consolidated financial statements.

In terms of whether public sector accounting standards would ultimately converge to the IFRS, I think that's unlikely to happen, and I've already cited the example of the international public sector accounting standards. The public sector international equivalent of IFRS does exist now, and they are keeping those two sets of standards separate.

The Chair: Mr. Hayes' time has expired.

Thank you. That was interesting.

Over now to Mr. Byrne who has the floor.

Hon. Gerry Byrne: Thanks, Mr. Chair.

Mr. Ralston, in a previous discussion, a positive discussion, that you and I had regarding the function of the internal audit within the Government of Canada, I posed questions regarding impacts from program review—I'm not actually sure what the term is, but the downsizing of government that has occurred in the last 18 months—and the effect on the internal audit function, from a cross-departmental point of view, within the Government of Canada.

As Comptroller General of Canada, you are responsible for the coordination of internal audit. Is that fair to say?

Mr. Jim Ralston: I'm responsible for establishing the policies that our internal auditors follow across the government.

Hon. Gerry Byrne: When we had a discussion about this before, you said you were not in a position to provide any details to this parliamentary committee about impacts to the internal audit function across the government until the implementation of Budget 2012.

We're now in 2013, obviously. Would you now be able to supply to this parliamentary committee details about the cross-government impact on the internal audit function as a result of Budget 2012?

Mr. Jim Ralston: I certainly don't have that detail at my fingertips today.

I could undertake to see whether I could do a follow-up on that.

Hon. Gerry Byrne: I'd appreciate that very much.

Would we be able to establish a timeframe for the delivery of that product? Would 10 working days be okay?

Mr. Jim Ralston: Well....

Hon. Gerry Byrne: Sorry, Mr. Ralston, the timing of the supply of documents to a parliamentary committee has been an issue before.

Mr. Jim Ralston: I'll do my best.

Hon. Gerry Byrne: Do you think 10 days...? Would you be able to report to us if it can't be done in 10 days?

• (1640)

Mr. Jim Ralston: Yes. If we can't do it in 10 days, we'll give you a revised estimate of when we can.

Hon. Gerry Byrne: Would you be able to commit to this committee that you will not take any longer than a month?

Mr. Jim Ralston: I think that's a safe commitment, yes.

Hon. Gerry Byrne: Thanks. We appreciate that very much. It is a useful piece of information, because, of course, as you are well aware, some departments have actually delegated the internal audit function back to Treasury Board—the Atlantic Canada Opportunities Agency, for example, and others—so if you will provide as detailed a piece of evidence as possible, that may be very helpful to us.

Mr. Nevison, you've been dragged to places by members of the government where a general director should probably not necessarily go at a parliamentary committee, in terms of talking about things that may go into the political realm. But since you were asked some questions about whether or not tax cuts lead to head office relocations back to Canada, and you did supply an answer to this committee, what is your opinion about the move of Electro-Motive out of London? Why did that occur?

Mr. Douglas Nevison: Firms will make individual decisions based on a number of factors, of which I believe taxes would be one.

In answer to the previous question, I was talking in generalities, as I mentioned, as OECD studies have shown. I wasn't dealing with a specific case.

Hon. Gerry Byrne: You are absolutely correct on that.

Have you seen an influx of manufacturing growth in Canada as a result of tax reform?

Mr. Douglas Nevison: As I mentioned, business investment has bounced back quite strongly in the last little while.

Hon. Gerry Byrne: Has this happened in the manufacturing sector, though?

Mr. Douglas Nevison: The manufacturing sector, as you know, has been on a secular decline for a while, and it's not unique to Canada. A number of industrialized countries have seen their share of output and employment in the manufacturing sector decline quite significantly over the last decade or so, but as mentioned, business investment in certain machinery and equipment has been one of the better points in terms of the components of domestic demand recently.

Hon. Gerry Byrne: Thanks for your answer on that one.

Mr. Chair, do I have a few more seconds?

The Chair: You have five.

Hon. Gerry Byrne: Mr. Ralston, is there anything you'd like to add in terms of the main estimates documents?

We're always talking about reform, getting that clear information. Is there anything about the public accounts you'd like to share with this committee—for example, the publication of the public accounts that you're looking at in terms of reforms, broadening the scope, allowing greater information to flow to parliamentarians and to others?

