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Chair

The Honourable Kevin Sorenson

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•(0845)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): I call the meeting to order.

Good morning, everyone, and welcome. This is meeting number 11 of the Standing Committee on Public Accounts, on Thursday, May 5, 2016.

I would remind everyone today that we are televised. For our audience as well as for members of our committee, I would just remind you to mute your phones or your communication devices.

As we gather here this morning—I'm an Alberta member of Parliament—I think what's happening right now in Fort McMurray is in all our minds, prayers, and thoughts. Certainly we have an emergency there and a crisis. Even though we're taken with the work of this committee, our thoughts and prayers are with the people of Fort McMurray.

Before we get to our main guests, we will welcome a number of people who are here this morning. We're very pleased to have the Auditor General of Nepal, Bhanu Prasad Acharya; the deputy auditor general of Nepal, Sukhadev Bhattarai; the assistant auditor general of Nepal, Baburam Gautam; and the assistant information officer of Nepal, Ganesh Prasad Poudel.

Welcome here. We're so glad that you're able to join us today and we look forward to meeting you, perhaps later.

Voices: Hear, hear!

The Chair: As many guests as we may have, there's no other that we're more pleased to see here than the Auditor General of Canada, Mr. Ferguson. He is with us to present the 2016 spring reports of the Auditor General of Canada. The Auditor General is accompanied by Jerome Berthelette, assistant auditor general, as well as Richard Domingue, principal, and Nicholas Swales, principal.

We know the Auditor General will brief us on a number of areas: report 1, the venture capital action plan; report 2, detecting and preventing fraud in the citizenship program, report 3, the Governor in Council appointment process in administrative tribunals; report 4, drug benefits—Veterans Affairs Canada, and report 5, Canadian Army Reserve—National Defence. As well, the Auditor General includes two special examinations of crown corporations, one for PPP Canada Inc. and one for VIA Rail Canada Inc.

Now I will ask Mr. Ferguson, our Auditor General of Canada, to proceed with his comments.

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

Mr. Chair, I'm pleased to present my spring 2016 reports, which were tabled in the House of Commons this past Tuesday. The reports include the findings of five audits and two special examinations.

One of the themes that ties a number of our audits together is that the data collected by many government organizations is either not usable, not used, or not acted upon.

In the first of our audits, we examined how the Department of Finance Canada, the Business Development Bank of Canada, and Innovation, Science and Economic Development Canada designed and implemented the government's venture capital action plan. This plan dates back to 2012, when the government announced that it would spend \$400 million to strengthen venture capital investment in Canada.

Having completed this audit, it is unclear what impact the government's action plan will have on venture capital and innovation.

•(0850)

[Translation]

Overall, we found that investors were initially reluctant to participate in the venture capital action plan for a number of reasons, including high management fees and regulatory constraints. We also noted that the selection process for fund managers lacked fairness, openness, and transparency.

In the areas of monitoring and reporting, activities under the venture capital action plan were properly monitored and reported within government, but little information was publicly shared. We also found that performance indicators were lacking, making it difficult to assess what benefit the action plan will ultimately bring for Canadians.

Let's move on to the citizenship program. In this audit, we concluded that Immigration, Refugees and Citizenship Canada's efforts to detect and prevent citizenship fraud were not adequate.

[English]

Some important controls designed to help citizenship officers identify fraud risks were inconsistently applied. Because of weaknesses in the department's database system, officers did not always have accurate or up-to-date information about addresses that were known or suspected to be associated with fraud. For example, one address was not identified as a problem even though it had been used by 50 different applicants, seven of whom were granted Canadian citizenship. In addition, even when information was available in the system, officers did not always act on it. The department's task is further complicated by poor information sharing with the RCMP and the Canada Border Services Agency.

[Translation]

We also found that Immigration, Refugees and Citizenship Canada did not have in place all the elements it needed to successfully manage fraud risks in the citizenship program. For example, the department did not have in place a rigorous process to identify, understand and document the nature and scope of citizenship fraud risks. It also did not have a way to verify that existing measures to detect and prevent fraud were working as intended. These gaps make it difficult for Immigration, Refugees and Citizenship Canada to assess the impact of its efforts to combat citizenship fraud and to ensure that it is focusing its efforts on the right areas.

[English]

In the third audit we're presenting today, we examined the process that is used to appoint the heads and members of administrative tribunals. This process is known as Governor in Council appointments. Administrative tribunals regulate specific areas of the law or provide individuals with a way to appeal the government's decisions, such as decisions about immigration status or first nations claims.

Our office last audited this area in 2009. At that time, we found lengthy delays in some appointments. In our most recent audit, we found that this problem persisted in some cases and that these delays have impacted tribunals' ability to make timely decisions.

[Translation]

For example, at the Immigration and Refugee Board of Canada, the average time to process immigration appeals has grown from 10 to 18 months since 2009. Given the importance of the work that these tribunals perform, these delays and the resulting backlogs are concerning. We also found that while the selection processes for chairpersons and full-time appointees were open and transparent, there was no documentation to support several part-time appointments. In our view, without this type of documentation, it is not possible to demonstrate whether the process results in the appointment of individuals with the necessary expertise and skills.

Our spring reports also provide the results of our most recent audit of Veterans Affairs Canada. This audit focused on how the department is managing drug benefits for veterans.

To recap our findings, Veterans Affairs Canada has not managed its drug benefits program in a way that considers the impact on veterans. Veterans Affairs Canada's decisions about which drugs to cover were poorly documented and not clearly based on evidence such as veterans' needs, clinical research or cost-effectiveness.

Where decisions were made, there were no timelines to implement them. In one case, a decision to limit access to a narcotic was still not implemented two years after it was made.

• (0855)

[English]

We found that while Veterans Affairs Canada used some cost-savings strategies to manage the cost of the drug benefits program, including substituting generics for name brand drugs and negotiating reduced dispensing fees with pharmacies, it has not assessed whether these strategies are working as intended. That means that the department does not know whether it is using the right strategies to prudently manage the taxpayer dollars that are used to fund veterans' drug benefits.

We also found that while the department monitored some high-risk drugs, it has not adequately monitored drug use trends important to veterans' health and the management of its program. For example, the department covers marijuana for medical purposes when authorized by a physician, but it does not monitor whether veterans using marijuana for medical purposes are also using drugs prescribed to treat conditions such as depression. Effective drug utilization monitoring can help improve health outcomes for veterans by flagging cases of higher-risk prescription drug use.

In another audit also linked to the military, we concluded that the number of soldiers in the Canadian army reserve has been shrinking and that gaps in training mean that reserve soldiers were not fully prepared to deploy on missions.

[Translation]

Reserve soldiers make up almost half of the Canadian Army's complement, and they are expected to provide up to 20% of the soldiers deployed on major international missions. We found that the Army Reserve lacked clear guidance on how to train for international missions. The Reserve did not have the number of soldiers it needed, and the Canadian Army lacked key information on whether the soldiers it did have were prepared to deploy when required.

[English]

There has been a steady decline in the number of army reserve soldiers because National Defence has been unable to recruit and retain the number of soldiers it needs.

For example, in 2014-15, the Canadian Army funded about 21,000 army reserve soldiers, but only some 14,000 were active and trained. Furthermore, in 2015, only about 3,600 attended their annual large-scale training events.

National Defence has recognized the need to improve its training for army reserve soldiers and to better integrate its part-time soldiers with their counterparts in the regular army.

[*Translation*]

This brings me now to the final piece of our Spring reports to Parliament, the reports of our special examinations of PPP Canada Inc. and VIA Rail Canada Inc. These reports were issued to the corporations respectively in September 2015 and March 2016. In the case of PPP Canada, we are satisfied that during the period under audit, the Corporation maintained the systems and practices we examined in a manner that provided it with reasonable assurance that its resources and activities were managed economically, efficiently and effectively.

[*English*]

In the case of VIA Rail, while we found strengths in the way the corporation managed its operations, we did find a significant deficiency in the corporation's governance. We observed that for a number of years, VIA has received only short-term approval of its funding and corporate plan, and often late in the fiscal year. This makes it difficult for the corporation to carry out its operations economically, efficiently, and effectively.

