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Chair

The Honourable Kevin Sorenson

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● (0845)

[*English*]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): This is meeting number 71 of the Standing Committee on Public Accounts and it's Tuesday, October 17, 2017. This meeting is televised.

This morning our committee will continue our consideration of the Public Accounts of Canada 2017.

As our witnesses we have, from the Office of the Auditor General, Michael Ferguson, the Auditor General of Canada, and Karen Hogan, principal.

From the Treasury Board Secretariat, we have Bill Matthews, comptroller general of Canada, and Diane Peressini, executive director, government accounting policy and reporting, office of the comptroller general of Canada.

From the Department of Finance we're pleased to have Paul Rochon, the deputy minister, as well as Nick Leswick, assistant deputy minister, economic and fiscal policy.

We have opening statements this morning from the Auditor General and the comptroller general before we proceed to questions from the members of Parliament on our committee.

We welcome back our Auditor General. We look forward to your comments, sir.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General): Mr. Chair, thank you for this opportunity to discuss our audit of the consolidated financial statements of the Government of Canada for the 2016-17 fiscal year.

I am accompanied by Karen Hogan, the principal responsible for the audit.

The consolidated financial statements are a key government accountability document that can help parliamentarians understand the results of the government's financial transactions.

The consolidated financial statements for the fiscal year ended 31 March, 2017 showed that the government's operations resulted in a deficit of $17.8 billion. They also show that the government's 31 March, 2017 financial position included a net debt of $714 billion. Net debt is the amount by which the government's liabilities exceed the value of its financial assets.

[*Translation*]

The comptroller general will answer questions about the preparation of the consolidated financial statements and about the Public Accounts of Canada. We will answer questions about our audit opinion and our observations.

Our independent auditor's report—or audit opinion—is on page 2.4 in volume 1 of the Public Accounts. We assessed the consolidated financial statements against generally accepted accounting principles for the public sector. We found that the statements conformed in all material respects, which means that you can rely on the information they contain.

Not many national governments receive an unmodified audit opinion that its financial statements conform to an independently established set of accounting standards, but the Government of Canada has accomplished that for 19 years in a row.

Volume 1 of the Public Accounts also contains other financial information, such as the audited financial statements of the employment insurance operating account in section 4, and of the Canada Pension Plan in section 6. I would like to draw your attention to our observations, which are on page 2.42 of volume 1.

In our observations, we bring three matters to your attention: pay administration, discount rates used in estimating long-term liabilities, and National Defence's management of its inventory. I will briefly address each of these matters.

● (0850)

[*English*]

The first is pay administration.

The government's Phoenix pay system processed approximately $22 billion in salaries and benefits in the 2016-17 fiscal year. As you may have expected, we found deficiencies in the government's internal controls for pay expenses, which meant that we had to do more detailed audit tests of those expenses. Instead of relying on internal controls, we had to recalculate 18,000 pay transactions for 263 employees across 48 of the 101 departments that use Phoenix.

We found both overpayments and underpayments to employees, and 62% of the employees in our sample were paid incorrectly at least once during the year. Although there were a significant number of errors in the pay of individual employees, these didn't result in a significant error in the amount the government reported as its total pay expense in its consolidated financial statements. This was because the individual overpayments and underpayments nearly offset each other and because the government recorded year-end journal entries to improve the accuracy of its reported pay expenses.

Even though the accumulated error wasn't significant, the extent of the errors that affected individuals and the time it takes to correct errors in pay are unacceptable. We are conducting two performance audits of the government's initiative to transform pay administration. We plan to present the first of these audits to Parliament in November 2017.

[*Translation*]

The second matter in our observations is about how the government determined discount rates in estimating certain long-term liabilities.

In our opinion, some of the discount rates are at the high end of the acceptable range. Higher discount rates mean lower estimated values for long-term liabilities. We expect the government to complete a review of its discount rates in the 2017-18 fiscal year.

The third matter in our observations is about the recording and valuation of National Defence's approximately $6 billion of inventory. We have brought this matter to the attention of Parliament in each of the past 14 years.

In the 2016-17 fiscal year, National Defence presented this committee with a long-term action plan that outlined the steps it would take to improve its management of inventory. We found that, while problems remain, National Defence appears to be on track with its action plan.

[*English*]

This year, our annual audit of the Government of Canada's consolidated financial statements took more than 60,000 hours of staff time, which is longer than it takes to complete seven performance audits. This financial audit matters because it supports parliamentary oversight of the government and promotes transparency.

I would also like to remind the committee that as part of our spring 2017 reports to Parliament, we issued a financial summary commentary that provided information about all the financial audits we do.

Mr. Chair, I would like to thank the comptroller general, his staff, and the staff of the many departments, agencies and crown corporations involved in preparing the government's consolidated financial statements. We appreciate their effort, co-operation, and help.

I would also like to acknowledge the leadership of Mr. Matthews himself and his significant contribution as a champion of government financial management as he moves to his new role as senior associate deputy minister of National Defence where, I'm sure, we'll still have the chance to work together.

● (0855)

[*Translation*]

Finally, Mr. Chair, I would like to say that I am pleased that the committee has, again this year, decided to hold this hearing so soon after the release of the consolidated financial statements, while the information is still current.

This concludes my opening remarks. We would be pleased to answer the committee's questions.

Thank you.

[*English*]

The Chair: Thank you very much, sir.

We'll now move to Mr. Matthews, please.

[*Translation*]

Mr. Bill Matthews (Comptroller General of Canada, Treasury Board Secretariat): Good morning Mr. Chair and members of the committee.

Thank you for the opportunity to discuss the Public Accounts of Canada for 2016-17. As you said, with me today is Diane Peressini.

[*English*]

The public accounts include the audited consolidated financial statements for 2016-17 fiscal year, which ended on March 31, 2017, in addition to other unaudited financial information.

Mr. Chair, I am pleased to note that, for the 19th consecutive year, the Auditor General has issued an unmodified audit opinion on these financial statements. A great deal of work goes into these financial statements, which are prepared under the joint direction of the Minister of Finance, the President of the Treasury Board, and the Receiver General for Canada. I would like to recognize the excellent work of the financial community across the Government of Canada in realizing these results.

[*Translation*]

They deserve much of the credit for the fact the government's consolidated financial statements are consistently presented fairly every year.

I would also like to thank the Office of the Auditor General for their continued cooperation and assistance.

[*English*]

Mr. Chair, I would also like to highlight a recent report issued by the OECD on rationalizing government fiscal reporting. The report notes that Canada's fiscal reporting framework employs many best practices, with a notable feature being Canada's use of websites, and in particular the Treasury Board Secretariat's InfoBase, to give access to a wide set of information. That being said, based on best practices noted in the reports and in other countries, I believe there is more we could do to rationalize fiscal reporting. If it is of interest to members of the committee, I would be pleased to discuss this report.

Mr. Chair, I do have a short deck, which I am happy to walk the committee through, if it is of interest, to provide some background on the public accounts of Canada. If you would like me to do that, I'll just take your guidance in terms of how much time you want me to spend on that, and then move us along as need be.

Before doing that, I have two quick things. As already mentioned, going through the Public Accounts of Canada, the page numbers

[*Translation*]

in English and French are very different,

[*English*]

so we will be pausing if members have questions on specific page numbers to find the equivalent in English and in French so all can follow along. We would like to be a little disciplined on that, and we have staff here who can help us with that.

Finally, to draw your attention, Mr. Chair, an email was sent to the committee clerk yesterday, as is normal practice, highlighting any errors in the public accounts that we are aware of before this meeting. There are three. They are all in volume II of Public Accounts, and they all relate to the same topic. I would like to explain why that is.

In volume II, we are providing additional information this year, for the first time. Clearly, while it's good information, we have a few wrinkles to iron out in terms of the quality of that information. All three relate to this new information on lapses. It is additional information we have not provided before. Three departments have come forward to let us know about this. It's the second year we've done this, but there are some wrinkles we still have to iron out, so I do apologize for that.

The Chair: Thank you, Mr. Matthews.

You made reference to the deck. I think now would probably be the appropriate time to take as long as you want on the deck. I think it's a good macro picture of the whole process of public accounts. We were privy to seeing some of it yesterday, but we encourage you to do that at this time.

Mr. Bill Matthews: Thank you, Mr. Chair. I will start on slide 2. The deck is available on screen, and I believe members have copies, as well.

The purpose of this deck it to provide background information on the Public Accounts of Canada, some quick highlights of the financial results—the Auditor General has already mentioned his observations, so I will not touch on those very much—a little bit of information on appropriation and lapses, which is always an important topic. We'll stop it there, and then turn it over to the committee for questions.

Slide 3, just to situate us in terms of where we are in the financial reporting cycle, we are at the end of the fiscal cycle. Public Accounts of Canada and the soon to be coming departmental reports are the last phase in terms of providing accountability documents to Parliament on the performance of the government.

This follows a series of financial reports that starts with the budget, the estimates, and mid-year updates that take us all through the cycle. There is a list of those reports on the far right side of this slide. That will give you a sense of what is out there. The one thing that is not on there is the Treasury Board Secretariat InfoBase that I already mentioned. It's an additional source that people can use.

Public accounts are a whole-of-government reports. There is a mix of accrual information and modified cash information. If it's of interest to members, we can talk about what's what. The budgets and the financial statements of Canada are done on a full accrual basis. The estimates and related departmental spending are done on a modified cash basis. That's why we have that mix.

I will take you to the next slide. In terms of the three volumes of the Public Accounts of Canada, this is a significant amount of information that is made public.

Volume I is the financial statements of the Government of Canada, and that includes the audit opinion of the Auditor General. It also includes additional information on the major elements of the financial statements of the Government of Canada.

Volume II is the companion piece to the estimates. If you are interested in how departments discharge their parliamentary appropriations that were granted to them, volume II provides information on spending department by department, including the lapsed or unspent authorities that were available during the year.