Mr. Jim Ralston: As you know, when you look at the three volumes of the public accounts, there's a lot of detail in there, and some of it, I guess.... It has arisen in times past. I think it is worthwhile to look at these disclosures again and to ask whether they are still relevant in today's world. They were obviously considered relevant in an earlier time.

I also think we could ask ourselves whether there's another reporting vehicle. I mean, we now have the Internet and things like that, departmental websites, whatever. I think it's fair to say that we might look at whether all of the information is necessary or whether there's a better vehicle or something of that nature. It would help ease the reporting burden to get rid of unnecessary work for....

Hon. Gerry Byrne: Thanks, Mr. Ralston.

The Chair: Thank you very much.

We will move along now to Mr. Williamson. You have the floor, sir.

Mr. John Williamson (New Brunswick Southwest, CPC): Thank you, Mr. Chair.

I must say, following my Liberal colleague, I'm a bit perplexed about his line of questioning, given that our government really just followed the wise policy his government initiated in 2000 by lowering corporate taxes, and we've seen the results, both in job growth and revenue growth, from these tables.

I'm curious to ask a couple of broad questions.

Looking at some of the numbers, we see that the federal government posted a budgetary deficit of \$26.2 billion in the last fiscal year that we're currently looking at, 2011-12, down from \$33.4 billion in the previous year, 2010-11. Over that period, revenues were up 3.34% during the same period from \$237 billion to \$245 billion, and expenses were up 0.4% from \$270 billion to \$271 billion. Public debt charges were \$31 billion in the 2011-12 fiscal year.

I'm curious to get your opinion on the main reason for decline in the budget deficit over those two years, fiscal year 2010-11 to fiscal year 2011-12.

• (1645)

Mr. Douglas Nevison: I think you described some of them. Obviously, with revenue growing faster than expenses, that's going to contribute to a decline in the budgetary balance. Revenue coming in, as you mentioned, around 3.5%, slightly below nominal GDP growth, is not stellar revenue growth, but it's still steady.

I think the answer lies more on the expenditure side, controlling that to, as you said, 0.3%, if you look at program expenses. I think that reflects a couple of factors. EI benefits, in light of the improvement in the labour market, came down quite significantly. You also had the impact of the wind-down of the stimulus program.

The temporary nature of the stimulus program saw that spending wind down over that period, and that helped to control the spending.

Mr. John Williamson: Right.

Just as a side note in terms of the EI debate, there are kind of flyers floating around in my province saying that the federal government doesn't contribute to EI. That's not quite accurate, is it? I mean, we carry any surplus or deficit.

Mr. Douglas Nevison: Is that in terms of the EI account?

Mr. John Williamson: Yes.

Mr. Douglas Nevison: The EI account is currently in a deficit position.

Mr. John Williamson: Right—which is carried by the federal government.

Mr. Douglas Nevison: It's consolidated on our books, yes.

Mr. John Williamson: Right.

As a kind of projection, if interest rates were to increase by, say, 1%, what kind of impact would that have on the deficit, and I suppose on the debt as well?

Mr. Douglas Nevison: In each budget and update, we actually have a series of shocks presented. I believe the budgetary balance would deteriorate by in the order of \$600 million in the first year, building toward about \$200 million by the end.

Mr. John Williamson: Sorry, could you repeat that?

Mr. Douglas Nevison: Just a second; I can get you the actual figures so that I'm not just....

It's always in the update and budget. There's always a sensitivity table. For example, as you said, on a 1% increase in interest rates, you would see in the first year a deterioration in the budgetary balance of \$600 million. That would build to \$1.9 billion by the fifth year.

Mr. John Williamson: Right. Okay.

How is my time, Chair? Do I have time for one more question?

The Chair: Yes, you have a little over a minute.

Mr. John Williamson: I've been away from the public accounts for a little bit, but when I was at a group called the Canadian Taxpayers Federation, I recall that the biggest line item was debt interest. We're seeing a move away from that, actually. Now we're seeing old age security as well as other transfer payments as a larger line item than debt interest.

Perhaps to Ms. Cheng, I recognize that when you review the public accounts of the country, you're really just taking a snapshot. Can you comment at all on the impact of what I'll call "demographic change" going forward, on the pressures of some of this change, where we're now seeing entitlement spending on seniors creeping up so that it's now the largest single item on the table here?

