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Chair

The Honourable Kevin Sorenson

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● (1530)

[*English*]

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

Good afternoon, everyone. This is meeting no. 31 of the Standing Committee on Public Accounts, on Thursday, November 3, 2016.

I remind everyone today that we are televised. Not only for the committee but also for those who are in attendance in the audience, we would please ask you to turn your cell phones to mute or vibrate or to shut them off. That will lessen the number of disruptions.

Today we are reviewing the Public Accounts of Canada 2016. Our clerk has received a communiqué from Mr. Matthews, the Comptroller General of Canada. In 2009, this committee recommended in its 10th report, and the government agreed, that the Comptroller General inform the House of Commons Standing Committee on Public Accounts, by way of email to the clerk of the committee, of any known errors in the published version of the Public Accounts of Canada prior to the commencement of the committee meeting. The Comptroller General has advised our committee that as of today, there are no known errors in the Public Accounts of Canada 2016.

Because many of us are new to the committee, should errors be discovered, corrections will be made and updated versions of the documents will be posted on the Receiver General website. For ease of reference, the original versions published in the Public Accounts of Canada 2016 and the revised versions with shaded changes are posted on the Receiver General website under “errata”.

As your chair, I am pleased to report that this arrangement is in place and functioning as this committee wanted and requested some time ago, and that has been dealt with.

Returning to our meeting today, as witnesses we have before us, from the Office of the Auditor General of Canada, Mr. Michael Ferguson, the Auditor General of Canada, and Karen Hogan, principal. From Treasury Board Secretariat we have Mr. Bill Matthews, Comptroller General of Canada, and Ms. Diane Peressini, executive director, government accounting policy and reporting. From the Department of Finance we have Mr. Paul Rochon, deputy minister, and Mr. Nicholas Leswick, assistant deputy minister, economic and fiscal policy branch.

We welcome you all here today. We thank you for being in attendance and we will now turn to you and to our Auditor General for his opening statements. Welcome.

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

[*Translation*]

Mr. Chair, thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Canada for the 2015-16 fiscal year. I am accompanied today by Karen Hogan, the principal responsible for the audit of the Government of Canada's consolidated financial statements.

The consolidated financial statements are a key government accountability document. They provide a great deal of information that can help parliamentarians understand the results of the government's financial transactions for the past year. Specifically, they report the financial position, results of operations, and changes in financial position of the government for the year ended March 31, 2016. We audit these financial statements and provide an opinion on them.

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

[*English*]

Our independent auditor's report is on page 2.4 in volume 1 of the public accounts. Once again, we have given an unmodified audit opinion on the consolidated financial statements, something we have done for the last 18 years. We assessed the consolidated financial statements against generally accepted accounting principles. We found that the statements conform in all material respects, which means that you can rely on the information they contain.

I would also like to draw your attention to our observations, which can be found after the consolidated financial statements, in section 2 of volume 1 of the public accounts. Volume 1 also contains other audited financial statements, such as those of the employment insurance operating account in section 4 and of the Canada pension plan in section 6.

In our observations, we provided information about four matters that warrant further attention: the government's transformation of pay administration, discount rates used in estimating the value of long-term liabilities, National Defence's inventory management, and liabilities for contaminated sites. I will now briefly address each of these matters.

● (1535)

[*Translation*]

First, I will address the transformation of the government's pay administration.

Note 4(e) to the consolidated financial statements indicates that the government spent approximately $50 billion on personnel costs during the year. Each year, we devote many staff hours to auditing these costs. This year, we found a higher rate of error involving overpayments and underpayments to employees in the last month of the fiscal year, when employee pay was processed under the new pay system.

Because the new system was only in place for one month, these errors were, taken together, not material to the consolidated financial statements. As a result, we were able to provide an unmodified opinion. However, we consider the nature and extent of these errors to be significant, given the direct impact on government employees. We have started the planning phase of a performance audit on the transformation of pay administration initiative.

[*English*]

In our observations we noted that some discount rates that the government uses to estimate the value of long-term liabilities are at the high end of the acceptable range. Higher discount rates result in lower estimated values for those liabilities, which is an example of measurement uncertainty referred to in note 1 to the consolidated financial statements of the Government of Canada.

The government has started a project to update its approach to selecting discount rates, and we agree that this is important.

We recommended that the government consider industry practices, emerging changes in accounting standards, and trends in the Canadian financial market as part of this project.

We once again noted National Defence's challenges in properly recording and valuing its more than $6-billion inventory. We have brought this to the attention of Parliament in each of the past 13 years.

The department has made progress with its inventory management; however, it continues to have errors in the areas of inventory pricing, the identification of obsolete inventory, the misclassification of items, and some quantity errors.

Last year we had an observation about improvements that the government needed to make in its approach to estimating the value of remediating its contaminated sites.

This year we were satisfied that the government has made the necessary adjustments to its model and has achieved a better approach to estimating these liabilities.

Our annual audit of the Government of Canada's consolidated financial statements takes about 50,000 hours of our staff's time, which is more than it takes to complete six performance audits. We have to work with several government departments, agencies, and crown corporations to complete this work. We add value through our financial audit, which helps to support parliamentary oversight of the government and promotes transparency.

[*Translation*]

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

Mr. Chair, I would like to conclude by saying that I am pleased that the public accounts committee is holding this hearing so soon after the release of the government's consolidated financial statements, because there is more value in examining financial information when it is current.

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

Thank you.

● (1540)

[*English*]

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

We'll now turn to Mr. Matthews.

For our committee's benefit, there is also a PowerPoint presentation that he has provided us. It will be appearing on the television as well.

Again, welcome here, Mr. Matthews.

Mr. Bill Matthews (Comptroller General of Canada, Treasury Board Secretariat): Thank you, Mr. Chair.

[*Translation*]

Thank you for the opportunity to discuss the Public Accounts of Canada for 2015-16.

The Public Accounts include the audited consolidated financial statements for the 2015-16 fiscal year, which ended on March 31, 2016, in addition to other unaudited financial information. They are part of a series of reports to Parliament and Canadians on the state of the government's finances.