[*Translation*]

Before taking your questions, I want to go back to my earlier remarks about data in government. Weaknesses in the way in which data is collected, used and shared within departments and organizations are having a direct and significant impact on the public service's ability to serve and protect Canadians.

• (0900)

[*English*]

There is no shortage of examples, not just in these most recent audits but also in past ones, to warrant my concern about the way data is collected and used, or not, by government organizations. In these audits, we've seen that serious consequences can arise when government data is either not useful or not acted upon. In the citizenship program, such failings are limiting the effectiveness of efforts to combat citizenship fraud risk.

In National Defence a lack of current data on human resources is keeping the Canadian Army from knowing whether reserve soldiers are trained and ready to deploy, yet the army relies on these soldiers to carry out its international missions.

[*Translation*]

In the case of Veterans Affairs Canada, the department is not using the data it collects to better understand how its clients use drug benefits. This missed opportunity is not in the best interests of veterans, because data about drug utilization can be used to inform decisions about which drugs to cover for a particular individual. I believe that government departments and organizations urgently need to turn their attention to this issue.

[*English*]

They need to focus on collecting the right data to support their activities, on ensuring that data is well managed and up to date, and

on fully using this data not only to inform their core business but also to support reporting and continuous improvement.

Mr. Chair, that concludes my opening statement. We'll be happy to answer any questions you may have.

The Chair: Thank you very much.

We'll now move into our first round of questioning, and that goes to the government.

Ms. Shanahan, you have seven minutes.

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

Thank you again, Mr. Ferguson and your team, for being here this morning to bring us your findings. They are very interesting to us, since we are still new to government. It really lets us know what our job is ahead of us.

I'm going to leave it to my colleagues on the committee to tackle each of the individual reports, because there is considerable substantive detail that we want to get into on each of these, and, frankly, some low-hanging fruit that we need to address, but your overriding concern is the state of data collection and usage across all government departments, and I'd like to understand better from you how we could address that problem.

The way I'm seeing it—and again, I'm new at this—is that when we're collecting data, Mr. Chair, we're first concerned with the collection of it. We know that we're dealing with legacy systems. We know we are dealing with different methods across departments. We know there is a concern about quality and accuracy of the data and we're also concerned about how that data is used and, even when we have it, we are concerned that employees are either not able to use it or are not properly trained on how to use it.

I would like to hear more from you, Mr. Ferguson, or any one of your team, on how we can get to the root causes of this problem and maybe on how we can address it.

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

The reason we decided to make that the theme of this report is, first of all, that it comes up in a number of the audits that we're reporting on in the spring audits. It also it has been something that I've particularly noticed over the four-plus years I have been in this role. It seems to be something that comes up in a lot of different audits we have done.

We are now at a stage where people expect there to be data that is useful, data that can be analyzed, and data that can help governments identify trends to improve their programs, but we're seeing a number of problems in the way that data is collected.

Again, it really comes down, first of all, to making sure departments understand what data they need to collect, why they need to collect it, and what they're going to use it for. Once they have determined that, then they need to have an approach in place that makes sure that they are storing the data in a way that it can be accessed and in a way that ensures that the data is accurate so that it can be used for what they want it to be used for.

Obviously there are a lot of different aspects to this. In some instances there is data that the government is not collecting that they could collect that would help them to analyze and understand programs better, but what we've been putting our emphasis on is simply on the data that the government is already collecting and is already storing in some way, and we're trying to put an emphasis on making sure that at least that data is properly managed.

There is then the bigger issue about whether there should be more data and more sophisticated systems, but we're really trying to say that at the very basic level, it is just making sure that the data that's being collected now is of sufficient quality that it can be used.

Also, there needs to be appropriate attention on the sharing of that data—respecting privacy requirements, of course, but on sharing that data among different departments and programs in cases where that data can help multiple programs, and I think we've seen that problem in the case of the lack of sharing of information between the RCMP, the Canada Border Services Agency, and Immigration, Refugees and Citizenship Canada in terms of detecting citizenship fraud.

Trying to put it in a nutshell, that would be the way I would describe the problem.

● (0905)

Mrs. Brenda Shanahan: Do I have time? Yes?

Do we have any examples? I'm sure we're not alone in dealing with this problem. This is, of course, a whole new world of data collection, and there are concerns about privacy and accuracy in sharing. Are there examples that we can look to? Do we need something like a data czar, for example, to oversee the use and collection of data across all departments?

Mr. Michael Ferguson: I think different organizations have different approaches to this. We did an audit not long ago on Statistics Canada and identified they have an appropriate system of quality assurance to make sure the data they are collecting is being properly stored. Of course, Statistics Canada's business is data. That is their core business, and we did find they had an appropriate system of quality control around the data they collect. I think that would probably be the first place to look.

The Chair: We'll move now to the opposition side and to Mr. Godin.

[*Translation*]

You have the floor for seven minutes.

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): Thank you, Mr. Chair.

My thanks to the Auditor General for his presentation. Thanks also to those who are here with him before the committee today.

Mr. Ferguson, I have some specific questions for you.

In the report on Veterans Affairs Canada's drug benefits, part 4.5, we find the following:

Veterans Affairs Canada has a Formulary Review Committee, which is responsible for reviewing, maintaining, and revising, when necessary, its drug benefits program.

Is that structure effective?

Mr. Michael Ferguson: You are referring to the committee, I believe.

We certainly identified some shortcomings in this committee's work, in the sense that it has no clear directives and usage criteria on which to base decisions about the medications included in the list of those that are covered. We also observed that there is no fixed timeline for implementing those decisions. We identified problems with the committee, but I believe that it is, in general, a good idea to have a committee with all the skills needed to examine medications and to make decisions of that kind.

● (0910)

Mr. Joël Godin: You say that the committee does not have the instructions it needs to do that. In part 4.22, we find:

While it had a process for managing its drug benefits list, it did not systematically ensure...

Is the problem with applying the process or with the structure and the lack of information?

Mr. Michael Ferguson: In general, the issue is the lack of clear direction, yes. We observed that it is not possible to identify the reasons for which the committee made certain decisions because of a lack of direction and also a lack of documentation on each of those decisions.

Mr. Joël Godin: Let's move to part 4.26, entitled: "Decisions related to marijuana for medical purposes". I read the following:

Furthermore, departmental documents indicate that the decision to cover marijuana for medical purposes as a non-formulary product on a case-by-case basis was made at the senior management level, rather than by the Formulary Review Committee.

If I understand that correctly, a senior employee decided on requests on a case-by-case basis, with no set structure and specific criteria.

How could decisions be made like that? Is it the department responsible that did not establish a procedure for that? Or was it done on an individual's initiative, with the department not bothering to do a self-assessment and to establish a process based on sound management?

Mr. Michael Ferguson: That decision was not made by the committee. As we mentioned, it was made by a senior official in the department, meaning someone who was not a member of the committee. That is not a normal situation. Decisions are not normally made in that way. In this particular case, a department employee in a senior management position made the decision. That is why we identified a problem.

Mr. Joël Godin: I sincerely appreciate this finding in your audit. It is actually something simple but it can have major significance.

Did you conduct an investigation to find out which criteria that person used in order to make the case-by-case selection?

Mr. Michael Ferguson: The decision was based on the fact that medical marijuana is a medication that is covered. So that person did not make the decision in each case. It was certainly a broader decision on the part of the department to pay for that kind of medication.

Once again, that decision is impossible to explain. I feel that it would be a good question to ask the department.

Mr. Joël Godin: So basically, you did not examine the situation in more depth to find out how that senior employee could have undertaken such an initiative. From reading the report, I conclude that it was perhaps done on the individual's own initiative.

Mr. Michael Ferguson: I cannot say whether it was a personal decision or not. In the audit, we simply observed that the decision had not been made through a normal process. That is why we pointed out this problem, which your committee may see as more significant. You could ask the department about it.

● (0915)

[English]

The Chair: Thank you, Mr. Ferguson.

Thank you, Mr. Godin.

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

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

Thank you, Mr. Ferguson and your team, for the work you have done and for being here today.

I would like to follow up on the excellent questions of my colleague, Madam Shanahan, with regard to the data. It is not that often that you step back from your micro-focus in your report to talk about things of this nature, and when you do, we need to pay particular attention.

