



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Public Accounts

PACP • NUMBER 068 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, October 3, 2017

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Chair

The Honourable Kevin Sorenson

Standing Committee on Public Accounts

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•(0845)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good morning everyone. Welcome here. This is meeting number 68 of the Standing Committee on Public Accounts, on Tuesday, October 3, 2017.

I remind everyone today that we are televised. I would encourage you to mute or turn off your cellphones and communication devices.

In our first hour today we are conducting a hearing on “Report 6—Civil Aviation Infrastructure in the North—Transport Canada” from the spring 2017 reports of the Auditor General of Canada.

Our witnesses today include, from the Office of the Auditor General, Mr. Michael Ferguson, the Auditor General of Canada. He's accompanied by James McKenzie, principal with the Auditor General's office.

From the Department of Transport we have Mr. Michael Keenan, deputy minister; Sara Wiebe, director general of air policy; and Craig Hutton, director general, strategic policy. We also have Ross Ezzeddin, and I apologize that I don't have your title.

Mr. Michael Keenan (Deputy Minister, Department of Transport): Mr. Chair, Mr. Ross Ezzeddin is director general of programs.

The Chair: Thank you very much.

Welcome.

We will have an opening statement from our Auditor General and the deputy minister. Then we will go into the rounds of questioning.

I'll turn it over to our Auditor General, Mr. Ferguson.

Welcome.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General): Thank you.

[Translation]

Mr. Chair, thank you for this opportunity to present the result of our report on civil aviation infrastructure in the north, which was tabled in May 2017.

The audit on civil aviation infrastructure in the north focused on infrastructure needs of remote northern airports and on Transport Canada's leadership in assessing and addressing these needs.

Airports in the north are critical to the communities they serve, particularly the airports in the 117 remote northern communities that we identified where air travel is the only reliable mode of year-round transportation. These airports support the delivery of essential goods and services, including emergency medical evacuations.

The infrastructure challenges of northern airports have been well documented in various reports and assessments. Many remote northern airports need improved lighting, navigational aids, runways, and better information on weather and runway conditions.

[English]

We found that Transport Canada had not taken an active leadership role to facilitate collaborative efforts to assess and address the infrastructure needs of remote northern airports. The department's airports capital assistance program provided some funding for projects that help remote northern airports meet the department's safety regulations and standards. Since its inception in 1995, the program has provided about \$140 million for infrastructure projects at 67 of the 117 remote northern airports we examined.

In 2016, Transport Canada surveyed airports across Canada that were eligible for program funding about their infrastructure needs. The airports that responded identified almost \$800 million worth of projects over the next three years to maintain and enhance airport safety. This included about \$100 million worth of projects at remote northern airports. Over the last three fiscal years, remote northern airports received about \$15 million in funding from the airports capital assistance program. It's clear that demand for infrastructure funding exceeds the program's annual budget of \$38 million.

Our report had two recommendations. The first stated that Transport Canada, in collaboration with stakeholders, should lead the development of a long-term strategy for northern airport infrastructure. The second stated that Transport Canada should work with stakeholders to determine what sources of funding would meet the infrastructure needs of remote northern airports.

•(0850)

[Translation]

Transport Canada agreed with our recommendations and prepared an action plan.

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer any questions the committee may have.

Thank you.

[English]

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

We now move to the deputy minister of Transport, Mr. Keenan, please.

Mr. Michael Keenan: Thank you, Mr. Chair.

Honourable members, as the deputy minister of Transport Canada, I'm happy to be back in front of the public accounts committee. I look forward to the opportunity to discuss the Auditor General's report on civil aviation infrastructure in the north.

[Translation]

We welcome this review as an opportunity to strengthen our efforts to maintain safe and efficient air services in the north, a key priority for the Government of Canada.

This report of the Auditor General focused on airport infrastructure issues rather than aviation safety issues. The report made two recommendations: that Transport Canada lead the development of a long-term strategy for northern airport infrastructure, and work with stakeholders to determine potential sources of funding. The department agrees with both of the Auditor General's recommendations and has identified steps to respond to them.

The first recommendation, specifically, is that "Transport Canada, in collaboration with stakeholders, should lead the development of a long-term strategy for northern airport infrastructure. The strategy should clearly outline the role that Transport Canada will play in addressing the infrastructure needs of remote northern airports."

[English]

Transport Canada is a key participant in the development of the new Arctic policy framework that was announced by Prime Minister Trudeau in December 2016. Led by the Minister of Crown-Indigenous Relations and Northern Affairs, the government is consulting and collaborating on the development of the Arctic policy framework to promote strength, prosperity, health, and sustainability in the Arctic.

One of the Arctic policy framework's main themes will be comprehensive Arctic infrastructure, which of course includes transportation and, in particular, air transportation. In support of this work, and to address northern transportation needs in the longer term, Transport Canada is working with its territorial counterparts to develop a federal transportation framework to better articulate and focus its approach to the unique transportation challenges of the north. This framework would help guide the range of policy, investment, and regulatory measures that can enable new social and economic opportunities in Canada's Arctic and northern regions. A key element of the framework will be the need for stronger partnerships between governments, local communities, and the private sector.

The Auditor General's second recommendation is that Transport Canada should work with the provinces, territories, and stakeholders to determine what sources of funding will meet the infrastructure needs of remote northern airports.

It should be noted here that Transport Canada neither owns nor operates the airports examined in the Auditor General's report, and

that identification of the infrastructure needs of these airports should be led by the owners and operators of these facilities. That said, we agree that northern communities have unique infrastructure needs that require a more targeted approach to investment than those in the south, and that we need to exercise leadership in moving forward on that.

In fact, this year the Government of Canada confirmed federal intentions to improve critical transportation infrastructure in Canada, in particular in Canada's north. The national trade corridors fund was announced on July 4. Of its \$2 billion over 11 years, up to \$400 million has been targeted to specifically address the unique transportation needs of Canada's territorial north. Expressions of interest have already been received, including several submissions for improving northern airport infrastructure. Applications for the first round of funding are due by November 6, and we anticipate the funding decisions in this first round will be announced next spring. In addition, Transport Canada plans to make northern infrastructure a priority in the upcoming round of this new program.

The Auditor General's report is very helpful as we continue to work closely with territorial counterparts, provincial governments, and local jurisdictions operating northern and remote airports. Our work includes a range of activities—teleconferences, site visits, and webinars—to ensure full consultation as we develop a plan for moving forward that is centred on the national trade corridors fund and other possible sources of funds. This increased engagement is resulting in a deeper understanding of the issues and transportation needs in remote and northern air infrastructure, and will be the basis of developing plans going forward.

Mr. Chair, we look forward to the committee's questions and comments on this important matter.

• (0855)

The Chair: We'll now move into our first round of questioning. We have Mr. Lefebvre first.

Welcome back. You have seven minutes.

[Translation]

Mr. Paul Lefebvre (Sudbury, Lib.): Thank you, Mr. Chair.

[English]

Thank you, everyone, for being here this morning.

I have a few questions for the Auditor General just for clarification.

I see in your report that you talk about 117 remote northern airports. Now, when I look at the map that you provided us, I'm curious. How many of these are first nations communities?

Mr. James McKenzie (Principal, Office of the Auditor General): We did not specifically delineate which communities were first nations, but I would say that quite a number of them are first nations and/or Inuit communities.

Mr. Paul Lefebvre: When I look at the map, I see that it should be the great majority, if not the totality, of these. That's why I'm curious to understand the process here. Transport Canada, for the past number of years, said.... In your findings, you said they were not taking a leadership role.

Mr. Keenan, in your statement you said it was up to the owners and operators of these airports to do the work, and they're the ones responsible, not Transport Canada. If these are first nations communities, is it the bands themselves that are ultimately responsible for this? Again, I'm just trying to understand who's ultimately responsible if it's not Transport Canada.

Mr. James McKenzie: It really depends on the ownership, so it could be the provinces or territories, or it could be local governments that own the airports and therefore have the responsibility to maintain them to the level of their licence or their certification.

Mr. Paul Lefebvre: I guess what I'm getting at is that, certainly if it's local groups, local bands, they don't have any capacity. They don't receive funding from anybody. Would INAC play a role in this? Would Indigenous and Northern Affairs play a leadership role in this, or do they have nothing to do with these remote communities for their infrastructure needs?

Mr. Keenan or the Auditor General, again, I'm just trying to clarify who's ultimately responsible here, because there's obviously a gap that we've identified. Who's ultimately responsible? Nobody says who it is.

Mr. Michael Keenan: It's a great question. I'd say there are a couple of parts to answering it.

The first is that, of the 117 airports that were in the scope of the Auditor General's study, the vast majority—I'm guessing 80% or more—were owned by the provincial or territorial government that had jurisdiction where the dot is on the map. A lot of them were owned by the Government of Nunavut, the Government of the Northwest Territories, the Province of Ontario, or the Province of Quebec.

Interestingly enough, in Quebec, probably a dozen are owned by the Kativik Regional Government, which is a self-government created through the James Bay accords back in the 1970s. There are a couple in B.C. and Alberta that are owned and operated by a local indigenous government.

Transport Canada does own and operate a number of remote airports, for example, in Churchill. There are some on the east coast of Hudson Bay and James Bay. They, however, were not in the sample of 117 that the Auditor General examined.