[*English*]

I'm pleased to note that for the 18th consecutive year the Auditor General has issued an unmodified or clean audit opinion of these financial statements. This demonstrates once again the high quality and accuracy of Canada's financial reporting.

A great deal of work goes into these financial statements, which are prepared under the joint direction of the Minister of Finance, the President of the Treasury Board, and the Receiver General for Canada. I would like to recognize the excellent work of the financial community across the Government of Canada. Its members are responsible for maintaining detailed records of the transactions in their departmental accounts and strong internal controls. They, therefore, deserve much of the credit for the fact that the government's consolidated financial statements are consistently presented fairly every year.

[*Translation*]

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

I would now like to spend a few minutes walking the committee through a short deck that provides an overview of the Public Accounts. If you prefer, we can simply table the deck for your consideration and go straight to questions, but I think you previously said I could take a few minutes to make this presentation.

[*English*]

For the Public Accounts of Canada 2016, you have paper copies and there are also copies on the screen. For those of you looking at the screen, you may notice that the word “protected” shows up in the top corner. That's because that information was protected until the public accounts became public. It is no longer protected, so those of you with security minds can put your minds at ease on that front. We're all good there.

We are going to go through the slide deck, but it's not my intent to spend time on every page. I will hit the highlights and really pay attention to some of the changes in the results of the financial statements versus the budgets, and also those of the previous year.

Public Accounts of Canada has three volumes. Volume I is the audited financial statements, which the Auditor General has already mentioned, supplemented by some unaudited information. In volume II, we get into the details of each department and each ministry's revenue and expenses, their use of authorities, and what they spent and lapsed, if you're interested in that. Volume III contains information that is either required by the Financial Administration Act or just because of past practice has become normal for us to make public. I will mention that volume III is bigger than what any province would produce on its own financial statements.

The key thing about the financial statements or the Public Accounts of Canada is that they look backward. We are dealing here with the year April 1, 2015, up until March 31, 2016. The Auditor General has already mentioned the importance of studying the public accounts while they're still current, but let's keep in mind that this information is already over six months old, so it is a backward-looking document.

One of the things that I suggest you look at when you study the Public Accounts of Canada is the results of the actual year against the budget, and also against the previous fiscal year. It's a good way to find out what's changed. I'll just highlight a few things for you.

If you look at the total revenues, the budget for 2015—and we do publish the original budget here—had revenues of $290 billion. Actual revenues came in above that. If you looked at the actual for the previous year, they were at $282 billion. If you're interested in knowing why that is, I and my colleagues from the Department of Finance would be happy to talk about that.

Some other things to highlight for you include program expenses. The budget was $263 billion, but they came in at $270 billion. There are a few reasons for that, and again we'd be happy to get into those details but they relate to employment insurance, some fiscal transfers to Alberta and to Newfoundland, as well as some of the changes or impacts on our longer-term liabilities and related expenses having to do with pensions. The Auditor General has already mentioned some work we plan to undertake on discount rates.

● (1545)

The Chair: Yes, go ahead, Mr. Christopherson, on a point of order.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you, Chair. I apologize for interrupting.

I'd like to know what people are seeing at home right now. Is that screen on their screen, or is it this with that in the background?

The Chair: My understanding is that the cameras will be on the witness who is giving the presentation. They may go to the screen at one point or another, but typically the camera stays on the one speaking.

Mr. David Christopherson: I don't know how much latitude there is. I know the rules are very precise, but if we can make sure that screen is coming up so that the people at home have a context for what's being said, I would think they would benefit.

The Chair: It did come up. It was initially on for a certain period of time, but as Mr. Matthews is speaking, it goes to him.

Mr. David Christopherson: Very good. Thanks, Chair.

The Chair: Thank you for that point of order.

We'll go back to Mr. Matthews.

Mr. Bill Matthews: Thank you.

The final thing I will highlight on slide seven for you is something called other comprehensive loss. That is a bit of an accounting anomaly that you will see, and it relates to how we account for our crown corporations that follow private sector accounting standards. I will not go into detail about that number here, but if you are interested in knowing what that is, I would be happy to. It is a bit of a weird number and weird terminology for non-accountants.

On slide eight, it's the same thing, but on the balance sheet side, or the statement of financial position side, there is the accumulated deficit. You will notice here there are no budget numbers, so it just shows the numbers for 2015-16 versus 2014-15. From a budgeting perspective, we do budgets only for revenues and expense items, not for assets and liabilities, so the only comparator here is with the previous year. If you're interested in knowing what's changed, the one I will flag for you is pension and other future benefits, and again, that relates to the point I just made on the previous slide, related to our benefits expense. There's a link there to our discount rates.

The other thing I should note for you on the slide is that you will hear a lot of talk about debt-to-GDP ratios. It's the accumulated deficit number on the slide that actually drives the debt-to-GDP ratios. That's one half of the equation. If you're curious about that, debt-to-GDP was 31.1% at this time versus 31% in the previous year, so there has not been much of a change there. There was an economic and fiscal update earlier this week for which you may want to ask about debt-to-GDP ratios.

In slide nine, the Auditor General has already mentioned that there are four observations in this year's public accounts. They are his observations, so I'm not going to go into detail as to what they are, but the list is here for you. Two of them are new: the transformation for pay administration and the discount rate item. The other two are updates on previous items. We would be happy to answer any questions about what the government intends to do or should be doing to respond to those observations. Before I leave this slide, I should also mention that these observations are a unique feature you will see in public sector reporting. If you were in the private sector, you would not see observations and a lot of opinion, so it is a bit of a unique feature that you will see in the public sector.

Slide 10 is an interesting one. It looks at total voted appropriations. I'll just quickly remind members here that departments spend funds in two ways. They can have either what is called “statutory authority” or “voted authority”.

Statutory authority means the department has the legislated authority to spend whatever it needs to spend. A good example of statutory authority is employment insurance benefits. If you qualify for the benefit, you get the benefit. We don't actually check to see if there's enough money in the vote.