Volume III is a mix of information that is provided for accountability purposes. You will see audited financial statements for some other organizations, as well as things like losses of public money, claims against the crown, and *ex gratia* payments. Finally, I should also indicate that for volume III there is additional information online that we don't print simply because of volume concerns. There is additional information that is available online that is not printed.

The next slide is on roles and responsibilities.

● (0900)

[*Translation*]

I point this out because it is not generally well understood: the Government of Canada prepares the financial statements, and it is our job to do so.

[*English*]

It is the Auditor General's job to audit those financial statements. The financial statements are prepared by the government. That involves my office, the receiver general, as well as the departmental financial management community.

It is the government's choice as to which accounting policies it will use, and I will talk more about that in a moment. The Auditor General audits those financial statements. It is a source of confusion, as in some countries the Auditor General actually prepares the financial statements, but in Canada, North America, and most G7 countries, the government prepares and the auditor audits. You do have this independent verification of the financial statements themselves.

I do have to say a few words on accounting standards themselves. We have independent accounting standards in Canada. They are set by the Public Sector Accounting Board. The government follows those standards. This is important in terms of assuring yourself that you have a high quality set of financial statements. They are prepared based on the Canadian public accounting standards that are independently set. If the government chose not to follow those standards, my friend to the left of me would have something to say about that in his audit opinion. It is a choice, but the government does choose to follow those standards.

Where my office gets involved in preparing additional policies, we want to make sure that departments and agencies implement those accounting standards on a consistent basis. My office will prepare accounting direction to departments on just how to implement the independent accounting standards, or the government accounting policies to ensure consistency across the board.

If there is a gap in Canadian public sector accounting standards, there are other standards out there that we would refer to, and they are on the far right of this slide.

The international public sector accounting standards provide a good set of standards we can refer to when there are holes in our guidance, or gaps. On the private sector side, there is an international set of standards as well. This is important for two reasons: one, it is an additional set of guidances we can refer to if we're seeing a gap; and two, some of our crown corporations actually follow those standards. So they do have an impact on the government reporting entity.

Turning to the actual financial results for the 2016-17 year, on this slide you will see a summary of what you will see in the financial statements themselves. This is on the revenue and expense side. You will see presented here the initial budget for 2016-17 as well as the actual budget for 2016-17 and then for the previous year. It's accounting standards that require us to produce it in this format. The reason I'm highlighting the budget for you is that it is the initial budget that must be disclosed in the financial statements. The Department of Finance updates that budget throughout the year as economic circumstances change, and as new spending decisions are made, but it is the initial budget that must be disclosed in the financial statements. You will see here that the initial budget on the revenue side was $287 billion. The actuals came in slightly higher than that, although slightly down from the previous year. We can talk about why that might be later on. If you look at the expense side, you will see program expenses, which are the expenses of our departments and agencies. The budget was $291 billion. The actual came in slightly below that at $287 billion, but it was higher than the previous year's figure of $271 billion. For those reasons, the annual deficit came in at $17.8 billion, which is lower than the initial forecast of $29.4 billion. You will see the previous year comparative figure for 2015-16.

That just gives you a sense of what you can compare the results against, the initial budget as well as the previous year's results, to see what actually happened.

On the next slide we move to the balance sheet, or the statement of financial position. What you will see here is just a comparator against the previous year. There is no requirement to budget for things like accounts payable. You don't have to disclose that sort of thing. The budget applies to the revenues and expenses. The disclosure you will see here is versus the previous year. You will see the liabilities are up over the previous year. That is typically what happens when you run a deficit—liabilities go up. On the asset side, you can see on the financial asset side, that is, assets that are either cash or that can be turned into cash, we are running with more assets than we were in the previous year. I believe the Auditor General already mentioned the net debt figure. You will see that towards the bottom of the slide, as well as the accumulated deficit.

On the next slide is the actual government reporting entity itself. It's probably not well understood that it includes departments and agencies but also crown corporations. It gives you a breakdown of what is in here to give you relative size, by expense. You will see the enterprise crown corporations in the upper right-hand corner. They are crown corporations that basically are supposed to be self-sufficient, such as Canada Mortgage and Housing Corporation. From an accounting standards perspective, this group would follow private sector accounting standards. From an operations perspective, they are at arm's length from the government, but they are still part of the financial statement entity, so we consolidate those and the Auditor General audits them. In the bottom half of this group you will see our departments and agencies. Then, in the upper left-hand quadrant, you will see what is called our consolidated crown corporations. Those are crown corporations that rely on government financial support. In here you will see VIA Rail, our museums, and the Canada Foundation for Innovation, just to name a few.

That is the federal family from an expense perspective in terms of what's in these financial statements.

On the next slide, on the Auditor General's observations, he has already mentioned that he has three: pay administration, management estimates specifically on discount rates, and National Defence, which is inventory. Some of these observations have been with us for a number of years. If you have questions on his observations, I would suggest you direct them to the Auditor General. If you have questions on just what the government is going to do about these, those would be for this side of the table and we'd be happy to take questions on the plan or the progress...because National Defence has been with us for a while, we could tell you what the progress has been and what the plan is going forward.

● (0905)

On the next slide we have total voted budgetary authorities. This gets back to what Parliament actually voted in terms of departments' abilities to spend. This gives you a breakdown of the larger departments to give you a sense of where the money is. As I've said, these are the main players: National Defence, Indigenous and Northern Affairs, Health Canada, and Global Affairs Canada. It just gives you a quick overview of some of the bigger departments, in terms of their spending authority, and what was actually used during the current year, so actual spending.

The next slide we should spend a couple of minutes on, which is on lapses. We've only highlighted the significant lapses here. Lapses are often a topic of interest to this committee. I would highlight two things for the committee.

Number one is the lapsed number itself. You'll see for the big ones, and I'll just pick Public Services and Procurement at the upper right-hand corner, where you'll see a lapsed number of $510 million. Below that, you'll see frozen allotments of $233 million. It's a little bit of technical jargon. The point here is that there is the lapse, which means how much money Parliament voted versus what the department actually spent. There's always questions about why they didn't spend the full amount.

I would remind you that it's actually illegal to overspend what Parliament votes. We had no departments that overspent this year. There is always going to be some amount of lapse. There are some departments that are chronically higher lapsers than others because of the nature of their business. We're happy to talk about that.

The reason I'm highlighting frozen allotments is to give you a sense of the planned lapse. Sometimes partway through the year something happens where a department knows it can't spend the money. A decision is made and the department is told not to spend the money. It might be a budget cut, like one placed on travel, which was one we put in place a couple of years ago, and also one on professional services. We freeze money.

When you see a frozen allotment, if you're trying to understand what happened with the department, it's important to ask how much of it was planned versus how much of it was frozen or not frozen. It is to give you a sense of whether it is really just program money that wasn't spent or whether there was something else going on there, so in fact, it was actually a planned lapsed. That's why we have now disclosed these frozen allotments for you here. That is new information that has been available in volume II for two years now in the frozen allotments, which gives members a better sense of what's really at play, in terms of departmental spending and the results that they achieve.

I'm happy to talk about these during the actual meeting, if members have questions on the lapses.

Since I mentioned Public Services and Procurement, I'll tell you the big part of this lapse was around slower spending than initially planned on the parliamentary precinct. That's just an example of a lapse.

I think I'll stop there. There is an annex here of definitions, if you are interested in some of the technical terms. I'm happy to refer to those.

I'll leave it to you, Mr. Chair.

Thank you.

● (0910)

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

I think we'll move on to the first round of questions.

Again, we'll also remind you that the Department of Finance is here. You can direct your questions, if you so choose.

Ms. Mendès, you have seven minutes.

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

[*Translation*]

I would like to thank everyone for being with us again this morning.

[*English*]

Mr. Chair, I'm sharing my time with Mr. Arya.

My question would be more on the form.

Yesterday, after we met with the Office of the Auditor General, Mr. Matthews and Ms. Peressini, we had a training session, if you will, with the Canadian Audit and Accountability Foundation. We were given some direction on how to read the public accounts. One thing that struck me, and I think it struck us all, is that we kept going from section one to section two, then referred to this table and referred to that table, and then went back to that text.

Is there a way to change the way these are presented so that it would be a little easier for us to understand how parts of section two, which is the financial accounting itself, go back to the discussion and analysis document? That's a form question.

I'll let Mr. Arya go with the content ones.

Thank you, Mr. Chair.

The Chair: Thanks for that important comment for Mr. Matthews.

Mrs. Alexandra Mendès: It's for both actually.

The Chair: Then Mr. Arya.

Mr. Bill Matthews: I could respond very quickly, and our friends in the Department of Finance are actually responsible for the management's discussion and analysis piece that you referenced. You've raised an important point, in that the link between that and the financial statements is very clear. If there is something we can to do make those links stronger, we're happy to consider that.

I'm wondering if an interactive tool would be easier than the paper-based tools to draw those links.

Mrs. Alexandra Mendès: Maybe we could sometimes just refer to a figure or a chart or something. Thank God, we actually had somebody who was telling us what to look for.

Mr. Bill Matthews: To properly understand those financial statements, the MD and A, management's discussion and analysis, is absolutely critical. I'm not sure if Finance wants to add anything on that front.

Mr. Paul Rochon (Deputy Minister, Department of Finance): I would only say that the management's discussion and analysis tends to be a document that highlights the main trends in the public accounts, so be it with respect to debt, deficits, revenues, and spending. It tends not to be a guide to the public accounts. If that's something that would be useful to the committee, we're certainly open to working on that. I think that would be something we would want to do with the comptroller general, absolutely.

We're completely open to making the document more user-friendly, which is what you're asking, I think.

● (0915)

Mrs. Alexandra Mendès: Exactly, please.

The Chair: Thank you, sir.

We'll go to Mr. Arya.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair.

Mr. Ferguson, 19 years of statements without any qualifications, but were there any differences of opinion which may not have been material enough for you to qualify the statement?