With that perspective, I would say that Transport Canada absolutely has an overarching responsibility for civil aviation. We are the agency responsible. In the mid-1990s, there was a significant policy change. Before then, Transport Canada was the owner and operator of a vast number of airports. There was a view that we weren't doing a particularly good job as an owner and operator and as the agency overseeing them. There was almost a conflict of interest. There was a devolution, and that resulted in the situation you see today. Consistent with roles and responsibilities, we believe we have a role in overseeing both airports and the entire civil aviation system to ensure, first and foremost, that they are safe. We

have a role in working with partners to ensure that this system is efficient.

I think the core of the recommendations to the Auditor General is that more needs to be done here. We agree, but I think we do not want to second-guess the owners of the airports in terms of what they need, and we need them to identify what they need, and then we want to work with them as partners to help them put in place what they need to ensure they're safe.

• (0900)

Mr. Paul Lefebvre: Thank you, but certainly in the report, you've identified a lot of needs, but financially, there's no....

Obviously, that is where the issue lies. Again, if they identify the needs, and if Transport Canada was not part of that conversation.... Basically, if you're not taking that leadership role, that's, I guess, where the gap occurred, and obviously there's another gap in the funding.

Can you comment on that? Obviously, those were findings from the Auditor General.

Mr. Michael Keenan: Certainly. I think we have been working with airports as partners, for example, through the airport capital assistance program. They identify needs, and we work with them to help fund those needs to ensure the safe capacity to operate.

In fact, the study the Auditor General is quoting—the 2015 or 2016 study to identify the capital needs of airports—and that identification came out of the operation of this program. It was part of the evaluation of the airport capital assistance program, through which we're seeking to identify exactly what the needs are, structurally. I think it is a fair point that, quite frankly, in the transportation infrastructure of this country, there are some pressing infrastructure needs.

Mr. Paul Lefebvre: That has been clearly identified.

Now I have just one last question, very quickly.

You talked about an action plan. Did we receive that?

The Chair: We did.

Mr. Paul Lefebvre: Okay. Sorry, I don't have it.

It's on the website? Okay, thank you. .

The Chair: Thank you, Mr. Lefebvre.

We'll now move to Mr. Deltell.

[*Translation*]

Good morning, Mr. Deltell. You have the floor for seven minutes.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you so much, Mr. Chair. Good morning to you, and congratulations on the quality of your French.

Good morning also to all my colleagues.

To the witnesses, welcome to your House of Commons, madam, gentlemen.

The issue before us today is very important. It deals specifically with who we are as Canadians. Canada is a vast northern country. We have the responsibility, each and every one of us, to establish a presence on the territory. Having airports in Canada's north is essential for the country's unity, strength, and, I would say, its very being.

If we neglect the airports in the communities in Canada's north, we are neglecting our country, pure and simple. Occupying territory provides evidence of sovereignty and prerogative. The airports must be preserved, as tools of our development and our presence. We must make sure that the infrastructures are established, and that they are strong and safe.

Nevertheless, we have seen that the Auditor General has some quite serious criticisms. But we applaud the fact that the Department of Transport, Infrastructure and Communities is welcoming his recommendations.

Earlier, Mr. Lefebvre brought up a very interesting point about ownership: the locations of our 117 airports in the far north are in indigenous territory. That is exactly the subject I wanted to deal with. My thanks to him for doing so. Let us continue along the same lines.

Mr. Keenan, you said that a major challenge we will have to face when the time comes to make significant investment in our airports in remote locations is the collaboration between the federal government, the provincial and territorial authorities, and the local communities.

In your experience, do you feel any resistance on the part of any local communities to make the investments and the efforts needed to ensure the quality, the safety and the longevity of our facilities in the far north? We are all aware that we are talking about millions of dollars, which is not an insignificant amount.

• (0905)

[English]

Mr. Michael Keenan: Thank you, Mr. Chair.

This is an important question, and I would say that no, in our experience at Transport Canada, local communities, I think, intuitively... I should back up one point. In the development of the current transportation 2030 policy agenda, Minister Garneau and Transport Canada held extensive consultations over the course of 2016—dozens and dozens of round tables in every part of the country. Canadians came out and talked about what was important to them in terms of transportation policy. Without exception, local communities understood intuitively and strongly the value of transportation infrastructure, in terms of the quality of life for those communities. That is particularly true in the northern and remote communities where often, as the Auditor General correctly points out, the airports and aerodromes that he examined, in the vast majority of cases, are the only transportation link. So there was a keenness in the communities to expand and improve this infrastructure. I don't think we've ever encountered resistance. I think the question is, in a remote northern area, when you have a relatively low total number of travellers moving and you have very high costs of building and maintaining, how does one get the resources aligned to be able to expand that transportation infrastructure?

I would say the willingness is there and the challenge is to bring the partners together to figure out how to organize the investments to expand that capacity. That was the core logic and motivation behind the structure of the national trade corridors fund, including the special allocation for the territorial north.

Mr. Gérard Deltell: If there is a recommendation to invest millions of dollars in a specific remote airport and the owner, the community there, or the territory or province resists that and says that it's not necessary and that they can use it as it is, do you have any armour as a minister or as a government to be sure that the renewal will be carried out correctly? Do you have any tool to do that?

Mr. Michael Keenan: Again I would say it's a problem that we have not encountered, but if we were to encounter that problem, I think there are two principles that would be at play. The first is that Transport Canada would defer to the owner of the airport—in this case it's usually a provincial or territorial government—because they are the ones who are accountable and responsible. However, Transport Canada would demand a minimum level of safety. We've actually had this problem with some small airports. Sometimes it's cutting the trees. There are a number of safety requirements that are absolutely non-negotiable. If an aerodrome is not adhering to those, Transport Canada safety and security inspectors will come in and will take regulatory action under the Aeronautics Act to ensure that happens. An example would be that sometimes we have issues with aerodromes—less in Nunavut—in the south where trees grow on the approach and the aerodrome has to keep the trees cut because of the risk of a plane hitting the trees when it's trying to land.

There are certain things like that on which we will be completely inflexible, because they have to do with the safety of Canadians. Beyond that, we'll work with the owner of the airport on their priorities and try to support them in implementing their priorities both to safely operate the aerodrome and to increase the capacity to meet the needs of the members of their community.

The Chair: Thank you.

Mr. Christopherson, go ahead, please, for seven minutes.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you, Chair.

Thank you, everyone, for your attendance today.

I have to say that when I was going through this, I had mixed emotions. On the one hand, I was quite appalled that an issue of Canadian safety was given so little proper focus. But I have to say, Deputy, I was encouraged by your remarks this morning. I hope, before my time concludes, that we get a chance to determine your comments, especially on the second-to-last page when you talked about what's coming in budget 2017, as to whether or not that's going to be sufficient for the dollar amount. There are two things involved: one is planning and one is funding, and both seem to be inadequate.

There is the map provided on in exhibit 6.1. As have a lot of other members of this committee, I've landed at a lot of those dots, including the one that is second-furthest north, right smack dab in the middle of the Northwest Passage. I distinctly remember looking down as we were circling and getting ready to land. I have to tell you that the one thing that wasn't going through my mind was to wonder how efficient they were. I wanted to know how safe this was going to be.

My concern is that there is a lot of mixing of efficiency and other infrastructure with this, as opposed to that being a stand-alone issue. As a former city councillor, I'd say that nobody has a greater passion for infrastructure, which is the least sexy thing to do with local municipal government, but it's one of the most important things you do. But still my concern is that the airport seems to be sort of jammed into that infrastructure. To me, there is a difference between efficiency and laying the groundwork for economic activity versus safety.

I was very struck by the comments in the report on page 14, paragraph 6.57, where the Auditor General said that, "We further found that the program"—meaning the one that's been in existence so far, the airports capital assistance program, which by the way has had \$38 million assigned to it for 17 years straight. Somebody was not making this a priority.

Talking about that program, the Auditor General said, "the program did not recognize the important role that airports play in remote [and] northern communities." In the same paragraph, he goes on to say:

Furthermore, both certified and registered airports, regardless of passenger volumes, support the delivery of essential services to the communities, such as community resupply of fresh food and medicine, medical emergency evacuations, and charter operations...local...activity.

This is the very essence of life and death for a lot of these folks, for a lot of these communities. Unfortunately, we're hearing that, yes, well, the department is now saying that they are going to step up and do exactly what they didn't do before. What I'd like to hear is perhaps some explanation as to how this could be overlooked for so long, and by that I mean 17 years without increasing by one penny the money that's dedicated to airport safety. How did that happen? I'd like to hear what assurances you're going to give us that we can believe that this time you, the department, are going to do what you promised to do, given that you already promised to do that very same thing.

I'm listening.

● (0910)

Mr. Michael Keenan: There are a number of questions, and I'll try to work through them in turn.

On the matter of safety versus efficiency, there are two things. They are separate, and they are both important.

I would say that the operating principle of Transport Canada is that safety is more important. There's a certain hard line that we draw on safety, and we work very hard to ensure that it is met. With regard to the example in which the member was talking about coming into a remote airport in bad weather, the basics are there to ensure that the plane can land safely.

Safety and capacity are intertwined. The example of coming into a remote airport where there is poor visibility or bad weather is a great example. Depending on the level of infrastructure at the aerodrome—the quality of the landing lights, the navigational aids, and the weather system....The Auditor General points out very well in paragraph 6.28 that with regard to laying out these hard elements in aerodromes, the more of those things that are in place in any given aerodrome, the broader the range of weather conditions in which a plane can safely land. Safety and efficiency are intertwined to an important degree.