Voted authority means that the department cannot exceed what has been voted by Parliament. We have for you here the breakdown of the voted authorities that were used during the current year, by department. I will just remind you that about 35% of total government spending is voted. The other 65% is statutory. Things like old age security, EI, and GIS are all statutory spending, so you're not seeing them on the slide here.

I thought it would be interesting for members to see this slide for two reasons. One is that it might be worthwhile to have the Auditor General comment on which departments they audit, and this would give you a good clue as to where they spend their time. The other thing that will jump out at you here is that ESDC, Employment and Social Development Canada, is not on this list. That's because the bulk of its funding is statutory. This breaks down the big departments by voted, but there's an obvious omission there in terms of the whole-of-government picture, and that's ESDC.

The other reason I want to highlight this information is for the next slide, which is slide 11, because there's been a fair amount of media attention in the last few days on lapsed funding. Lapsed funding is voted funding that does not get spent. Here we have the big six departments from a lapsed perspective. Treasury Board is a bit of an anomaly because most of its votes are for contingency purposes, so it's money that is voted only in case it's actually needed for some contingency. The other five here are line departments that deliver programs, so if the members are interested in learning about why money was lapsed, we will do the best we can to answer those questions here today.

You will see one note here. Below each item you will see something called frozen allotments. That is something we have added from a disclosure perspective this year. Late in the fiscal year, we now publish when a department has a frozen allotment. I will explain what that means, because it is a bit of a technical term. You can see in public what a department actually has frozen, which is an indicator as to what it's not going to spend. We have the frozen allotment because Parliament votes departments up to amounts, such as up to, say, $100 million for project X, Y, or Z.

● (1550)

They don't vote reductions partway through the year. If a department has $100 million in authorized spending and they say they can't spend it all, we don't go to Parliament and ask to please reduce their votes, because it's an up-to amount. As long as they're not going to go over, Parliament has done its thing.

Inside the government, though, if we know that National Defence, for instance, isn't going to spend all its money and has asked us if they can spend that money in future years, we need to put a control in place so they don't spend it in both years. That's what's called a frozen allotment. Partway through the fiscal year, we now make public frozen allotments of departments so it's almost like a planned lapse; it's not an unplanned event. This arose throughout the year. The department has said they're not going to spend it, and we make that information public throughout the year. I thought I would highlight that for you.

[*Translation*]

I would like to mention three more points just before concluding.

First, there is a relatively new tool called InfoBase.

[*English*]

InfoBase is an online tool that members of Parliament can use to look at government spending and other data such as HR data. The reason I'm highlighting it for you today is that public accounts can be rather intimidating documents. InfoBase takes voted authorities, public accounts information, HR information by department, and it's online, and it's searchable. It's great if you're not comfortable thumbing through all this paper. If you have a quick question, InfoBase is a really interesting source. The public accounts data for the current year has recently been added to InfoBase, which is why I'm mentioning it today. As well, supplementary estimates (B) for the current year were tabled earlier today, I believe. That information is now in InfoBase as well.

It's a great tool for parliamentarians to go online and do searches if you're not a fan of the archaic way of doing things. I would encourage you to make use of it either as a committee or as individuals. I thought I should mention that.

As we do have questions, if you are referring to a specific page in the public accounts, I would ask that you give us the page number. We will do our best to find the page number in the other language because they are in different orders. We'll take a moment so members can find the information in the language of their choice.

Finally, I have my usual plea. There is a lot of information here. If during your studies there are pieces of information that you do not find useful, please let us know. It does take a huge effort to produce these things, and we would love to drop that. Even when you look online at the InfoBase tool and you see something there and you ask why we need it in both places, we would love to hear back from you on that front.

[*Translation*]

Mr. Chair, I will be pleased to answer questions on what I have just said or on what I spoke about earlier in my presentation.

Thank you.

[*English*]

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

We'll now move into our first round of questioning, which is a seven-minute round. We'll go to Mr. Lefebvre.

[*Translation*]

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

Thank you once again for coming to discuss the Public Accounts with us, Mr. Matthews. As a number of us are new to this committee, we have several questions we would like to ask so we can understand how these figures are calculated.

I will speak in English and French, but I have before me the English document, which is entitled *Public Accounts of Canada 2016*.

I am on page 1.19 of volume 1 of the English version, and I would like to understand how you have come up with the net debt figure and what the asset base consists of.

The chart on this page shows how Canada's debt-to-GDP ratio compares with those of the other G7 countries. Do all these countries, including Canada, use the same accounting rules to calculate their debt-to-GDP ratios? Canada, Germany, the United States, the United Kingdom, and all the other G7 countries are compared in this document.

Here is an excerpt from that page in English:

● (1555)

[*English*]

> Canada's total government net debt-to-GDP ratio...stood at 26.7 per cent in 2015. This is the lowest level among Group of Seven (G7) countries, which the IMF expects will record an average net debt of 83.0 per cent of GDP for the same year.

[*Translation*]

When you compare Canada with the other countries, it seems to be in excellent financial shape. However, does everyone use the same rules to calculate debt-to-GDP ratios?

Mr. Bill Matthews: I will begin answering the question, and then Mr. Rochon may want to add something.

Thank you for that question, which concerns accounting standards. Nearly every country has its own public sector standards in this area.

[*English*]

That being said, they're not that different.

All these countries are using accrual accounting. I'll come back to one exception in a second.

The United States has its own set of rules. Canada has its own set of rules.

Some of these countries have gone to international accounting standards for the public sector, which is a relatively young set of standards. If you were to compare it to the private sector, the private sector moved to an international set of accounting standards in 2011. The public sector is behind. The international standards are not as mature as the private sector.

Mr. Paul Lefebvre: The reason I am asking, Mr. Matthews—I'm sorry, I have little time here—is that we don't include in our assets the non-financial assets category when we make that calculation. Do the other countries include those?

Mr. Bill Matthews: The basic rules are the same. The other thing I should add, though, is that Europe runs more on a statistical model, but the basic rules are pretty close to the same. You'll see some differences.