I recall our briefing the other day. To paraphrase you—and correct me if I am wrong—we have spent two or three decades now putting together very sophisticated systems and programs that work. They are state of the art and they are the gold standard in the world, but without the proper data going in, in a timely, efficient, and complete manner, and then being analyzed in the right way, quite frankly, all the efforts of that great, sophisticated system fail us. I very much appreciate your raising this issue.

Also, I think it is very important that you have taken the time to show Canadians, through your report and your public comments today, how this affects individuals. Otherwise, this issue could get lost. It is not very sexy. You are never going to get a headline that has data in it, as a rule, and yet we know that this is the key piece of it. If this doesn't work, the rest of it doesn't work at all.

Again, in outlining the impact on the citizenship program that you've analyzed, your words today were, "...such failings are limiting the effectiveness of efforts to combat citizenship fraud risks." There is nothing more timely or important than security.

You went on to say:

In National Defence, a lack of current data on human resources is keeping the Canadian Army from knowing whether Reserve soldiers are trained and ready to deploy, yet the Army relies on these soldiers to carry out its international missions.

We have spent some time on that, and I hope I can return to it, if I have time.

Again, you said:

In the case of Veterans Affairs Canada, the Department is not using the data it collects to better understand how its clients use drug benefits.

Here is the thing that matters:

This missed opportunity is not in the best interest of veterans.

How many more alarm bells do we need at the political level to understand that this is important?

I also want to add—and I do have a question in all of this—that ultimately our goal here at the public accounts committee is really not "gotcha", although some looking in might think so, in terms of how we approach this; at the end of the day, our real objective is to change behaviour.

Some will find this surprising, but nothing makes me happier than a report that says, "You know what? Most things in this department are going tickety-boo." I mean, it denies me a chance to get up and rail away as an opposition member, but as a parliamentarian.... It's like hearing you say that the annual books are clean—you use that term. That warms my heart. I don't care who is in government at the time. I like that. Our purpose is to change behaviour so that deputies and others who are responsible don't end up here watching what happens to some senior bureaucrats who aren't following things the way they should.

All of that—I am actually going somewhere—is to ask, what can we do? I appreciate that you have raised this, sir. We are now doing what we can in this public arena, and that is part of the partnership between the work you do and the work of this committee, but on an ongoing basis, what can we put in place to allow us to monitor and measure, and to satisfy ourselves that we are getting that change in behaviour—that the deputies and the others who are responsible understand that this is a big deal and that from here on, one of the things we are going to be focusing on is this issue?

Again, I have learned in my time here that if we don't have the ability to measure something, we can't really effectively determine whether we are making any headway.

Do you have any suggestions for us, here at the political level, about anything we can do that would assist you in ensuring that this important component in the work of government is done properly? Do you have any thoughts at all, sir, on what we can do to help in that regard?

● (0920)

Mr. Michael Ferguson: Thank you, Chair.

I will start with a couple of things.

The reason I've highlighted this as a theme of concern is that I've been noticing it come up in a number of audits that we've done, and I felt that maybe it hasn't been noticed. Whether at a committee hearing or anywhere else, it hasn't always been noticed, and departments aren't necessarily getting all of the questions about the state of the data that they should be getting, even when we've been highlighting that there have been issues.

The first step was for me to raise it, and I'm encouraged by the fact the committee is understanding the importance of this issue. The first step is that when we bring an audit forward and there is a discussion about the data not being complete or some problems with the data, there will be some pointed questions for the departments about how they're going to fix it.

I think another thing that would be useful for committee members to keep in mind is that sometimes when we go in and look at a system and test it, we can find that maybe the quality of certain data or information is—I'm just going to pick a number—95%. Lots of people will think of 95% as in, “Well, if I got 95% on a test, I'm happy”, but lots of times 95% isn't good enough when you're dealing with collecting data. Make sure when you're seeing results that you don't just take those numbers at face value, and that committee members are thinking about those and perhaps saying, “Okay, well, it looks like a fairly high percentage, but is it good enough?”

The question mentioned the state of the government's financial statements. We've been expressing opinions on financial statements for a number of years. I think it's been 15 or 16 years in a row that the Office of the Auditor General has been able to give a clean audit opinion on the financial statements of the Government of Canada. For 15 years in a row, the government writ large has been able to maintain its financial information in such a way that we can go in, look it, and come out saying that it was appropriately reflected in financial statements—within limits of materiality, of course. It's not as though they've been struggling with that and have only recently done it.

That goes back to my point that we're well beyond the point in time.... Departments should not be having the types of problems with collecting and managing data that we've been seeing in these audits.

The Chair: Thank you, Mr. Ferguson.

We'll now move over to Ms. Zahid, and you have seven minutes as well, please.

Mrs. Salma Zahid (Scarborough Centre, Lib.): Thank you, Chair, and I would like to thank the Auditor General and his officials for joining us today.

I'll be focusing my question on report 2, regarding detecting and preventing fraud in the citizenship program.

For me and for all of us, I think, Canadian citizenship is something that is valued and sought after by people all over the world. We have an obligation to protect its integrity. If Bill C-6, which is currently before this Parliament, becomes law, then fraud or misrepresentation will be the only grounds under which we would revoke anyone's citizenship. This speaks to how seriously we take this as a country.

I was disturbed to read that you found the department was not able to adequately detect fraud in the citizenship program. Based on the samples you evaluated for this report, are you able to estimate the scope of the problem? Can you quantify it? What percentage of approved applications may be fraudulent or suspect?

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

Again, based on the samples we took and the tests we applied, we found somewhere around 50 cases in which there were indications

that people might be trying to obtain their Canadian citizenship through fraudulent means. I've said a number of times that in my estimation those are 50 cases too many, because we didn't have to apply particularly sophisticated tests to find them.

Now, I can't take those 50 cases and extrapolate to how many other cases might be problems and then to how many of those cases could actually be fraud. The only thing I can tell you is that we did say in the background in the introduction to the report, in paragraphs 2.3 and 2.4, for example, that “The Department reported that in January 2016, it had about 700 revocation cases pending.” That's 700 cases that the department itself had identified. The three most common reasons for revoking citizenship are fraud related to residency, identity, or undeclared criminal proceedings. Those were the three things we looked at in this report.

Then at the bottom of paragraph 2.4, “In 2012, the Department issued a public warning that nearly 11,000 individuals had been linked to residency fraud investigations.”

I can't extrapolate the 50. It was extremely disappointing to me that we were able to find those 50 cases, and I think when you look at the other information the department has, it indicates that there are a significant number of people who are obtaining citizenship through fraudulent means.

● (0925)

Mrs. Salma Zahid: You have discussed the theme of data through many of your spring reports. I think that's one of the common themes for all six of them. That certainly seems to be the case in this report.

Regarding information sharing with the RCMP and the CBSA, currently a citizenship officer requests a clearance check that is then performed by the RCMP. You know this works generally well, but you recommend that it happen later rather than early in the citizenship process. Someone is criminally charged after that initial check.

I take your point, but I'm not sure that's the right solution, because a criminal charge generally ends an application. It is like a red light. Learning that someone had a charge or a conviction at the start can stop the expenditure of resources for processing an application that involves a fraud.

Would it make sense for the department to have direct access to search this database so checks can be run multiple times in the whole process of the citizenship?

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

I will start the answer and then maybe ask Mr. Swales to also provide some information.

Fundamentally, I think what we were looking for were ways for Citizenship Canada to make sure they were getting information about people with criminal charges against them.

I'll ask Mr. Swales to speak specifically to that section about when those security checks were done and when they might be done.

Mr. Nicholas Swales (Principal, Office of the Auditor General of Canada): Thank you, Mr. Chair.

We essentially recommended in paragraph 2.37 that they review when the optimal timing is rather than specifically saying that there was perhaps a better time.

One of the other points we make in the report later on is that the validity of this clearance check had been extended, so it's not necessarily the case that it was done at the beginning and then not done again. In recent years, until some of the changes were made, citizenship applications were taking a very long time, so in fact they would have to do this clearance check multiple times because the validity of it would expire.