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

Obviously, in the course of an audit of an organization that has a revenue of close to $300 billion in expenses, there are always issues that come up that need to be discussed and need to be settled, but at the end of the day, no, there were no differences of opinion on how to resolve the issues that came up in the course of the audit.

Mr. Chandra Arya: Were there any extraordinary items in these accounts, anything that was not there the previous year?

Mr. Michael Ferguson: Well, I think that in our audit observations that's the tool we tend to use to highlight the issues that come up during the course of the audit that are most problematic. Obviously, this year it was being able to audit pay expenses that took up a lot of our time. Other than that, there have been some, I would call them, minor improvements to disclosure and other things. For example, amongst the liabilities on the balance sheet now there is a specific line for the contingent liabilities that have actually been recorded. There have been some improvements like that, but I think in terms of the main issue that came up in the course of the audit, it was around all the work we had to do to audit the pay expenses.

Mr. Chandra Arya: Talking of contingent liabilities, the Department of Finance has issued insurance programs managed by the government—$258 billion. It's on page 11.41 of volume I. What is it that you need to ensure that none of these contingent liabilities will actually become a liability?

Mr. Bill Matthews: Perhaps we could pause while we find that page in French. Page 11.41 and....

Mr. Chandra Arya: It's table 11.5 on page 11.41.

[*Translation*]

Mr. Bill Matthews: It is the same in French.

[*English*]

The Chair: I'm told that typically in volume I the pages are pretty well the same.

Mr. Bill Matthews: Pretty close.

The Chair: There is quite a bit of difference in volume II. It's page 11.41 in volume I.

Mr. Chandra Arya: It's quite big. Wherever it is, there is $258 billion.

Mr. Paul Rochon: That is the value of the insurance in force by the two private sector insurers that operate in Canada, that is to say, Canada Guaranty and Genworth.

Mr. Chandra Arya: What have you done to ensure that this actually doesn't turn into a regular liability?

Mr. Paul Rochon: The $258 billion is the total insurance in force. The government has guaranteed, in the event that either of those companies would not be able to meet their obligations—so effectively go bankrupt—that after a 10% deductible was paid, the government would guarantee the mortgages in question.

Mr. Chandra Arya: Mr. Ferguson, this guarantee is issued by the Government of Canada for a couple of private sector companies. What have you done to check that it actually doesn't turn into a major liability for the government?

Mr. Michael Ferguson: Well, that's what the process is with all the contingent liabilities. The federal government guarantees a lot of things, whether it's those insurance programs, or loans, or other types of things. In all of those cases in the accounting—the departments involved—the comptroller general's office will assess what is the likelihood there would be a payout. They will manage it from the point of view of whether there is any possibility that the federal government will have to pay out. It will be different on every type of contingent liability because they are not all the same. We would go through it to determine whether they have done the due diligence to make an appropriate assessment of whether there is a likelihood that the government would have to pay out.

● (0920)

The Chair: Thank you, Mr. Arya. We're a minute over.

We'll now go to Mr. Liepert, please, for seven minutes.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you, Chair, and good morning, everyone. Thank you all for being here this morning.

I want to ask a couple of questions around net debt. Net debt of $714 billion is minus the asset value of $66 billion. How do you put a value on the assets? There's always a debate about whether bridges that are owned by government, or highways, or whatever the government might own, can be sold. Can you give us a quick overview on how you value the asset base?

Mr. Bill Matthews: Maybe I'll start, Mr. Chair.

The net debt figure number as referenced is on page 2.6, if you're looking at our financial statements.

[*Translation*]

It is on the same page in French.

[*English*]

The net debt is very much around liabilities less financial assets. That's the cash and things we can turn into cash, accounts receivable, for instance. That's what gets you to net debt. It is your liabilities less your financial assets, and the net debt is $714 billion.

Below that you'll see the non-financial assets. Those are the bridges, the buildings, the trucks. That's what gets you to accumulated deficits. In answer to the member's question on how we value those tangible assets, we start with what we paid for them and we depreciate them. If it's a bridge, it might be 50 years. If it's a truck, it might be 10 years. We do look at the assets to see if they're actually holding their value, because there are times when an asset is clearly not going to last as long as we had hoped, so we would write that down if that were the case. Those assets don't impact net debt. They do impact accumulated deficit.

Mr. Ron Liepert: Okay. Where would the $237 billion of pension liabilities come in?

Mr. Bill Matthews: That amount is up in the liabilities, and that would impact net debt, absolutely. All liabilities are factored into the calculation of net debt, so you are seeing those liabilities reflected in that number.

Mr. Ron Liepert: That answers that.

I want to ask about the public debt charges. There's a comment that the public debt charges actually decreased because of the lowering of the interest rate, but in the last year, we've now had a couple of interest rate increases. Is that going to turn that around in future years?

Mr. Bill Matthews: I will start, but I'm going to turn to my friends in Finance.

That question is very much around what kind of debt instruments the government has basically availed itself of, fixed rates, long term, short term. What you're seeing in terms of the actual results is the interest the government has paid.

On the question on the impact of interest rates on future interest costs, which I believe is what you're after, I'll turn to Paul and Nick on that.

Mr. Paul Rochon: To the extent that interest rates rise, naturally the debt charges on our market debt will increase. There will be an offset, however, from the actuarial value of the pension obligations, because as the discount rate on those obligations rises, the current service costs will be reduced, but I would expect on net, the answer to your question is that, generally speaking, with an increase in interest rates, debt charges will increase.

Mr. Ron Liepert: I want to ask a couple of questions about the write-offs. There are write-offs of $4.3 billion. Can you give a couple of examples of what may have been written off in the past year that would account for the majority of the $4.3 billion?

Mr. Bill Matthews: Mr. Chair, I'm just wondering if there's a page reference we can get.

Mr. Ron Liepert: I'm looking at a document that you probably don't have, but it refers to volume III, page 2.7-2.11 of the Public Accounts of Canada. I don't have the public accounts document, but —

An hon. member: Here.

Mr. Ron Liepert: Well, I'm not going to start looking at that in my seven minutes, thank you.

Voices: Oh, oh!

Mr. Ron Liepert: This document from the library refers to page 2.7, and it provides information pertaining to debts, obligations, and claims written off or forgiven by the government in the amount of $4.3 billion, compared with $3.3 billion in the previous year. If you don't have anything handy on that, maybe you could provide it to the committee going forward.

I have one other question for the Auditor General, if I may.

● (0925)

The Chair: Pose your question, and I'll come back to Mr. Matthews in regard to your question on the debt.

Mr. Bill Matthews: Just give us two minutes and we'll have an answer on that.

The Chair: Okay, in two minutes his time will be up.

Go ahead and ask your other question, Mr. Liepert.

Mr. Ron Liepert: This is for the Auditor General. Typically in reports by auditors general there's a commentary about how governments have responded to previous reports of auditors general. Are there things you have recommended in the past few years that continue to linger and that government hasn't dealt with?

Mr. Michael Ferguson: In the course of our financial audit.... The way we report on financial audits is different from the way we report on performance audits. Again, the instruments we use to report on the most significant issues are our audit observations. This year, you will see that we are again reporting on the issues at the Department of National Defence in how they account for their inventory. We've been reporting on that for 14 years in a row. The department has brought forward a plan to this committee. I think that in this year's audit observations we tried to go back to the plan they presented to the committee to see whether they seem to be on schedule with that.

The only other one I would raise that in fact we didn't mention in this year's audit observations—we've mentioned it in the past and it still hasn't gotten better—is that we are still not able to provide an audit opinion on the reserve force pension plan financial statements. That's a long-standing issue as well.

In terms of the pay issues that we raised last year in our audit observations for the first time, again we're raising those. The government is obviously working on trying to resolve that situation.

On the discount rates, we've now raised that for a couple of years. The government has said that they are going to look at how they calculate discount rates.

All of those major issues, I think, we deal with through the audit observations. We also issue letters to departments if we come across more normal issues around some internal controls that they need to fix. We do that through management letters with the individual departments. Usually when we raise those things with them, they work their way through trying to improve them.

The Chair: Thank you.

Mr. Matthews, did you quickly want to respond to his question? Then we'll move to Mr. Christopherson.

Mr. Bill Matthews: Thank you. I'll be very quick, Mr. Chair.

It is indeed in volume III, section 2, where there are all sorts of disclosures, department by department, on the amounts written off or forgiven. The ones that will jump out at you if you're looking to that section are related to child and family services and the revenue agency. Here, you're looking at programs like the Canada student loans program and taxes and those types of things. It's very much tied to the nature of the program, where the government has determined that either they cannot collect or they have basically written off the debt.

The Chair: Thank you.

Mr. Christopherson, you have seven minutes.

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

Thank you, all, for your attendance today.

I just want to start by shouting from the rooftops how great it is that we've had 19 clean audits in a row. I've had the honour of sitting at this table for 15 of them and I have to tell you, every time it's still a great feeling. I get no credit at all. My party has never been in power. Any credit I get—we get—is being part of the parliamentary system.

Given that this committee's job is the premier oversight of government spending, we don't pull our punches around here. This is the one place where we can't afford to. We hit hard when money is being wasted and when government is not following the policies they should.

Conversely, when something is done right, and is good and positive, we need to give over-the-top praise, so I want to give that over-the-top praise personally, as someone who has invested a lot of blood and sweat and heart into the work of this committee. It's a wonderful thing. Canadians should be proud of the fact that, at the very least, nobody is robbing the treasury. I've been to enough countries in the world where you can't say that, and it does make you want to come back here, pound the table, and say, “Congratulations to every single person who works in the financial community in the government to bring us to this day.”

Congratulations to you. You did a great job, and we are proud of you. Please keep up the good work.

Having said that, now we get down to some nitty-gritty.

I also want to pick up, if I can, Chair, where the Auditor General did in commenting on Mr. Matthews and his job. Some of us got to know Mr. Matthews a lot better when we were at an anti-corruption conference in London.