Ms. Nancy Cheng: Mr. Chair, I don't think I would be in a position to really answer that question. The scope of the audit really was to look at the financial reporting against the accounting framework.

In terms of program spending—

Mr. John Williamson: Okay.

Then can you comment—

The Chair: Very briefly, please.

Mr. John Williamson: —on how it's changed in the last decade?

Ms. Nancy Cheng: No. We're not in a position to do that. That's not part of the audit.

Mr. John Williamson: Okay.

Thank you.

The Chair: Great. Thank you.

Mr. Allen, you now have the floor.

Mr. Malcolm Allen: Thank you, Chair.

I'm going to share some of my time with Mr. Giguère.

I have one comment to make.

Mr. Nevison, I appreciate your earlier explanation to Mr. Giguère around the \$6 billion—and I don't disagree with you, by the way—but I think it illustrated how difficult it can be sometimes to follow the flow, which we're supposed to do. Part of the mandate of a parliamentarian is to vote on things, and it's difficult to know what the heck you're voting on when you can't follow it sometimes. It is an issue of how easy...and I know Mr. Kramp and I have similar views on this.

It needs to be transparent so that you know what you're doing, in the sense that we understand you folks know how to spend and count it. We have to know what we're voting on when we're spending it. That's the issue I think that gets here...if it were \$6 million, sir, it falls off the table. When it's \$6.2 billion that's not chump change that falls off the table. That's why, when you see such large swings of money, you ask exactly where that came from. It makes perfect sense what you said, sir, but nonetheless...

Mr. Williamson is right about who has the largest expenditure: it's the operation of this government. It's on page 1.6 of the first volume. The second piece, of course, is 25.2% of the total, which includes, but is not limited to...and let me read from it:

...consists of elderly benefits, EI benefits, the Canada Child Tax Benefit and the Universal Child Care Benefit. Major transfers to other levels of government (the Canada Health Transfer...to provinces on behalf of Canada's cities and communities...).

That's a big chunk, but it's certainly not about money just to folks like my mother. It is, of course, if you count if she uses the medical system in Ontario, which she does, which a lot of us do. Then I guess

that's part of the money my mother gets too. I would suggest that this big piece is not rounded up just because we have a bunch of old folks like my mum anymore. We might have a few more old folks, but they're vibrant folks, especially my mother.

If she's listening on television, Happy Valentine's Day, Mum. By the way, she quite often watches the committee when it's on TV.

• (1650)

Mr. Andrew Saxton: We're not televised.

Mr. Malcolm Allen: Ms. Cheng, you noted, I think it's on page 2.41, CBSA.... Do you have any sense of where they're at now? You've suggested they're going back to 2002-03 and trying to consolidate the fact that they couldn't count the GST/HST in a proper way, in the sense that it wasn't matching up well in what they were reporting. Is there any sense that we're on the march to the right place?

Ms. Nancy Cheng: Certainly we're happy to see that CBSA is moving forward and having a strategy to do all these reconciliations, and now are going back into further and further years.

What is still outstanding is the ability to have this receivable system that they thought they would be able to put in place in 2013. Provided they're able to get on track with that, we'll see a lot of these reconciliations starting to go down. The problem is that they couldn't reconcile all the subsystems with the bigger general ledger, and with system changes, that should accommodate the need and lessen the need for such reconciliation.

So we're happy to see they're going down that track, but I think we still have to see whether they are able to implement the system as they said they would.

The Chair: Mr. Giguère.

[*Translation*]

Mr. Alain Giguère: I have a question about structure. It concerns lapsed funds and the reallocation of funds. I would like to know whether the new full accrual accounting strategy will prevent those regrettable cost overruns of certain programs, such as the gun registry. The cost of that program was supposed to be \$20 million but ballooned to more than \$2 billion.

Now that the new system is more firmly established across the departments, will it mean no more having to reallocate lapsed funds?

[English]

Mr. Jim Ralston: Fundamentally, accrual accounting is about assigning costs to the proper time period, and again I use the earlier example of a capital asset. As an example, you purchase it in year one, but you use it over 10 years. Under cash accounting, the cost would be recorded in the first year—

[Translation]

Mr. Alain Giguère: No, you're totally missing my point. That's not at all what I'm talking about.