Then the department increased the length of that validity from 12 months to 18 months, but as far as we could tell, there was no analysis to explain whether that was a better way of doing it.

What we want them to do is go back and look at when they do this and have a proper basis and justification for that timing.

Mrs. Salma Zahid: In your report you mention that these checks should be done towards the end.

Mr. Nicholas Swales: That's not what we say. We recommend that they look at the timing and that if they're going to make adjustments to the timing, they have a proper analysis and basis for that adjustment.

Mrs. Salma Zahid: Sometimes the citizenship and immigration department does not receive information in a timely fashion. For example, in paragraph 2.33, you selected 38 cases where the individuals had been charged by the RCMP, and you found that "the RCMP shared the required information in only 2 of the 38 cases", so for the rest of the cases, the information was never shared.

Mr. Nicholas Swales: The RCMP did not share it with the Department of Citizenship and Immigration. As we also point out, in 20 of those cases, they obtained the information by other means, and in 19 of those it was from the Canada Border Services Agency.

However, the expectation is that the RCMP generates this information. There's a memorandum of understanding that says they will share it, so we feel the responsibility belongs to them to share that information directly with the Department of Citizenship and Immigration and not pass through an additional party.

● (0930)

Mrs. Salma Zahid: We have to work—

The Chair: Thank you very much.

We'll now move back to Monsieur Godin.

[*Translation*]

Mr. Joël Godin: Thank you, Mr. Chair.

Mr. Ferguson, we have had several meetings with you. We appreciate your work a great deal. You tell us that a number of departments are enforcing the rules. However, you add that, if the office of the Auditor General does not conduct an audit, the departments do their own thing until you look into their books to check the situation.

In the seven reports that we have had from you, most departments thank you and accept your recommendations. That is how the situation looks. In fact, it is as if someone in the act of committing an offence is caught red-handed by the police as they investigate and

then promises to follow their recommendations. Of course the person would agree to follow them.

As members of Parliament, we are responsible for the public purse. We want it to be used optimally. Earlier, you talked about solutions for assessments and efficiency. You said that we must not be satisfied with a 95% success rate. You are completely right.

I am calling on your expertise as Auditor General and the expertise of the skilled team around you. Are you able to provide us with a method by which each department becomes responsible, assesses itself and does not wait for an audit on your part every six years, 10 years, 15 years, 20 years, or 30 years before it does anything?

People in the departments have to be made responsible. I need your expertise to allow us to be even more efficient so that all Canadians who pay taxes to Ottawa can get full value for their money.

Mr. Michael Ferguson: Thank you for your comments, Mr. Godin.

First, I would like to talk about the audit on the Governor in Council Appointment Process in Administrative Tribunals. We conducted an audit on this a few years ago. I believe it was in 2009. In the past, we identified problems with the process and we made some recommendations.

With this current audit, we noted that the Privy Council has made some improvements to the process. However, the current results are the same as in 2009. We feel that this situation is a concern. In the past, we identified a problem and made some recommendations. It is clear that the department did make some changes to the process. However, in the eyes of Canadians, the results are the same. The same problems continue to exist.

In my opinion, it is really important to find a different way of following up on our recommendations. As you mentioned, all departments are receptive to our recommendations, but the results are the same.

The committee's role is really important in maintaining dialogue with the departments. It would increase their ability to be accountable. Moreover, I feel that it is important to consider the possibility of finding a different way to follow up on our recommendations. We should be able to conduct a new audit on the same subject before being in a position to state whether there have been adequate changes.

In a word, it is important for us to consider whether there is a different way to follow up on some audits.

● (0935)

Mr. Joël Godin: Actually, I understand that—

[*English*]

The Chair: Very quickly summarize. No more questions. You have about 20 seconds.

[*Translation*]

Mr. Joël Godin: I will leave it there. Thank you, Mr. Chair.

[English]

The Chair: We can move to the next one, then. We'll actually move to Ms. Mendès, please.

[Translation]

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

Mr. Ferguson, thank you for being part of this meeting today. It is great to have you here. It is not always great to hear what you have to tell us. But we have a job to do.

As my colleagues, as well as Mr. Christopherson, have emphasized, a major problem seems to beset all the government apparatus, collecting data and how to use it.

Do you see that this is affected by privacy legislation in Canada? Is there an impact on the ability to share information between departments because of privacy legislation? Does it have an effect?

Mr. Michael Ferguson: Of course, we must comply with that legislation as we do our work. There are also some aspects of our own act that identify the ways in which we manage the information we have available. So, of course, it is important to comply with the legislation.

In certain cases, it is also an issue for departments to comply with the provisions of the legislation. However, there are provisions that make it possible for certain information to be circulated. So it is a requirement to comply with the legislation but there are ways to make sure that it is complied with in all programs.

Mrs. Alexandra Mendès: At the same time, it does allow information to be shared.

[English]

That takes me to a question to Mr. Swales to follow up on Ms. Zahid, if possible.

I think my colleague's question was mostly on whether it is possible, when someone applies for citizenship, to have immediate checkups on criminal records done by the RCMP in the first instance. We shouldn't even open the file until that is done, so that we could avoid delays and avoid waiting for information that takes a long time to come before people start working on the file. It seems to me, logically speaking, that if someone has a criminal record or has a criminal accusation, obviously the case is closed, and the application won't go further. It seems to me—that was the point of my colleague's question—is it possible to do that? Going into privacy laws, is this something that could be shared by the RCMP with IRCC?

Mr. Nicholas Swales: Certainly it is possible, and that is how the system currently works. They do that check early on. The issue we focused more of our attention on was that once that check is done there is a period of time, and it used to be quite lengthy, while the application is in progress—

Mrs. Alexandra Mendès: It still is quite lengthy; it's still over 18 months.

Mr. Nicholas Swales: Indeed, but it was getting up to three or four years not that long ago, in which there was a possibility for

people to have committed crimes, so it was getting that information that we were most concerned about.

As for the issue of whether there is anything that prevents the sharing, there isn't in this case. They have the systems and the agreements in place to do it. It just needs to be done.

Mrs. Alexandra Mendès: Thank you very much.

Is there a technological reason that would be the primary reason we have this issue in the different departments? Did you find it was mostly technological?

Mr. Michael Ferguson: Mr. Chair, what we found was that it was just the way the data was handled. I think the best example in the citizenship program was that we selected a sample of 150 addresses, because again, for somebody to become a citizen, they first have to be a permanent resident in Canada and they have to be able to prove they've been a permanent resident for a sufficient period of time.

Some people don't meet the permanent residency requirements. They may provide a false address or try to give an address that isn't in Canada. Address is important in making sure Citizenship Canada has the addresses correctly captured, so they can determine whether multiple people are giving the same address, which would be an indication that perhaps there's a problem. We went in and took a sample of 150 addresses and found there were duplicates existing in the system for 102 of those 150 addresses. One address existed in the system in 13 different ways. Departments are always going to say, "If we had a new system, we could manage."

● (0940)

Mrs. Alexandra Mendès: I'm not talking about the new system. I'm talking about using the one they have properly. I guess that's where you're reaching to.

The Chair: Thank you.

We're over time already.

We'll go back to Mr. Godin, please.

[Translation]

Mr. Joël Godin: Thank you, Mr. Chair.

Mr. Ferguson, I feel that your organization has expertise in this matter. So I am going to continue with my previous question about efficiency inside departments.

Can you point us to any possible solutions? You have probably consulted other organizations and other governments around the world that have implemented measures to increase the efficiency of each of their departments. Even if you have not held such consultations, can you still give us some possible suggestions for measures that would improve the efficiency of our departments?

Mr. Michael Ferguson: That really is a difficult issue, but it is also a very important one.

In the past, we have often noticed that, when departments assess the performance of some of their programs, they measure only the aspects that are the easiest to measure, not necessarily the most important. Often, it is easy to measure a certain part of a process but that is not the entire process. It is therefore possible that there are problems in evaluating the results of the same program, although there is a way to measure only one aspect of it.

Departments have to focus on results. They must find an effective way of determining whether a program can provide the anticipated results. That is the first thing to do, I feel. Second, of course, they must have all the data they need in order to implement measures that allow the progress of a given program to be measured.