I can tell you that I wholeheartedly agree with the praise the Auditor General is giving you for your job as comptroller general. You've done an outstanding job, and you're just a fantastic public servant. I wish you all the best at National Defence. I know that all of our ongoing problems at National Defence are going to be gone like that, Bill, because you're going to be there to take care of it for us, which is my segue to my question, actually.

We are making some headway. In his remarks the Auditor General said, “We found that, while problems remain, National Defence appears to be on track with its action plan.” Finally. It took long enough. However, I don't want to take my foot off the gas. It says that there are problems that remain. Auditor General, would you please touch on what some of those outstanding problems are?

● (0930)

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

I'll actually ask Ms. Hogan to go through it. The issues are itemized in our audit observations, but I'll ask Ms. Hogan to go through what they individually were.

Ms. Karen Hogan (Principal, Office of the Auditor General): Thank you.

We did see some progress this year, as we have seen over the last four years, at the Department of National Defence. This year, they did take on a large project, looking at the pricing of ammunition, so we definitely saw reduced errors in the pricing of ammunition.

Where we continue to see work needed is in the area of obsolescence and in the area of valuation for consumables. They have two types of inventory, ammunition and non-ammunition, so it's all the non-ammunition that they now need to tackle a little better.

We mentioned that last year they implemented an allowance, which accounted for some of the obsolescence, but again, that fixed the statements; it doesn't fix the underlying records.

Some of the steps they have in their action plan this coming year are to look at some of those things.

Mr. David Christopherson: Very good.

I'll just pick up where Ms. Mendès was talking about the documents, because I still have that bugaboo that we don't have it paginated in a common-sense way. I would just suggest that something for us to consider is a workshop between the departments affected and the committee, to go through what your needs are, because you have certain guidelines you have to follow, and try to marry that with some of the concerns we have to make this as user-friendly as possible.

This is my last question, because I'm running out of time.

Mr. Matthews, you mentioned the frozen allotments. I understand that, but just because it's frozen, that doesn't necessarily mean there isn't a problem. It just puts a nice label on it. I'll say that first.

Second, what is to prevent a department from artificially slapping the label of “frozen asset” to get itself out of this jackpot with this huge number, to reduce that? What is to prevent them from just saying, “We're going to note that as frozen, and that mitigates a lot of our problem”?

Mr. Bill Matthews: Thank you, Mr. Chair.

There are two things. A department can't do it by itself. They actually have to come to the Treasury Board Secretariat, central agencies, and Finance, and basically get agreement that they are indeed going to freeze that. It's not an action that a department can take by itself.

Typically, they freeze it because there has been a reduction in another area, or maybe because it's acknowledged that the funding can't be spent this year and they'd like to spend it in a future year, which is subject to parliamentary appropriation, but typically it's because something else has happened. They cannot do it by themselves.

You're right, it doesn't explain away the issue. It's just additional context.

Mr. David Christopherson: What about that last part, though? You've come in and said that these are frozen, and that this mitigates or gives some explanation, but how do we get to the point you just raised? Where does that show itself?

Mr. Bill Matthews: You'll see it in the analysis.... In the InfoBase, you'll see some additional disclosure, department by department.

If you are ever calling departments as witnesses, it's a great question to ask around, “Why did you lapse? What was frozen, and what's going to happen with that frozen?” Those are perfectly acceptable questions. The explanation varies department by department.

Mr. David Christopherson: It looks like I'm down to my last seconds.

What is the process, then, for getting approval? You said that they have to go through a process. What is that process, please?

Mr. Bill Matthews: It typically involves a Treasury Board submission—not always, but it would typically involve coming to the Treasury Board. We always make sure our colleagues in Finance are on side as well. If a department is not spending money in the year that was planned, one of two things happens: it just goes away, or they say, “We'd like to spend that in a future year.” That has an impact on the fiscal framework, so the Department of Finance has to mull that over and then basically—

Mr. David Christopherson: Does that require a ministerial sign-off?

Mr. Bill Matthews: They're better off to answer that question. My understanding is yes, but—

Mr. Paul Rochon: Yes, it would require a ministerial sign-off.

Mr. David Christopherson: Very good.

Thank you so much for your answers.

Thank you, Chair.

The Chair: Just on that, because there is still a little time left, does any of that become public? We have a public document with the budget, so this amount is allocated. If all of a sudden, midway through the year, we have a frozen allotment, does any of that become public before the public account? How would we know that something is allotted?

If a minister is standing and saying, “Well, we've designated *x* amount of money in the budget”, how do Canadians understand when an allotment has taken place?

Mr. Bill Matthews: That's a great question.

It's a recent improvement. It is now disclosed as part of the estimates process, because it is in a planning document. The estimates are one of the precursors to the public accounts. When the estimates are updated throughout the year, you will see disclosure that is public around what has been frozen and what has not. That's a fairly recent improvement. It is public.

When the parliamentary budget officer is looking at their analysis on spending, they will often refer to those frozens, and you can get at it through the Treasury Board Secretariat website.

The Chair: Thank you very much.

We'll now go back to the government side and to Mr. Massé.

[*Translation*]

Mr. Massé, you have seven minutes.

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

I would like to continue on the topic of writing off debt, which was raised by my colleague opposite. This also relates to the comments by my colleague Ms. Mendès.

Looking more closely at volume III of the Public Accounts of Canada, we see that more than $4 billion dollars of debt were written off last year. It is roughly the same amount from year to year. Of course, even excluding the debt written off under the Bankruptcy and Insolvency Act, $4 billion is still a substantial amount.

Mr. Matthews, could you elaborate on your answer by explaining what leads departments to write off a debt? How do departments decide to write off a debt?

Mr. Bill Matthews: Thank you for your question.

There are two things.

First, in preparing the Public Accounts of Canada, as accountants we have to assess how much money we will receive from individuals and organizations. If we think that we will not receive certain amounts, we can make adjustments to the Public Accounts.

[*English*]

That's all background accounting that we would do. If the loan is worth $100 and we think they are going to pay only $90, we can do an adjustment—and the Auditor General would actually require us to —that says, “Here is our best estimate of what we are going to collect.” That is separate from the process of writeoff, forgiveness, or remission.

To do that, with some exceptions, one has to come to the Treasury Board and formally get an approval. It's good housekeeping, and it does get publicly disclosed. That's why it is important to do.

If you are in the business of issuing student loans, or if you are in the business of supporting some vulnerable Canadians and thinking about loans for immigration, you're going to lose some money. We do encourage departments, if they think they can't collect this, to come on in, when the time is right, and write it off.

On the one hand, it's a big dollar amount; on the other hand, we do want departments to do good housekeeping and get this stuff done.

[*Translation*]

Mr. Rémi Massé: The Auditor General stated that there is an accumulated deficit of $17.8 billion. Even considering the debt written off this year, this is obviously still quite high.

In your opinion, do departments do everything they can to collect on debts owed to the crown before they write them off?

[*English*]

The Chair: Mr. Matthews or Mr. Rochon, go ahead.

[*Translation*]

Mr. Bill Matthews: It depends. Each department operates differently. Some departments are larger than others. The larger departments get better results than the smaller ones.

[*English*]

If you look at the mechanisms that departments have available, you see that they can use Canada Revenue Agency, the receiver general, or their own facilities or people to try to collect the debt. There is some debt that, frankly, is just not worth collecting. It's not worth the effort.

I would tell you that the experience varies. Canada Revenue Agency is very effective. Some of the smaller organizations struggle with that, and maybe there is a better way.

[*Translation*]

Mr. Rémi Massé: Thank you, Mr. Matthews.

You mentioned the Canada Revenue Agency. You said it is especially effective in this regard. I do not mean to call that into question, but we can see that the Canada Revenue Agency wrote off a total of close to $3 billion in 2016-17, $3 billion in 2015-16, and $3.4 billion in 2014-15. So a tremendous amount of debt is written off.

You also referred to the Receiver General of Canada. I know the Receiver General of Canada established a pilot project to help departments collect debts that could be recovered. There appear to be some good results.

Are you aware of this initiative? Could you tell us about it? Is this something that warrants further exploration?

Mr. Bill Matthews: Thank you for your questions.

Yes, I am aware of that pilot project. I think there are actually three of them.

[*English*]

They were successful. When you are looking at these pilots.... As to could you assign debt to the receiver general to collect, you have to look at the nature of the debt, but yes, we've had some good success. I am not convinced it would be successful in every case, but if you look at debt related to pension overpayments and those types of things, where you have a relationship with the organization or the person, absolutely. If it's a one-off, where you've dealt with the organization only one time, the receiver general would probably struggle just as a private company would. We've had some good success, and we are going to continue the pilot. It's going to be extended.

Really, what is on us is to figure out when the receiver general is a good choice, and when there are better mechanisms out there. As a result of the pilot, we will be issuing guidance—it won't be "musts"—to departments: if it's this kind of debt, the receiver general works best; if it's this kind of debt, CRA is better; if it's this kind of debt, do something different.

That's what we hope to learn. There are ongoing pilots and yes, they've had some good success.

[*Translation*]

Mr. Rémi Massé: Thank you, Mr. Matthews.

I have a final question along the same lines, and it is for Mr. Rochon.

Given our government's focus on tax fairness, do you have any comments about helping departments use all the necessary mechanisms to recover debts before they are written off?

● (0940)

Mr. Paul Rochon: I completely agree with my colleague Mr. Matthews. In cases where that is appropriate, it is certainly a good investment. We have to admit, nonetheless, that there are some difficult cases in which the amounts cannot be recovered. Judgment must always be exercised in recovering the amounts owed.

[*English*]

The Chair: You have 30 seconds, Mr. Massé. Are you finished?

Mr. Rémi Massé: I'm fine.

[*Translation*]

Thank you.

[*English*]

The Chair: Okay. Just in that 30 seconds, is there any of the debt that has been cancelled or forgiven that is foreign debt and what percentage of the overall $6 billion would be foreign entities or maybe forgiveness of loans to other...?

