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# Standing Committee on Public Accounts

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**EVIDENCE**

## Wednesday, November 20, 2013

## Chair

**Mr. David Christopherson**

# Standing Committee on Public Accounts

**Wednesday, November 20, 2013**

● (1530)

[*English*]

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

Colleagues, as previously agreed, today we're holding a public hearing on the published public accounts that are before us.

Before we begin, I will just do a bit of housekeeping.

Just as a reminder, colleagues, next Monday has been designated committee business. [*Technical difficulty—Editor*]...work plan, because we don't have anything beyond the end of next week, so I'm assuming that will be the major focus of that meeting.

I'll remind you also that Tuesday is the tabling of the AG fall report. The lock-up is in this room at 7:30 a.m. Your staff can come in but they can't go out until after 10 o'clock, when the report is tabled. There will be an informal meeting, chaired by me on behalf of the Auditor General, at 9 o'clock. It will run until 10 o'clock at the latest.

The next day, Wednesday, November 27, at our regular time of 3:30, the Auditor General will be here to present his report. That day we will have, in the usual fashion, two hours with him.

I might point out that today Ms. Duncan is replacing Mr. Simms and Mr. Weston is replacing Mr. Adler.

Welcome. We're glad to have you here.

Unless there are any interventions from colleagues, I'll now proceed with the orders of the day.

I'd like to welcome our guests. We have officials from the Office of the Auditor General, the Treasury Board Secretariat, and the Department of Finance.

It's my understanding that on behalf of the Auditor General, Assistant Auditor General Cheng will read an opening remark. I would ask her to introduce her delegation at that time.

The same goes for Mr. Ralston, the Comptroller General of Canada, with regard to introducing his delegates.

Although there will be no presentation from the Department of Finance, Monsieur Robidoux, the assistant deputy minister, is here. He will be participating in questions and answers in the usual fashion.

With that, we will turn to Ms. Cheng.

[*Translation*]

**Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada):** Mr. Chair, thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Canada for the 2012-13 fiscal year. I am accompanied today by Louise Bertrand and Karen Hogan, co-principals responsible for the audit.

We thank the committee for taking an interest in the Public Accounts of Canada. This is an important government accountability report. I will focus my comments on our audit opinion and observations.

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

Our Independent Auditor's Report on the 2012-13 consolidated financial statements can be found on page 2.4 in volume I of the Public Accounts. This marks the 15th year that we have expressed an unmodified audit opinion.

[*English*]

As required by section 6 of the Auditor General Act, we provide an opinion on the government's consistency of application of its accounting policies. Our independent auditor's report reflects the changes in the government's accounting policies related to tax revenues and transfer payments. These changes were made because the government has adopted new public sector accounting standards in those two areas. They have been properly presented and disclosed in note 2 of the consolidated financial statements.

Our observations in past years have highlighted concerns about the financial reporting of inventories and asset-pooled items, or repairable spare parts, at National Defence. Last year we indicated that National Defence was working on several initiatives to improve its financial reporting capabilities.

In this year's audit, we continued to find significant errors, and noted that limited progress had been made by the department in implementing effective compensating controls and processes to improve the recording and valuation of its inventory and asset-pooled items.

Mr. Chair, we have been reporting concerns about those items at National Defence for 10 years. We wish to re-emphasize the importance of taking action and actively monitoring the completion of these improvement initiatives. Given the nature and value of inventories and asset-pooled items, significant errors increase the risk of misstating the consolidated financial statements and making decisions without accurate information.

Our observations also included certain other matters that we have reported on for the past several years. Some of them still require further action.

● (1535)

[*Translation*]

We thank the Comptroller General and his staff, as well as others in the departments that were involved in preparing these accounts. A great deal of work was required, and we appreciate the cooperation and assistance that was provided to us.

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

[*English*]

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

Now it's over to Comptroller General James Ralston.

[*Translation*]

**Mr. Jim Ralston (Comptroller General of Canada, Treasury Board Secretariat):** Good afternoon, Mr. Chair and members of the committee. Thank you very much for the invitation to appear before this committee to discuss the Public Accounts of Canada. I am pleased to be here in my role as Comptroller General of Canada.

[*English*]

With me are two members of my staff, Mr. Sylvain Michaud, executive director, government accounting policy and reporting; and Mr. Michel Vaillant, senior director, public accounts policy and reporting. Also with us today are Mr. Benoît Robidoux, assistant deputy minister, Finance Canada; and Mr. Doug Nevison, general director, economic and fiscal policy branch at the Department of Finance.

For the 15th consecutive year, the Auditor General has issued an unmodified opinion on the government's consolidated financial statements. This testifies to the high standards of the government's financial statements and reporting. I would like to thank the Officer of the Auditor General for the continued professional relationship that we have enjoyed.

I would also like to take the opportunity to highlight a few elements that impacted the Government of Canada financial statements during 2012-13. During the year the government retroactively adopted the new standards of the Public Sector Accounting Board regarding the presentation of certain tax expenditures that are no longer netted against tax revenues, but are reported as transfer payment expenses. Tax expenditures that provide a financial benefit through the tax system and are not related to the relief of taxes paid or payable are now shown as transfer payment expenses. Tax expenditures that reduce taxes paid or payable are considered tax concessions and will continue to be netted against the applicable tax revenue.

[*Translation*]

The impact of this reclassification on the Consolidated Statement of Operations and Accumulated Deficit is an increase to both tax revenue and the transfer payment expense of $3.1 billion—$3.2 billion in 2012—with no impact on the annual deficit.

[*English*]

Also during the fiscal year, the government adopted the revised accounting standard of the Public Sector Accounting Board regarding government transfers. The main impact for the government was to stop recognizing advance payments as non-financial assets and to recognize them instead as expenses. The impact of these changes on the financial results was an increase in expense of $500 million in the current year.

In addition, the Government of Canada has revised its approach for the recognition and measurement of accumulated sick leave entitlements. As a result, for the first time, the government recognized a liability for accumulated sick leave entitlements that are anticipated to be used in the future. In the past, sick leave benefit expenses were recognized when benefits were used by employees and the government did not record a liability in its financial statements.

● (1540)

[*Translation*]

The liability represents the government's obligation for the accumulated sick leave entitlements that are anticipated to be used in future years. It does not represent the cost of sick leave benefits that have been used during the fiscal year or to date. As a result of this restatement, the opening balance of other employee and veteran future benefit liabilities, net debt and the beginning balance of accumulated deficit of the Government of Canada have increased by $1.2 billion.

[*English*]

Some media reported in early 2013 that the sick leave liability for the Government of Canada was $5.2 billion. This amount represents the total value of the accumulated sick leave entitlement. It does not take into consideration the anticipated future usage. Since sick leave entitlements cannot be cashed out and it is unlikely that all public servants would exhaust all their accumulated sick leave entitlements in the future, the liability for accumulated sick leave is less than the total value of the accumulated sick leave entitlements.

We are now available to answer the questions of the committee on the public accounts of Canada.

Thank you.

**The Chair:** Very good. *Merci.*

We will now begin our questions and comments in the usual fashion, beginning with Mr. Albas.

**Mr. Dan Albas (Okanagan—Coquihalla, CPC):** Thank you, Mr. Chair.

I just want to thank all of our guests for being here today to offer your expertise. Obviously, we appreciate the service you do for the country to make sure that again, as Ms. Cheng said earlier, this is a key accountability measure for parliamentarians and thus for the public, so we certainly appreciate your being here.

In regard to that, this is the 15th consecutive year that the Auditor General has issued an unmodified opinion on the Government of Canada's consolidated financial statements. Could you please comment on what this means for Canada?

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

As we have mentioned in the past, this is rather rare in terms of the global situation on financial reporting at the government level. We're not aware of too many jurisdictions that actually have clean opinions on consolidated accounts, let alone having 15 years of consecutive records like so. The closest I think we could find would be New Zealand and Australia where they have consecutive unmodified opinion for about four or five years, but not anywhere close to what we have here in Canada.

**Mr. Dan Albas:** Excellent. I'm very happy to hear that, Mr. Chair.

Now the government's clean audit testifies to the high standards of the government's financial statements and reporting. Can you please share with this committee the requirements needed for the government to achieve this opinion. Are so-called clean audits common in the rest of the world? I know you did say that Australia and some other areas are working toward this same standard. Could you just comment a little further on that?

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

It requires a lot of due diligence on the part of the various departments and agencies that have a role in preparing the financial information.

First and foremost, the proper systems and processes to capture the data are needed; good systems of internal control are needed to be able to ensure that the data collected would be valid; and then the central exercise is needed, which is under the charge of the comptroller general, to make sure there's proper consolidation and proper elimination of accounts. Where there are significant accounting judgments on estimates and more complex issues, the comptroller general would work on those to make sure we follow the standards.

The auditor's role is, in turn then, to look at those accounts and make sure we obtain sufficient and appropriate audit evidence to support the accounts to make sure there are no material misstatements to consolidated financial statements.

**Mr. Dan Albas:** I was back in my constituency last week, Mr. Chair, and I was speaking with constituents about my new role here working alongside my colleagues on both sides on the public accounts committee. One of the things they brought to mind was the fact that we're looking at last year's books at this juncture. I think that goes to say, going back to what you said, that there are a number of accountability measures, and you have to work with the comptroller general. Can you just explain a little bit more? When would you start planning to be able to put all these things in? It sounds to me as if it takes a considerable amount of time and energy to put together this kind of accountability document.

**Ms. Nancy Cheng:** In terms of the preparation time, that would probably be best answered by the government officials themselves.

From an audit perspective, I could relate to my experience about a month and a bit ago when we were just closing off all the documentation on the current public accounts. My staff was already in my office asking me questions about planning for the 2013-14 audit. So, the exercise is really quite involved, and both sides start rather early looking at this.