Mr. Joël Godin: It is human nature to look at the easiest solution and to overlook the tougher ones.

From your experience in the matter, is it your opinion that departments have all the tools they need to improve their efficiency? Is it a question of using the tools or a question of process?

Mr. Michael Ferguson: The policies, the guidelines, the practices and the skills exist. I know that some programs are complex but, in general, the departments have a quality process that makes sure that all the steps towards the desired results are in place.

• (0945)

Mr. Joël Godin: Now I want to talk to you about the report on VIA Rail.

Paragraph 2 deals with the governance of VIA Rail. In the last line, you state: "The significant deficiency could also compromise the Corporation's medium- and long-term viability."

Can you tell us more about that? As I read that sentence, I am a little concerned.

Mr. Michael Ferguson: We talk about the problem in that paragraph because VIA Rail has no long-term strategic direction and the government has not approved one. It is very important for VIA Rail to have a long-term direction so that it can focus on its situation and improve its activities.

Of course, we are very concerned that this significant deficiency compromises VIA Rail's medium- and long-term viability. In my opinion, this is really a very important long-term issue for VIA Rail.
[English]

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

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

Mr. T.J. Harvey (Tobique—Mactaquac, Lib.): Thank you, Mr. Chair.

I have a couple of questions. I want to start on the drug plan and Veterans Affairs. I have a serious problem with two paragraphs in this report. It says:

To recap our findings, Veterans Affairs Canada has not managed its drug benefits program in a way that considers the impact on veterans.

And number two,

We found that while Veterans Affairs Canada used some cost-saving strategies to manage the cost of the drug benefits program...it has not assessed whether these strategies are working as intended. That means that the Department does not

know whether it is using the right strategies to prudently manage the taxpayer dollars that are used to fund veterans' drug benefits.

I want to be on the record as saying that I find it disturbing. I'm all about saving money, cutting costs, accountability, and trying to make sure that we do our best to manage taxpayer dollars. What I find disturbing about the findings in this report is if I could assume that there was one department where we weren't basing our decisions upon cost-cutting measures, it would be drug plan benefits for veterans. As somebody who has the utmost respect for our armed services and for veterans in general, I find it very disheartening that we're basing our strategies upon cost-cutting measures in that department.

I want to know what your thoughts are on your findings within the context of that and where you think the future lies with that.

Mr. Michael Ferguson: The department has a strategy for containing the cost—not necessarily cutting the cost, but making sure that the costs of this program are reasonable and that they're able to deliver as much as they can within the money that they have. One of the strategies that they've put in place was a generic substitution policy that said, wherever possible and as long as it's acceptable to the prescribing physician, generics should be substituted for name brand drugs. That was one of the measures they put in place to manage the cost of the program.

What we've identified is that even though they've put that strategy in place, they haven't gone back to see how effective it is, whether it's working, or whether it's being done in all of the instances. They haven't done an evaluation on whether that particular strategy is working. Similarly, they have negotiated reduced dispensing fees with pharmacies, but again haven't gone back to analyze the success of that part of their program either.

There are ways that they can make sure they are containing the costs of the program while still making sure that veterans are getting access to the prescription drugs that they need.

Mr. T.J. Harvey: A lot of that falls right into the same realm that we've been talking about, which is data management and a lack of data management in the majority of the departments. They're not following up to find out whether they're using the right drugs or whether or not the strategies they've put in place are effective.

That carries right over into my next question, which is based on the venture capital action plan. We talk about data management, and I feel as though this entire action plan was flawed from the get-go and that they didn't even absorb the data that was out there departmentally before starting this program.

I have no idea about the amount of fees that should be applied to fund managers over the lifetime of the plan, but your comments said that one of the flaws was the double layer of management and how that could affect the performance and give less control of capital to the limited partners. You also said that the exit strategy was probably not the best strategy to start with and that there were other fund models that used a strategy that allowed the public sector to withdraw from it before the completion of the program.

I feel that this data management problem is broad and is across all departments, and that maybe we need to dig into that more.

● (0950)

Mr. Michael Ferguson: I guess there is an aspect to the venture capital action plan audit that has to do with data, but fundamentally we were satisfied with the work done by the organizations at the time—Department of Finance, Department of Industry, and the Business Development Bank of Canada—to try to identify the need—the gap, if you will—in the venture capital world.

They held consultations with stakeholders, so in designing what they thought would be a way of filling that gap and meeting that need, they did a lot of that work. Part of the thinking that went into the design was about saying that they were going to use a fund-of-funds model, which meant there were going to be those two layers of management fees, so all of that was part of the structure.

But certainly, I do agree that the issue now is how they will know whether the investments that are being made are actually going to lead to companies that can commercialize their ideas, that can commercialize the research and development and the innovation. The main measure that they have in place is the rate of return earned on the investment, but that's not something that can be measured for a number of years.

I think what we've identified in this case as essentially the missing information, if you will, is that there are not enough short-term measures to be able to identify whether the companies that are receiving the investments are moving down the road towards being able to commercialize their original ideas and the original innovation. I think that's really where the focus needs to be now, in terms of the \$400 million that the government has already put into this program.

The Chair: Thank you, Mr. Ferguson.

Thank you, Mr. Harvey.

We'll now move over to Mr. Christopherson, please.

Mr. David Christopherson: Very good. Thank you, Chair. I appreciate the opportunity to continue.

I want to stay on the data issue. I only have a couple of brief moments. I have to say, and I would say to my colleagues, that I see a unique opportunity here for us in a way that hasn't been as obvious, at least in my memory, for a long time, having served on this committee now for 12 years, and that is to show the synergy of two entities working together.

There's the Auditor General and the work that they do and there's the public accounts committee, but many times even politically we don't make the connection that the two are part of an overall system. In my experience, for emerging democracies the first step in getting democracy is to have relatively free and fair elections that allow the political will of the people to be expressed. That's step one, which is why so many of us go to Ukraine to try to help them get to that first step in having that kind of representative government.

Almost the immediate second step, if you take a look at the creation of our country, was that one of the first things that happened after we got the major pieces of Confederation in place was that the

Office of the Auditor General was created, and within a couple of years there was this committee.

They're often seen as two entities, but they're the same thing and they work together. That's why, and I'll be brief, the IMF and the World Bank, even in terms of Ukraine and the money they want to invest there, were sending out a message to the world saying, "Look, we're ready to invest billions in there, but frankly they haven't got the systems in place to guarantee the money won't be stolen before it ever gets to the public treasury."

What they wanted to do, and the call that went out, was to help get... The World Bank and the WTO—get this—were looking to Ukraine to strengthen their auditor general public accounts system.

I take that big macro picture and bring it down to the micro, in that we now have an opportunity for the balance of this Parliament to take the advice of the Auditor General, who has not only underscored this issue, but is pleased, in his opinion, with the fact that we have picked up this torch and are running with it. We appreciate his looking at this in that macro sense.

For the rest of this Parliament, Chair, could I suggest we ask our analysts to prepare for our consideration that when we're doing report writing we take into account all that we've said here. Remember, the Auditor General gave us all the tools we need. Through I think it was Madam Shanahan's questions, but somebody else asking good questions, StatsCan was identified as a good example of doing what needs to be done in the way that it should be done.

I ask through you to our analysts, Chair, using that as our baseline, if they can bring back to us something for us to consider, such as a bit of a template whereby we make this a priority question. We make it clear to all the government deputies and ADMs that we're coming on this issue, and when you get an Auditor General's report for the balance of this Parliament, we're going to have pointed questions.

The Auditor General said there hasn't been, in his opinion, enough pointed questions. He's recommending to us in his gentle, diplomatic way that departments are not necessarily being questioned in the way they should be, and that we ought not take at face value some of the issues around data collection and what's acceptable—i.e. percentages, etc.—and what's not. We need to identify the fact that it's not as if the government has to create something new, because in order to come up with those clean audits that I was bragging about a little while ago, they have to have the instruments in place that allow them to manage data.

We have every opportunity here, Chair, to put a template in place that says for this Parliament and for the next few years, this is going to be a priority for us. It will be macro overall and everything coming in. I think in doing that, Chair, we can also carry this message to our national conference, because this is fairly new in terms of its obviousness, if I can say that. We have the work of the AG and the work of this committee, and the two together will allow us to address this issue on a macro basis and do ultimately what we're trying to do, which is change behaviour.