Mr. Bill Matthews: We can get that information for you. Off the top of my head, the bulk of it relates to programs for Canadians, but there's certainly a possibility some is foreign, especially on the international side.

The Chair: Just as a ballpark, do you think it would be 20% or well under that?

Mr. Bill Matthews: We can probably get you a number before the end of this meeting.

The Chair: Thank you very much.

We'll now to go Mr. Nuttall for five minutes.

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

Thank you to the Auditor General's office and the Auditor General, and certainly the staff from Treasury Board and Finance for being available here today.

I want to follow up on some of the questions regarding writeoffs and to a specific program and then perhaps I'll have some follow-up questions on a specific industry. What are the writeoffs associated with the Canada Small Business Financing Act?

Mr. Bill Matthews: I'm going to have to get back to you on that one. I don't have that information at my fingertips. I'll check and see if we can get something deployed in the meeting, but off the top of my head, I'm afraid I can't answer the question. I'm sorry.

Mr. Alexander Nuttall: Okay, so we don't know how much of the total writeoffs are related to that?

• (0945)

Mr. Bill Matthews: I will cycle through volume III here and look by department. That might give us some intelligence as to that act specifically, but my guess is it's going to be hard to find on a moment's notice.

Mr. Alexander Nuttall: Okay. Then I will pull it up at a later date.

In terms of lapsed funds, one of the departments that you highlighted for us was ISED, Innovation, Science and Economic Development. There was a lapse of $434 million where there was an estimation that $246 million wouldn't be spent partway through the year. Is that what I'm understanding in the frozen allotments?

The Chair: What page are you on, Mr. Nuttall?

Mr. Alexander Nuttall: I'm on page 12 of the Public Accounts, the presentation that was....

Mr. Bill Matthews: Yes, on page 12 of the deck, we have ISED. There is indeed a lapse of $434 million, and the frozen allotment is $246 million, so you are correct.

Mr. Alexander Nuttall: Okay. When you go through the volume II, details of expenses and revenues, when you look at the different agencies that fall within ISED, some of the agencies are way out of whack with the average lapses. For instance, the Canadian Space Agency is 15% below what was estimated. Then there are two others: Federal Economic Development Agency for Southern Ontario is 12%, and the National Research Council of Canada is 20%.

The interesting thing on the National Research Council is the $149,566,000 that is available from previous years. At what point do those dollars phase out?

Mr. Bill Matthews: There are two things. We'll speak generally about ISED, Mr. Chair, and then we'll answer the specific question on how dollars phase out.

When you look at ISED, the Canadian Space Agency was highlighted. Their lapse is very much related to one big project, the radar satellite projects, and when you're dealing with a complex project like satellite development, delays are not unimaginable. So you got delays there which cause a lapse. That's not ideal, but it's explainable.

You then cycle into some of the other organizations you mentioned where you have lapses in grants and contributions dollars. The government has takers; you need to have applicants. Sometimes the applicants materialize in volumes we expect and sometimes they don't. Then you have an issue of whether you can negotiate a transfer payment agreement or not. Depending on the nature of the department, you may see some delays. Infrastructure is a great example of where negotiations cause delays.

In terms of the ability to carry forward money, there's a built-in carry forward around operating and capital. Departments are allowed to carry forward 5% of operating and a certain percentage of capital. There is no automatic rollover of grants and contributions dollars. If a department can't spend its grants and contributions dollars, they have to make an application to our friends in the Department of Finance and say they would like to spend this money next year. If Finance blesses it, it then would get picked up again in the supply cycle, back to Parliament to get voted, and away we go again.

Mr. Alexander Nuttall: Here's where it doesn't make a whole lot of sense to me.

Last year, there was a 10% rollover approved into the National Research Council Canada. This year they fell 30% short, not 15% short, on their spending estimates.

At what point does that fall back into general coffers and go towards...?

Mr. Bill Matthews: The default is, if they're grants and contributions dollars, or if it's above 5% of operating or 20% of capital, it goes back into the general coffers. The responsible department can then make a case for saying they'd like to re-profile that money—that means spending it in a future year—and then the government has a decision to make, but there's nothing automatic.

The default is, if nobody does anything, it goes back into general coffers. If there's a decision made to delay the spending to future years, that's more a fiscal discussion that has to be had.

The Chair: Thank you, Mr. Matthews and Mr. Nuttall. We'll come back to you soon.

We're in the second round now.

Mr. Chen, please. You have five minutes.

Mr. Shaun Chen (Scarborough North, Lib.): Thank you, Mr. Chair.

Mr. Ferguson, as Auditor General, you have identified three key observations, one of which is the government's selection of discount rates used to estimate long-term liabilities. To illustrate the material impact of this, you give the example on page 2.43 that a 1% reduction in the discount rate for estimating the accrued benefit obligation for unfunded pension benefits results in an increase of this liability to the tune of $7.7 billion.

This would clearly be significant, and it would overhaul significantly the financial picture. By using a higher discount rate, one could effectively lower the estimate for long-term liabilities.

On page 2.43, it states, "While we have concluded that the assumptions underlying the Government's significant estimates are within a reasonable range, historically, certain discount rates have been at the high end of the acceptable range when compared with market trends."

Is there a difference between what you deem a reasonable range vis-à-vis an acceptable range? If there is, I'm assuming that a reasonable range would be better than an acceptable range. If that's the case, how do you determine what is reasonable and what is acceptable?

• (0950)

Mr. Michael Ferguson: I think that's perhaps unfortunate wording on my part in the audit observations.

When we refer to reasonable range and acceptable range, we're referring to the same thing, within a range that is what you would call either reasonable or acceptable. We use them as synonyms, but I understand why the fact that we use different words could seem like we mean two different things. In fact, it means the same thing.

Mr. Shaun Chen: With respect to the government's method of selecting discount rates, is there a difference compared to industry practices, whether in the public or private sectors?

Mr. Michael Ferguson: I think when it comes to selecting discount rates for things like the unfunded portion of the pension plan, that's where there may be some differences between what the federal government is using to select a discount rate and what other governments would use.

One of the parts of the analysis that needs to be done on the discount rates is looking at that comparison to others and also looking to make sure there's consistency between the different liabilities that the federal government has and how they're selecting discount rates for those various liabilities.

There are some places where the way the federal government is selecting the discount rates may be unique to the federal government, but all of that needs to be part of the analysis that we've recommended they do to rationalize the discount rates they're using.

Mr. Shaun Chen: Thank you.

One of the financial highlights in volume I is with respect to Canada's debt-to-GDP ratio. Much discussion happens around debt-to-GDP ratio and comparisons between Canada and other G7 countries. I just want it to be clear on the record. When you look at different countries, they are set up differently. Some might have provincial or state levels of government as well as municipal levels of government.

When the IMF compares the net debt-to-GDP ratio for the G7 countries, do they take the approach of looking at the figure in a total government lens? Are they accounting for all levels of government and their respective total net debts when making those comparisons?

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

I'll start by explaining how I understand the IMF calculation. Perhaps Finance may want to jump in on this as well.

To me, the IMF calculation of net debt to GDP is a good measure from a relative point of view, but not from an absolute point of view. Relatively, the measure is very good because it shows how Canada compares on a relative basis, in apples-to-apples comparisons to other countries. It essentially shows that the next best country in the G7 has a debt burden that is roughly twice Canada's—and I believe that's Germany—and then after that I believe it's the U.K. and the U.S. that are four times that of Canada. On a relative basis, it's a good measure.

I'm not so fond of the percentage comparison, though, because it takes the federal government's net debt and, as I understand it, deducts the federal government's pension liabilities. The $240 billion that the federal government owes in pension liabilities to its employees, I believe, is deducted. It adds in the net debt of the provinces and of the local governments, so it expands net debt to not just a Government of Canada definition but to a definition of all net debt of all governments in Canada. Then it deducts the assets of the Canada pension plan and the Quebec pension plan. Again, it goes through all of that to try to put things on a comparative basis to other countries, because not all countries record their pension liability. One reason Canada can get 19 years' worth of clean audit opinions is that Canada records its pension liabilities, while other countries don't.

In the IMF's calculation, they have to balance all those things off to try to get an apples-to-apples comparison, and that's why I say that on a relative basis I agree with the results of it. When it comes down and says that Canada's net debt to GDP is roughly 27.6% or something like that, that's a number that doesn't include all the debt of the federal government, because it excludes the pension liability and reduces the debt by the assets in the Canada pension plan and the Quebec pension plan, which are not assets that can be used to pay down any government debt. I don't like the 27%, and I don't think people should focus on the 27%, but relatively, it's a good measure.

In my opinion, the best measure of debt to GDP—in terms of the federal government itself—is the net debt-to-GDP measure, which is the $714 billion of net debt in relation to the GDP of Canada, which is probably just slightly over $2 trillion. I believe that comes out to somewhere around 35%, and I think that is the best measure.

If you go through the financial statement discussion and analysis, you will see at least three other comparisons of debt to GDP. You'll see the accumulated deficit to GDP, the interest-bearing debt to GDP, and the net debt to GDP. You could also do a calculation of total liabilities to GDP, so there are many different ways of comparing debt to GDP, depending on your definition of debt. I think the best one is to do a comparison of net debt to GDP on a financial statement basis.

I like the IMF one from a relative point of view, but I don't like it from an absolute point of view.

● (0955)

The Chair: Thank you. We're three or four minutes over, but it is interesting.

I want to go to Mr. Rochon—he was indicating he wanted to answer a bit there—and maybe even Mr. Matthews.

Mr. Paul Rochon: It depends on why you're looking at the debt, and that really goes to what measure you want to use. Absolutely, if you're comparing across countries, the IMF calculation is the more appropriate one. It allows us to compare Canada to the United Kingdom, for example, which is a unitary state. We are not, so you should add the provincial levels of government in.

You should also recognize that we include a number of liabilities related to pension obligations and benefit obligations that other countries do not, as well as the fact that we are saving quite a large amount, by international standards, to pay for future pension obligations that other countries are not, for the most part, accumulating.