One of the things we do is that, notwithstanding that the accounts are clean and there are no observations that would prevent us from providing that clean opinion, we would usually have discussion about areas of improvement. If we can have conversation early, then we can perhaps help the government make those modifications early on in the year, rather than coming in and telling them at the end. So improvements can be made a bit earlier.

So we start conversation with the office of the comptroller general and, separately, at the departmental level, there's a lot of ongoing conversation relating to the public accounts audit.

● (1545)

**Mr. Dan Albas:** I certainly appreciate your testimony here today and the work the Auditor General does for the people of Canada and for parliamentarians, in general. Is there anything further you would say to the people back home right now? Is there anything you think they should know about, so they can rest assured that all these figures are accurate and are according to the highest standards we have here? Is there anything else you would like people at home to hear?

**Ms. Nancy Cheng:** Mr. Chair, I don't think there is anything more we can say, aside from having an unmodified audit opinion. I think people need to appreciate what that statement means. When we say we have 15 years of consecutive financial statements without modification or qualification—in the old days, that's what you would call them—it is quite an achievement. If we appreciate the value of that statement, I think the message would be well communicated.

**Mr. Dan Albas:** How much time do I have, Mr. Chair?

**The Chair:** Be very brief.

**Mr. Dan Albas:** Very briefly, then, I understand also that the Auditor General works with other international colleagues, with other countries and whatnot. Are these the kinds of things that people seek out the Auditor General's expertise on?

**Ms. Nancy Cheng:** Mr. Chair, from time to time we do have international groups visiting our office. The national audit offices of other countries, the equivalent of our office, would visit to try to find out what we do here in Canada. Certainly, we would share with them what we find, our discussions, and the kind of work we would do to verify controls. Along the way, it would be made known and clear that we actually are able to express clean opinions year after year here in Canada.

**The Chair:** That's very good. Thank you.

The time has expired.

Now we'll go to Mr. Allen.

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

Thank you to you folks.

Let me, in the vernacular, give kudos to what used to be called the bean-counters, in the sense of making sure that the numbers jibe and actually looking after the beans, if you will. Because clearly that's who deserves the credit: the folks who work behind office walls somewhere out there in the bureaucracy.

Clearly, 15 years of clean audit is high marks, and it's high praise for those folks doing the work. You could take that back to your colleagues in your departments and say to them, from the official opposition, “Well done.” They have obviously done an exemplary job.

But there are a couple of troubling things, Ms. Cheng, in your report.

National Defence obviously is a sticking point. For 10 years now, they've said they would do better at their inventory control, and for 10 years they've failed to do that. I believe that, according to your report, they're now suggesting that sometime in 2016 maybe they'll get to it.

I recognize that this is somewhat of an opinion piece, but do we have any evidence that at least they're on their way to perhaps getting to that goal in 2016? Or is this the defence department telling us again that they're working at it, but we don't have any evidence that they're working at it?

**Ms. Nancy Cheng:** Basically, the reason why it was 10 years was that in about 2003 the government adopted accrual accounting. For National Defence, being such a huge department, it was a very significant exercise to be able to transition. They were having issues with respect to looking at fixed assets, tangible capital assets. As well, inventory control then became an issue along the way. It stands to reason that it would take them a fair chunk of time.

Having said that, though, we felt that for 10 years' time they probably should be able to do better than they're doing right now. Year over year in the observations section, we do comment on the fact that they still need work in terms of the areas of inventory and asset pool items, because every year when we do our audit we have significant adjustments. If you are adjusting the accounts that significantly every year, it means that there are still some systemic problems.

In terms of what they're doing, I understand that they actually filed a response to the committee about a month ago. There was a recommendation that this committee had made in reaction to the observations we made last year. That report was filed about a month ago, indicating that they're working on a number of initiatives leading up to 2016 and going a little bit beyond. I think the chart I saw was for 2016-17. This would be something that we would want to look at in the current year's audit to see if they're on schedule.

They have made movement on some of these improvement initiatives, but the improvement initiatives are broader than just inventory reporting. They get into inventory management and maybe other aspects as well, so when we come back to the issue of inventory reporting, they really haven't gone very far. The important point is—

● (1550)

**Mr. Malcolm Allen:** That's one of the questions I have. The report actually isn't here. According to your notes, because the government prorogued Parliament, it actually won't come until the end of November, so we actually don't have it, it seems, according to this. Unless the clerk has received it, we don't actually have that report yet from National Defence.

**The Chair:** Do you want to comment, Alex?

**Mr. Alex Smith (Committee Researcher):** The prorogation didn't affect the tabling of government responses to reports in the previous session. It was provided to members and has been distributed.

**Mr. Malcolm Allen:** Okay. I'm still foggy.

I have another question on CBSA and Canadian border security. According to the current status in your chart, in 2008 a report by the Standing Committee on Public Accounts recommended that the agency provide the committee with a detailed plan. This is all about GST and HST collection, taxes, and a reconciliation of how much they have collected and how much they should have collected in doing the things they're doing.

Clearly, you indicated that they weren't doing it really well for a while. They were having discrepancies. You've said that CBSA has done it a bit better, and now CBSA is saying that they know they told the members of this committee in 2008 that they were going to get it done, but they're now saying, according to CBSA, that they'll get back to us on March 31, 2015.

Now, it seems a bit gratuitous to drag it out that long, but does this seem reasonable to you? Are they on their way to getting this done? Do you see evidence of that? Because quite frankly, Chair, I think this is something this committee should take up. This agency committed to us in 2008. It's now five years later, and by then it will be seven years later, according to their present timeline.

**Ms. Nancy Cheng:** In terms of that question, it had to do with CBSA's reconciling its usual revenue systems with the bigger, general ledger for financial reporting purposes. What they have done in the last couple of years was to do a lot more of these reconciliations, to see how they can bring the numbers together. Those numbers seem to be improving. That's why we put it in the table and not in the main text of our observation, because we can see movement.

What they responded to the committee at the time was that they were going to implement this accounts receivable system, which would really help in being able to do the sub-ledger and the general ledger reconciliation. The first date they provided was March 2013. It wasn't that they would finish in 2008, but that the system would be in play by March of 2013. Since then, there's been one delay. They then told us that it would be October 2013. The latest date that we've received from them is March 2015.

Hence, in the paragraph here, we indicate that it still requires some attention, and that it is important that they follow through and complete it as planned.

**The Chair:** Very good. Thank you so much. Your time has expired.

Now, we move to our vice-chair, Mr. Carmichael.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Mr. Chair.

And thank you to our guests for your work today.

Ms. Cheng, I want to join my colleague Mr. Albas in commenting briefly on the clean opinion you've been referring to, and send our congratulations to those people behind the scenes who do all the hard work to get it to that level so that when you go in with an audit team, you have good data, good information to work with. Please extend our thanks to them as well.

I want to begin by talking about the results posted in this report. The public accounts state that the Canadian economy posted modest growth over the course of 2012 and in the first half of 2013, and that Canada recorded one of the best performances among G-7 countries.

Can you comment on what factors contributed to that growth, and perhaps provide some personal opinion?

Mr. Ralston, I will start with you, and then whoever of your colleagues would like to join in.

● (1555)

**Mr. Jim Ralston:** Mr. Chair, I think perhaps we could invite our colleagues from the Department of Finance to comment on that.

**The Chair:** Sure.

Over to you, Mr. Robidoux.

**Mr. Benoît Robidoux (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance):** Thank you, Mr. Chair.

Despite being fairly weak over 2012–13, Canada's economy relative to other advanced economies is still doing very well. Again, despite exports being fairly weak in that year because of global developments, the domestic economy, which is consumption and investment by business, has been fairly strong in Canada's housing sector. It was kind of slowing at that time, but it was also contributing to growth. Those domestic conditions were good and supported the economy through that year. As a result, as many of our documents show, since the beginning of the recovery, Canada has been the best country in the G–7, relative to employment gain or GDP gain.

Effectively, we have been doing fairly well. Again, it's reflected in the domestic economy more than the export side, which has been fairly weak, apart from that year.

**Mr. John Carmichael:** Thank you, Mr. Robidoux. I think that's an important point to make.

Clearly, we've come out of the two- or three-year decline in 2007, 2008, 2009, which was very challenging. As our economy recovers, it's important that we recognize that our economy is strong. It's not without its challenges in the future, and we want to make sure we have our eye on the ball, but I think your point is well stated: it's showing good signs and signals that the recovery is still under way.

According to the OECD—you talk about the G–7—Canada's total government net-to-GDP ratio stood at 34.5% in 2012, which was by far the lowest of our G–7 partners. Could you comment on the factors contributing to that, particularly when we look globally and we see debt issues that are of concern on the horizon in other countries?

I don't want to focus on them, I want to focus on us, but I get the impression from this information and this data that we're in pretty good shape.

**Mr. Benoît Robidoux:** Yes, sir, we're doing pretty well there too, compared to other G-7 countries, compared to most advanced economies, although there are also advanced countries that do well in that respect, fairly small countries.

With respect to Canada, to explain that again, this includes the federal government, all the provincial governments, the Canada Pension Plan and the Quebec Pension Plan. All those levels of government are included in that to make sure that things are comparable across countries. It's compiled by the OECD to try and achieve the best comparables across countries. It reflects a fairly low debt at the federal level, a fairly low debt at most provinces—some provinces are almost in surplus. It also reflects net assets in the Canada Pension Plan and the Quebec Pension Plan to pay for future benefits of Canadians.

I would say that the stark difference beyond the low debt of both federal and provincial governments is the CPP and the QPP. Canada is one of the few countries that has set aside funds to pay for future pensions of Canadians. Very few countries do that, indeed, although it's the right thing to do.

**The Chair:** I'm sorry, Mr. Carmichael, your time has expired.

**Mr. John Carmichael:** Thank you.

**The Chair:** Time flies when you're having fun.

Mr. Harris.