I'm talking about accounting for a full year. There's a \$50-billion budget for a total of 10 departments. You've got lapsed funds, money that wasn't spent, and this business of reallocation. It's immediate, not over 10 years. It's in the same fiscal year. That's what I'm talking about.

• (1655)

[English]

Mr. Jim Ralston: My point is just that the question you're addressing is not something that is dealt with in the context of accrual accounting. That has a different purpose. That's what I'm saying.

The Chair: Okay. Time has expired. Thank you for the exchanges.

To wrap up the first go-round of our rotation, Mr. Kramp, you have the floor.

Mr. Daryl Kramp: Thank you, Chair.

I'm going to address this question to Finance, if I may.

Mr. Byrne, in his comment earlier, alluded to impact from program review, obviously with the commendation that will come from numerous national and international bodies and sources with regard to the stimulus that was obviously part of Canada's economic action plan.

I'm wondering if you can explain how this not only helped cushion our economy but correspondingly contributed to our successful recovery. Many people have said this was the right thing at the right time, but from the perspective of Finance, could we have done it better? Did it work adequately? Did it work in an exceptional manner?

Mr. Douglas Nevison: As I mentioned, I think the general feeling is that the action plan was successful. There were a number of reasons for that. I mentioned the size of it. That was one of them. Timeliness was another. It was rolled out very efficiently and quickly over a two-year period when it was needed most.

I think the fact that it was targeted also helped. It was targeted at areas that had what we economists refer to as relatively high multipliers, which meant that for every dollar you spent, you got an extra boost in terms of economic activity. So things like infrastructure spending, skills training on the EI side, and a number of measures were part of the program, and I think, as I said, they were targeted effectively.

The fact that it was temporary meant that, as I said, the stimulus wound down at the right time. It wasn't in place when the economy started to pick up, so it would have a pro-cyclical impact on the

economy, and also, because it was temporary, it meant that our fiscal position didn't get too far removed from the low-debt position that we had going into the crisis.

I think those were the factors that contributed to the success of the program.

Mr. Daryl Kramp: Thank you very much.

Chair, I would like to just follow up actually from where I was in the first round, if I might, with Mr. Ralston.

Of course, as I said earlier, drafting public accounts is a monumental project. It really is. A number of people wonder if it is worth it.

This committee obviously sees the reality that yes, it is. It's important to have this information before us.

Frankly, I'm encouraged—and I think all Canadians should be encouraged—at the thoroughness and the diligence that goes not only into drafting and publishing this account, but also into the audit process that correspondingly goes along with it. We thank you for that.

As I mentioned, it's very complex and all-encompassing, and we have only just done lip service to the scope of this actual procedure.

Mr. Ralston, in whatever time we have left, could you please elaborate now on what public accounts are so that the public is aware of everything that takes place within the procedure? It's not simply looking at a balance sheet and/or a P and L.

Mr. Jim Ralston: The outcome of public accounts, I would say, is the key financial accountability document of the Government of Canada, and for that reason it needs to be comprehensive, reliable, and of high quality.

I kind of summarized earlier some of the many players that are involved. Obviously there are also a lot of quality control activities that go into it, the final one being the audit by the Auditor General. It's a combination of strong policies, strong systems, and strong people doing the accounting in each department.

I think we have a very impressive and robust combination of those factors that allows us to produce this result each year.

• (1700)

Mr. Daryl Kramp: Thank you very much.

That's good for me, Mr. Chair.

The Chair: All right. Thank you, Mr. Kramp.

Colleagues, I have consulted with the caucuses. I believe there is agreement to use the remaining time to move into committee business. Unless someone has an objection, I'll move forward on the assumption that I have unanimous consent for that.

Of course, we'll begin first by thanking our guests today. I appreciate very much the responses and the fulsomeness of the responses. Nobody had to go chasing after anyone to get answers, and I thank you for your willingness to provide information.

Mr. Ralston, we've made note; you'll have that to us within a month at the latest. I would also thank you for keeping your answers as brief as you did.

With all of that, please have our thanks. We'll see you again next time.

With that, colleagues, this meeting stands suspended for two minutes as we move in camera.

[Proceedings continue in camera]

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