If you were an international investor, or if you were asking how we stack up vis-à-vis other countries, the IMF measure is absolutely the right measure. As you know, we very much agree with the Auditor General. If you are looking at the federal government's debt situation from a sustainability or a purely financial perspective, we would agree that the net debt is the right number to be using.

The Chair: Thank you, Mr. Chen.

Thank you, Mr. Rochon.

We'll now move to Mr. Nuttall, please, for five minutes.

Mr. Alexander Nuttall: Thank you for that answer from the Auditor General. I thought that question from Mr. Chen and the detailed answer were great. It provided a lot of clarification, certainly, in my own mind.

I want to follow up on a question that Mr. Liepert put forward earlier. I know that some of that information is going to be forthcoming and perhaps we could add this to that information.

It says the overall interest paid was lower than what would have been projected. Do we know what vehicles or tools allowed us to come in much lower than we had estimated at the beginning of the year?

● (1000)

Mr. Bill Matthews: I'll go ahead, and then I'll let Mr. Rochon give real content. There's a document that is not part of the public accounts, the debt management strategy document, a Department of Finance publication. It is an extremely useful document in terms of understanding the debt management strategy of the federal government. That is their publication.

We do have an answer to the member's previous question on small business, so if there's time at the end of this answer, maybe we'll have Diane answer your last question.

Mr. Alexander Nuttall: Sure. Why don't we try to answer both if we can?

Mr. Paul Rochon: Yes, I can make it short.

The answer to your question is that the 10-year government bond rate came in about 30 basis points lower than we had projected at the time of the budget. That is on page 1.3. There is the projection versus the actual for those interest rates.

The Chair: Thank you, Mr. Rochon and Mr. Matthews.

Ms. Peressini.

Mr. Bill Matthews: I'm going to have Diane get on the record here.

Ms. Diane Peressini (Executive Director, Government Accounting Policy and Reporting, Office of the Comptroller General of Canada, Treasury Board Secretariat): Thank you.

The Canada Small Business Financing Act writeoffs are on page 2.9 in English.

[*Translation*]

In French, it is on page 2.10.

[*English*]

There you will see that there were 907 writeoffs totalling $60 million last year.

Mr. Alexander Nuttall: Totalling $16 million?

Ms. Diane Peressini: No, it is $60 million—six zero.

Mr. Alexander Nuttall: It's $60 million. Sorry, I just don't have it open in front of me anymore.

The Chair: It's on page 2.9 of volume...?

Ms. Diane Peressini: Oh, sorry, it's volume III.

Mr. Alexander Nuttall: So, it was $60 million in writeoffs. What was the total of that program?

Mr. Bill Matthews: The only thing I would highlight for that question, Mr. Chair, is that those writeoffs are not representative of one year. You can write off six or seven years' worth of program data. We will get you the program spend, but do understand that when writeoffs happen, they can be for over 10 to 12 years.

Mr. Alexander Nuttall: Is there a 10-year average that we can get to understand the trends?

The reason I ask this question is that this one specifically is an interesting program for underwriting debt directly to small business owners, and I would like to understand where it fits in comparison with other underwriting we do. It has much more risk associated with it compared with, let's say, GEMCO or CMHC and the underwriting of debt associated to those departments.

Mr. Bill Matthews: Mr. Chair, I think we'll do a take-away to give the member a bit of a history on the writeoffs versus the program spend, and we'll go back 10 years. Does that work?

A voice: Yes.

The Chair: On the other point, Mr. Matthews referenced the fact that Finance Canada had the publication of the discount. Was that with regard to the discount rates?

Mr. Bill Matthews: The debt management strategy.

The Chair: Is that online, Mr. Rochon? Is that on the Finance website?

Mr. Paul Rochon: It is, and it's published as part of the budget now.

The Chair: All right, thank you.

We'll now go to Ms. Shanahan, please.

[*Translation*]

You have five minutes.

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

[*English*]

Thank you, everyone, for being here.

I think this is very illuminating for us parliamentarians to better understand what I think we will all agree is a pretty singular set of financial statements, even though I agree with my colleague Mr. Christopherson that Canada is up there as a gold standard as far as the integrity of its financial reporting goes, and I thank you all for that. One of the challenges is not only referring to the different statements but also the fact that the estimates process is on this sort of modified cash basis. That's what we, as parliamentarians, have to vote on, on a regular basis, whereas of course the financial statements themselves are on an accrual basis, and you guys have to do all of that adjustment between the two.

I want to refer to two parts of the statement. One is the balance sheet. I want to tackle the value of non-financial assets a little bit more. I also want to address cash flow. Where do we see in the financial statements the fact that there's money that comes in and goes out on a month-to-month basis? It's kind of arbitrary, is it not? It has to do with business cycles and collection cycles, if we think of the CRA.

As a parliamentarian, when I hear reference to the monthly fiscal update and this number comes out and that number comes out, what does it really mean? Are these meaningful numbers for us? Is a 12-month period even a meaningful number for us? What are we looking at?

● (1005)

Mr. Bill Matthews: Maybe I'll start and turn to my friends from Finance for a little bit of help, Mr. Chair.

In volume I, on page 2.8 you will see the government's statement of cash flow for the whole year. That gives you a sense of the ins and outs, and that is required disclosure by accounting standards.

[*Translation*]

In French, it is on the exact same page.

[*English*]

You do get a sense of where the government's cash came in from and what it has spent its cash on. Was it to pay down debt? Was it to pay salaries? That sort of breakdown is there. That's the annual bit.

On a month-to-month basis, the member is quite right in that for Finance to properly manage the debt, they have to have a sense of what's coming in and what's going out. It's easier to project our own expenditures, what we're going to pay, versus what tax revenue Canada Revenue Agency is going to bring in, because they don't really know when corporations might file, etc.

The forecasting is part science and part art, but there has been improvement in our ability to forecast cash flows, and the fiscal monitor does give you a sense of how things are during the year. Is it an exact indicator of what's going to happen at year-end? No. We make some year-end adjustments for things like whether or not debts are going to be collected, accrual adjustments, and tax return processing. But the fiscal monitor throughout the year is monthly, and it is a reasonable indicator of how things are going, once you understand that there are some adjustments made at the end of the year.

I'm not sure if my friends at Finance want to add anything.

Mr. Paul Rochon: Perhaps the only things to add are, one, that the department and the Bank of Canada devote some resources to forecasting both the inflows and the outflows so that the timing of our options for treasury bills and bonds is set up with a view of when in the calendar year cycle the government is going to require liquidity, and two, that the government maintains a reasonable liquidity buffer such that anything unforeseen can be managed.

Mrs. Brenda Shanahan: Excellent. Thank you very much.

Just to tackle non-financial assets—the capital assets that the government owns—how is their value estimated?

Also, Auditor General, I know that in your commentary, which we haven't addressed here directly but we have as a reference, you talk about some of the problems with reporting on capital assets. This would have been in the commentary on last year's financial audit.

Mr. Bill Matthews: Maybe I'll start with the accounting policy, Mr. Chair, and then leave it to the Auditor General to address his observation.

The way the assets are recorded is with their purchase price, so it's cash and what we actually paid to acquire or build it. Then, once the asset is in service, it is depreciated over what we estimate its useful life to be. If, during its useful life, we get a sense that our estimate is wrong, we will do a writedown of that asset to write it down to what we think its real value is. You will not see us revaluing assets for fair value, as you would with your real estate to see what's it really worth. This is historical cost. If it's a building or a tangible asset, we depreciate it. With land, obviously, we don't depreciate land—land does not depreciate—but it's based on what we paid for it, not what it's actually worth.

I'll let the Auditor General add any comments on his observation.

Mr. Michael Ferguson: Thank you.

In the observation, we were specifically talking about the financial statement discussion and analysis and the type of information that could help readers get a little bit below the numbers and a little bit into what the numbers mean. As you said, on the balance sheet there's a number for tangible capital assets of $69 billion. That number on its own doesn't tell you a lot. You can go back into the notes to the financial statements, and the notes will tell you what the original cost of all those tangible capital assets were and how much they have depreciated.

One of the measures that you see on this type of thing from time to time looks at that, what percentage of assets has been depreciated. That tells you, relative to their original capital cost, if the government's assets are almost at the end of their useful life or if they are at the beginning of their useful life. The figure $69 billion doesn't really tell you whether it's 69 billion dollars' worth of old assets or 69 billion dollars' worth of new assets, so this indicator helps people understand where the assets are in terms of their useful life.

The other thing is a comparison between how much the government spends on capital assets in a year compared to how much depreciation they record on the assets they already own, which, again, helps you understand whether the government is replenishing its assets at least as quickly as they are depreciating, knowing that you'd have to take into account that it costs more to replace an asset than it would have cost 10 or 20 years ago.

Those types of indicators are what we're talking about in that report. They can help people understand a little better the state of tangible capital assets just using the numbers that are already in the financial statements and not necessarily just the net book value.

● (1010)

The Chair: Thank you very much.

I don't see any other answers at the table, so we'll now go to Mr. Christopherson, please.

Mr. David Christopherson: Thank you, Chair.

I have two questions. One is on the financial results. This is the deck from the Treasury Board, on page 7. The annual deficit in budget 2016-17 was 29.4 and the actual was 17.8. Even adjusted, for the budget it was 29.4, and the actual was 15.9. Not that it's a bad thing at all that there's less debt than anticipated, but for the longest time, there has been discussion, allegations, and accusations against governments that they deliberately inflate projected deficits and then, lo and behold, by magical, wonderful management, they cut that down by half. The PBO was created in large part to try to offset that to give some sense of numbers that people can rely on.

My first question is for both the Auditor General and the comptroller. The difference between 29.4 and 17 or 15 still seems like a pretty big discrepancy. Also, do you have any thoughts on the PBO? Is it being used in a way that is most effective? I want to give both of you an opportunity to comment on the PBO because there is some concern about whether or not we've got that right.