**Mr. Dan Harris (Scarborough Southwest, NDP):** Thank you, Mr. Chair, and thank you to everyone for being here.

I want to go back to the Department of National Defence. In reading through 2.41, there's a new resource management system being put in place that was due to be completed by December of 2013. Is that part of what's been pushed back to 2016, or is it something else? Has the whole thing been pushed back?

**Ms. Nancy Cheng:** At the time when we completed the audit the department did not give us a firm deadline in terms of when they thought it would be completed. Subsequent to that, and in the response that they provided to this particular committee, they indicate that they are on track. That means they should be able to complete that by December of 2013, basically next month.

● (1600)

**Mr. Dan Harris:** That's very good to hear because it seems that will solve many of the problems with asset management and pulled items that have been happening.

It does mention that there was a recommendation made to put interim controls in place. Were appropriate interim controls put in place to minimize the challenges that DND was having?

**Ms. Nancy Cheng:** Mr. Chair, in terms of 2012-13, the audit that we just completed, those mitigating measures were not adequately put in place. That's why we were continuing to find errors. In the report here we indicate that they really need to put in some compensating controls, and we made some suggestions in terms of things that they could do and should do. Those elements seem to be reflected in their work plan, and for those they seem to go out to 2016 and maybe even 2017. That's in the response that was provided to this committee. We basically very recently got a copy of it ourselves, so we haven't really looked at it closely. It will be part of the audit that we will do in 2013-14.

**Mr. Dan Harris:** It's good to hear that the Auditor General's office is going to stay on top of that because, of course, we're continuing to find errors requiring numerous adjustments relating to evaluation, completeness, and accuracy of quantities. I mean, these are all things that take time and, of course, time in this case is money.

Has an evaluation been done of what cost to Canadians this delay has caused and the problems it has caused, because even only tracking them is taking more time? Do we have evaluation of how much time and money has been spent on that?

**Ms. Nancy Cheng:** Mr. Chair, that's not really part of the scope of the financial audit so we don't have any data of that kind.

**Mr. Dan Harris:** Thank you very much.

With the transition to accrued accounting, how long would it take most departments to complete that? You said the Department of National Defence is much larger than the other departments. Is the amount of time that has been taken appropriate for that size of an organization?

**Ms. Nancy Cheng:** Mr. Chair, I don't have a specific number in mind, but ten years seems like a long time. From our perspective, we feel they should be able to get farther along within a ten-year time span. Not too many other departments would have lingering issues of this kind. Otherwise we would have noted them in the observations to the public accounts. So National Defence is a bit of a unique entity that way.

**Mr. Dan Harris:** Of course, governing being about priorities, do you think additional priority placement by the government on this issue would help to speed matters up?

**Ms. Nancy Cheng:** Mr. Chair, it is difficult to talk about priorities without comparing what else we're looking at.

Certainly from a financial reporting point of view, and I think it's well recognized and generally acknowledged, the Public Accounts is an important accountability document of the government, so it stands to have a certain priority.

Part of doing it right is making sure that inventory is appropriately valued and reported. That is a weakness that we have in our statements right now, but not to the extent that it is material; otherwise we would have difficulty providing a clean opinion. Nonetheless, it is still an important item.

**Mr. Dan Harris:** Thank you.

Yes, it's a testament to the exceptional work that has been done by all the offices involved and by public servants that there aren't that many weaknesses to be found in the report. Certainly I'd like to commend the work that everyone who has been involved in this has done.

I am new to the committee, and it is a little hefty to become involved with for the first time, so I'm going to leave my questions there. I'm sure we will have a chance to come back in another round.

**The Chair:** Yes. You were down to less than half a minute, anyway.

Thank you very much.

We will go over to Mr. Hayes, who now has the floor.

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

I'm looking at the analysis that was done. This is probably directed to Finance officials. Specifically, I'm trying to understand the significance of the interest ratio. I'm noticing that in 1990-91 this ratio was as high as 37.6%, and in 2011-12 our government brought it down to 12.5%, and it was further reduced to 11.4% in 2013, according to the analysis.

I think, looking at it, that this is probably a good thing, but I'd like you to elaborate for me what the significance is of a lower interest ratio to Canadians.

**Mr. Benoît Robidoux:** Well, the best way to describe the importance of it for every Canadian is to consider that back in those days, effectively one-third of every dollar in tax collected by the government was used to pay down interest, to service the debt. It was not directed specifically towards current services or used, for example, to fund new programs or reduce taxes; it was used to pay down interest on the debt.

As of now, as you have said, we are down to about 11%, so only one-tenth of each dollar that we collect through taxes is used to service the debt, which allows more of the revenues to be directed towards services to Canadians or be used to reduce taxes so that Canadians pay less in taxes. This is the main effect of that reduction in the interest rate ratio for Canadians and the economy in general.

● (1605)

**Mr. Bryan Hayes:** In line with that, sir, I notice that public debt charges from 2011-12 to 2012-13 decreased by $1.9 billion. What would be the reasoning behind the decrease in public debt charges?

**Mr. Benoît Robidoux:** For 2012-13 it's basically that there was a small increase in the size of the debt because of the deficit, which was more than offset by lower effective interest rates because of the fall in interest rates observed through that whole year. This explains the fall in interest rates.

**Mr. Bryan Hayes:** I guess that if we had an interest rate increase and had to reorganize our debt, that would be quite a risk.

**Mr. Benoît Robidoux:** You're perfectly right. If we don't eliminate the deficit before interest rates increase, it will compound and create more pressure on the fiscal framework.

**Mr. Bryan Hayes:** So I guess a deficit reduction action plan is very significant.

I want to again go to page 1.3. It speaks to nominal GDP growth. There's a chart there showing that in June 2013 nominal GDP growth was 3.1%.

Is this chart specific to Canadian nominal GDP growth, or is this a global figure for GDP growth?

**Mr. Benoît Robidoux:** Mr. Chair, this is for Canada. This table tries to explain what happened between the beginning of the year, when we had budget 2012, and when we closed the accounts, showing how nominal GDP evolved compared with what was expected. We were expecting 4.6% and we ended up in March and June at 3.1% and then up a little bit, at 3.4%.

The essence of this is that the nominal GDP is essentially the tax base. If you get less nominal GDP, you get less tax revenue. This affected our expectation for tax revenue through the year. We had less at the end of the year than we thought at the beginning of the year we would have.

**Mr. Bryan Hayes:** When we look at our trade with other countries in terms of the GDP of another country and how it is impacted—say, for example, the United States, if its GDP goes down—I expect that would have a dramatic impact on Canada's economy. There's a sense in which this says to me that this means we need to diversify our economy and move to trade with other countries, because we can't be solely reliant upon the United States.

Would you agree with that comment?

**Mr. Benoît Robidoux:** I think the government would surely agree with it, and most people would agree with the idea that we need to diversity our trade to ensure that we are not hostage to any development happening in the U.S. The recent agreement with Europe in that respect is very useful in trying to diversify our trade.

Obviously, diversifying towards Asia would be quite important for Canada too, as Asia is the place where growth will be in the future and where the demand for goods will be. Connecting Canadian exporters and producers with Asia and Europe is very good news for diversifying trade. It is fair to say that in the public domain, that means something that is good to achieve—not necessarily easy to achieve, but very good to achieve.

**The Chair:** The time has expired. Thank you, Mr. Hayes.

Now we go over to Ms. Duncan.

**Ms. Kirsty Duncan (Etobicoke North, Lib.):** Thank you, Mr. Chair.

And thank you all for your work and for coming today.

I'm new. Is the Auditor General's office receiving enough information from the government for the Auditor General's office to do its work?

● (1610)

**Ms. Nancy Cheng:** We have received excellent cooperation from both the comptroller general's office as well as all the line departments and agencies, so there are no issues of any concern that I would bring to the table.

**Ms. Kirsty Duncan:** Thank you.

Performance audits contain recommendations for addressing the most serious deficiencies identified. How do you develop recommendations, and how do you ensure that the department implements your recommendations?

**Ms. Nancy Cheng:** Similar to what happens in the private sector, usually what the auditors do is provide room for improvement and provide pointers to help management consider areas in which to make changes, so that the systems and the controls can be better the next time around.

The financial audit and the public accounts audit are reporting at different levels. If we look at a particular scenario, the revenue stream or an expenditure stream, and notice that there are some shortcomings, then we would form a view as to how serious they are.

If there is something really quite serious, to the point that we would consider it a significant deficiency, we would take it to what we consider the signatories. We have an exit meeting with the four signatories: they are the deputy minister of Finance, the deputy receiver general, the comptroller general, and the secretary of the Treasury Board. We would report to them that these are some of the weaknesses they really should know about, that are pan-government or significant enough that at the centre they really should know.

The next level down would be issues that are not as significant; for example, some of the issues relating to National Defence that you see in part here. The audit team that audits the Department of National Defence would provide a management letter. We would write to the deputy minister indicating that as a result of doing the audit—not that we go out to specifically assess controls—we notice that there are some areas they should or could improve upon.

**Ms. Kirsty Duncan:** How do you ensure that the departments implement your recommendations? You have talked for 10 years about National Defence. We haven't seen those changes.

How do we ensure that, and do you have recommendations for doing so?

**Ms. Nancy Cheng:** We have some success stories along the way. As I pointed out, we have a very good working relationship with the comptroller general's office, or with other departments, for that matter.

To take an example, if you go back to observations several years ago, estimation of tax revenue was on the block. We talked about things that would be better for assessing tax revenue and estimating the amounts, and these are not on the list anymore.

**Ms. Kirsty Duncan:** I'm sorry. I hate to interrupt. The question is how—without examples—you ensure that the departments implement your recommendations.