Thank you, Chair.

• (0955)

The Chair: Thank you, Mr. Christopherson.

That certainly would be one topic we can talk about in our steering committee and maybe to our Auditor General.

I'm going to Mr. Arya next, but is this something that would be symptomatic in the provinces as well, do you think? You're recognizing it federally here and you certainly work with the provinces. Is it perhaps the case that across the country each government is dealing with concerns on data?

Mr. Michael Ferguson: Well, Mr. Chair, I spent much of my career working in the province of New Brunswick, and yes, I would certainly say that all provincial jurisdictions are struggling with how they collect and manage administrative data. They are struggling to make sure that they know what they need and they know why they need it and are collecting it in the right way and have the systems in place to make sure it is properly stored so that they can use it. I think it is probably a consistent theme.

As I have said before, it is probably now 30 years since we have had these sophisticated systems in place. We have a lot of data from a lot of systems. There are also some old systems that are harder to get data from. Nevertheless, there are a number of sophisticated systems. It is obvious that a number of federal departments struggle with maintaining the quality of that data, and I think it would be fair to say that a number of provinces have a similar struggle.

The Chair: Thank you, sir.

Now we will move on to Mr. Arya.

Mr. Chandra Arya (Nepean, Lib.): Thanks.

I would like to ask some questions about the venture capital action plan.

First, specifically, what was the role of BDC in selecting the fund manager? You mentioned that one of BDC's roles was to support the venture capital expert panel. I would like to know who the members of that panel were.

You also mentioned that the venture capital expert panel was appointed by the Minister of Finance, and "...the three organizations assessed the applications and interviewed applicants." It appears that BDC was not only giving advice but was also involved in the process of selecting the fund managers. When another committee, the industry committee, had BDC there, I asked the question, and basically they replied that their involvement was post-selection of the fund manager.

I would like to know if BDC was ever involved in the selection process for the managers, especially when we see that one of the fund managers selected did not even apply to be one?

• (1000)

Mr. Michael Ferguson: I am going to ask Mr. Domingue to give you the details.

I don't have the names of the panel. I think it would probably be better for that information to come from the Department of Finance.

I can ask Mr. Domingue to describe the role of BDC in this selection process.

Mr. Richard Domingue (Principal, Office of the Auditor General of Canada): This initiative was led by the Department of Finance, with the support of, at the time, Industry Canada and the BDC. BDC did some *ex ante* analysis before the initiative was announced. Mr. Ferguson referred to the analysis they did to identify the market gap.

In regard to their participation in the selection process, they were rather observers. They were not specifically involved. They were not members of the expert panel. They were basically supporting the Department of Finance in selecting the fund-of-funds managers.

Mr. Chandra Arya: Is it that expert panel that selected the fund manager who did not even respond to the expression of interest?

Mr. Richard Domingue: Sorry...?

Mr. Chandra Arya: The responsibility of selecting the fund manager who did not even submit an expression of interest lies with that expert panel, meaning with the Ministry of Finance.

Mr. Richard Domingue: Exactly.

Mr. Chandra Arya: Okay.

Second is that, of course, only time will tell whether the investments we made in the technology companies are successful and whether they are successful in commercializing the technologies that this fund has invested in.

I think we have already failed in one of the primary objectives. As you mentioned, one of the primary objectives was establishing "a self-sustaining, privately led venture capital ecosystem" in Canada. Whenever we in the government make huge investments like this \$400 million, in addition to the core objective of actually helping the companies commercialize their technology and grow, we should also look at the additional benefit. Here, one of the objectives was to create an ecosystem. That did not happen.

Mr. Michael Ferguson: Mr. Chair, that certainly is the objective. I think what we are raising in the course of this audit is that it's hard to be able to know whether the program is going to achieve that objective. I think it's still a bit early to try to assess whether there is a self-sustaining ecosystem, because the money has only just been gathered and collected and the investments are now being made. Definitely one of the things the Department of Finance needs to make sure it is measuring and keeping an eye on is whether the venture capital system in Canada is going to be able to become self-sustaining.

Again, we raised some concerns about the exit strategy and things like that, which can make it appear that perhaps the program was designed to be an ongoing program rather than one that would result in self-sustaining activity. I think it's still a little too early to judge whether the result will be a self-sustaining ecosystem, but because it was the objective of the program, one of the things the Department of Finance needs to be measuring and providing some information on is how successful it is on that objective.

The Chair: Thank you, Mr. Ferguson. Our time is over.

We'll now move back to Mr. Poilievre.

•(1005)

Hon. Pierre Poilievre (Carleton, CPC): Thank you.

Mr. Ferguson, my question relates to report I on the venture capital action plan.

I see in Exhibit 1.3 the recipient funds of the government's contribution to the action plan. I wonder where we can find the individual investments those funds made.

Mr. Michael Ferguson: Mr. Chair, I'll ask Mr. Domingue if he knows whether that information is in the public domain.

Mr. Richard Domingue: Mr. Chair, this information was not released, so it's not publicly known. I think you'd have to ask the Department of Finance or the BDC.

Hon. Pierre Poilievre: Do you happen to know if they are planning to release it in the future? Is it not public because it's premature, or they just recently initiated this over the last couple of years, or is it their plan never to release the investments?

Mr. Richard Domingue: This is exactly the recommendation we made: that they should disclose more information about the performance of the venture capital action plan. They've agreed with our recommendation, so one would assume that eventually the investments and the performance of those investments will be made public to inform decision-makers as well as to inform potential investors in the future.

Hon. Pierre Poilievre: I'd like to know more about what investments qualify for this money.

The report defines venture capital as "funding for companies that have a new idea". The definition of "new idea" is, and has always been, vague. What constitutes a new idea? Is it a patent that is yet to bear revenue? Is it an amendment to an existing patent? Is it a new use of existing technology? What limitations are there on the investments these funds can make with the \$400 million venture capital action plan money?

Mr. Richard Domingue: The main reason they chose that structure of funds was so they wouldn't have to select the winners. The Department of Finance, BDC, and Industry don't have to identify which investments are promising. It's up to the funds to make those investment decisions.

Hon. Pierre Poilievre: Clearly there must be some criteria to determine the parameters of those decisions, because the purpose is not just to go out and make good investments. We have enormous and well-developed capital markets already in Canada. There's no market failure there. The purpose of injecting \$400 million in public

funds was specifically to direct it to venture capital. There must be borders around the definition of "venture capital".

Mr. Richard Domingue: For each of the selected fund of funds, the government introduced some constraints in terms of the type of investment they could do or the type of research they could invest money in, such as science and tech, IT, and agriculture. These are the broad parameters that were suggested to those companies.

These investments will have to be monitored eventually to make sure they fit the constraints that were imposed on those funds of funds and that they are aligned with the government's objectives in regard to the types of broad investments these types of funds of funds are allowed to make. There were no specific guidelines to invest in company X, Y, or Z.

Hon. Pierre Poilievre: Did the finance department do any analysis on how much economic activity this initiative would suppress?

If I can elaborate, they would have had to take \$400 million out of the economy in order to put \$400 million into the economy, unless the money was printed. Was there any analysis on what impact taking \$400 million out of the economy would have?

Mr. Richard Domingue: Mr. Chair, as far as we know, the finance department did not do that analysis of the crowding out that the \$400 million could potentially create.

I remind the member that the objective of the program was to create a self-sustaining venture capital market. The ultimate outcome of having innovation and R and D and increasing our productivity is something the finance department will have to eventually monitor. This is why we proposed a number of potential indicators in the last exhibit, two of them being patent and patent citation. These will be, in our view, better indicators of the overall outcome of those types of venture capital investments.

•(1010)

The Chair: I have one quick follow-up on that before we go to Mr. Christopherson.

I think it's probably also important that we remember this was created in the midst of a massive recession, in 2011 and 2012, when we were in a global recession and there wasn't access to the capital markets and there wasn't much access to credit for some of these new start-up programs. I think that was the impetus behind making certain that some of these new programs had that opportunity. It wasn't just about how we were going to compete with capital markets; there was even a hesitancy by banks to give out capital.