That's the first point.

The very important question that the member asked about how we are going to track whether we're living up to the aspirations and commitments that we're making in response to the Auditor General's report is a key question. The key to that will be tracking the results in terms of the actual infrastructure investments that are made in remote and northern areas as a result of the new investments that the Government of Canada has committed to address these challenges. These investments would include, in particular, the national trade corridors fund, for which the first round of applications are out. Next year we're committing that the second round of that program will have a particular focus on northern transportation infrastructure. Now that program is targeted on all transportation infrastructure. There is a challenge with marine infrastructure in the north, as well as with air infrastructure. The key is tracking the results of the implementation of that program in terms of the actual building of infrastructure that addresses the challenges identified by the Auditor General's report. Reporting on that as we go forward will be important.

I would also mention that it will be important for us to track and report on how other sources of funds and activities contribute. For example, as part of the Building Canada fund, the government has committed \$2 billion over 10 years for remote and northern communities. That, again, is an additional source of funds that is accessible to help communities meet their needs, including their transportation needs. I think it's a question of tracking the results to ensure that the commitments we're making today turn into actions through these new programs in the coming months.

● (0915)

The Chair: Thank you, Mr. Keenan.

We'll now move on to the next member.

Ms. Shanahan.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you very much, Chair.

Thank you very much to the Auditor General and witnesses for being here this morning.

The report we're studying this morning, for me, is really the essence of what we're doing here at the public accounts committee. My colleagues have referred to that already. Our first order of business is actually not so much the money, although we'll get to that, but the issue of public security and safety and how well our public services are meeting those requirements for Canadians. Of course, this is exactly where we are this morning, addressing that issue.

That was really my first concern, but once in a while the money actually does matter.

I noted, Mr. Ferguson—we have spoken before—that it's highly unusual for the Auditor General to point out when there is a lack of funding, and you do it in a very tactful way. I look at the quote, "In 2016, Transport Canada asked all 200 airports eligible for program funding to identify their safety-related projects over the next three years," and look at the numbers, "Of the 105 eligible remote northern airports, 41 responded with an estimated total of \$101 million for safety-related projects, including the rehabilitation of runways and lighting systems." Then you go on to say that the OAG, "found that the available funding would not be sufficient to meet the needs identified by remote northern airports, as the demand significantly exceeds the program's annual funding of \$38 million." There it is spelled out for us.

I always look at the time period of the audit as well. I think that's important. Here in public accounts, we're looking at what has already happened and where we can learn some lessons. We know this is for the period from 2013 to 2016. There have been some changes since then, but I still want to focus on that period. It's not to lay blame anywhere but to try to pick up where the lessons are. I think there's something in there. How could these safety-related projects go undetected?

I would like to ask the Auditor General to give his view on the role of the owner-operators, because his office would have conducted interviews. I'd like him to give us some feedback on what they were saying. Then I'd like to have a comment from Transport Canada.

• (0920)

The Chair: Mr. Ferguson.

Mr. Michael Ferguson: Thank you, Mr. Chair.

In terms of the owner-operator, I think we laid out—for example, in paragraph 6.54—that we talked to the operators about applying to the airports assistance program for funding and some of the issues they were running into. Not all of them actually came forward and applied to the program. Part of the problem was the cost of submitting a proposal, or their capacity or ability to get contractors to prepare and submit a proposal. Some operators, right from the very beginning, were running into some problems with being able to bring their concerns forward.

The issue we are identifying here is that when you look at the funding, particularly through the airports assistance program, that has been available compared to what the owner-operators are saying is on their list of safety-related issues, those two things don't line up. Somehow, those two things need to line up.

I would also like to comment on the whole safety issue, which I think has been touched on so far, because in no way are we questioning the safety of these airports when they're operating. They're all regulated and they all have to follow the rules. The concern is more, as the deputy put it, that there's perhaps a range of weather conditions, for example, that some of them can't operate in. The airport is safe when it's not operating, but that means things like medical evacuations can't get in within those time periods, so people who may need those medical evacuations at that time don't have

access to them. The issue isn't a question of the airport not operating safely. The safety issue, if you want, is a broader issue of people who perhaps need some emergency types of services, but because of weather conditions and because the airports aren't equipped to operate in those weather conditions, those people may not be able to get access to the services at those times.

In terms of the overall issue, it very much is—and I think this was referred to earlier—one of planning and funding. It's a question of what needs to be done, where it needs to be done, who has to do it, what money is available, and whether those two things line up. If they don't and there's a gap, then what happens? If these are safety issues, if they are issues of being able to operate in a broader range of weather conditions, is one goal to allow some of these airports to operate in those weather conditions? Again, we're not questioning the safe operation of the airports when they are actually allowed to operate.

Mrs. Brenda Shanahan: Thank you very much, Mr. Ferguson.

I still have some time.

Mr. Keenan, could you please comment, especially on the paragraph the Auditor General referred to, paragraph 6.54? How has your department addressed those obstacles to owner-operators actually applying for funding?

Mr. Michael Keenan: I'm happy to do that. I would just like to reiterate that the way the Auditor General clearly framed this is exactly the way we see the challenge in terms of this infrastructure.

With regard to paragraph 6.54, in northern and remote locations, the owner-operator is often a provincial or territorial government. Sometimes it's a local entity. The hard reality is that there are challenges in building and maintaining the infrastructure. It's very costly, and the traffic volumes alone are not sufficient to pay for it. The Greater Toronto Airports Authority does not need financial help in providing for the safety of its airport. At Pond Inlet and Cambridge Bay, they need assistance.

To try to address the challenges in paragraph 6.54, we have done the following. First, we've built into the structure of both the airports capital assistance program and the national trade corridors fund specific provisions to make it easier for northern and remote airports. The cost-sharing ratios are higher. Some of the specific requirements are less onerous.

Second, we've done extensive engagement and partnership building. We're reaching out and we're working with people so they understand how the programs work and they understand the cycles. We're trying to help them line up their planning and their needs with the new programming that we're putting in place to meet those needs.

• (0925)

The Chair: We're already a minute over. We'll have an opportunity to come back to you, Ms. Shanahan.

Mr. Nuttall.

Mr. Alexander Nuttall (Barrie—Springwater—Oro-Medonte, CPC): Thank you, Mr. Chair.

Thank you to the Auditor General's office as well as to Transport Canada for being with us today.

I'd like to pick up where Brenda was just leaving off.

One of the things I noticed from the stats in the report is that roughly 67% of the airports responded. My experience, having gone through audits in the private sector, etc., is that when there isn't a response, it's usually for one of two reasons: they don't want to give the information, or they don't have the information.

When you sent out the request to determine what the capital needs were—which I believe is what this is referring to—was there any follow-up with the leftover 33% of the airport authorities?

Mr. Michael Ferguson: Actually, Mr. Chair, the reference is in paragraph 6.55. That is the 67%. It's actually referring to when Transport Canada asked the airports to identify their safety-related projects in the next three years and 67% responded.

It wasn't our survey; it was one that Transport had done.

Mr. Alexander Nuttall: Sorry about that.

I'll move the question to the Department of Transport.

Mr. Michael Keenan: Mr. Chair, that's a very good question.

This was done as part of the evaluation of the airports capital assistance program. We did one round and we took the information that we received, but we did not chase those that didn't reply. I think it's a fair statement that they fell into the two camps you're describing.

Mr. Alexander Nuttall: While it's not necessarily contained within the report, that's a potential major liability that needs to be looked at.

The other item in here, which was outlined in the same paragraph, is the funding level.

The question I have concerns the airport authorities that have outlined a specific number of projects with a certain amount of money. Are capital plans produced by these airport authorities to help provide information to Transport Canada on an ongoing basis, or to provide information to the Auditor General as part of this report?

Mr. Michael Keenan: Mr. Chair, I think it's important to distinguish that this number came from a survey the department did as part of its evaluation of the program, which is different from the actual programming applications. In the case of a survey, you fill out the answer. On the programming applications, we tend to get more information—I think it's fair to say—in terms of the actual capital plan and in terms of the needs, etc.

If you use the language of surveys, there is a different survey frame when we're trying to evaluate the program versus the kind of information we ask for when we're trying to operate the program and become a funding partner to the owner.

Mr. Alexander Nuttall: I guess my questions are outside of a request for programming and assistance. Back in my municipal background, one of the things we underwent was the framing of a

capital plan on the infrastructure deficit that existed. I'm trying to understand what type of infrastructure deficit exists across the board when it comes to northern Canadian airports, and if we have some information and data to say, for instance, that the shortfall in funding is actually this much, according to the capital plans that are being put forward, and to then highlight within those capital plans the most pertinent projects, the important projects, to deal with on a priority basis.

Mr. Michael Keenan: I think the sense is this. First and foremost, it's the view of the Government of Canada that there's an infrastructure gap in the country, which is why the Government of Canada has made such a big investment in infrastructure writ large. Second, it is the view of government, and I think the assessment shows, that there's a deeper infrastructure gap in northern Canada and in remote communities for all of the reasons we've been discussing here this morning.