**Ms. Nancy Cheng:** We tend to present the results to senior management, and wherever the department might allow us to do so we would go to the departmental audit committee as well to explain some of the differences and some of the weaknesses in their area and encourage them to do that.

As with any other recommendations and performance audit reports, we do not have the authority to require departments and agencies to take certain actions. But the reason I mentioned the centre is that often the comptroller general's office can influence a department to encourage them to make those adjustments and changes.

**Ms. Kirsty Duncan:** You said “where the department allows us to come in”. Could you expand on that?

**Ms. Nancy Cheng:** What I was referring to are departmental audit committees. They are advisory in nature to deputy ministers. It's not a forum where we naturally would go. But in some cases the departments do invite us to attend the departmental audit committee so we can explain the audit findings. If we have the occasion to do so, we would highlight any improvements for them so they can advise the deputy minister as well.

**Ms. Kirsty Duncan:** Can the Auditor General's reports mention a point person responsible for implementing recommendations in each department that the committee could regularly go back to for follow-up on the implementation of those recommendations? This would be a point position, something like that.

**Ms. Nancy Cheng:** Mr. Chair, we tend not to do that. If you follow the concept of the accounting officer, really it's the deputy minister. So when we direct a recommendation to a specific department, it's addressed to the deputy minister. He or she has the responsibility to make sure the mandate, the operations, and the wherewithals to have them properly executed. So we go back to the deputy minister. For that reason, the management letters usually are addressed directly to the deputy minister as well.

● (1615)

**The Chair:** Sorry, time has expired. Thank you.

We go over now to Mr. Woodworth.

You have the floor, sir.

**Mr. Stephen Woodworth (Kitchener Centre, CPC):** Thank you very much, Mr. Chair.

My thanks to all of the witnesses for your attendance. I know that collectively you all have your finger on the pulse of the government's finances and it's great to hear from you.

I have questions regarding the discussion and analysis in section 1 of volume 1 of the Public Accounts. I'm going to direct them to Mr. Ralston I think, unless I'm told that they're authored by another department or agency.

I'm specifically going to look at the last paragraph on the left-hand side of page 1.3. The question I have revolves around a comment that I've heard from some opposition members and others in which the government is accused of deliberately underestimating revenues so as to create a better financial picture when the numbers eventually turn up. Looking at that paragraph that I've just referenced, I want to ask you, did you find the government's 2012-13 downward adjustment for risk to revenues to be unnecessarily exaggerated?

**Mr. Jim Ralston:** I think this is probably a question that should be addressed to the Department of Finance. I'll just point out that our involvement, as has been outlined so far, is to really look at the actual results. The notion of comparisons of budget to actuals are best addressed by the Department of Finance.

**Mr. Stephen Woodworth:** I'm looking at the observation in that paragraph. It seems to suggest to me that in fact the government allowed for a $3-billion downward adjustment for risk to revenues but in fact not only was that not exaggerated, it was in fact not sufficient. If you're not familiar with that paragraph, I'll transfer my questions to Mr. Robidoux. Would that be better?

**Mr. Jim Ralston:** I would think that would be better.

**Mr. Stephen Woodworth:** Can you comment on that, Mr. Robidoux? Do you follow what I'm saying?

**Mr. Benoît Robidoux:** Yes. The government has for a number of years decided to put an adjustment for risk, a provision in the fiscal framework of $3 billion per year to hedge against unexpected economic shocks. Effectively in 2012-13, as I was mentioning before, nominal GDP has been reduced significantly through the year because of global development and fairly weak commodity prices and weak domestic prices.

What this paragraph is saying is that in principle our revenue is down by $3 billion. If the shock is within this $3 billion, our revenue will be in line with what we expected. In this case the fall in GDP was important enough to go beyond the $3 billion, which forced us to reduce our forecast for revenues. I guess in itself it speaks to the fact that the $3 billion in some years is not enough to cover the potential high risk that we face.

**Mr. Stephen Woodworth:** Is it safe to say it's in fact prudent management and budgeting when you're in uncertain economic times?

**Mr. Benoît Robidoux:** I would fully support this.

**Mr. Stephen Woodworth:** Thank you.

**Mr. Benoît Robidoux:** This is a prudent approach to budgeting. It's supported by the IMF, the private sector economies we consult for, and the OECD. This is always viewed as a very appropriate and prudent approach to budgeting.

**Mr. Stephen Woodworth:** Next, I'd like to draw attention to the chart on page 1.7.

I'll stick with you, Mr. Robidoux, about that.

Sometimes we hear the accusation that the government is slashing government transfers and expenditures and seriously impairing government operations. Yet when I look at the total expenses comparison from 2011-12 to 2012-13, I see that there's been in fact an overall very modest or small increase.

Does that suggest to you that there's no wholesale slashing going on in the government?

● (1620)

**Mr. Benoît Robidoux:** The government has a plan to balance, and part of that plan is to control spending. There is some control of spending for sure. I will not comment on the word “slashing”. If we go into detail and we look at transfers to persons and transfers to other levels of governance, that spending has been growing year after year. The part that is more stable or slightly declining is direct program spending. Overall, you are right, that spending has been stable. In fact, in terms of...it has been increasing. It's a fact of life that public spending is not falling.

**The Chair:** Sorry, Mr. Woodworth, your time has expired, sir.

We'll move over now to Monsieur Giguère.

[*Translation*]

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

I want to thank all of you for being here to help us understand these fairly complex financial statements.

On page 1.19, table 1.3 shows something rather odd. It lists a net debt at the beginning of the year in the amount of $616 billion and a $29-billion increase in the debt, for a total of $651 billion. The problem is that the amounts for those headings add up to $646.857 billion, meaning there's a discrepancy of $4.678 billion.

Could you please explain where that $4.678-billion discrepancy in the financial statements comes from? We're not talking about a few pennies, after all.

Mr. Robidoux, that question is for you.

[*English*]

**The Chair:** The question is to you, Mr. Robidoux.

**Mr. Benoît Robidoux:** Maybe my colleague can answer.

**The Chair:** Do you want to answer that, Mr. Ralston?

**Mr. Jim Ralston:** Yes. If I understand the question, we did mention there were a couple of accounting policy changes that resulted in adjustments to prior figures. I think the member may be seeing the impacts of those.

[*Translation*]

**Mr. Alain Giguère:** I understood that and I checked what you said. In fact, the correction appears on page 2.13. The correction appears at the top of the table: $1.341 billion. The work was done properly and the entry is right.

I come up with a discrepancy of $4.678 billion that I can't find anywhere. Normally, there are minor errors and typos and, sometimes, misprints, and I correct those. But I can't find that $4.678 billion anywhere.

As I said, the correction appears on page 2.13, and the $1.341 billion is indeed recorded at the top of the table.

[*English*]

**Mr. Jim Ralston:** I'll be one second, please.

**The Chair:** I'll give you a reasonable period.

[*Translation*]

**Mr. Benoît Robidoux:** I just want to make sure we're looking at the right year. Are we talking about 2012?

**Mr. Alain Giguère:** Yes.

[*English*]

**Mr. Jim Ralston:** I'm sorry. Would it be possible for us to do a follow-up and respond to that? We're having a little difficulty following the numbers.

**The Chair:** Let me put it to the member.

Monsieur Giguère, the witnesses are asking if it's okay if they come back later with an answer, or you can continue to pursue it now, it's your choice.

[*Translation*]

**Mr. Benoît Robidoux:** Could you repeat your question slowly? It's just that I don't see anything off in that column.

[*English*]

**The Chair:** Let me see if I can help.

Is there some difficulty being clear on the question? Is that part of it?

All right, let's take another stab at that.

Mr. Giguère, if you could explain it once more, succinctly, in the hopes that they'll grasp the essence of your question. Then I think they'd like to respond. Do you want to try again with your question?

[*Translation*]

**Mr. Alain Giguère:** Basically, the problem is that you're giving us numbers that don't add up. There's a mistake in the amount of $4.678 billion. For 2012, you should be adding $616.908 billion and $29.949 billion. Strangely enough, the table shows the result as $651.535 billion, but if you add it up correctly, the answer is actually $646.857 billion. The difference between your result and the correct calculation is $4.678 billion. Where does the difference come from?

If it were just a simple error such as a typo, a misprint or a calculation mistake, I would understand and just correct it.

● (1625)

[*English*]

**The Chair:** Let's get the question clear first, and then hopefully an answer that's as clear. Do we understand the question? Yes, I'm seeing heads nodding. Do we have an answer? You're working on it. All right, stop the clock.

**Mr. Jim Ralston:** To our knowledge—

**Mr. Benoît Robidoux:** There's no problem there.

**The Chair:** Sorry?

**Mr. Benoît Robidoux:** There's no mistake. It just adds up.

[*Translation*]

Starting with the figure in the line at the top, you see $620 billion. Further down, you see $621 billion because we added $620 billion and $1.341 billion.

In the second line, you see $621.586 billion. Is that clear?

**Mr. Alain Giguère:** Yes, but the problem is still the same.

**Mr. Benoît Robidoux:** I'll continue, if I may.

**Mr. Alain Giguère:** I understand what you're saying, but the problem is that you're carrying forward a $616-billion debt and increasing it to $620 billion. There're still no explanation for the $4-billion discrepancy. The $616 billion just becomes $620 billion. What I want to know is where that $4.678-billion discrepancy comes from.

Mr. Chair, I think we should give them time so they can come back to us with a more detailed explanation.

[*English*]

**The Chair:** Before you leave that, if I might, Alex seemed to have a bit of a handle on it. I'm going to ask him to give his thought as he sees it.

Please, Alex, just say what you mentioned to me.

**Mr. Alex Smith:** I was just pointing out to you, Mr. Chair, that it seems the member is pointing to the difference between net debt at the end of 2011 and the opening debt at the beginning of 2012. The member seems to be saying that the note provided doesn't explain the difference between the net debt one year and the opening debt the following year.