Paul, do you want to add anything?

The Chair: Would you like to add anything, Mr. Rochon?

Mr. Paul Rochon (Deputy Minister, Department of Finance): Sure, I can add a little to that.

When you're looking at international comparisons of net debt positions, clearly for Canada there are two main factors for which we have to make adjustment. The first is the federal nature of Canada and the second is the fact that we, unlike many other countries, have a large contributory public pension plan, the CPP and the QPP, so the number that you have here for Canada in the total government net debt comparator is the sum of the debts of the federal government and the provincial governments, less the assets in those two pension plans.

Mr. Paul Lefebvre: That's in those two pension plans.

Mr. Paul Rochon: Correct.

Mr. Paul Lefebvre: Okay, thank you.

On that point, if I look at page 1.17, I'm just trying to determine what is included in these financial assets. I'm trying to determine how we get to that number. I see taxes receivable at 28.9%, and that is described at page 7.3 in volume 1.

Can you explain to me what we mean when we talk about taxes receivable? In taxes, we have RRSPs, which are basically a deferred tax. Basically, the tax will be payable down the road. Also, when somebody does a freeze of their shares within their holding corporations, they freeze taxes. Those taxes will be remitted to the government later on.

[*Translation*]

There is also an estate freeze. When a corporation pays a dividend, there is the refundable dividend tax on hand, the RDTOH.

[*English*]

That's the RDTOH, the refundable dividend tax on hand. Are amounts like RRSPs assets of the government now or not?

[*Translation*]

Mr. Bill Matthews: Thank you for your question.

The figures on this come from the Canada Revenue Agency.

[*English*]

They are based on income tax returns already filed, so if you're thinking about future-type events, they wouldn't actually meet the qualification of an asset, so—

Mr. Paul Lefebvre: When we look at the overall debt, we're looking at RRSPs, which are money we put aside on which we'll be paying taxes later. We know we have to pay taxes on it. When you have a holding company and you've frozen shares, there are taxes that will be paid when you sell your shares, or if you die, those taxes will become payable, and that's also a government asset. When you look at it as well on a simple corporate level, you pay taxes. The corporation pays the tax, and after that there's the mechanism of making sure that the system is balanced. If there's an increase in taxes, when you pay out a dividend, there's a refundable tax that comes into play. Those measures are not in there.

● (1600)

Mr. Bill Matthews: No, the measures here are based on accounting standards, and you don't recognize something as a receivable or an asset until the event has taken place that gives you the right to that asset.

I can't speak to how you do future revenue planning based on those analyses. That might be a different question.

Mr. Paul Lefebvre: The reason I'm saying this is that when we look at the strength of our economy and the strength of Canada and take into account all the taxes that will be paid eventually, nowhere are we accounting for that. When we even look at where we are, we're pretty strong country compared to other countries.

Anyway, that's my observation when I look at it. I don't know if the Auditor General wants to make a statement on that or not. I'm just trying to figure out what is in our assets, and if there is even a way of calculating the value of taxes that will be paid later on—taxes that by statute have to be paid, and will be paid.

The Chair: Unfortunately, your time is up. Can it be a very quick answer? Most of it has been answered.

Could you give a quick reply, Mr. Rochon?

Mr. Paul Rochon: I'll only say that as the Comptroller General said, we include in revenues the revenues that are payable in the year in question. Similarly, we include expenses that are payable in the year in question, so for something like OAS, while we can predict with fair certainty what the future payments are for OAS, we would only include those expenses as veritable expenses in the year in which they are due, so there is a symmetry in how we are accounting for both our revenues and our expenses.

The Chair: Thank you.

[*Translation*]

Mr. Godin, you have the floor for seven minutes.

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

Thanks to the witnesses for taking part in this exercise. You are, in a way, our eyes. We believe in the competence of the people who have worked on the drafting of these reports. That is very much appreciated.

As you will see, I will not be going into any depth. The objective is above all to have you give us tools that we can use to do a better job as parliamentarians and to ensure that public funds are being well-used.

First, I am going to read the last paragraph in the document entitled *2015-2016 financial highlights*. This is on page 1.2 under the heading “Financial statements discussion and analysis”. It reads as follows:

> 1.2 As reported by the International Monetary Fund (IMF), Canada's total government net debt-to-GDP ratio, which includes the net debt of the federal, provincial/territorial and local governments, as well as the net assets held in the Canada Pension Plan and Québec Pension Plan, stood at 26.7 per cent in 2015. This is the lowest level among Group of Seven (G7) countries, which the IMF expects will record an average net debt of 83.0 per cent of GDP for the same year.

Since the variance here is nearly 60%, I would like you to explain this situation to me. I understand that the previous government did an excellent job, but this is a large variance. I would like to know the reasons for it. I would venture to say the figure is gigantic. It seems to me we cannot be top of the class when everyone is on the third basement level. So much the better if that is the case.

[*English*]

The Chair: Thank you, Mr. Godin.

Go ahead, Mr. Rochon.

[*Translation*]

Mr. Paul Rochon: For Canada, the figure for the year just ended includes the federal government's net debt, which is approximately 31%, and the net debt of all provincial governments, which stands at approximately 50%, less the net assets of the Canada Pension Plan and the Québec Pension Plan, which also stand at approximately 50%.

This is a combination of these three factors. Two of the factors include the indebtedness of the governments and the third comprises the assets of our public pension plans.

● (1605)

Mr. Joël Godin: I would like to know your opinion on how to interpret these results. I do not know whether to put my question to representatives of the Department of Finance, the Office of the Auditor General, or the Treasury Board Secretariat. It seems to me you are experts on the subject. That is why I would like you to tell me the reason for this gigantic variance between Canada and the other countries. What are we doing in Canada that is so extraordinary?

I have the distinct feeling we should not start celebrating too soon.

Mr. Paul Rochon: The net result is that the level of savings in the pension plans is significantly higher in Canada than elsewhere and that our fiscal situation is generally manageable.

Mr. Joël Godin: In other words, you are confirming that we can pat ourselves on the back.