The other question is a follow-up on what you raised earlier, Auditor General, on the reserve force pension plan and your spring 2017 report on that. I'm going to read the paragraph, and then I'm done, Chair.

It reads:

> National Defence's slow progress in resolving this matter is unacceptable.

This is the Auditor General speaking. He said it's “unacceptable”. The paragraph continues:

> In the nine years since the Reserve Force Pension Plan's creation, the Office has been unable to provide parliamentarians and plan members with assurance that the Plan's financial statements, which include a reported pension liability of—

—wait for it—

> —$650 million, are free of significant error. This situation leaves parliamentarians and Plan members without assurance that the Plan's financial statements present credible information about the Plan's finances.

I'd like to hear a bit more about that, please.

Thank you, Chair.

The Chair: Both Mr. Matthews and Mr. Ferguson can go on the first question, and I think Mr. Rochon as well, dealing with why the deficit was less, and maybe even why revenues were less.

Mr. Matthews.

Mr. Bill Matthews: There are maybe two things.

The forecasting ability has improved over the years. The economy does change, and I'll leave it to my colleagues from Finance to explain what has happened on the economic side. If the theory is that there's deliberate pessimism in the forecast—there is a bit of that—for risk, Finance will speak to that, but is there any systematic deliberate under-forecasting? No, there's not. It is challenging, based on all the economic results and what's happening globally today.

The only thing I will say on the PBO is that they're takers. Yes, they have some things they have to do, and the members of Parliament make individual requests. I think a fair question to them is on how you make sure they allocate their resources to the right priorities. Is it useful for them to challenge the government's forecasts given that you have all of these private sector forecasts out there as well, or is that just duplicative? I think that's a good question.

I'll leave it at that.

● (1015)

The Chair: Mr. Ferguson.

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

Maybe what I will do is refer you to the consolidated statement of operations, which is on page 2.5 of volume I.

The Chair: Members may want to flip to page 2.5, volume I.

Mr. Michael Ferguson: This is the statement of revenue and expenses.

If you look at the line about halfway down the page called “Total revenues”, you will see that the actual revenues were about $6 billion higher than the budget. If you go down towards the end, the line that says, “Total expenses”, you will see that the expenses were about $6 billion lower than budget. The difference between the $29 billion and the $17 billion was $12 billion. Half of it, $6 billion, was on the revenue side and half of it was on the expense side. When you look at the revenue side, you see particularly that corporate taxes make up most of it. Corporate taxes were $42.216 billion compared to a budget of $37.877 billion. Most of the difference is in corporate taxes.

If you go down to the "Goods and services tax", you'll see that that was about $1 billion above budget as well. Finance can tell you the economics behind why there may have been more corporate taxes, more goods and services taxes.

If you go down to the expense side, again, expenses were $6 billion below budget. There was $4 billion on what is called the "Total program expenses", and $2 billion of it is in the "Public debt charges". There was a $2-billion positive on the public debt charges.

Again, I think we had the conversation earlier about the fact that the government spent less on interest on its debt than it originally thought. Remember, sometimes that debt may have been issued in one year many years ago at a certain interest rate, and now it is refinanced at a lower rate than it originally was issued at. Even though it was in the year that interest rates may have gone up, if you're refinancing debt from a higher rate to a lower rate, then that can affect the interest expense. Again, a couple of billion dollars is in the public debt charges, and most of the rest of it, I think, is primarily in the other expenses, the departmental spending.

If you go through those numbers, it gives you the idea of where those differences are, and then I think the reasons for that. Whether those estimates are appropriate I think Mr. Matthews has addressed, and perhaps Finance can address that.

Mr. Paul Rochon: I would add that if you're comparing the $29 billion to the $17 billion, it's roughly a $12-billion difference. There is $6 billion of that which actually relates to a contingency reserve that was included in the $29 billion. That was a forecast that was done in March 2016, at a time when the economy was weak. Oil prices were around $25, if I go from memory. Of course, the economy recovered quite nicely, and has recovered quite nicely, so the combination of not needing that amount of contingency, plus a stronger economy as things evolved, meant that the overall deficit came in much lower than projected.

The Chair: On the contingency fund, can you explain to us and Canadians what method was used to determine the contingency size, the actual $6 billion?

Mr. Paul Rochon: We've traditionally included a contingency fund of about $3 billion, which in relation to combined expenses and revenues of about $600 billion is actually quite a small buffer in the grand scheme of things. At different points in time, the department and the government have chosen a contingency reserve of different amounts. In some years, the contingency has increased over time. Frankly, it was a subjective assessment, given the weakness in the economy, that a larger contingency was appropriate at that time.

● (1020)

The Chair: Thank you.

We'll now move to Mr. Lefebvre for five minutes.

[*Translation*]

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

I would like to thank everyone for being here this morning.

I will continue along the same lines as my colleagues Mr. Christopherson and Ms. Shanahan.

When we attend these meetings, sometimes outside Canada, we say how proud we are of the public service and of the professionals in it. We are of course fortunate to have their support, and 19 years of solid audits by the government illustrate their competency. It is not really the politicians, but rather the public service that should receive the credit.

That being said, Mr. Ferguson, at the beginning of your remarks, you talked about the three issues you had addressed in the past year: pay administration, discount rates, and National Defence's management of its inventory. We have already talked about discount rates and National Defence's management of its stocks with my colleague Mr. Christopherson, but we have not talked about pay administration. This is something that you have studied closely. You also noted that, this year, your employees spent over 60,000 hours on the annual audit of the consolidated financial statements.

Mr. Ferguson, in paragraph 13 you stated: "Even though the accumulated error was not significant, the extent of the errors that affected individuals and the time it takes to correct errors in pay are unacceptable."

Your performance audit will be released in November, so I do not want to compromise that work. I would ask you, however, to talk about the efforts you have had to make regarding the pay system. Is this a unique situation that has never happened before? I would like to know how you arrived at that, why you did it, and what your findings are. Moreover, how can we be sure, as regards the public accounts, that we will henceforth be aware of the next steps to be taken?

Mr. Michael Ferguson: In our observations, we indicated the problems and challenges we faced in our audit of the government's accounts. Once again, the purpose of our audit is to provide an opinion on the financial statements. In this type of audit, we do not try to provide the details of all the problems; we simply provide an opinion on the results of the financial statements. It is in our performance audits that we will provide all the details about the efforts departments made to try to resolve this problem. So the observations present key points about each of the problems we identified.

As I indicated, in the past year, we reviewed about 18,000 pay transactions for 246 employees. So we did a lot of work to understand the pay problems. Nonetheless, the purpose of this audit was not to identify the efforts made to resolve these issues. We will comment on that in our performance audits.

Mr. Paul Lefebvre: Thank you.

On another topic, Ms. Shanahan also talked about tangible assets.

I will switch to English because the document I have is in English.

[*English*]

On the tangible capital asset side, we talked about lands and buildings, and how you guys account for that. When we talk about buildings, I know we look at net book value, and on the accounting cycle, that's how we look at them. However, is there anywhere that we actually have determined the inventory of the number of buildings we have, that the federal government owns across Canada, and their worth? For accounting purposes, we look at the net book; however, in real life, often they have a value that is more than the net book value.

Is there anywhere in any department, whether it's procurement, that actually looks at what value we have in assets that are actually the fair book value?

● (1025)

Mr. Bill Matthews: There are a couple of points on this one. Yes, there is a database of property. It's publicly available, and shows you what we own. It doesn't tell you what it's worth, or what it could be worth. That being said, I should flag that in last year's budget, it was announced there would be a review of the government's fixed assets. That review has started, and it's in three phases.

Mr. Paul Lefebvre: Very quickly, I find it odd. As a business owner, I always look at myself and ask what I am worth when I do a net worth statement. At the same time, if we're always looking at net book value, often it doesn't paint the real picture.

Are you telling me there's nowhere right now within the federal government that can tell us what our...?

Mr. Bill Matthews: To actually ascertain what your buildings are worth is only important if you decide you're going to sell them. Once a decision is made that an asset is surplus, we will go and get a market assessment. If it's not in great shape, there's an organization we can use to repurpose it. Until the asset is actually viewed as surplus under the current system, you won't see anywhere where it discloses that we think this is worth *x*.

The Chair: Thank you, Mr. Lefebvre.

Mr. Deltell.

[*Translation*]

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Ladies and gentlemen, welcome to your House of Commons.

First of all, I would like to thank you for being here and for the quality of your presentations and remarks. When we receive so many documents, we have to take them one bite at a time.

As the shadow minister for the Treasury Board, I would like to discuss the part pertaining to the Treasury Board, in volume II. I would like to look at the revenues section together.

Actually, it will be easier if we start at section 7 right away. In the last line on page 7.14, it says that the revenues were $32 million in the past fiscal year and $24 million in the current year.

I have a quick technical question to be sure we are using the same yardstick. When you say the current year, does that mean that you track each month against the previous fiscal year, or are there still amounts to be paid in the current fiscal year?

Mr. Bill Matthews: Thank you for your question.

That's the total revenue for 12 months. So the two figures can be compared.

Mr. Gérard Deltell: Very good, Mr. Matthews. I appreciate the effort you are making to answer us in French. There is no problem with you answering in English, if you like. Know that we are very respectful toward those who make such efforts, and toward you in particular.

When we compare the two amounts—$32 million and $24 million—we note that the revenue for the current fiscal year is lower than that for the previous fiscal year.

Let's now look at page 24.13. I am a bit puzzled by the significant discrepancies between the amounts for the current fiscal year and those for the previous one. For example, parking fees brought in $3.3 million last year and $2.6 million this year. So much the better if people are taking the bus more than before. They are avoiding driving their car because of the parking fees. That's why we created a tax credit for people who use public transit, but that's another issue.

However, there are two elements that puzzle me. In the column on the right on page 24.13, around the 15th line, is the heading “Disciplinary penalties”. For the previous fiscal year, those penalties are $31,000, but they are less than $2,000 for the current year. Can you explain that? We are talking about disciplinary penalties, after all, and that's not nothing.