**The Chair:** Okay, thank you.

Is that accurate, monsieur?

[*Translation*]

**Mr. Alain Giguère:** Yes.

[*English*]

**The Chair:** Do we understand the question now? Can we get a clear answer?

**Mr. Jim Ralston:** We're working on it. At the moment, it goes back to a previous year. I'm afraid we don't have that one at our fingertips, but we'll be happy to track it down.

**Mr. Benoît Robidoux:** We could get back with the right answer. I think the right answer is the note 1 to the table. The restatement may be seen as balanced for both internal and external, and the answer is different because of the restatement. I'm quite sure it's that. We'll double-check and get back with an answer.

**The Chair:** All right.

Time has expired. I have been shutting down your time when they've been huddling, so this is a fair representation of your time, sir. I'm sorry. You have two choices: you can either get in the next round and continue to ask, or you can follow up with them. They did make a commitment they would get you an answer. If you're not getting satisfactory answers, you have the right to come back to this committee and say you're not getting the answers they committed to give you. That's your procedure. Is that okay, sir?

[*Translation*]

**Mr. Alain Giguère:** May I ask another question?

**The Chair:** No, Mr. Giguère.

[*English*]

If you're in a subsequent round, you'll have the floor.

Okay. With that then, we'll move along.

Mr. Shipley, you now have the floor, sir.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chair, and thank you witnesses all for coming out.

Mr. Robidoux, at the end of March of this year, 2013, it is my understanding that our deficit had hit a figure of something less than $19 billion—I think about $18.9 billion. In the budgetary information in the report, there was a deficit projection of $26.3 billion set in 2012. There were earlier comments that we're “in a time”. There's no surprise in that. We're coming out of the recession. Or we're out of it. We know that global growth is still fairly weak. We need to continue to work on exports. We look for diversification in our agreements to export into countries besides our closest partner and neighbour to the south.

Revenues increased by an amount of about $7.5 billion. I think that's about 3% up from 2011 to 2012. I'm just trying to grasp this. Our deficit has come down. Our revenues have increased at a time when global problems still strongly exist. These higher tax revenue come at a time when taxes in Canada are at a 50-year low. I'm speaking of individuals and, particularly in my riding, small businesses, which make up about 98% of the economy in our country.

I'm just trying to understand what that means to a family, what it means to a small business. How does it work? It seems counter-intuitive that in a time of economic growth we've had increases in revenue, lower taxes, and we've been able to pay down the deficit ahead of what we were projecting. I'm just wondering, do you have any comments as to how that actually works, a kind of Economics 101 that most of us can understand?

● (1630)

**Mr. Benoît Robidoux:** Chair, I will do my best.

Total revenues, which include tax revenues and non-tax revenues, went up by $7.5 billion in fiscal year 2012-13. This reflects an increase in GDP, the base of taxation. The tax rates have been kept stable. What happened is that the pie has been growing and this brings higher revenues. This is the explanation, more or less. In that same year, we had a growth in total revenue of 3% which was more or less aligned with the growth in the base. Spending was fairly flat last year, and this led to an improvement in the reduction of the deficit. I hope this is helping you. It's not an increase in the tax rate, for sure. It was just an increase in the pie that is taxable.

**Mr. Bev Shipley:** Thank you, Mr. Chair, and Mr. Robidoux.

I think it also helps that in Canada business is working. Even with a lower tax rate, we were able to increase the amount of revenues, which takes me to the comments of the comptroller general.

I just want to understand a little bit, Mr. Ralston. You mentioned in your opening statement that the government retroactively adopted new standards for public sector accounting regarding the presentation of certain tax expenditures. Why was this done? Just help us to understand why it was done. What would be the impact of this reclassification?

**Mr. Jim Ralston:** Mr. Chair, the change was made pursuant to a change or a new accounting standard issued by the Public Sector Accounting Board. The Public Sector Accounting Board is an independent standard-setter for governments in Canada. The stated accounting policies of the federal government are based on those standards.

What that standard was trying to reflect or does reflect is that not all so-called tax expenditures have similar characteristics and purposes. As I said in my opening statement, some are effectively almost like a substitute for a cheque. They are a transfer that happens to be administered through the tax system. Others are effectively rate reductions; the term I used earlier was tax concession.

What the standard did was start to differentiate between those two kinds of tax expenditures. So for the former one, where the characteristics were very similar to a cash transfer, we now show them as if they were a cash transfer. For the ones that are more reflective of a rate reduction, we show them as we always have, as an offset to tax revenue.

The impact of that change is to....because things that were formerly deducted from revenue are now shown gross—so you see an increase in tax revenue with a corresponding increase in the expenditure—the net effect is zero. That's why I mentioned that there is no impact on the bottom line, but it shows more faithfully the nature of the underlying activity.

● (1635)

**The Chair:** Thank you.

Moving along now, we go back to Ms. Duncan.

**Ms. Kirsty Duncan:** Thank you.

I'm concerned that there's little follow-up. For example, there's an audit and a few years later there's another audit and we learn the recommendations weren't implemented. Would it be possible to table with the committee what's done to ensure the recommendations are followed? Is that possible?

**Ms. Nancy Cheng:** For me?

**Ms. Kirsty Duncan:** Is that possible to table with the committee?

**Ms. Nancy Cheng:** Mr. Chair, the management letters are intended as a management communication. It was never, I guess, drafted or written with it in mind that it was going to go to a full committee discussion.

**Ms. Kirsty Duncan:** No, sorry, that's not what I'm asking. Just what is the process for follow-up to ensure that recommendations are implemented?

**Ms. Nancy Cheng:** You're referring to our recommendations?

**Ms. Kirsty Duncan:** Yes, or is there no process?

**Mr. Jim Ralston:** I think Ms. Cheng has indicated that first of all, there are.... In your first questions, you referenced performance audits. I think it's important to point out that this would not be classified as a performance audit. This is an audit of financial statements.

**Ms. Kirsty Duncan:** I understand that.

**Mr. Jim Ralston:** Notwithstanding that, as we see in the observations attached to this, the Auditor General does make recommendations.

**Ms. Kirsty Duncan:** It's the follow-up piece.

**Mr. Jim Ralston:** So what we do inside a department when we receive an Auditor General's recommendation is.... First of all, they often point to a direction rather than specific action, so we have to translate that into some sort of specific action. We would make a plan. We would then execute the plan. Some mention was made of audit committees. Perhaps I can just explain the role of an audit committee in this process, because they do have a role.

**Ms. Kirsty Duncan:** I'm concerned that it's been ten years for one group where there are serious concerns, and it's going to be another three years. Is it possible to table what the follow-up process is?

**Mr. Jim Ralston:** Are you asking for a process in general? I thought your question was about a process in general. Now you're returning to one specific instance. So perhaps if you wish to know about one program—

**Ms. Kirsty Duncan:** No, I mean the process in general.

**Mr. Jim Ralston:** All right, so the process in general, as I started to say—

**Ms. Kirsty Duncan:** No, I asked if it could be tabled with the committee.

**Mr. Jim Ralston:** Certainly.

**Ms. Kirsty Duncan:** Thank you.

How accurate do the government's consolidated financial statements have to be to receive a clean audit opinion?

**Ms. Nancy Cheng:** Mr. Chair, in order to receive a clean opinion, we have to conduct sufficient audit procedures to make sure that there are no material misstatements. In that process we look at the different cycles of businesses, we look at the various financial statement line items, and we have audit procedures to audit them.

Because the Government of Canada is composed of many, many activities in more than 100 departments and agencies, we then decide on the larger ones that we would do more work on, and the smaller ones, it stands to reason, we would do less work on. We roll up all of those findings into an overall account to sort of say what some of the differences are that we found.

● (1640)

For example, in concluding the 2011, 2012, and 2013 public accounts, we had discussions with the government and the government made $1.5 billion worth of adjustments to the financial statements in terms of the statement package that you see here. When we find differences, we discuss them with management and make sure they understand why we say that those are the differences. When they come to an agreement on that, they make adjustments to the financial statements.

**Ms. Kirsty Duncan:** I'm going to come back to that.

Is a balanced budget in the 2015-16 fiscal year realistic?

**Ms. Nancy Cheng:** That would not be something that is within the scope of the audit of the public accounts.

**Ms. Kirsty Duncan:** Fair enough.

Can you table with the committee what the requirements are to receive that clean audit opinion?

**Ms. Nancy Cheng:** It would be very difficult to table a process as such. In the auditor's report, we clearly indicate that we follow Canadian auditing standards so, essentially, we'd be tabling the standards.

**Ms. Kirsty Duncan:** Okay, that's fine—

**Ms. Nancy Cheng:** I don't think it's a practical way to help the committee.

**Ms. Kirsty Duncan:** Thanks.

In your report, you say you continue to find significant errors. Can you elaborate, please?

**Ms. Nancy Cheng:** This would be when we conduct the inventory observation at year end—or close to year end—at DND. We notice that there are quantification differences and there are pricing differences. So when we actually accumulate those kinds of findings, they amount to fairly significant differences—over $100 million, for example, in the case of DND. Overall, the adjustments are about $1.5 billion, and I think DND's share is about $200 million or $300 million.

**The Chair:** I'm sorry, time has expired.

Over now to Mr. Woodworth.

**Mr. Stephen Woodworth:** Thank you very much, Mr. Chair.

[*Translation*]

Once again, Mr. Robidoux, I have questions for you. Since I'm not proficient in the beautiful language of French, I'll have to speak in English.

[*English*]

I'm looking at the table at the top right of page 1.9, which seems to me to show an accumulated deficit as a percentage of GDP. First of all, my observation is that this has essentially flatlined since the onset of the recession in 2009-10. Am I reading that correctly?