I don't know if that's a question or a comment.

Mr. Michael Ferguson: I think, Mr. Chair, we did identify that the organizations involved assessed whether there was a need and assessed the gap. I think it is important to remember this was a \$400 million disbursement on the part of the federal government that was not an expenditure. It does not hit the bottom line of the government. It's considered to be an investment.

It's important to monitor whether that investment is maintaining its value. It's difficult to do that because the underlying investments are start-up companies, innovative companies, and companies that have not yet commercialized the ideas. It's going to take a while to be able to identify whether the program is successful or not.

I think one of the reasons we wanted to bring this to the attention of Parliament is that sometimes these programs can be overlooked because it was not an expense. It was not something that hit the bottom line of the government. It's an investment. You can't determine whether that investment is going to have an appropriate return for maybe 10 years because of the types of investments underlying it.

What are the indications along the way about whether this program is doing what it's supposed to be doing and whether these companies are able to bring their innovative ideas to research and development and then to commercialization? We need to make sure it is going result in a vibrant venture capital ecosystem in Canada. It's the type of program that can be too easily have nobody paying any attention to it, and that's why we wanted to bring it to the attention of Parliament.

The Chair: Thank you.

Mr. Christopherson is next.

Mr. David Christopherson: Thanks, Chair.

This is a unique opportunity for me to show colleagues that this can happen: my questions have been answered, and I decline the balance of my time.

Write it down; it happens.

Voices: Oh, oh!

The Chair: Well, thank you, but there are others who still do have questions.

We welcome Mr. Baylis to the committee today for the first time. He is replacing Mr. Lefebvre.

Welcome here.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): Thank you. I'm just getting back into my chair after falling out of it.

I'm going to follow up with some more questions on the venture capital business.

I note at one point you stated the BDC did collect metrics, such as the aggregate internal rate of return. Then you go on to say:

In our opinion, publishing information about Action Plan activities and performance would help the government demonstrate to private-sector investors that commercial returns can be obtained from investing in early-stage companies.

Can I read something into that? You're not publishing the internal rate of return. Are you suggesting first of all had they published it, I could see that they do get good return on our money?

Mr. Richard Domingue: We're not suggesting anything here. All we're saying is that sunshine is the best antiseptic, so just publish the results for the return those types of investments are achieving, and this will inform other potential investors.

•(1015)

Mr. Frank Baylis: You're clearly saying to publish the aggregate internal rate of return.

Mr. Richard Domingue: Yes.

Mr. Frank Baylis: I see you also mention a lot of other metrics, such as patent capability, exits, and all of that, and those are great, but in the end I couldn't care less if they are terrible on all of those as long as I get a great rate of return, correct? Let's say we had bad patents and bad everything, but the rate of return for investing in Canadian companies was phenomenal; all the other metrics are secondary to that one metric. Is that fair to say?

Mr. Michael Ferguson: Mr. Chair, we should remember that our focus is that these are start-up companies at the beginning of their life that are trying to commercialize ideas and innovation.

Yes, ultimately the returns are important and are perhaps the most important thing, but those returns aren't going to happen for a number of years. The types of metrics we are suggesting are metrics that will help people understand whether in the meantime the \$400 million, which is an asset of the Government of Canada, still has its asset value, or whether there are indications that some of these companies.... As we know, it's venture capital, so we know some of that—

Mr. Frank Baylis: I would agree completely with that. It's building all around that.

For example, we're going to be competing with other people and other venture capital funds that are not government-sponsored or supported. They are private, and would it not be their number one calling card to say "Look, this is the rate of return".

Mr. Michael Ferguson: I think ultimately what everybody is interested in is the rate of return, but in the meantime these organizations, whether it's government or anybody else, want to know whether the companies they are investing in are on the road to producing returns or not. It's important to have ways of measuring that. Are they going to be able to commercialize those innovations? They're not mutually exclusive.

Mr. Frank Baylis: I agree with you.

To my point, though, part of your recommendation to the BDC is to publicize those rates of return. Is that correct?

Okay.

I have another set of questions to do with the concept that was chosen. Some sectors were directly invested in, and the rest was invested in a fund of funds. Do I understand that correctly?

Mr. Richard Domingue: That's right. In the \$400-million initiative, \$350 million was set aside for the fund of funds and \$50 million for what they call the "high-performing funds".

Mr. Frank Baylis: The high-performing funds were clean tech, health sciences, and IT. Is that correct?

Mr. Richard Domingue: They are listed on exhibit 1.3, page 15.

Mr. Frank Baylis: Yes.

You make the point on page 9 that agriculture and natural resources, “where innovation is required to maintain competitiveness”, might have benefited. Did you look at sectors other than those three? Maybe the question is, what brought you to write that and to highlight agriculture and natural resources as an opportunity?

Mr. Richard Domingue: Mr. Chair, through our discussion with the stakeholders we were told there was a market gap in the agri-food sector and the natural resources sector. The Farm Credit Corporation also does venture capital, but nonetheless there was a belief there was a market gap. The fact that none of the four selected funds of funds has a specific mandate regarding agriculture and natural resources does not prevent them from doing that type of investment.

The Chair: Thank you to both.

We'll go back to Mr. Poilievre, please.

Hon. Pierre Poilievre: In the post-mortem assessment of the success or failure of the venture capital action plan, how would the Auditor General's office recommend Finance Canada deal with the eternal problem of attribution—that is, the problem of determining what share of the innovation resulted from the public investment and what would have resulted had that investment been absent?

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

That would be a type of economic analysis the Department of Finance would have to determine how to undertake. At the end of all the investments and at the end of the plan when they're looking back, I think the number one thing to look at will be whether the federal government made money off it and there was a return on investment.

I think there is also going to be the question of what the impact has been on the economy and whether these companies are still involved in the economy. That's a much harder type of analysis to do, and as you say, what's the cause and effect? An economic analysis would have to be done.

I think the straight financial analysis would be the first and the most obvious. There was an investment, and that investment was supposed to make a return, so has that investment provided a return?

The secondary thing probably would be looking at whether those funds still exist now. Are they able to attract investment on their own without the Government of Canada's support, or do they still need the Government of Canada priming the pump?

The type of attribution question you're asking would be something the finance department would have to look at.

● (1020)

Hon. Pierre Poilievre: Even in the event there is return on the investment, there's a risk that government becomes the rooster who thinks he made the sun come up because the sun came up when he crowed. The enterprise may have succeeded without any public investment. The fact the government was injecting dollars into the company or the idea in question might have just meant it was a hitchhiker along for the ride.

I guess I'm trying to ascertain whether there's any way to measure whether the presence of this money made a difference vis-à-vis the absence of this money. Maybe there's a control group that could isolate the effect of government action, but it seems hard even while

looking at the rate of return to determine whether the government catalyzed the results in question.

Mr. Michael Ferguson: Mr. Chair, I think that's very much part of the accountability mechanism for the Department of Finance, and they should be able to do that type of analysis.

For me, one of the crude indicators would be simply that once this investment has matured and the funds have started to get into that world of making a financial return, is the venture capital market in Canada still existing at that same level but without needing the same level of support from government? Has that self-sustaining ecosystem been created, or once these funds shut down and these funds of funds have been shut down and everything has run its course, is everybody coming back to the government saying they need more federal government money going back into these funds? To me, one of the crude indicators is simply whether that self-sustaining ecosystem has come into existence.

As for the the more sophisticated analysis, I think the Department of Finance would have to respond to as to how they would be able to do that.

The Chair: Thank you.

Madame Mendès.

[*Translation*]

Mrs. Alexandra Mendès: Thank you, Mr. Chair.

[*English*]

My question is about the PCO's role and the data information responsibilities.

Has the chief information officer provided any guidelines for common software standards and data formats for the purpose of improving interdepartmental sharing of information and at the same time improving service delivery? Has this been done at all?

Mr. Michael Ferguson: Mr. Chair, that's not something I can answer. We haven't looked specifically into that.

Most of what we were looking at was how the departments themselves are managing it. To your question, there was a concern that even though the three organizations in the citizenship program had decided what information to share and had put in place agreements about what information to share, they weren't sharing it.