To be frank, I think to try to put a precise dollar figure on it is difficult, and in fact it becomes a little bit arbitrary in terms of what the questions are. What are the aspirations for your community? What are the aspirations for the region? What are the opportunities for the economic development, social development, and quality of life improvements in the region? I think we see it as a moving target. We see it as one for which you establish the priorities through an iterative approach. There's no one magic capital plan at one point in time that does it.

That leads us to the importance of engagement, consultation, and partnership building. It takes sustained, structured engagement, communication, and information sharing among the communities, the owners of the infrastructure, and funding partners like the Government of Canada and other partners. An important partner here actually is Nav Canada, because Nav Canada is in the middle of modernizing its infrastructure. That's a key part of the piece here.

I think we see it as an ongoing effort in which you're working to get the best shared understanding of where the most pressing needs are and where the investments will have the biggest payoff in terms of meeting the transportation needs and in terms of eliminating bottlenecks. Those change over time. With economic development in the north, as those patterns change.... For example, at individual airports you can see enormous fluctuations in volumes. It's not on the Auditor General's list of 117, but Fort McMurray has had a tremendous change in the volume of passengers through it because of the change in the economic circumstances of the oil sands. We've seen that in a number of our remote communities.

It's not fixed in time. You actually have to stay dialed into the communities and the owners and the operators to figure out where at any given time the best investment is to be made. I think what we have here is an opportunity to make a new set of investments, that we haven't made in the past, with the new programming and the new funding that the Government of Canada has put in place to address the challenges identified by the Auditor General.

● (0930)

The Chair: Thank you, Mr. Keenan.

We'll now move to Mr. Massé.

[Translation]

Mr. Rémi Massé (Avignon—La Mitis—Matane—Matapédia, Lib.): Thank you, Mr. Chair.

My thanks to the witnesses for being part of the committee's activities. It is very important.

I am a member of Parliament from a remote part of eastern Canada, the Gaspé, and I can assure you that the issue of infrastructures, be they ports, airports or railways, is critical for my fellow constituents and myself. I echo what our colleague Mr. Deltell said earlier about what needs to be done to ensure that our communities develop, whether they may be remote or in the north. We need quality infrastructures to provide transportation for passengers, goods and materials, and so that those with serious health problems can get to quality medical services. This infrastructure is essential.

Mr. Keenan, when you made your opening remarks, saying that the Office of the Auditor General was focusing on issues of airport infrastructure rather than on issues of aviation safety, I sensed—perhaps wrongly—a little detachment, a little lack of responsibility, in that statement. Perhaps I am mistaken—you can comment—but, in my opinion, there can be no aviation safety if there is no quality infrastructure. If the runways are not adequate, if there is no system of navigational aids, no lighting, no computer systems that are able to ensure the safety of the aircraft, there is a problem.

That leads me to ask you this question. Given all the programs that Transport Canada has access to, given that you mentioned that you were a participating partner—for me, a partner is a key player in working with other departments, in supporting communities in developing plans and chasing down available funding—I was a little surprised to see the following, in paragraph 6.44 of the Auditor General's report: "Transport Canada's 2011 study, Northern Transportation Systems Assessment, noted an anticipated need of approximately \$312 million to support priority infrastructure projects at 10 northern airports." The report also indicates that: "...the Department did not follow up or use the report...in developing a plan."

First of all, is that correct? Second, if you say you are a partner, how is it that, after seven years, the Auditor General's report can still contain such a statement?

• (0935)

[English]

The Chair: Thank you, Mr. Massé.

Go ahead, Mr. Keenan.

[Translation]

Mr. Michael Keenan: Mr. Chair, I agree absolutely with the gentleman when he says that aviation safety and the quality of the infrastructures are very closely linked. I completely agree. As the Auditor General has just said, even although the two are very linked, the central reason for his audit is not aviation safety, because Transport Canada looks after aviation safety. This is about the ability of the airports to operate with more means and in ideal meteorological conditions, if I may put it that way.

[English]

I absolutely agree with the framing of the connection between these two. As a deputy minister of Transport Canada since early 2016, I find it a little difficult to tell you in the first person exactly what was happening back in 2011, but I can say that I think the assessment that there is an unmet need is absolutely fair and right and that it is incumbent on the Government of Canada, and in particular Transport Canada,

[Translation]

... to lead discussions, to lead development projects and partnerships in order to respond appropriately to the deficiencies in air infrastructures in the remote communities of the north.

[English]

The Chair: Thank you.

Your time is up. Thank you, Mr. Massé.

I will move to Mr. Nuttall and Mr. Deltell on a split.

Mr. Alexander Nuttall: Thank you, Mr. Chair. I'll be very brief.

I think it's important to note that if we don't know the full extent or if one's department doesn't know the full extent of the requirements, then we're never going to have an opportunity to fix those issues. I guess to follow up on my last question, I'm not asking about the priority of just expanding existing airports. Is there not a list within Transport Canada, a document somewhere, that shows the deficit of existing infrastructure just to bring things up to snuff, if you will, and then a separate plan that says this is what we aspire to be as a local airport authority? Increasing operations, maybe with regard to time of day, time of year, or number of runways, is a separate issue. What's the infrastructure deficit just to maintain the current services within each of the airport authorities?

Mr. Michael Keenan: Mr. Chair, it's a great question. It cuts to the heart of setting priorities in implementing infrastructure programs. Transport Canada certainly has solid sources of information in terms of infrastructure needs and infrastructure deficits. I think the study you were referring to in your previous comments provides some information but it is far from perfect, in part, as you point out correctly, because the response rate was well below 100%.

We do a range of studies and economic analyses assessing infrastructure gaps and in particular where you can actually get value for money, to demonstrate the value of infrastructure investments. A lot of that work went into the creation of the national trade corridors fund. The pressing infrastructure needs in northern rural communities are the reason that fund includes a dedicated element of \$400 million for territorial northern infrastructure.

I would say that we would be hesitant to take our understanding about infrastructure gaps and to operationalize that with us unilaterally determining where to make the investments. That's the reason why we agree with the Auditor General's reports in terms of exercising leadership, building the relationships, engaging, and working with partners, so that between their identification of their capital plans and their needs and the application of our criteria and the program, we can sort out where we think the biggest value is in the next dollar of infrastructure programming.

● (0940)

The Chair: Thank you, Mr. Keenan.

Mr. Deltell.

Mr. Gérard Deltell: I would like to follow up on that. As publicly elected people, we are concerned about how to invest and the future of our investment and what the plan is. If there is no plan, there is no need and there is no result. How can we evaluate the result if we have no plan?

The Chair: Mr. Keenan.

Mr. Michael Keenan: Mr. Chair, the government has defined a very clear plan in terms of investing in Canada with multiple elements of infrastructure programming. One of particular importance to the northern and remote communities is the national trade corridors fund, which has a very clear plan and very clear objectives in terms of expanding the capacity of the transportation systems in Canada to meet the mobility needs of Canadians and to enable economic growth in the country and expansion of the middle class.

The operating strategy of these plans is to identify the highest-priority infrastructure projects and to allocate resources where the significant but ultimately defined federal dollars will generate the largest increase in infrastructure through leveraging partnerships. Having run transportation infrastructure programs for some time, we made the assessment that a unilateral federal determination of where projects go without partnerships and without engaging the priorities of partners would make for a relatively ineffective infrastructure program.

The Chair: Thank you.

Our time is pretty well up. There are just a couple of questions. We have to write a report on our study today, and one of the questions that came from the table is that this report came out in the spring and the expected final completion date on the recommendations, especially the recommendation regarding the long-term strategy coming up, is expected to be in the fall of 2018. Following on the question of Mr. Nuttall and Mr. Deltell, why would it take a year and a half to come up with a strategy? For those of us up here who don't have to implement a strategy, it seems like a fairly long period of time. Why does it take that long?

Mr. Michael Keenan: It's a great question, Mr. Chair.

The Chair: We need a quick answer.

Mr. Michael Keenan: I'll be quick.

First of all, we're exercising leadership in terms of acting to address pressing infrastructure needs as described. Second is that I think if we were to write a unilateral federal strategy, we could do it pretty quickly, but I don't think it would be that effective. I think a much more effective strategy that would generate results is one that

is built on partnership with the territorial governments, the local jurisdictions, and the indigenous groups. The process of engagement, consultation, and defining shared objectives and shared priorities that align to community needs does take a bit of time. We're working it through in the context of the Arctic policy framework and other initiatives. I think we can get it done in the time we've committed.

The Chair: I have one other very quick question as well.

There has been some discussion about the \$38 million. It's been the same amount for 17 years. You've also said that there were other programs that have come: a \$2 billion program over 11 years, a \$400 million....

Are these partnerships, half partnerships, with the territorial governments? Are they projects that Transport Canada or the Government of Canada pays the lion's share of? What's the split on some of these programs?

● (0945)

Mr. Michael Keenan: That's a great question, Mr. Chair.

On the broad national trade corridors fund across the country, they're all partnership funds. On the broad programs, we would expect something like 3:1 or 4:1 ratios, where \$1 of federal money unlocks \$3 or \$4 of total infrastructure build. Up in the northern and remote communities, we've structured the programs to be more generous in terms of the federal cost sharing, simply because of the tougher economics up there. For example, in ACAP in remote and northern communities, we say minimum 85% cost sharing from the feds. It's the same thing on the national trade corridors fund; we limit it to 50% in the south, but we allow 75% federal funding in the north. We won't get as much leverage, but we'll get some. More important, we'll ensure that where the investments are made is where the owners of the infrastructure in the communities think they should be made, which is a key strategic priority of the program.