**Mr. Benoît Robidoux:** You read it correctly, but you think this is the deficit. This is the debt.

**Mr. Stephen Woodworth:** Accumulated deficit—

**Mr. Benoît Robidoux:** The deficit is nothing else than.... It's a standard for debt.

**Mr. Stephen Woodworth:** Yes, fair enough, as a percentage of GDP. And I understand that, in fact, the accumulated deficit goes up, or has gone up in each year, but so has the GDP, so that's why it's essentially flatlined. Is that correct?

**Mr. Benoît Robidoux:** Exactly.

**Mr. Stephen Woodworth:** It also seems to me that it remains at a level that is still slightly lower than the 2005-06 year. Is that correct?

**Mr. Benoît Robidoux:** I will have to verify that. I don't have the numbers with me. It's likely to grow by one percentage point.

**Mr. Stephen Woodworth:** So the government has actually been able to achieve a flatlined accumulated deficit as a percentage of GDP notwithstanding the worldwide economic recession and notwithstanding a rather large array of tax reductions. Is that a correct statement?

**Mr. Benoît Robidoux:** That's accurate.

**Mr. Stephen Woodworth:** I know that I am very proud of that achievement, but since you are a civil servant I won't ask you to express your pride in it.

I want to switch now for a moment to Mr. Ralston, because I was intrigued by your comments regarding the new standards of the Public Sector Accounting Board regarding tax expenditures no longer netted against tax revenues but reported as transfer payment expenses.

This applies to tax expenditures that provide a financial benefit through the tax system. I want to make sure I understand that because when I read that, I think about refundable tax credits, for example. Is that a correct interpretation of that?

**Mr. Benoît Robidoux:** Yes, that would be an example.

**Mr. Stephen Woodworth:** All right.

The child tax benefit, is that an example of the kind of thing we're talking about?

**Mr. Jim Ralston:** Yes, that would be an example.

**Mr. Stephen Woodworth:** For example, is the child tax benefit an example of the kind of thing that we're talking about?

● (1645)

**Mr. Jim Ralston:** Yes.

**Mr. Stephen Woodworth:** In effect, it's not actually reducing anyone's taxes, it's putting it into their hands as a transfer. Is that a correct interpretation?

**Mr. Jim Ralston:** Yes, using the tax system as a delivery mechanism....

**Mr. Stephen Woodworth:** Correct. But it's still not a tax reduction so much as a transfer of wealth, if you like, to the recipients.

Am I getting it?

**Mr. Jim Ralston:** It puts a cheque in the right hands.

**Mr. Stephen Woodworth:** Right.

It makes sense to me that this does not come out as net of tax revenue, but rather as a transfer. Is that the reasoning for this? Can you elaborate on the reason this change is being made?

**Mr. Jim Ralston:** As I mentioned, that is my understanding of the reason behind the change in the standard. It is meant to better reflect the underlying nature of the transaction.

**Mr. Stephen Woodworth:** Better and more accurately, the underlying nature of the transaction?

**Mr. Jim Ralston:** I think it would have always been accurately computed. It's just really presentational. It's more visible this way and it groups like with like.

**Mr. Stephen Woodworth:** All right.

The other area of interest that is at the top of my mind, as a new member of the committee, is the preparation of these public accounts. I want to ask you in a moment to just tell me how your department meets that monumental challenge.

But before I do, I should just clear up one thing that's still bothering me. Which department is actually the author of the discussion and analysis that I have been referring to? It didn't seem to be your department; you referred me to Mr. Robidoux. Does the finance department write this discussion and analysis?

**Mr. Jim Ralston:** Yes, to the extent that much of it is the interpretation of the numbers rather than the compilation. Their expertise is in that area.

**The Chair:** Sorry, time has expired, sir.

Thank you.

I'm advised by the official opposition that this being an NDP speaking slot, and in light of staff having a response to Mr. Giguère's question, I'm going to permit that response to be given now in this slot. Mr. Giguère can then pick up the discussion for the balance of the time allotted.

With that, I turn the floor over to whoever is going to provide an answer.

**Mr. Michel Vaillant (Senior Director, Public Accounts Policy & Reporting, Treasury Board Secretariat):** Merci, Mr. Chair.

Mr. Giguère, you're quite correct in the sense that the exact difference you are referring to is $3.3 billion. What happened is that we should have actually put a little memo at the bottom of this to state....

If you recall in the public accounts last year, what actually happened is a lot of the GBEs converted to international financial reporting standards. As such, there was an adjustment of $3.3 billion that was booked in the prior year. Essentially, the biggest component was Canada Post, where they basically had some $3 billion. They fully recognized their pension obligation on their books. That restatement was done in the prior year. When you look at the closing number at the end of 2011, that is exactly the number that we closed with.

Last year, because of this restatement, the $616 billion became $620 billion once we had the adjustment. To make this more clear, we should have actually made a note of it to disclose the fact that the $620 billion was a restated amount, taking into consideration that one-time adjustment that was done in the prior year.

**The Chair:** Mr. Giguère, you have the floor, sir.

[*Translation*]

**Mr. Alain Giguère:** Unless I'm mistaken, I was just given a figure that doesn't appear anywhere and that I can't check. Regardless, even if you add $3.3 billion, you get about $620 billion. Of course, it is possible. But I would still like you to confirm the figure you just pulled out of your hat, a figure I can't find anywhere in the financial statements.

**Mr. Michel Vaillant:** The reality is it's an adjustment that was done in the previous year. In the Public Accounts I have in front of me, I can clearly show you the adjustment that was done. It's just that, in carrying it forward this year, we used the new balance as the basis, and we didn't show the $3.3 billion. I can, nevertheless, show you the amount here.

● (1650)

**Mr. Alain Giguère:** I'm satisfied, Mr. Chair.

May I ask another question?

[*English*]

**The Chair:** You still have the rest of your time if you wish it, sir.

[*Translation*]

**Mr. Alain Giguère:** I want to ask you about section 6, which is entitled “Interest-Bearing Debt”. In table 6.1, under debt, bonds are listed as $469.038 billion and change. The problem is that it refers to table 6.2, and in that table, the $469 billion becomes $477 billion. Here, again, we have an amount that just appears or disappears, $8 billion in this case. This is the same problem. Was some piece of information not provided?

At the top of table 6.1, in the far right column, the amount listed under March 31, 2013 is $469.038 billion. That amount does not, however, appear again in table 6.2. The figure that does appear at the very bottom of the table in the far right-hand column is $477 billion.

**Mr. Michel Vaillant:** The amount appears a bit higher up in table 6.2. On page 6.4, the $469.038 billion you're referring to actually appears three rows higher.

**Mr. Alain Giguère:** No, that's $468.860 billion.

**Mr. Michel Vaillant:** Is it $469.038 billion you're talking about?

**Mr. Alain Giguère:** No.

**Mr. Michel Vaillant:** On the next page, the amount that appears under the heading

[*English*]

Total marketable bonds payable in Canadian currency

[*Translation*]

is $469.038 billion.

**Mr. Sylvain Michaud (Executive Director, Government Accounting Policy and Reporting, Office of the Comptroller General of Canada, Treasury Board Secretariat):** I think there's a discrepancy between the French and English versions, because we're looking at the English version. You're right; in the French version, there seems to be a difference. That's an error we'll likely have to correct. In the English version, however, the figures do line up.

**Mr. Alain Giguère:** Fine. So you will make the correction.

**Mr. Sylvain Michaud:** In the French version, yes.

**Mr. Alain Giguère:** Similarly, you're going to make the correction for the amount we were discussing earlier, the $4.678 billion that isn't listed.

**Mr. Sylvain Michaud:** We can add a note.

**Mr. Michel Vaillant:** We can add a note explaining the adjustment so it's clearer.

[*English*]

**Mr. Alain Giguère:** Okay. I have finished.

**The Chair:** Your time is finished. I have to tell you that it's not very often they make mistakes, and it's even less often that they get picked up. Well done. You get full marks. That's good work.

We'll go over now to Mr. Carmichael.

**Mr. John Carmichael:** Thank you, Mr. Chair.

Perhaps I'll be a little less technical. I'm on page 1.7 or section 1.7. You have a chart and a graph on the revenue ratios. As I look at it, I'm looking for clarity and perhaps a brief explanation. I presume this question is for Mr. Robidoux, but I'm not certain.

In that section, could you explain why the government is taking in what appears to be significantly more tax revenue despite there being a reduction in the revenue-to-GDP ratios. We're down to 14.1%. I think I understand the ratio, but I wonder if you could explain that for us.

**Mr. Benoît Robidoux:** Mr. Chair, I'm sorry. Could you repeat the question?

**Mr. John Carmichael:** I'm on page 1.5—my apologies. Were you on page 1.7?

**Mr. Benoît Robidoux:** Yes, I was on page 1.7.

**Mr. John Carmichael:** We're on page 1.5. I'm looking at the income from the income tax revenues, etc., general revenues that are coming in over the past year. I'm looking at the revenue ratio to GDP. Your reference is that it's reduced to 14.1%, with significantly more income. Why is that revenue-to-GDP ratio declining or dropping?

**Mr. Benoît Robidoux:** The revenue ratio has been declining essentially because of a reduction in tax rates, both for personal income and for corporate income, through that period. Plus there's the impact of the recession in that year, which played some role. But tax reduction has been a significant factor in that. They have not been increasing since then because the government has not increased tax rates in any way through that period. So it remains stable as a share of GDP.

● (1655)

**Mr. John Carmichael:** So then—

**Mr. Benoît Robidoux:** Basically, taxation is growing more or less in line with GDP.

**Mr. John Carmichael:** I hear you. So revenues have been increasing. Tax revenues are increasing. In particular, personal and corporate income taxes are all up.