Thank you very much.

Mr. Ferguson, in paragraph 7 of your opening remarks, you say the following:

> Because the new system was only in place for one month, these errors were, taken together, not material to the consolidated financial statements.

We are talking here about the 2015-16 financial statements. I understand this because the impact was that of one month out of 12. And yet we know the situation is not entirely under control.

What should be done to ensure that public monies are well managed and that employees are paid and receive the salaries they are owed without overpayments or shortfalls? What solution should be considered, sir?

Mr. Michael Ferguson: During the audit, we noted a number of errors and a higher rate of overpayments and underpayments. Since that occurred in only a few months during the year, it was not a major challenge or problem for the year we considered during the audit. Of course, now we are taking this into consideration as we plan our audit of the financial statements for that year.

Furthermore, the government must find ways to manage this problem. It must identify the necessary controls to improve the accuracy of payments. It is really important that the government now find a way to manage this system. During the audit, we noted a disturbing rate of error. It is therefore important to find ways to manage the problem.

Mr. Joël Godin: Thank you.

Mr. Ferguson, paragraph No. 9 concerns the Department of National Defence. What I understand is that the same problem still reoccurs year after year. What measures do you think should be put in place to require the Department of National Defence to comply and properly manage public funds. This situation reoccurs year after year. You yourself say it is repetitive.

I hesitate to use the term “error” because I do not want this to be perceived as accusatory. However, as far as I'm concerned, and as an administrator, I think an error is being made when the same problem is constantly repeated.

[*English*]

The Chair: Your time is up, Mr. Godin. I'll take a quick answer, but we're going to have to come back to that. I think it's a little longer answer than what we may need.

If you do want to give a quick reply, go ahead, Ms. Hogan.

● (1610)

[*Translation*]

Ms. Karen Hogan (Principal, Office of the Auditor General of Canada): As mentioned in our analysis, this question is not necessarily an easy one to answer. So many issues and sectors must be considered. However, I can assure you we have seen an improvement at the department, although it still has a great deal of work to do. I think we could elaborate on this subject later on.

Mr. Joël Godin: Thank you.

[*English*]

The Chair: Thank you.

Mr. Christopherson, welcome. Go ahead for seven minutes, please.

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

Thank you all very much for being here.

I'd like to begin with just a couple of comments. As you know, Chair, I take great delight in raising issues that the Auditor General finds when money is being wasted and when procedures aren't being properly followed and when the bureaucracy is being all the worst things that people think of bureaucracies, but I also try to balance that by being fair-minded and I give the government of the day, regardless of the party, credit where credit is due.

As a member of this committee and as one of the more senior members of the House, but more importantly as a Canadian citizen, I want to give most of my thanks to our bureaucracy, to our public servants, for the fact that this our 18th straight clean audit. I don't know if it covers both governments—both parties—during the transition. That is something to be proud of as a Canadian. For those of us who have travelled around the world and have seen what the other way of doing things is, this needs to be mentioned.

Quite frankly, I'm tickled that it is an opposition member who gets to do this, because when it's the government, it looks like they're patting themselves on the back, but this is something that we should be very proud of. I've been here for 12 or 13 of these 18 years, and it's just kudos to everybody involved. It says a lot about our public servants and about their professionalism and their dedication to doing the best job they possibly can. I'm proud of this and I think everybody should be, so congratulations to everyone involved.

As well, I have a second compliment. Again, that's good. I won't make a habit of it, and it is me, in case you're wondering if I was kidnapped. No, it is me.

I try to be fair-minded, and again I want to point out that last year.... The Auditor General mentioned it in his remarks also, and of course fair-minded is their motto.

In the auditor's Public Accounts of Canada report, page 2.44, it does say:

> Last year, we recommended that the Government develop better processes to refine the accounting estimates and record the liabilities associated with contaminated sites at earlier stages of investigation.

I think we even picked up on that ourselves and talked about it the last time. I'm very happy to see that the last line in that paragraph says, “We are satisfied that the Government has addressed last year's recommendation.”

Again, congratulations. Well done. That deserves to be given credit.

That said, you mentioned, Auditor General, in your report on page 2.42 that you're going to be doing a performance audit of the transformation of the pay administration initiative. That's that whole Phoenix thing. What time frame are we looking at? When would we receive your audit report on that, sir?

Mr. Michael Ferguson: As you are aware, Mr. Chair, it usually takes us about 18 months or so from the time we get in to start the planning until we report. We are starting the planning now, so that probably puts us into spring 2018 before we will have something to actually present to this committee.

Mr. David Christopherson: Okay, great. Thanks.

I will now turn to the document that the comptroller presented us with, and I want to thank the comptroller for the role he played here in presenting this in the information briefing the other day. It was very good. I was very impressed. Thank you again for that explanation.

Where there are frozen allotments, there are a couple with some great disparities that come to mind. For Treasury Board, if you take away even the frozen allotments, there is still over $2 billion that lapsed, and it's the same with infrastructure and communities at a time when we're trying to get money out the door and the government is trying to get projects started to create jobs and economic stimulation. You can't help but notice that there was a lapse of $858 million of that, and only $185 million is carrying over.

Why is that great discrepancy there, and is there a particular problem we should be looking at?

Mr. Bill Matthews: Thank you for the question, Mr. Chair.

I have two comments. Treasury Board is a bit of a unique animal. The bulk of Treasury Board's lapse here is in what's called “central votes”, and they are very much continency funds, so they're only called upon if needed. They're not programs.

With regard to the other five departments here—and you've highlighted infrastructure—these are our most frequent lapsers, and it's because of the nature of the business they're actually in.

With regard to infrastructure, most often you're negotiating agreements with either provinces or municipalities, sometimes both. Because of the way the vote structure works—you have the up-to amounts—departments have to come in with their most optimistic view of the world, and reality never works out quite as fast as their optimistic view of the world, so these five departments, based on my recollection, are the same five that would be on top of the list every year.

For DND, it's because of large procurements. The others here are usually involved with negotiations either with provinces or with first nations organizations, and it's those negotiations that typically cause delays.