The Chair: Thank you.

Has there ever been money lapse in that \$38 million program?

Mr. Michael Keenan: There has been money lapse in the past.

I think in recent years, Ross, there really hasn't been much money lapse in ACAP, right?

Mr. Ross Ezzeddin (Director General, Air and Marine Programs, Department of Transport): That's correct. There was a run maybe about five years ago when there were significant lapses, but we....

The Chair: Sometimes when other partnerships, other players, don't have the funding, although the money is there, there are reasons why maybe it stays at that figure if there is lapse money.

Thank you very much. We have to conclude right now. We have six others coming in right away, and we don't want to take their time. I do want to thank you for coming. It's interesting. I think all governments understand the need for a focus on our north. We've had that commitment to focus on the north and infrastructure in the north. Certainly when we talk about medical evacuations, I think all Canadians understand that there are expectations.

Thank you for being here and helping us with our study.

We will suspend and come back with six from another department, to deal with fraud.

• (0945) _____ (Pause) _____

• (0950)

The Chair: We'll call the meeting back to order.

Sometimes it's very difficult to get prepared when you have a meeting in the first hour and then six or seven witnesses in the second hour, but we welcome you back to meeting number 68 of the Standing Committee on Public Accounts.

In our second hour today, we're conducting a hearing on "Report 1: Managing the Risk of Fraud", from the spring 2017 reports of the Auditor General of Canada. On Thursday we will continue this with another two-hour meeting. Anything we do today can be extended to the Thursday meeting as well.

The witnesses today include Mr. Michael Ferguson, the Auditor General of Canada; Mr. Paul Glover, president of the Canadian Food Inspection Agency; Ian Shugart, deputy minister, Department of Foreign Affairs; Simon Kennedy, deputy minister, Department of Health; Hélène Laurendeau, deputy minister, Department of Indian Affairs and Northern Development; Marie Lemay, deputy minister, Department of Public Services and Procurement; and, Bill Matthews, Comptroller General of Canada, Treasury Board of Canada Secretariat.

We again have an opening statement from our Auditor General. Then we'll have five-minute statements from each of our remaining witnesses. Hopefully, there will be time to go to questions as well.

I think they know the order in which they're going to speak, but we'll first welcome Mr. Ferguson.

Mr. Michael Ferguson: Mr. Chair, thank you for this opportunity to discuss our spring 2017 report on managing the risk of fraud.

Fraud can happen in any organization. In federal government organizations, fraud can cause the loss of public money or property, hurt employee morale, and undermine Canadians' confidence in public services. Federal organizations must manage the risk of fraud.

The audit looked at how the five selected federal organizations managed their risk of fraud. We also wanted to know whether the Treasury Board of Canada Secretariat provided support to federal organizations to help them manage their risks, including fraud risks, and whether it monitored the implementation of its relevant policies and directives.

Overall, we found that the five federal organizations we looked at had some ways to manage their fraud risks; however, no single organization covered all the basics.

[Translation]

For example, we found that the Canadian Food Inspection Agency, Global Affairs Canada, and Indigenous and Northern Affairs Canada had completed fraud risk assessments. However, some key elements were missing from these assessments. For example, none of the three organizations evaluated all of their fraud risk mitigating controls to assess whether they were operating effectively and efficiently.

As for Health Canada and Public Services and Procurement Canada, although they each had a fraud risk management framework in place, neither had completed a fraud risk assessment.

We were concerned that controls we looked at to manage the risk of internal fraud were not always implemented. Very few employees of the five organizations we looked at received the mandatory training on values, ethics and conflicts of interest.

We found that, while Public Services and Procurement Canada adequately managed employee declarations of contract of interest, the four other federal organizations did not. They either took too long to resolve conflicts of interest or did not have an adequate approach to make sure that measures to mitigate conflicts of interest were in place.

• (0955)

[English]

In addition, we found that all five federal organizations we examined had controls and review committees in place to prevent and detect selected inappropriate contracting practices, which were contract splitting, inappropriate contract amendments, and inappropriate sole-source contracting. However, the controls were not always applied, and review committees may not have been involved when required. For example, some organizations didn't justify some sole-source contracts or contract amendments as required.

Also, the organizations didn't analyze their procurement data to help them identify all three types of inappropriate contracting practices. In addition, in all five organizations, we found data quality problems that limited the organizations' ability to analyze their contract data. For example, they didn't make sure that company names were recorded in a consistent way.

[Translation]

Finally, the Treasury Board of Canada Secretariat supported and monitored how federal organizations managed their overall risks. However, it did not monitor how federal organizations manage their risk of fraud or provide specific guidance about fraud risk management.

We are pleased to report that all the audited organisations have agreed with all our recommendations and have committed to taking corrective action.

[English]

Mr. Chair, this concludes my opening statement. We would be pleased to answer any questions the committee may have.

Thank you.

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

We'll now move to the Canadian Food Inspection Agency with Mr. Glover.

[Translation]

Mr. Paul Glover (President, Canadian Food Inspection Agency): Good morning, Mr. Chair.

My name is Paul Glover, and I am President of the Canadian Food Inspection Agency.

I appreciate being invited to speak concerning our response to the Auditor General's report on fraud risk.

[English]

I would just like to begin by saying the CFIA is a risk-based regulatory agency dedicated to safeguarding plants, animals, and food. Our work promotes the health and well-being of Canada's people, environment, and economy. The agency is pleased to note that this report did not identify any gaps or weaknesses at the CFIA that would have put food safety and human health at risk.

[Translation]

Prior to this audit, we had fraud risk management practices and mechanisms in place. These practices and mechanisms are: having a fraud prevention policy, undertaking fraud risk assessments, providing training on values, ethics and conflicts of interest,

[English]

restricting the use of sole-source contracts, and performing ongoing analysis of procurement data. Still the CFIA welcomes this opportunity to strengthen our management practices and mechanisms. As Mr. Ferguson has indicated, the CFIA agrees with all of the recommendations of the report and is committed to enhancing fraud-prevention measures and to making sure that all stakeholders, internal and external, understand the obligations.

I'm very pleased to report that the CFIA is on track to meet each of the milestones identified in the agency's management response and action plan. While some of the recommendations are already complete, others are well on track and the CFIA expects that all recommendations will be addressed by March 31, 2018.

I'll stop here.

[Translation]

I would be pleased to take your questions.

Thank you.

[English]

The Chair: Thank you. I will just tell our committee that we have a larger statement from him, so it might be information that we can use on the Thursday as well.

Next we will move to Mr. Ian Shugart, deputy minister of the Department of Foreign Affairs.

Welcome.

● (1000)

Mr. Ian Shugart (Deputy Minister of Foreign Affairs, Department of Foreign Affairs, Trade and Development): Thank you very much, Chair.

I want to tell the committee, as evidence of how seriously we take the guidance and direction of the committee, that in my last appearance here, the honourable member for Hamilton Centre told me, "By the way, you might want to think about making the last part of your career in diplomacy." A month later, I found myself the deputy minister of Foreign Affairs.

Some hon. members: Oh, oh!

Mr. Ian Shugart: Thank you for the invitation. We want to thank the Auditor General for the work of his office on this important subject. We acknowledge the findings. We accept the recommendations. We look forward to discussing the steps taken to strengthen fraud risk management in my department.

First, I think it might help the committee if I provide some brief contextual information on the Global Affairs Canada operations and network. We manage an overseas network of 178 missions in 110 countries, plus five regional offices in Canada in addition to our national capital headquarters. We're an employer to over 6,000 Canada-based staff and to some 5,000 locally engaged staff who support the Government of Canada's operations and programs around the world for Global Affairs; Immigration, Refugees and Citizenship Canada; and many other partner departments and agencies abroad.

This means that the context for fraud risk management at Global Affairs Canada is vast and complex, with many inherent risks in our different operating environments. We take seriously the responsibility that we carry to protect the assets and interests of Canada everywhere we operate, including at home, of course.

As deputy minister, I have placed significant priority on this task and on creating a zero-tolerance culture for fraud and wrongdoing, and I have communicated this directly to our senior management and to our heads of mission abroad. The findings of the Auditor General were timely and relevant, not least on the heels of the fraud investigations conducted at our mission in Port-au-Prince, Haiti, and for the losses reported by my department in the Public Accounts of Canada one year ago.

In some cases, the OAG findings have reinforced measures that were already being taken to strengthen our fraud risk regime, including the creation of a new fraud risk management policy framework in 2016 and the subsequent development of an evergreen action plan to implement its key elements. Other recommendations from the Auditor General have helped us to identify some additional gaps, including improving tracking of training measures and strengthening our database for risk management in this area.

Overall, the GAC approach is based on three core pillars: prevention, monitoring, and response to fraud risk. I can provide a few examples of some of the measures we have advanced in support of these objectives, but first I want to reinforce for the public accounts committee that sound fraud risk management is a long-term and ongoing function at Global Affairs, as it must be, given the diverse and ever-changing nature of our operating environment. It requires continuous vigilance of and adaptation to evolving risks, along with changes in our own operating systems and protocols to identify and minimize those risks.

On prevention, we have strengthened training on fraud risk management, particularly for heads of mission and our management and consular officers before they depart on post. We have also reinforced our mandatory values and ethics training modules for the whole department, and we'll soon be launching a new e-learning module on fraud awareness for all Global Affairs Canada employees.