**Mr. Benoît Robidoux:** Yes.

**Mr. John Carmichael:** It's all happening without an increase in tax rates. Is that correct?

**Mr. Benoît Robidoux:** Absolutely.

**Mr. John Carmichael:** So that would indicate a fairly strong economy?

**Mr. Benoît Robidoux:** A bigger economy.

**Mr. John Carmichael:** A bigger economy—things are working. Thank you.

You're saying that the public accounts, by showing increased tax revenues—I just want to be real clear—are indicating economic growth. Basically, people and businesses are making more money, and they're paying higher taxes just through the sheer generation of more income.

**Mr. Benoît Robidoux:** Effectively.

**Mr. John Carmichael:** Good. Thank you.

Mr. Ralston, in your statement, you talked about the two areas in which you've adopted new standards in accounting with regard to transfer payments. I wonder if you could explain that.

In particular, the second one caught my eye. You said, "The main impact for the government was to stop recognizing advance payments as non-financial assets and to recognize them instead as expenses. The impact of these changes on the financial results was an increase in expense of $500 million."

I wonder if you could just explain that accounting change for me. As a non-accountant but a business person, for me $500 million is a lot of money, and it transitions into greater expense for the government in the past year. Is it significant or not?

**Mr. Jim Ralston:** In this case, essentially the way this type of expenditure would have been shown in the past was as an asset, essentially a prepaid expense. Now, under the Canadian public sector accounting standards, they have certain characteristics of what they would like to classify as an asset. It's very definitional.

I think it boils down to a rethinking of whether this particular kind of expenditure really had the underlying characteristics of an asset, or whether it was really an expense of the year in which it was.... In other words, if it's an asset, it has some continuing value to the federal government. It would be appearing on our balance sheet.

I think what the standard effectively says is no, that this isn't an asset in the sense that the federal government has any access to it. It can't liquidate it. It can't use it. It's really just recognizing that it's parked there until a future time and then will be transferred to the recipient.

I think that, again, it's just a question of the board re-examining the underlying reality and saying no, that the federal government really has no substantive access to this and can't make use of this asset; therefore, we should show it as an expense.

**The Chair:** Thank you.

Your time has expired. I'm sorry.

Colleagues, we have exhausted the usual rotation for questions and comments. However, there are about 31 minutes remaining on the clock. I'm in the hands of the committee as to whether you would like to continue with another round or two, or give every person a shot, or whether you wish to adjourn. I am in your hands. The floor is open to a motion.

Mr. Albas.

**Mr. Dan Albas:** I'd like to continue, Mr. Chair.

**The Chair:** By that, are you suggesting that we just continue in the rotation for the time available?

**Mr. Dan Albas:** Well, I do know that some members have indicated an interest in continuing, so do you mind if I just put the next...I believe—

**The Chair:** I was just suggesting for purposes of what we'd follow that we go back to the beginning of the rotation and then go down until 5:30 comes.

**Mr. Dan Albas:** That works.

**The Chair:** Does that work? Does everybody agree with that? Do we need a motion? I think there's agreement in the room.

**Some hon. members:** Yes.

**The Chair:** Okay. We have unanimous consent. With that, we will continue.

Mr. Hayes, you're ready to begin that second round?

● (1700)

**Mr. Bryan Hayes:** Thank you Mr. Chair.

This question will be to Finance again. It's going to speak to our debt. I think Canadians want to have a real confidence level—I know I want to—in terms of how we're managing our debt. The sources of debt are significant.

I see that foreign holdings of government unmatured debt are estimated at $175.9 billion. I'm hoping you can give me an idea of who's holding our debt and what we have in place in terms of a risk mitigation strategy for our debt.

**Mr. Benoît Robidoux:** We could only break it down between foreigners who owe Canadian debt and our own debt. So it's between Canadian citizens and foreigners. We don't have another breakdown on that.

Foreign holding of Government of Canada venture debt has been increasing. We have more issues since the recession, something in the range of 15% to 25% of the debt.

I would say 25% of our debt is owed by foreigners, and 75% of our debt is owed by Canadians. The share of foreigners has been increasing this year, following a reduction before that. The reduction was because we were not emitting a lot of new debt. We had surpluses in many of these years. With the crisis, we had suddenly an increase in emissions. Canada's fiscal situation across the world was good before the recession, and it's even better now. Foreigners are quite interested in buying Canadian debt, and we have seen that they are doing so. This is what we have observed.

**Mr. Bryan Hayes:** I'll go a little further; I was hoping you'd actually jump into this.

The Department of Finance has a debt management strategy. I think that's where I was trying to go with this question. I was looking to understand what was involved in developing a debt management strategy. What does it consist of? Will that strategy give Canadians confidence that the government is managing its debt in a way that reduces risk to Canadian taxpayers?

**Mr. Benoît Robidoux:** I will let my colleague Douglas Nevison answer that question.

**Mr. Douglas Nevison (General Director, Economic and Fiscal Policy Branch, Department of Finance):** Thank you very much, Mr. Chair.

You're absolutely right that the government has a debt management strategy. It is published as an annex to the budget every year and presented before Parliament. The objective of the debt management strategy is to raise stable, low-cost funding while ensuring a well-functioning Government of Canada securities market. So there isn't a strategy to pursue or target-specific types of issuance. It's to get the lowest cost possible and appropriate debt structure.

Since Canada is one of the global economy's few Triple-A credits with a good fiscal situation, there is a lot of demand for Canadian securities, particularly amongst central banks and sovereign wealth funds that are reallocating their portfolios towards a fairly secure asset.

**Mr. Bryan Hayes:** Just to elaborate a little bit more on developing this strategy, is this done internally, or do you seek expert advice?

**Mr. Douglas Nevison:** It is determined internally. It's also determined in consultation with the Bank of Canada, which is the fiscal agent. It is based on consultation with market participants, investors. There's a significant investor relations program to make sure that we are tapping investor demand appropriately, getting the right structure of debt to pursue the objectives of the strategy.

**Mr. Bryan Hayes:** One more small question again on debt. This is something I don't quite understand, and I'll read it to you. It states:

> The average effective interest rate on the Government's interest-bearing debt in 2012-2013 was 3.4 percent, down from 3.8 percent in 2011-2012. The average effective interest on unmatured debt in 2012-2013 was 2.7 percent—

Here's the next one that I don't understand:

> —while the average effective interest rate on pension and other liabilities was 5.4 percent.

I'm trying to understand the very significant difference between interest-bearing debt and the interest rate on pension and other liabilities. That's on the top of page 1.12.

● (1705)

**Mr. Benoît Robidoux:** The effective interest rates you mentioned before, 3.4%, those are market rates that reflect that structure. If we have more long-term debt and less short-term debt, this average rate will be higher. If we have more short-term debt, it will be lower.

This reflects two things: a structure for debt over time, and also the fact that both long- and short-term interest rates have been falling in recent years, so a fall in the effective rate reflects when we admit new debt, we admit at lower rates than all the debt we roll over from the past. Rates have been going down so the effective rate is falling.

On the pension, which is your real question, it's a long-term rate, a ten-year rate, a ten-year-plus in fact, that we use to book our pension liabilities. It's not a rate we pay to anybody. It's a rate we use to factor in our liabilities in public accounts. That rate allows us to calculate the current value of our liabilities, and also to account for those liabilities over time, both now in the current year and also in the future. We use that rate to do that. It's a benchmark rate. It's not something we're paying to anybody. It's a way to ensure our liabilities are recorded in public accounts in an accurate way.

Since pensions are long-term liabilities, we use long-term rates to account for that. It's more a shadow rate, “what if”, than a real rate.

**The Chair:** Thanks very much.

Mr. Allen, you have the floor, sir.

**Mr. Malcolm Allen:** Thank you, Mr. Chair.

To Finance, recently there has been talk about lapsed spending in departments to the tune of almost $11 billion, $10.9 billion. I guess there are two parts to the question. Is this higher than you expected, and if so, is there a cause for it, or is there any reason you can point to, or are you not sure?

**Mr. Benoît Robidoux:** Yes, the difference in spending was lower than expected in 2012-13. At the same time departments had been lapsing a bit more than $10 billion compared to their appropriations.

It's fairly difficult to explain from a forecasting point of view because the lapse we talk about in our forecasts between us at Finance is the actual lapse. The lapse that has been in the media up to now is a cash lapse. Departments access cash in a year that they could appropriate to spend, and if they don't spend that, they lapse the money, and this is a cash lapse.

That cash lapse is relevant, but it's not the same lapse that we use in our predictions because we need to do a number of accrual adjustments for liabilities, assets, and all that.

**Mr. Malcolm Allen:** We're back to the accrual cash thing again, Ms. Cheng, it seems, the debate about accrual versus cash, but I hear what you're saying, Mr. Robidoux.

**Mr. Benoît Robidoux:** I wanted to outline that the two are not the same, but effectively what happened in 2012-13 is we assumed a lapse on an accrual basis in the projection.

**Mr. Malcolm Allen:** I think you can understand from a parliamentarian's perspective, we are asked to vote on expenditures. Clearly we're asked to vote on a certain amount of money. Then when we find out later on that the amount we're asked to give was exceeded; $10 billion, almost $11 billion, isn't a rounding error. Yes, there are some pieces later on—how lapsed cash and accrual goes back—quite frankly it's like sleight of hand sometimes for those who don't quite understand accounting. I get that.

But clearly this is higher than normal. I guess the question is....I saw Mr. Ralston give me an indication. Maybe he wants in on the answer. This is not a normal piece. It's higher. So the question is, is there something specific to this, is it a one-off, and is there a methodology to try to put in place that says they'll be a little tighter the next time so they don't get into this shifting of or lapsing of the departmental expenditures?

Mr. Ralston.

● (1710)

**Mr. Jim Ralston:** I have a couple of general observations to start with. First of all, when you appropriate funds, that represents an upper ceiling. So there's never really an expectation that it will be completely used. Departments are certainly not obligated to spend their entire appropriations, and for certain appropriations, there are a number that are essentially there to cover contingencies. So if the occasion does not arise to access those contingent funds, they will lapse. There's always a certain level of lapse that is to be expected.