Mr. Bill Matthews: Unfortunately, no. I am the president, and I cannot explain that discrepancy. I could take a guess, but I don't want to do that. We could provide you with that information after the meeting.

Mr. Gérard Deltell: That is one of the lines I was curious about, but honestly, the line that puzzles me the most is the one further down on the same page, titled “Public Service Health Care Plan recoveries”. Last year, the amount was $3.2 million, and this year, it is $157. That is a major difference, after all. It is no longer anecdotal like the parking example I just brought up. It is even more confusing, since we are talking about the Public Service Health Care Plan. In addition, we all know about the issues with pay. Can you explain this? Is there a connection with the public finance management issue?

● (1030)

Mr. Bill Matthews: There is possibly a connection with the pay system, as benefits are paid under that plan.

[*English*]

You do pay that through your payroll deductions, so we can verify if this is in fact a change that results because of the change in the pay system or if it's just a change in the natural cycles. Sometimes there are some cycles that change from year to year.

I will say for the Treasury Board Secretariat as a department it's not a huge revenue generating department as you would notice. They are very much fees related to being the employer for the public service. There's parking, and you mentioned health care, but really the core of the department is more around monitoring other departments and agencies for their spending.

[*Translation*]

Mr. Gérard Deltell: My last question is about the Canada School of Public Service and its revenue. The question is very simple, and I should perhaps already know the answer.

I assume that employees of federal departments pay to attend courses provided by the school. Is that covered through a fund transfer from the department to the Treasury Board or do people pay out of their salary for the training they receive?

[*English*]

Mr. Bill Matthews: That's a very interesting question, Mr. Chair.

The funding model for the Canada school has been revisited from time to time over the years. There was a point in time when you paid by the course. There were some other courses that were offered free of charge. The current model for most departments is almost a tax based on the number of employees you have. Basically, based on the size of the department, there is an amount that is given to the school. There are some exceptions to that, such as if there's one-off training they have to do, so it is a mix. There are some courses where you would pay, but generally speaking, it's based on a head count and that's the way we resource the school.

Paul, did you want to jump in? No. Sorry, I thought I saw my colleague wanting to talk.

It is a mix. To give you an example, if I as head of my organization thought my employees needed a course custom designed and I thought the school was the best vehicle to do that, I would likely end up funding the school to do that work, but if it's just generic training for the public service, that's based on essentially a head tax based on the number of employees.

Mr. Gérard Deltell: Thank you so much, Mr. Matthews.

The Chair: We will go now to Mr. Nuttall and then Mr. Massé.

Mr. Alexander Nuttall: Thank you, Mr. Chair.

I want to go over a specific item we already talked about, but before I do that, I want to confirm that my thinking is actually correct here. The deficit came in at about roughly $12 billion under what was projected. With that there was an additional $1.9 billion. I'm on page 7 of the presentation.

There was $1.9 billion in found dollars to make the accumulated deficit at roughly $15.9 billion. I'm going to ignore that $1.9 billion for this conversation.

I look at the National Research Council of Canada again. It's close to $260 million in unspent dollars. Is that $260 million part of that $12 billion that is lower than the projected deficit was? Is it dollar for dollar?

Mr. Bill Matthews: It's a little more complicated than dollar for dollar and so I'll start and then turn to Finance.

When departments are resourced through their appropriations, which is on a modified cash basis, and that's what Parliament votes on, we have to translate that into accrual dollars. If I'm buying a tank, while it might cost me $1 million this year, I know from an accrual perspective it's going to cost me a portion of that over the next 10 or 15 years. There's an accrual translation that's made.

The more important point for my colleagues in Finance is they know departments are not going to spend every dollar that Parliament votes, so they build a lapse into the overall fiscal framework. Where a department's actual results differ from their assumptions, then you get a dollar-for-dollar pick-up. I'm not sure if Finance wants to add anything on how they forecast for expenses.

● (1035)

The Chair: Mr. Rochon.

Mr. Paul Rochon: Yes, what Mr. Matthews said is accurate. You'll recall that departments can automatically carry forward roughly 5% of their operating budget, and not always but in most cases, they carry forward something similar to that. Each year when we do the budget forecast, we do an estimate of the amount of money that departments have been allocated that they will not spend, and we try to update that over the course of the year by surveying the chief financial officers of every department.

Although I can't give you an exact answer on your question, my suspicion is that a fair portion of the lapse you are referring to would have gone into the better than expected deficit outcome.

Mr. Alexander Nuttall: When I look at these numbers, I see that this department accounts for 0.33% of total expenses, and then it accounts for 2.1% of the found dollars, that $12 billion, meaning it's seven times the value when you're comparing them. That is way out of what I would consider a norm. I'm wondering how that comes to be, that their value is 0.3% of the total expenditures, but 2.1% of the found dollars, and how we highlight that and understand going forward for next year. From my municipal background, when I was on the finance committee there, the last thing we wanted, or I wanted, was a department with a budget that continually comes in outside of what they're projecting, and then the actuals are at the end of the year.

I'm not sure there's a question there, to be honest with you.

Mr. Paul Rochon: No, it's a fair question, and from time to time when the situation you're describing has occurred, we've looked into the departmental budget and asked ourselves whether there needed to be some kind of adjustment. Having said that, I think the thing that will typically lead to large lapses will be either a large capital project that has been budgeted that will be delayed, or a new program that takes more time to be put in place and to ramp up than we expected.

I can't speak to the exact circumstance you're referring to, but we're happy to look into it.

Mr. Alexander Nuttall: If you could look into for us, that would be great.

Sorry, am I out of time?

The Chair: Yes.

Thank you.

Mr. Bill Matthews: Mr. Chair, can I...?

The Chair: Oh, I'm sorry, Mr. Matthews. Go ahead.

Mr. Bill Matthews: Regarding the lapse in the National Research Council, just to break it down a bit, it is a split between capital and grants and contributions dollars. So it's not just one thing; there are two things happening there. From my memory, the National Research Council is not what I would call a serial lapser, where you have huge lapses year after year. It would be a good question to ask what was different about this year, and we will do a follow-up.

There are other departments that are on the serial lapsing list, for example, Infrastructure, and we can explain why that is, but this sounds a bit unique.

The Chair: Thank you, Mr. Matthews.

I think Mr. Massé, as far as I know, has the final question of the day.

Mr. Massé, please.

[*Translation*]

Mr. Rémi Massé: Thank you, Mr. Chair.

Mr. Ferguson, your Commentary on the 2015-16 Financial Audits drew my attention.

On page 7, under “Crown corporations have limited financial visibility”, you say the following: “Crown corporations' financial visibility is limited within the Public Accounts of Canada, yet they account for a significant portion of government activity.”

I won't read everything, but you provide two examples further down in the document:

> For example, both Ridley Terminals Inc. and the Royal Canadian Mint reported in their December 2015 financial statements unusual losses in connection with certain capital assets totalling, on a combined basis, $165 million. Those losses resulted from adverse circumstances that led to a reduction in the ability of certain capital assets...

In the next paragraph, the following is stated: “These losses were significant for the Crown corporations involved: they represented one third of the net value of Ridley Terminals Inc.'s capital assets, and one quarter of the Royal Canadian Mint's.”

Once again, you say that, “they were not visible in the Public Accounts of Canada”.

What do we have to do to ensure that those losses and the agencies' relevant information are made public? Should we be concerned about this?

● (1040)

Mr. Michael Ferguson: All the information on those organizations' financial statements is public. However, it is important to understand that not all information is solely in the Government of Canada's financial statements. There is a lot of other information on those organizations.

Mr. Matthews mentioned various crown corporations.

[*English*]

Their results are included in the financial results of the federal government, but they are included at a very summary level, so you don't always see the details like the fact that these two organizations in that particular year had some unusual transactions.

In order to again get behind the details of what's going on, sometimes you have to look at the financial statements of the organizations themselves.

[*Translation*]

Mr. Rémi Massé: Thank you.

Is there any information on what led to those losses? Why were they called unusual losses?

Is there a mechanism that could encourage those organizations to ensure that this kind of information can be included in the Public Accounts of Canada?

Mr. Michael Ferguson: I will ask Ms. Hogan to answer you.

Ms. Karen Hogan: Crown corporations' losses have to do with the fact that they could not generate asset-related revenue.

[*English*]

Tangible capital assets are supposed to generate future cash flows. In this instance, they felt there was a downturn in certain business lines in the crown corporations. For example, in the Royal Canadian Mint, they felt they couldn't realize all the future cash flows they thought they should from those capital assets. The international financial reporting centres allow you to take a loss on those assets, so that you better reflect your future ability to use those assets.

[*Translation*]

Losses are included in the Public Accounts of Canada. In the case we are talking about, it's just the way the financial statements of crown corporations were consolidated. The losses of those two crown corporations were grouped into a single line. Losses on assets are not visible, but they are included in the government's results.

Mr. Rémi Massé: Could something be done to improve the presentation of that information and provide more details? Is there a mechanism that would help do that?

Ms. Karen Hogan: Accounting standards are followed. That's exactly how the results should be presented. As we mentioned, in the analysis of the senior management's discussion, more details could be provided on assets at the beginning of financial statements.

Mr. Rémi Massé: Okay, I understand. Thank you.

Thank you, Mr. Chair.

[*English*]

The Chair: Thank you, committee, for your good questions. Thank you to our guests who appeared today for answering our questions.

In the course of this meeting a number of you have said that you would take the question, and you would get back to us. Let me encourage you to do that, to get the information to our clerk.

If you also consider that a question was asked and maybe the clarity of the answer could have been better expressed, bearing in mind that we do a report on this meeting today and on the Public Accounts that have been published, please feel free to get back to our clerk, and to answer those questions with more clarity as well.

We thank you for being here, and for your part in holding governments to account and the transparency aspect, so all Canadians can understand, first of all, that there are those who are keeping it transparent and accountable.

We thank you for your presence today.

The meeting is adjourned.