Additionally, the department has undertaken a series of regional training workshops for management officers already in the field, with a focus on financial management and fraud risk. In the area of procurement, we have implemented a new monitoring tool for analyzing data integrity and potential fraudulent activities. We've also delivered focused training to purchasing and supply officers in operations at headquarters as well as specialized training for contracting officers abroad.

● (1005)

Our systems for monitoring fraud risk are supported by our financial management, internal audit, and mission inspection functions. In particular, we're continuing to undertake management practices audits at select overseas missions under the direction of our chief audit executive, and are using those findings to address any anomalies or vulnerabilities at missions, as well as to reinforce our systemwide management practices.

With the increased regionalization of our financial operations in our mission network, that is, the assignment of some financial management functions to certain larger embassies for all regional missions, we're also looking to finance specialists in Ottawa and in the special offices known as common services delivery points to support sound financial and fraud risk management practices across the network. This is already producing returns as they are able to identify anomalies that require follow-up action.

Finally, the department is committed to acting swiftly in response to signals of potential fraudulent activity and other wrongdoing, whether that comes through audit or inspection findings, via direct disclosure by employees under the Public Servants Disclosure Prevention Act, or through our regular monitoring of financial activity. In the case of our mission in Haiti, a number of employees were dismissed and actions were taken to recover some of the losses.

[*Translation*]

The Inspection, Integrity and Values and Ethics Bureau at Global Affairs acts as the office of primary interest on fraud risk, under my direction, and works in close collaboration with the key assistant deputy ministers for corporate, security, legal and geographic functions, and with our chief audit executive to assess and investigate such incidents.

In his report, the Auditor General acknowledges that no organization is immune to the risk of fraud. This requires from us constant vigilance and adjustment of our control mechanisms to increase our chances to prevent, detect and act swiftly when this risk materializes.

Thank you, Mr. Chair.

[*English*]

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

We'll now move to Mr. Kennedy, deputy minister of health.

Mr. Simon Kennedy (Deputy Minister, Department of Health): Thanks, Mr. Chair.

[*Translation*]

Good morning, Mr. Chair.

My name is Simon Kennedy and I am the Deputy Minister of Health Canada.

Thank you for inviting Health Canada today to discuss the 2017 audit of the Office of the Auditor General on the management of fraud risk, and to provide us with time to present our departmental action plan to address the recommendations.

[*English*]

As you all know, Health Canada is responsible for helping Canadians maintain and improve their health. We work to ensure that high-quality health services are accessible, and we work to reduce health risks. As deputy minister of health, I am reassured that the audit of the Office of the Auditor General didn't find any fraud or major weaknesses in our existing control framework. I'd like to just emphasize that we take fraud risk management seriously and we appreciate that the Office of the Auditor General recognized our existing internal controls even as it found areas in which we can improve; we've been working on those.

[*Translation*]

The Department agrees with the four recommendations to strengthen our existing practices and has begun to implement all of the recommendations.

[English]

Maybe I'll speak briefly to what we're doing to address the concerns raised by the Auditor General.

With regard to recommendation 1.30, Health Canada is in the process of conducting a comprehensive fraud risk assessment. The risk assessment will be conducted jointly by our chief audit executive, the chief financial officer, and Deloitte. Deloitte was chosen through a competitive contracting process for its expertise in the area of fraud risk assessment. The draft risk assessment is expected to be completed for March 31 of next year and finalized following our departmental audit committee meeting in June of next year. We intend to use that risk assessment to inform our internal control framework, as well as our risk-based audit plan.

For recommendation 1.39, Health Canada agrees with the need for targeted training in high-risk areas and will continue to deliver its enhanced specialized training for new regulators. This was recommended by the Office of the Auditor General in its 2011 report on regulating pharmaceutical drugs, which is a particular area in which we have to worry about those kinds of issues.

For recommendation 1.54, I'm able to report this action item has been implemented. The assistant deputy minister responsible for conflict of interest management has modified our case management system and created additional fields to allow the department to better track and report information to support the timely resolution of employee declarations of conflict of interest. We've had our chief audit executive look at those changes and verify that the evidence is there to support the fact that we've done this, and that it meets the expectation set out in the Auditor General's report. The evidence and review have been documented in our audit follow-up system, which is managed by our internal audit branch. Our internal auditors are going to follow up on these to make sure they're all implemented.

•(1010)

[Translation]

We are pleased to provide this evidence to the Office of the Auditor General, if requested.

[English]

For recommendation 1.71, although Health Canada currently performs risk based data analytics as part of its procurement performance management framework, the department agrees that these measures could be enhanced. We are going to be modifying them between now and the end of March to improve data quality and to better detect potential contract splitting, abuse of amendments, and inappropriate sole-source contracting. That work to modify our data analytics will also benefit from the results of the comprehensive fraud risk assessment I talked about earlier. As an organization, we expect we will have addressed all the responses to the Auditor General's recommendations that were aimed at Health Canada by the end of this fiscal year.

[Translation]

In conclusion, with the existing and new management control practices in place, the department is well-positioned to manage and mitigate the risk of fraud.

Thank you once again for inviting me before the committee today. I am pleased to answer any questions that you may have.

Thank you.

[English]

The Chair: Thank you very much, Mr. Kennedy. We'll now move to Madame Laurendeau from Indian Affairs and Northern Development.

Ms. H el ene Laurendeau (Deputy Minister, Department of Indian Affairs and Northern Development): Thank you, Mr. Chair. It is a pleasure to appear before this committee today. I would like to acknowledge that we are on the traditional territory of the Algonquin people. It's always good to remind ourselves.

[Translation]

Before I begin, I would like to take a few moments to repeat my apologies for not being able to attend your meeting on February 15. I also want to acknowledge the committee for its study on the management of fraud risk within certain federal departments. Your work helps maintain the strictest standards of integrity, standards that ensure public trust in the management of the Government of Canada's accounts.

[English]

Indigenous and Northern Affairs, as it is currently styled, comprises 4,900 employees working in 13 regional offices and in headquarters. I have read the report prepared by the Auditor General of Canada on this study, and I am pleased that the Auditor General found that Indigenous and Northern Affairs Canada had many good practices already in place.

My department and I agree with the six recommendations put forward to improve our fraud risk controls.

[Translation]

I would like to go through each of the recommendations briefly and provide an update for the committee on our progress in implementing them.

The first is the recommendation on improving our method of assessing fraud risk, relating to clause 1.29 of the report.

[English]

My department and I agree with the recommendation that fraud risk assessments be reviewed and updated periodically following best practices. Our current fraud risk assessment was first completed in 2014 and updated in 2016. A review and update of the department-wide fraud risk assessment will commence in 2017-18. We intend to follow a regular cycle of review from that point on.

The second recommendation in paragraph 1.39 relates to training.

[Translation]

My department has complied with both aspects of this item.

The first was to provide targeted training for employees in operational areas at higher risk for fraud. Specifically, applicable employees in all regions received training on construction fraud awareness by December 2016.

[English]

The second aspect of this recommendation was to ensure that all employees take mandatory training in values and ethics in a timely manner. Since 2008, INAC has offered values and ethics training to staff at headquarters and in the regions. In 2016, values and ethics training became mandatory for all staff. I should note that I receive monthly reports on sessions delivered and on attendance. We have also added a component on fraud to ensure that this topic remains top of mind to staff.

The third and fourth recommendations, found in paragraphs 1.54 and 1.55, have to do with how we handle conflicts of interest. On this particular issue I would like to report that we have put in place revisions to our conflict of interest log system to provide the level of detail that is required for better follow-up and for better tracking. We have also done the necessary follow-up work for employees working in operational areas at high risk for conflict of interest.

• (1015)

[Translation]

The fifth recommendation, clause 1.71, relates to fraud in contracting.

We have implemented a number of measures to date to comply with this recommendation, including training, improved records management, a review of contract files, and improved quality assurance. Finally, we are exploring ways to detect potential procurement fraud risks using software.

[English]

The sixth and last recommendation, found in paragraph 1.80, relates to fixing any weaknesses in how we manage allegations of fraud within the department. We agree with the recommendation, and I am happy to report that we are in the process of developing a tracking log that will be ready by this coming December. We take very seriously allegations of fraud, and we use every opportunity to educate or improve our processes based on findings made in assessing such allegations.

In sum, Mr. Chair, my department welcomes the recommendations of the Auditor General and is well on its way to a strengthened approach to fraud risk management. With our complex service delivery models, fraud risk management is of the utmost importance.

[Translation]

I thank the committee for their attention. I would be delighted to answer their questions.

Thank you very much.

[English]

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

We will now move to Ms. Lemay.

Ms. Lemay is the deputy minister of Public Services and Procurement Canada.

Welcome.

Ms. Marie Lemay (Deputy Minister, Department of Public Works and Government Services): Thank you very much, Mr. Chair.

Before I start, I have to say that this is the first time I have come to a committee meeting in this beautiful building, this beautiful room. I hope that the space is conducive to good discussions and decisions. I have to say that the team at Public Services Procurement Canada is very proud to be able to lead such an important rehabilitation project.

[Translation]

Mr. Chair, ladies and gentlemen of the committee, I am pleased to be with you to discuss the measures Public Services and Procurement Canada has in place to manage the risk of fraud.