I think the unique thing on infrastructure this year is that the Windsor-Detroit bridge falls under that ministry, and that's a major project that had some lapses.

● (1615)

Mr. David Christopherson: Right.

What are the internal mechanisms to ensure that the money's not being spent because of inefficiency within the department or reluctance by the decision-makers to do things? We have run into those kinds of things. Just because it's not lapsed.... There are good lapses and bad lapses. There are good lapses when maybe they did it more efficiently than expected or there are reasons to explain why. Bad lapses would be when for some political reason you say that you're going to spend this money and you put it in the budget and take all the bows, but you really don't want to do it, so you don't spend the money.

What are the internal mechanisms to ensure that when money is not being spent, it's for the good reasons, not the bad reasons?

Mr. Bill Matthews: It's a mix of both. My colleagues from the Department of Finance can weigh in, but we have discussions on a regular basis with departments on their forecasts for the year and on how they are actually coming along. Usually partway through the year, you have a discussion about whether, if they're not going to spend it this year, they can spend it in a future year or whether we are going to withhold it in the centre. There's a mix of both.

What you really have to get to is the results around what their spending was—was it projects that didn't occur, or have they actually come in under budget, as you mentioned? It's those discussions around their forecasts that drive it.

The key public document is the quarterly financial statements that departments produce, but frankly, nobody looks at those. They're out there, and you can get some sense of departmental spending. They're public. Internally we have different conversations about what their projected spending is. The quarterly one says what they've spent; internally we have discussions about their projected spending.

Partway through the year you would see the government come in with supplementary estimates, if cases of increased spending are planned, but they don't come in with decreased spending. It's really a forecasting piece.

The Chair: Thank you.

We'll now move back to the government side and to Ms. Shanahan.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you, Mr. Chair. Thank you very much, all of you, for being here today. I'm feeling a bit more comfortable dealing with these accounts than when we first arrived.

My first question is for the Auditor General, around the observations. My colleague already mentioned the first one, but I'd like to go to the observations that were in the Public Accounts of Canada 2014-15 and the improvements we're seeing. That would be the inventory for the Department of National Defence and—

The Chair: Perhaps you could reference the page number and the volume.

Mrs. Brenda Shanahan: Yes. It's page 2.43, “National Defence—Inventory”.

Mr. Bill Matthews: It's in volume 1, Mr. Chair.

Mrs. Brenda Shanahan: It's volume 1, yes; it's contained in that chapter under “Observations of the Auditor General of Canada”. It's on page 2.43, where he talks about the recurring problem of the inventory having been overstated by hundreds of millions of dollars, but says that there has been some improvement.

Mr. Ferguson, could you talk to us about what your team observed and where we are in progressing on that matter?

Mr. Michael Ferguson: I can ask Ms. Hogan to give some more detail, but we have seen some improvements in the way they track the quantity of their inventory, although there still are some problems with it.

One thing in particular that we noted in the observations was that the department is now doing a calculation themselves and recording an allowance. In this particular year, it was $131 million. They're doing some tests and some examination of their inventory to try to figure out themselves what the error rate is. It's good from the point of view of their calculating an error rate, but it's a sort of stopgap measure, because you would still like to see their inventory practices improve to the point that they don't need to record an allowance for those types of errors.

I'll ask Ms. Hogan whether there's anything else that she would like to mention specifically in terms of their actual inventory practices.

● (1620)

Ms. Karen Hogan: No, I think that was well said.

Mrs. Brenda Shanahan: Could I ask, then, since this is what you observed in this last fiscal year, from your conversations with the Department of National Defence, what their plan is for improving this aspect? Is it a multi-year plan?

Mr. Michael Ferguson: First, National Defence takes it very seriously. I think we have indicated that there are some particular challenges with their type of inventory, such as when something is inventoried. They have this other item called “asset pooled items”, so some things that might look like inventory they actually treat as fixed assets. Trying to decide which asset belongs in which pool is a particular challenge.

They have, then, some challenges that other people managing inventory don't have, and they are trying to put in place measures to improve those. They have, as I said before, made some improvements on quantity.

Again I'll turn to Ms. Hogan to see whether she has anything else to add.

Ms. Karen Hogan: I think we mentioned, even last year, that the only thing I could add about their improvements would be the increased coordination between the public servants and the military. That was a big shift a few years ago in the department, so they were collectively focused on accounting for inventory properly.

As Mike said, their inventory is quite unique, and there are challenges. In a normal organization, you would expect to see inventory turn over many times in a year—more inventory in, more inventory out, more revenue—but here a lot of the inventory is associated with long-term assets, like a helicopter, and it has a much longer life than a traditional piece of inventory, so it's hard to get the right value and know when it's obsolete or not.

They are working behind the scenes. It's just that to get the records and to see that materialize is a little more challenging.

The Chair: Bill, I think, also wanted to answer on that.

Mr. Bill Matthews: Ms. Hogan mentioned the culture. It's a culture around comptrollership. We're seeing some other signs of improvement. They're progressing with the implementation of the policy and internal control, which will get at this. Their lapse, which I mentioned a few minutes ago, is down over previous years, which is an indication of financial management.

The other big thing they've done, though, is they now have one system. They used to have to put every part they entered into two different systems. They now have one system. However, we're still dealing with 118,000 people who actually have a role in this in some way or another. It's not 10 people in a backroom that you have to kind of retrain. It's 118,000 people.

Just to manage expectations, I would expect we will see this type of observation again next year, hopefully with words around continued improvement, but this is not going to be fixed overnight.

The new system helps, but they've got a ton of old inventory, as Ms. Hogan mentioned. There are issues with the data migration and whether the data is obsolete or is still current, and frankly, on some days these folks have other things on their minds than properly accounting for inventory.

They're better at tracking quantity than they are at tracking price—and that's important, because the quantity kind of tells you that you need to buy more things—but they still have issues on both fronts. Price is a bigger issue. On quantity they've made some progress, but there are still issues there.