In the 2012-13 year, the situation arose where the main estimates had been tabled, and then there were some reductions announced in the 2012 budget after the estimates had been tabled. What Treasury Board did was to so-call freeze certain of those simply to reflect the update, if you will. That's not the only reason you would freeze allotments, but it was one reason that happened to be present in the year in question. There could be other reasons that frozen allotments are used. In this case that sort of category covered about 40% of the lapse.

Also, departments have the ability to carry forward a part of their appropriations. I certainly remember that I did this when I was a chief financial officer. We plan to carry forward some of the current year's funds into the next year because we have a greater need, say, in a subsequent year than the current year. That carry-forward activity represented about 16%.

**Mr. Malcolm Allen:** So it's actually a greater amount than normal. That's the dilemma.

**The Chair:** Mr. Allen, please.

**Mr. Malcolm Allen:** Sorry, sir.

**The Chair:** Thank you.

**Mr. Malcolm Allen:** I couldn't hear him. A bad ear.

**The Chair:** You couldn't hear me? I don't hear that very often.

**Mr. Malcolm Allen:** I'm from Welland. You're only from Hamilton.

**Voices:** Oh, oh!

**The Chair:** All right.

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

**Mr. Dan Albas:** Thank you, Mr. Chair.

I certainly appreciate the opportunity to ask a few more questions. Something is still on my mind. My colleague Mr. Carmichael raised a really interesting point. We're seeing an increase in personal income tax revenue; we're seeing an increase on the corporate side. I do know there's some loss of revenue with crown corporations offshore, but those are up higher. We've seen over the past several years, since 2006, a number of tax reductions both on the personal income side as well as the corporate side.

Mr. Robidoux, could you explain how you can have that, where you have increased taxes while you have decreased tax rates? Could you explain how that would work?

**Mr. Benoît Robidoux:** There are two factors. First, the reduction in tax rate has a cost to it, but again when the economy is growing, these costs will be more than offset by the growing economy. That's why you end up with still higher revenue despite the fact you reduced the taxation rate. It all depends on how much you reduce the taxation rate, but for the tax reduction we had, it was enough to be more than offset by a growing economy.

Now there's the other issue that it's very difficult to estimate, to get something very precise about it, but there's also this issue and this view among economists that when you reduce tax rates it leads people to work more if you reduce the tax on working, it leads businesses to invest more if you reduce tax on investment, and so on. There's the feedback normally into the economy over time when you reduce tax rates. You incent people to save more, invest more, or work more. There's potentially some of these second-round effects in these results. Some economists like to think that these things are there.

● (1715)

**Mr. Dan Albas:** I appreciate hearing that, Mr. Chair.

Now, I'm going to go to page 1.3, the fourth paragraph down. Basically, it talks about the economic recovery, because we're talking about a stronger recovery. This economic recovery has underpinned a strong rebound in Canada's labour market, with over one million more Canadians working now than July 2009 when the recovery began, an increase of 6.1%. Canada has outperformed all the other G-7 economies in economic growth since the start of the global recession and it's recorded the strongest growth in job creation over the recovery.

In your opinion, sir, what are some of the factors that would have led to this, I would say, to at least a foundation for more economic growth, bearing in mind, obviously, our economies are so integrated?

**Mr. Benoît Robidoux:** Mr. Chair, we believe, and this is what we have said in our document, that the strong fundamentals in Canada, whether economic, financial, or in the fiscal foundation, have led to a better performance during the global slowdown and in the recovery than is the case with some other economies. This is also reflected in better employment performance than elsewhere and in more creation of jobs by Canadian businesses.

Clearly, the strength of the Canadian economy through that period was not driven by a strong global economy. We did suffer on the export side particularly in that year, so that was not the source of all this job creation. As I said before, it's the domestic economy; we believe that the strong fundamentals we had entering the crisis and after the crisis helped a lot to support that creation of wealth and jobs.

**Mr. Dan Albas:** That's perfect. I think this goes back to Mr. Hayes' comment on needing to open up more markets and to your comments on the potential in Asia.

Now, you mentioned the strong economy and the fundamentals we have. That makes me look at how we're going to deal with some of the changing demographics. If you have a strong economy, you can afford to look after people through different programs and services.

Page 1.7 talks about major transfers to persons. Particularly, I want to go to elderly benefits, because I'm from a riding in which the demographics, Mr. Chair, are such that we have a lot of seniors in my riding. This set of public accounts shows that these benefits have gone up 5.8%.

Can you explain some of the other personal transfers that were increased and how important they would be to a Canadian family?

**Mr. Benoît Robidoux:** Well, elderly benefits were one. Clearly, these are indexed to consumer price inflation, and because of the aging of baby boomers there are obviously many more every year who pass the age of 65 and receive these payments thereafter. This was one factor that led to that growth of 5.8%. In our predictions, we expect this kind of 5% to 6% to be sustained for a number of years.

As to other transfers, employment insurance benefits have been falling through the years. These are transfers to employees, again reflecting fewer unemployed, to a large extent. Children's benefits are again indexed to CPI; these have been growing too. And the federal transfers to provinces for health and for the social transfer—the first one at 6%, the second at 3%—are a strong source of growth for provinces in their revenues, obviously.

I guess I will stop there.

**The Chair:** That's very good and very helpful. Thank you so much.

Time has expired, so we will move over to Monsieur Giguère.

[*Translation*]

**Mr. Alain Giguère:** Thank you.

In table 1.1 on page 1.18, under the heading Loans, Investments and Advances, it is evident that, over the past 10 years, the amounts have literally skyrocketed, going from $14.594 billion to $133.348 billion. The details of that amount appear in table 9.2 on page 9.4. It shows $133.347 billion and change. Perhaps the most interesting thing, which appears only in tiny print, is the footnote that says "These loans are recorded at cost."

The Public Accounts do not list the fair market value of those investments anywhere. Does that mean, then, that, if those investments were to go down in value and the amounts listed were to lose a portion of their assets, the budget surplus announced for 2015 could end up being a $20-billion deficit, for instance?

Basically, what I am saying is that the $133 billion represents where things stand. But if we had a detailed list, we might learn that the fair market value of the total amount is less than the $133 billion indicated.

I think it would be more appropriate for the Department of Finance officials to answer that question.

● (1720)

**Mr. Benoît Robidoux:** You are asking excellent questions, Mr. Giguère, but again, I'm not sure I'm looking at the right line in the right table. Would you mind slowing down a bit and telling us whether you are actually referring to table 1.2?

**Mr. Alain Giguère:** Fine.

In table 1.2, under the heading Loans, Investments and Advances, the amount listed for Enterprise Crown corporations and other government business enterprises is $133.347 billion. The details of that amount appear in the table on page 9.4. The amount showing in the March 31, 2013 column, at the bottom right-hand corner of the table, is $133 billion. Back in 2004, that amount was $14 billion. And today, it's $133 billion, so 10 times what it was.

Just below table 9.2, you added an important note that reads "These loans are recorded at cost." It refers to a list or inventory, but I can't find the details of that inventory or its fair market value anywhere in the three volumes. That means that, when it comes time to do something with that $133 billion, the actual value may be less.

Isn't it right that such a lesser value would immediately be reflected in the deficit?

**Mr. Benoît Robidoux:** To the best of my knowledge, that is true. If each and every year, there's a change of some sort, a sale or outflow of those assets, the difference between the fair market value and the cost value should indeed be taken into account.

A check would be necessary to determine whether it would directly affect the debt, the accumulated deficit, or whether it would be considered an expenditure. Regardless, you are right.

That's true for every year. It's also possible for some of those assets to have a higher market value than the original book value. That's generally what happens. Most of those assets go up in value.

**Mr. Alain Giguère:** Yes, but the problem is that, beginning in 2008, with the recession, this budget really skyrocketed. It involved tainted commercial paper. You say they go up in value, but that surprises me. Whatever the case, the problem remains.

Nowhere in the three volumes did I find a detailed list or inventory of the fair market value that $133 billion represents. If it's in there, please tell me where.

**Mr. Benoît Robidoux:** I am sure it doesn't appear in the Public Accounts. We're talking about crown corporations with their own bookkeeping practices. It should actually be done at the market price.

We'll make sure to follow up with you. We'll try to determine whether we can find the market value of those assets. I think it will be possible for certain crown corporations whose bookkeeping reflects the market price. So we'll be able to find the market value if the information exists.

We'll follow up with you on that.

● (1725)

**Mr. Alain Giguère:** So a correction will be made, and you will add a list of—

**Mr. Benoît Robidoux:** Nothing will be corrected. We'll determine whether the information is available in other documents. This is in line with the standards in place for recording—

[*English*]

**The Chair:** I'm sorry; we have to end it there.

That also ends our time, colleagues. On your behalf, I will thank our witnesses today. Thank you very much for the fulsomeness of your answers.

Might I also say, on behalf of public accounts, which is the one committee that tries—we don't always succeed, but we try—to be as non-partisan as possible when the moment calls for it, that this is one of those moments. You have heard representatives from all three caucuses express to you how proud they are of the documents and of the fact that we have what is called our 15th year of unmodified audit opinion. In street lingo, it's a clean audit.

The government of the day gets bragging rights for it; that's fair enough. But we all understand that more than one party has been in government during the 15 years, and we all understand that this kind of work is the result of the professionalism of our public service. We are sincere in acknowledging to you the pride that we have that this document is here unmodified; that it's a clean audit 15 times in a row. That makes Canada look good. We feel good about that.

Thank you. Please pass on to everyone who had anything to do with this our appreciation for their professionalism. We are lucky to have the public servants that we have.

With that, you are now excused.

Colleagues, this meeting stands adjourned.