Public Services and Procurement Canada acts as the government's central purchasing agent and real property manager on behalf of government departments. As such, we work within a broader government context to identify and address fraud and wrongdoing. In that regard, the programs of Public Services and Procurement Canada are delivered in accordance with a rigorous fraud risk management framework that focuses on this wider context.

The controls examined by the Auditor General did not include those used by Public Services and Procurement Canada to mitigate the most significant fraud risk in its role as common service provider to other government departments. Rather, the audit assessed Public Services and Procurement Canada's internal mechanisms for managing the risk of fraud. That said, we are committed to ensuring the utmost care and prudence in how all our transactions are handled.

I welcome the findings of the Auditor General, which recognized some of our good practices and helped us identify areas that need further improvement.

[English]

As noted by the Auditor General, PSPC has an effective governance structure in place that has contributed to fraud risk management. It also recognized that PSPC has a fraud risk framework as well as an understanding of fraud risk in the organization.

To enhance our fraud risk management, PSPC has formally identified fraud as one of the key risks in the departmental plan for 2017-18. As per the recommendation of the Auditor General, a multi-year fraud risk assessment approach has been developed. In our first phase, which is already well under way, we are focusing on procurement. Fraud risks are identified for each phase of the contracting process, and a detailed description of the risks, their causes, and consequences has been finalized. We believe that this assessment will help us to identify areas in which we can further strengthen our fraud risk framework.

• (1020)

[Translation]

The department has recently implemented a new learning management system, which will help us track all employees' completion of mandatory training on value and ethics in a timely manner.

In addition, we have added to our training an online course on how to identify and report fraud or wrongdoing.

Fraud and corruption in procurement increase the cost and risk of doing business and undermine public confidence in government institutions.

Public Services and Procurement Canada is dedicated to managing open, fair and transparent procurement processes.

[English]

Over time, we have established a strong framework that addresses prevention, detection, enforcement, recovery, governance, and culture, and that includes a range of mitigation strategies. This framework is periodically updated to respond to emerging threats, in consultation with departmental stakeholders, law enforcement, and international organizations such as the World Bank.

In response to identified risks, the department continues to implement mechanisms to support accountability and integrity within all departmental transactions. The fairness monitoring program provides client departments, government suppliers, parliamentarians, and Canadians with an impartial opinion that PSPC conducts its procurement activities in a fair, open, and transparent way.

In addition to a code of conduct for employees, we have a code of conduct for procurement, which clearly outlines acceptable conduct and roles and responsibilities for both suppliers and public servants.

In July 2015, the department introduced the government-wide integrity regime, which ensures that the government does business with ethical suppliers.

[Translation]

On September 25, we launched a public consultation to seek input on potential enhancements to the integrity regime. The input provided by Canadians, the private sector, and others will help to make the regime more effective and ensure that it is achieving its objectives.

We are also collaborating on other initiatives. We are partnering with the Competition Bureau and the Royal Canadian Mounted Police on a new federal contracting fraud tip line, launched in April. Information received will be used to conduct investigations and introduce due diligence measures where warranted, to protect the integrity of contracts and real property agreements.

We have also improved the quality of procurement data to monitor and detect anomalies and to ensure corrective action is taken where appropriate.

[English]

To conclude, Mr. Chair, I can assure you and the members of the committee that I, as a deputy minister of the department, am committed to ensuring that the department conducts its business with the highest ethical standards.

I will be pleased to answer questions.

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

Last, but certainly not least, we welcome Mr. Matthews, the Comptroller General of Canada.

Welcome to our committee.

[Translation]

Mr. Bill Matthews (Comptroller General of Canada, Treasury Board Secretariat): Mr. Chairman and members of the committee, thank you very much for the invitation to appear today to discuss the Auditor General's 2017 Spring Report on Managing the Risk of Fraud.

I am pleased to be here in my role as Comptroller General of Canada.

[English]

The Office of the Comptroller General of Canada works to strengthen the stewardship of taxpayer dollars and government assets across the federal public service, and thereby to support the overall effectiveness of public administration in Canada. We are responsible for providing functional direction with respect to financial management, internal audit, investment planning, procurement, project management, and the management of real property and materiel across the federal government. I would like to thank the Office of the Auditor General for its work on this chapter. It is most timely.

The government recently introduced a new policy on financial management as well as a new policy on internal audit, both of which took effect on April 1, 2017. Amongst other things, these policies reinforce how departments establish, monitor, and maintain a risk based system of internal control over financial management. As the Office of the Comptroller General assists departments in determining how best to implement these new policies, this audit will be most helpful.

Mr. Chair, the Government of Canada is committed to the sound stewardship of taxpayer dollars.

[Translation]

As a result of his review, the Auditor General recommended that the Treasury Board of Canada Secretariat should: increase awareness of the importance of managing fraud risks by supporting senior management in implementing fraud risk management; and consider issuing specific guidance on managing fraud risks and how its implementation could be monitored.

•(1025)

[English]

Mr. Chair, we agree with the Auditor General's findings and are taking steps to implement these recommendations. In addition to introducing the policy I mentioned, the Treasury Board Secretariat is working with organizations to ensure they are effectively managing and monitoring fraud risks.

In May of this year, departments and agencies were contacted to remind them of deputy ministers' responsibilities under the new policy on financial management. These responsibilities include establishing, monitoring, and maintaining a risk-based system of internal control over financial management; providing reasonable assurance that financial resources are safeguarded against material loss; and taking prompt corrective action when control weaknesses and material unmitigated risks are identified, including the risk of fraud.

At the same time, departments and agencies were also directed to comply with specific standards issued by the Institute of Internal Auditors on the management of fraud risks in accordance with the new policy on internal audit.

[Translation]

Moreover, in June 2017, a presentation was made to members of the internal audit community on their role regarding fraud.

Mr. Chairman, as you can see, much work has been done to address the Auditor General's recommendations.

[English]

Going forward, the secretariat will continue to consult with departments and agencies on the need to update its guidance on the management of fraud risks. Going forward, this challenge is one of striking a balance between raising awareness and not overburdening departments and agencies with new requirements in the area of reporting and monitoring.

[Translation]

Thank you for your time today.

[English]

I look forward to your questions.

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

Thank you again to all of our deputy ministers and to the Auditor General for their presentations. If we stick very close to the time, all sides should have the ability to ask a question in the first round. Again, I remind you that we'll continue this study on Thursday.

We'll start with Ms. Mendès.

You have seven minutes.

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you very much, Mr. Chair.

[Translation]

Thank you all very much for being here today. I am very pleased to see that you would like to correct what the Auditor General has identified.

My first question is for Mr. Ferguson, because this has come up regularly at our committee meetings for the past two years. In fact, it comes up in nearly all reports. I am referring to problems in the collection of computer data and the fact that the systems will eventually be unable to meet the requirements or what would be expected in a department. In each of the departments we have looked at thus far, there has always been a data management problem.

Mr. Ferguson—I know you get this question at nearly every meeting—, but is this due to a problem with the culture, failure to update systems that therefore remain stagnant? Are the findings from the data collected simply ignored? This is becoming a marked trend in everything we see.

[English]

The Chair: Mr. Ferguson.

[Translation]

Mr. Michael Ferguson: Thank you, Mr. Chairman.

First, I think it is merely a lack of control in a few systems to ensure that the data is properly collected. In paragraph 1.70 of the report, we provided a few examples of the data problems.

Each organization should have the control and procedures needed to ensure the quality of the data in each of these systems. It would then be possible to conduct analyses using the relevant information. If there are problems involving information, it would be impossible to do a proper analysis to understand what is in the system.

Mrs. Alexandra Mendès: And to correct mistakes, I assume.

[English]

It does seem, Chair, that this problem with data is pretty well a constant.

I would like the deputy ministers, one by one, to address it, maybe starting with Mr. Shugart.

What is so difficult about this data collection? It seems to be such an issue from one department to the next.

•(1030)

The Chair: Mr. Shugart.

Mr. Ian Shugart: Well, I think you've correctly identified that you can't intervene if you don't have the signals in data.

I would point out that we're not talking about a complete lack of data or the lack of systems. What the Auditor General pointed out in a number of cases is the lack of sophistication of data and procedures to provide assurance.

Mrs. Alexandra Mendès: Even the use of data and properly analyzing it is what I understood from it too.

Mr. Ian Shugart: Absolutely.

One thing we've done as a result of this is to institute a new case management tool, which is going to equip us better to do the follow-up on things that are flagged, cases that come to light, anomalies and so on. Bear in mind that we wouldn't even know about those anomalies and those flags if we did not have data systems there in the first place. I think that in many cases, Chair, we're talking about the enhancement and the sophistication and the refinement of those data systems, and then putting in place the protocols.

I mentioned these common service-delivery points that we've instituted in the department. We will not be dependent on every single mission. Every mission will have a responsibility to monitor, but the consolidation and the standardization of those protocols in those delivery points will be very useful in standardizing and making more use of the analysis of the data.

Mrs. Alexandra Mendès: Thank you.

The Chair: Mr. Glover.

Mr. Paul Glover: Particularly at the CFIA, in some instances it is a question of the sheer volume—thousands of import/export certificates every day and numerous inspections occurring in facilities right across the country. Also, we've gone from a system in which we were very prescriptive—all we and our inspectors and front-line staff and industry needed to do was to follow the rules—to having to comply with something that's a little more sophisticated, from which we're starting to better understand the value of those data sets that we now have and how to mine them so that we can work more intelligently. In the case of procurement, the Auditor General found that we did do data mining to figure out where our risks were and to tighten our contracting procedures.