Mrs. Brenda Shanahan: That's very interesting, because we will be seeing them again. As you mentioned in your notes, Mr. Ferguson, they had promised us a response by September 30, and I think we have a meeting scheduled with them again, so that will help us in that regard.

To get back to the lapse issue, is there anything you can tell us about how it will us help as we're moving forward with aligning the estimates process and the budget process? Is that going to help us with managing these lapsed amounts?

Mr. Bill Matthews: What I would say on that front is we've got good data that shows departments get money in the main estimates, then supplementary estimates (A), (B), and (C). The later in the year departments get their money, their parliamentary authorization, the less chance there is that they will spend it. Money that is in mains has a pretty high rate of being spent. It is the same with supplementary estimates (A), which come early in the year. As for supplementary estimates (B) and (C), those dollars frequently lapse.

I'm oversimplifying here, but if you align the mains and the budget, you can see that budget items get into departments' reference levels earlier. The earlier the departments get their funds voted by Parliament, the earlier they can start spending.

That's the big link to lapses.

● (1625)

The Chair: Thank you.

We'll now move to Mr. Doherty.

Mr. Doherty, you have five minutes.

Mr. Todd Doherty (Cariboo—Prince George, CPC): Thank you, Mr. Chair.

Thank you to our guests. It's always good to participate in this committee. I think this is the second time I've had the opportunity and, Mr. Ferguson, I believe the last time I was here, you were appearing before the board as well.

The government announced their latest fiscal update on Tuesday. Given the recently announced increased spending, could you tell us, Mr. Ferguson, when you would forecast that we would be able to get to a lower debt-to-GDP ratio than we're seeing right now?

In 11 years, I think we're estimated to be another $81 billion in debt, or potentially more. I think in the report, we're at a 31.1% debt-to-GDP ratio.

Given the latest announcement in spending, how far would you see our debt-to-GDP ratio coming down?

Mr. Michael Ferguson: That's really a question for the deputy minister, but one thing to keep in mind when you're dealing with a ratio like debt to GDP is, first of all, to make sure that you understand what the definition of “debt” is in that calculation. That would have to be looked at.

The other thing to remember is that a debt-to-GDP ratio can stay the same, or can even improve, at the same time that debt is increasing. If the growth of GDP is sufficient to offset the growth in debt, then you can still have a debt-to-GDP ratio that's improving, while at the same time debt is growing.

Where that's important is if there are changes in interest rates in the future. Then the cost of that is driven off the debt. I can't really give you projections of what's going to happen in the future. As auditors, we're blind to the future; we look to the past. Perhaps a deputy minister could give you some more details about what their projections are.

The Chair: Thank you.

We will go to the minister. Maybe there is a way in long-term planning in the public accounts, but as we know, public accounts look back, and this question looks ahead.

Could you wade into those waters, sir, and give us an idea?

Mr. Paul Rochon: Sure. I can outline very briefly the forecast that the government released earlier this week on the debt-to-GDP ratio, which was 31.1% for the year that ended March 31, 2016. That ratio is projected to rise somewhat to just under 32% by 2018-19, and then to decline from there to 30.4% by 2021-22. That is the current projection as of earlier this week.

Mr. Todd Doherty: Thank you, and I thank the chair for his intervention. Again, to use the expertise that we have at the table today is the reason the question is raised.

I have another question with respect to the fiscal update. This is for any of you. Is there a significant risk for Canada in using a part of, or the whole, or some of our Canada Pension Plan in an infrastructure bank?

Mr. Paul Rochon: I'm sorry. Would you be able to repeat the last part of the question?

The Chair: The question was on risk in terms of using the pension plan for infrastructure, and allowing the pension plan, the CPPIB, new mandates.

● (1630)

Mr. Paul Rochon: I don't particularly think it exposes the country or the pension plans to risk. The pension plan would make an assessment of whether any particular investment is worthwhile based on the fiduciary responsibility that it has to the members of the plan.

In the case of the Canada Pension Plan, for example, it is investing in infrastructure in many places in the world today—Australia and Chile are two that I'm aware of—as well as in Canada, the 407. I would think those pension plans would be making investments where they have a fair degree of certainty as to the security of the underlying asset.

The Chair: Time is up. We'll come back to you later, Mr. Doherty.

We'll now move to Mr. Arya.

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

Mr. Rochon, the amount for guarantees with no authorized limit is about $266 billion, primarily from the four agent enterprise crown corporations. What are the guarantees for which we don't have to set up an authorized limit? This is on page 2.38, contingent liability, note 18.

Mr. Bill Matthews: Mr. Chair, I'll start answering that, and then I'll have my colleague, Mr. Rochon, chime in.

I think the question relates to the fact that for crown corporations to borrow money, there are legal limits, and they need the authority to borrow the money. The idea being expressed here is that to issue loan guarantees, there's no such legal limit. Is that what—

Mr. Chandra Arya: Yes, that was my question.

Mr. Bill Matthews: I think the question is, do we have a weakness in the system by not having the same control over loan guarantees as we do with loans? Guarantees, by their nature, are less risky than loans, but there is risk there. I'm not aware of other countries that actually legislate guarantee limits, but they do relate to our enterprise crowns. I know that when the Department of Finance is preparing the fiscal plans, they do have discussions with crown corporations around what their plans are, but I'm not aware of any other country that actually puts a legally authorized limit in place.

Mr. Chandra Arya: Okay.

This is for the Auditor General.

The total insurance in force is about $1.67 trillion. This note states:

> The Government expects that all four corporations will cover the cost of both current claims and possible future claims.

Are you fully satisfied with that statement?

Mr. Michael Ferguson: Certainly within the context of the audit. This is a note that's part of the financial statements. We did an audit on the whole financial statement, not just the statement of operations and the balance sheet, but also the notes. Of course, recognizing that we don't look at every cent but that we do it within a materiality limit, within that materiality limit we would have audited this note. We would have audited the numbers in the note, and we're satisfied that there would be no material error in that.