I don't know whether those directives have been given. What we've seen is that even when there is that type of directive, it isn't always being followed. We've put the focus very much, as we do our audits, on what the individual departments are doing.

Mrs. Alexandra Mendès: Has it been part of their answer to your recommendations that there would be an effort to apply those directives in a much more forceful way?

•(1025)

Mr. Michael Ferguson: Certainly the recommendations we have made have been more at the individual department level rather than at the central agency level. I think the departments have agreed with all of our recommendations and understand that it is important to make sure that they are managing this data in an appropriate way. When I have been talking about this issue, either to departments or to central agencies, I think there is a common agreement that it is a problem that needs to be dealt with.

Mrs. Alexandra Mendès: Would Shared Services Canada be the appropriate department to start dealing with this eventually, when it starts working properly, if it ever gets there? Would they be the ones?

Mr. Michael Ferguson: I would lay the responsibility with each individual department. It doesn't really matter what Shared Services does or what the chief information officer does. That is not going to make Citizenship Canada make sure that they are storing their addresses. Fundamentally, I would start with the need to hold the departments to account.

Yes, there may very well be a role for central agencies such as Shared Services and so on somewhere in this as well, but I think fundamentally the starting point is with the individual organizations themselves.

Mrs. Alexandra Mendès: Thank you very much.

The Chair: Thank you.

I don't have any other questions, although I do have a couple of things that I am just wondering about for my own information.

You spoke about the Veterans Affairs formulary review committee. You said that it deals with medications and it doesn't have clear guidelines. What qualifications are needed to serve on that committee? They are making decisions on drugs. Are there doctors there? Are there pharmacists there? Who sits on that committee?

Mr. Michael Ferguson: I don't have the details, Mr. Chair, but certainly we mention in the report that they do have health care professionals. I don't know whether those are doctors, pharmacists, nurses, or exactly what they are, but they do have people with that health care background. The department would have to give you the details of exactly who they are and how they select them.

The Chair: In paragraph 4.23 you say this:

In one case, we found that the Committee's decision to limit access to a particular narcotic only to those veterans with cancer or in palliative care had still not been implemented more than two years later. In the meantime, the drug remained available to veterans as a standard benefit.

Is this dispensed, then, by any pharmacist out there in communities?

Mr. Michael Ferguson: What the committee does is decide what the department is going to pay for and the circumstances under which the department is going to pay for it. The prescriptions, of course, come from the physicians, and the department can't tell the physicians what to prescribe or not to prescribe. The physicians have to decide what a particular patient needs in terms of medication.

The formulary review committee in this situation decided that they were going to pay for this particular narcotic only for veterans with cancer or in palliative care. That went through the process of considering under what circumstances the department should be

responsible for paying for this type of prescription. They went through that and made their decision, but when we started the audit, which was two years after they had made the decision, they still hadn't implemented the decision, so they were still paying for prescriptions even though the patient wasn't suffering from cancer and was not in palliative care.

The Chair: The advisory committee made the decision that they were not going to continue to prescribe this. Is that right?

Mr. Michael Ferguson: No, they weren't going to continue to pay for it. They don't prescribe; it is the doctors who prescribe.

The Chair: They weren't going to cover it. The doctor would still prescribe it, and the pharmacist would fill it. Typically, then, the veteran would pay for it, and he would still be reimbursed. Is that what you are saying? Veterans Affairs still paid for it.

•(1030)

Mr. Michael Ferguson: In this instance, because the decision had not been implemented, yes, it was still available as a standard benefit, so the department was still paying for it within that two-year time period.

The Chair: That is the first question.

The second question is this. In report 5, you say that the Canadian army reserve has been shrinking and that gaps in training mean that reserve soldiers were not fully prepared to deploy on missions. On the shrinking of the reserve, when was the optimal number of reservists put in place? Is this something that is determined each year? I noted that you said in your report, "Between the 2012-13 and 2014-15 fiscal years, the number of Army Reserve soldiers declined", which I also note is after our mission to Afghanistan was over, except for a training mission.

Is this just a natural reduction in numbers? We know that when the mission was going on, we had very good recruitment in it. Some of the armed forces advertisements and recruitment measures on television were very successful, but after the mission, I think all of us heard that the numbers started to drop off.

In your estimation, was that a natural decline and they should have just updated the numbers they needed, or was it very problematic to provide an ongoing listing as to the optimal number?

Mr. Michael Ferguson: I think those ebbs and flows are something that the department would have to describe. What we identified here was that the Canadian Forces had established the optimal level for reserve soldiers at 29,000. The funding that the department was operating with was set for 21,000, and they had about 14,000 who were actually active and trained. The problem was that over a period of a couple of years, they were starting to lose about 1,000 a year.

We say, in paragraph 5.52,

in the 2014-15 fiscal year, the recruiting system's objective was to deliver 2,200 recruits to the Army Reserve—far fewer than the 3,000 recruits needed.

The army itself had determined that they needed 3,000, but the system was able to deliver only 2,200. They still are not able to attract the numbers. They are not able to recruit the numbers that the army itself says they need.

The Chair: All right. Thank you.

Mrs. Shanahan, we still have some time. You have a question.

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

I am glad that you got us started on report 5, because even though it didn't come up earlier in my questions, when I look at these five reports, this is the one that really stands out to me. In the overall purpose of what we are trying to do here as a federal government, national defence is a number one job, and it concerns me greatly.

I think we are going to have the opportunity to learn more, to dig deeper into this problem of recruitment and of being understaffed. Was it a problem simply of recruitment, or was it saving money somewhere and not putting the right...? Were the equipment deficiencies and training deficiencies a problem of being penny-wise and pound foolish? This is a number one job for me, and one that really stands out.

Mr. Michael Ferguson: Again, what we have identified here is that there was a goal set for the number of recruits. The army itself had established that they needed 3,000 for the army reserve and presumably could fund 3,000, but they were able to recruit only 2,200. I believe we actually have an audit under way now on recruitment in the Canadian Armed Forces, so we are looking at that part of their business in more depth. I think we will be able to report that to you in the fall.

•(1035)

Mrs. Brenda Shanahan: Excellent.

On another report, report 3, which we didn't really address here, about the Governor in Council appointment process, I have the pleasure of sitting on the OGGO committee as well as this committee, and we talked a little bit with the PCO about the difficulty in finding qualified candidates. Can you shed some more light on that? Why is that a difficulty? We know we have lengthy delays in the appointment process. What is the key reason for that delay?

Mr. Michael Ferguson: We looked at four different tribunals. We selected those tribunals because they make important decisions, so that's why we focused on those four.

The circumstances in each of the four are very different. In the case of the Specific Claims Tribunal, the requirement is to have sitting judges, which means that in order to fill a vacancy, somebody

has to be taken out of the courts, and that creates a vacancy in the courts. I don't know, but there might be an approach of using supernumerary judges or another approach that could be used to fill the vacancies on the Specific Claims Tribunal.

It may be that in some cases they've narrowed the field of qualified individuals too much. Maybe it's possible to expand who would be qualified. I think we noted in the case of the Competition Tribunal that it took them 16 months to find an economist to sit on the Competition Tribunal. You would have thought that they could have—

Mrs. Brenda Shanahan: They're a dime a dozen.

Mr. Michael Ferguson: Well, you would have thought they could have found an economist in less than 16 months.

I think it was a series of different things. Again, the Immigration and Refugee Board had about 20 vacancies out of their 80 members. I would have thought that they could have filled those vacancies much more quickly.

Yes, I think there is a certain amount of having those types of issues, but fundamentally what's important to me is that these tribunals have to make important decisions. They have to find a way of getting those decisions made, either by filling the number of seats that need to be filled or perhaps by thinking about whether there's a way of dealing with those issues that doesn't require a Governor in Council appointment.

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

The Chair: Thank you.

I do not see any other questions, so we'll leave it at that for today. I'll just remind those on the steering committee that we'll have a steering committee meeting Monday at four o'clock. We'll be discussing these reports that the Auditor General has brought down and which ones we will do a study on. Then we will come back and have the main estimates on Tuesday, May 10.

Thank you again to our guests for appearing and for your good work with these reports. We thank you for being here before our committee today.

We're now adjourned.

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