One of the recommendations was around our systems, to follow up on where there had been conflicts, and the report noted 185 days. We moved very quickly—by April 1—to put a new system in place in less than six months. That's down to about 40 days. That's an example of where we were able to say to staff that the mining this data could be valuable and could have a profound impact in changing the way we work, so that we work smarter and better and achieve better results for Canadians. We're starting to see that.

In some ways, having more examples that are positive like that gets people more excited, which gets them more interested in trying to do better on these sorts of things. At the border, where we have three thousand or four thousand import/export certificates every day, we're mining that data, working with CBSA and RCMP to be more targeted on where we think the potential risks are and where to intercept. Our success rate is going up, now that we are able to better mine that data. I think we've been a little slow to figure out the value of the data, but now that we're seeing that, I think you will see a significant acceleration in our interest in this area.

The Chair: I am going to say that unless this question comes up from someone else, we're out of time on this round. However, we may ask you as a department to forward us your answer, if you would, regarding the question and the collection of data, because it is a very important issue that I know our committee is really taken with, as we hear about it in study after study.

We'll now move to Mr. Deltell for seven minutes.

Mr. Gérard Deltell: Thank you, Mr. Chair.

Thank you, madame et monsieur. Welcome to your House of Commons committee.

First of all, I want to congratulate every department representative today, because fraud is a serious matter and no one is exempt from that. It's not because you can fix something; it's always a job to renew, day after day and year after year.

On that issue, I think it would have been interesting to hear from some senior cabinet ministers, such as the Finance Minister or the

Treasury Board president, just to know where they stand on that. For sure they will support every policy, but more than that, what can we do to be proactive on this matter?

My question will go to Mr. Ferguson.

● (1035)

[*Translation*]

Mr. Ferguson, your French is excellent so I will ask my questions in French.

You mentioned certain recommendations that have all been well received by the departments and agencies, which is a good thing.

I would also like to go back to what I was saying earlier about ways of being proactive and detecting potential cases of fraud before they arise. The fact is that, every time we adopt a measure, there are wily people who find a way around it. It is unfortunately the bad or nasty side of human nature, which includes both men and women, that leaves us in this predicament.

In your opinion, Mr. Ferguson, based on your analyses, do you think there are ways to be proactive, to prevent and assess the potential for fraud in each department?

Mr. Michael Ferguson: Thank you, Mr. Chairman.

Once again, broadly speaking, I think it is due to the governance system. We determined in the audit that each organization has an appropriate governance system. It is also important, however, to implement these systems and ensure that they work as intended. For example, we found that the organizations' systems include independent audit committees and that they each have an office of values and integrity. This kind of governance system is the first thing to be verified.

It is also important for each organization to assess fraud risks, to determine what kind of fraud might occur, and what measures should be taken to mitigate those risks. They must be willing to assess fraud risks, to manage them, to have a governance structure, and to ensure that the governance system works as intended at each stage.

Mr. Gérard Deltell: Thank you very much, Mr. Ferguson.

[*English*]

My question now will go to Mr. Shugart from Global Affairs.

As we know, you talked about decentralization and regional issues, and we know that each and every country has different trading attitudes. We all know and have to recognize that in some countries there is corruption, so how can you deal with that?

[*Translation*]

Mr. Ian Shugart: To answer that question, I will add to what the Auditor General just said.

The tradition is that, before our heads of mission begin in their position, various senior departmental officials speak to them about this problem, provide information or offer training. The deputy minister of Global Affairs also contributes to this process.

This year, I met with all our heads of mission who were about to leave. I talked almost exclusively about fraud detection and management and stressed the importance of awareness. We will strengthen procedures, which include a categorization system for missions. You are correct in saying that each culture, each system of government is different.

[English]

There are some indicators that we use to assess risk, the complexity of the mission. We use the index that Transparency International has developed for, as you said, “corruption”. We use these indicators to assess the level of risk. The hardship level in the country is another one. It's not that we ignore these procedures in all of our other missions, but we are increasingly focused on using those metrics for those particular countries.

● (1040)

Mr. Gérard Deltell: Do you have any examples from the past few years to give us, without, out of discretion and politeness, identifying those countries?

Mr. Ian Shugart: I appreciate what the honourable member has said in guiding me to the right examples. I will use the example that is already public, and that is that of Port-au-Prince in Haiti. This involved an episode that was detected initially with locally engaged staff. When we investigated the use of diplomatic plates on private vehicles, we went from there and further anomalies came to light, and we investigated those, and a considerable amount of fraud was uncovered, to the amount of \$1.7 million. I will tell the committee that the appropriate actions were taken, including dismissals of locally engaged and Canada-based staff as well as systematic efforts to recover the funds for Canadians.

I can tell you that we learned from that episode, and I instructed that further audits be undertaken to give me the assurance that the same things were not happening elsewhere. I think, in detecting fraud, you have to be prepared to go anywhere that the facts might lead and not be afraid of what you will find, and that's what we've done.

The Chair: Thank you, Mr. Shugart.

Now we'll go to Mr. Christopherson, please, for seven minutes.

Mr. David Christopherson: Thank you, Mr. Chair.

Thank you all very much.

Mr. Shugart, you put me in an awkward spot, because now I feel as though I was part of why you got hired, and now I need to see you do good—

Voices: Oh, oh!

Mr. David Christopherson: —so don't let me down.

It's not often we get an opportunity in this line of work to give compliments, but on page 7 we do have one, and I want to give that shout-out. The Auditor General found that some organizations “gave fraud training to some of their employees, even though it was not

required.” That's pretty good. Global Affairs gets a shout-out on that one. So does—and this is the main reason I did it, because it seems that when we deal with this department, everything is negative, so now we have something positive to say about it—Indigenous and Northern Affairs Canada. Colleagues will know how many times we've been on that file. So, kudos to them.

Now we'll move to the report itself.

At the top of page 7, in paragraph 1.31, the Auditor General says:

We found that all of the selected federal organizations had training programs for their employees on values and ethics and conflicts of interest. However, the organizations did not make sure their employees received training that was mandatory, and few employees were trained.

Now we'll move down to paragraph 1.36, under the heading of “Training”. Remember, we can put all the policies and procedures in place and spend all the money and do all the planning, but if we don't train people on how to actually do what they're supposed to do, it's a moot point. On this important subject, the Auditor General found that “fewer than 20 percent of Health Canada and Public Services and Procurement Canada employees received the training. At the Canadian Food Inspection Agency, 34 percent of employees received the required training.”

I want to note that the Canadian Food Inspection Agency all but took a bow when you opened up your remarks here today.

I want to hear from you deputies, because we're relying on you to be responsible for a whole lot of things. What could be simpler than making sure that something that is mandatory actually happens? This is something that's mandatory, and we're seeing 20% and 34% compliance. How is that possible? How can there be such an overlooking of mandatory requirements? It makes me wonder, if you're not ensuring that mandatory things are being done, what assurance do I have that things that aren't mandatory, but may be preferred or recommended, are even looked at? I want to hear from you deputies of those three departments I've just mentioned about the abysmal numbers and how it is that you can have a mandatory requirement that seems to be completely ignored. How is that?

● (1045)

The Chair: Thank you, Mr. Christopherson.

Let's begin with Mr. Kennedy.

Mr. Simon Kennedy: I'll just start by indicating that we agree with the Auditor General's finding. We're working to put that in place and to have regular updates to the management table about the progress we're making.

Just to give you a little bit of context—and not to take away from the finding and our commitment to do better—I'll say that in the past, because of the size of the organization and for a variety of reasons, we have tried to target the focus of our training efforts and the scrutiny to those who are maybe in greater positions of influence, where the risk of fraud and the risk of values and ethics breaches are higher. For example, while the overall figure for our department is 20-something per cent, it's much higher for those who have signing authority and for managers. I don't have the figure immediately in front of me, but it's kind of in the 70%-or-higher range. We want to make sure that anybody who is in a position to make a managerial decision or to sign something for which funds are at stake.... That has typically been where we have tried to ensure that there is complete coverage.

The second thing is that, as a regulatory organization, we have a number of areas that present a higher risk because we have people making approval decisions on drugs or making regulatory decisions that affect industry. In those areas, we actually have specialized training and requirements for those employees, and the requirements are actually quite a bit higher than what they would be for a regular public servant.

All that is just to emphasize that we do take this very seriously. As an organization, we try to identify areas in which there's a particular

risk because someone's dealing with a company, and they could be influenced. We have specialized requirements there. Then, for the management team, we insist on much greater adherence. It has been a challenge in the past. Given that we have a churn of at least 600 employees year, it has been a bit of a challenge to try to keep the training current. However, as I've noted, we certainly support the recommendation, and we're going to be working to try to follow up.

The Chair: Thank you.

Unfortunately, our time is up.

I don't want the other two to think that they didn't get an opportunity to answer the question that Mr. Christopherson posed, so on Thursday when we pick this up, we may pick up with the tail end of Mr. Christopherson's question to Mr. Glover and then to Ms. Lemay. Then we will go into our first round again beginning on Thursday.

I want to thank all departments. It's difficult when we have six, and everyone wants to explain. It's hard to get through. We realize that, but we'll have two hours on Thursday.

Thank you.

The meeting is adjourned.

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