Mr. Chandra Arya: At least for me, that's a very staggering amount, so I thought that this particular number would be looked at slightly in depth, because $1.67 trillion is only for the agent enterprise crown corporations.

Mr. Michael Ferguson: Again, certainly when we're doing the audit on the set of financial statements, we look at the different risks and at the different elements in the financial statements, and we apply the necessary tests that we feel need to be done in order to verify the numbers. Whatever is in that note, we would have assessed the risk in it and we would have applied the appropriate procedures, so we're satisfied with it.

Mr. Chandra Arya: Mr. Rochon, coming back to the agent enterprise crown corporation CMHC, when was the last time the stress test was done, and what were the basic parameters that were used there?

Mr. Paul Rochon: The CMHC regularly undertakes stress tests. They publish those stress tests—or they have published those stress tests—in their annual report. The annual report provides the parameters for the stress tests.

There are varying degrees of stress, from what you might think of moderate—for example, a 10% reduction in house prices—to something that's really quite exceptional, such as the last episode in the United States. For a more moderate event like a 10% decline in house prices uniformly across the country, CMHC estimates that its net loss in income in total, cumulatively over a six-year period, would be $2.5 billion.

● (1635)

Mr. Chandra Arya: You said $2.5 billion?

Mr. Paul Rochon: Yes, $2.5 billion.

Mr. Chandra Arya: Suppose it goes back to the U.S. crash levels...?

Mr. Paul Rochon: That would be significantly larger, closer to $11 billion.

Mr. Chandra Arya: Thank you.

For the AG again, what are the discount rates? You've said that there's an acceptable range in the market. What is that range? You did also mention, I guess, that any decrease by 1% will lead to the liabilities going up by $9.6 billion.

Mr. Michael Ferguson: The discount rates that the government uses—and perhaps the comptroller general can give you more details on that—would depend on the liability, right? The discount rate used on funded pension plans, for example, where there's an asset base behind it, would be based on the assumed rate of return for that pool of assets. For unfunded pension plans, the discount rate would be based more on the government's borrowing—

Mr. Chandra Arya: Based on what you said, a 1% decrease will increase the liabilities by $9.6 billion. Is it 1%? Can it go to 1.5%?

A voice: It—

The Chair: Thank you, Mr. Arya.

Go ahead, Mr. Matthews.

Mr. Bill Matthews: I think it might be worth the time to come back to note 8 of our financial statements for the pension, just to get into this. I just need to correct the record on loan guarantees. CMHC actually is governed by its own legislation in terms of the guarantee amounts. My colleague Diane has just pointed that out to me, so I wanted to get that on the record.

Thank you.

The Chair: All right, thank you.

We'll go to Mr. Godin, then Mr. Harvey, and then back to Mr. Chen.

[*Translation*]

Mr. Joël Godin: Thank you, Mr. Chair.

I am going to continue on the same question that was raised earlier about the Department of National Defence.

Mr. Matthews, you previously mentioned that the situation at the Department of National Defence stemmed from the existence of an administrative culture.

My question will be for Ms. Hogan, but perhaps you can then supplement her answer.

We know this is an inventory problem. For example, we heard from representatives of the agency that manages housing, that is to say the houses and rents of the Department of National Defence. In our discussions with the witnesses, even they had trouble telling us how many units they managed. In fact, when we talk about administrative culture, I think there is a considerable problem. This example is the tip of the iceberg, and the problem has been brought to Parliament's attention for 13 consecutive years.

I think the government in power will have to introduce the necessary measures to establish that it is Canadians' money the Department of National Defence is managing. A correction will be necessary to maximize the use of public funds.

Could you tell us how the problem that was identified 13 years ago has evolved? Are we halfway to solving this problem? Have there been improvements in this area? On the other hand, if there has been only a 5% improvement in a problem that was identified 13 years ago, is the reason that it has been postponed and put off from year to year?

Ms. Hogan, I would like to hear your opinion on the situation at the Department of National Defence.

Ms. Karen Hogan: Thank you for your question.

It is impossible for me to give you any details about what happened 13 years ago. However, I can tell you about the last four years, during which I was responsible for the financial statements of the Government of Canada. I have had occasion to interact with the department. I have observed improvements over the past four years. Coordination has changed and the culture has changed slightly. We have observed many quantitative improvements.

However, it is impossible for me to give you any precise estimate of that improvement. In fact, I am certain of nothing in this matter. However, it is very important that we are seeing continuous improvement. The department is working on several minor projects, from which we have not yet seen any results and which therefore have not yet had any impact on the financial statements or on inventory management. In short, the thing to do would be to give them a few more years. As Mr. Matthews mentioned, I am certain this observation will come up again in our reports, but, as long as there is improvement, we can only hope it will continue.

● (1640)

Mr. Joël Godin: When you sense a significant improvement is being made, you may think you are on the right track. However, I simply want to be reassured as a parliamentarian. I do not want to know that we have been banging on the same nail for 13 years without there necessarily being any significant improvement.

Mr. Ferguson, I put the question to you because you may be in the best position to suggest indicators or methods we can use to do our job better and to ensure that improvements at the department advance at a faster pace.

What should we demand as parliamentarians?

Mr. Michael Ferguson: First, this is not just a matter of administrative culture. That is one of the factors, but there is also the issue of the tools that are used. I previously mentioned that the Department of National Defence used to have two systems for maintaining control of assets. It currently has only one. So that is a significant improvement. However, as Ms. Hogan mentioned, there is a problem with assets because they are really old.

[*English*]

You're dealing with very old assets, legacy assets. Some of these things aren't used that often. They're old parts to tanks that don't get used very often, so you don't see the turnover.

One of the tests I would like to see us put to DND is how they have done with the new inventory. We all understand that the old legacy things are an issue, but for new purchases, are we seeing improvements there?

[*Translation*]

Mr. Joël Godin: I understand. I am interrupting you because I do not have a lot of time at my disposal.

Surely there are measures, actions, and methods that are used elsewhere, in other countries. Their tanks are aging too, and they have the same problem with the use of goods and equipment.

Do you think there is a cultural issue elsewhere too, or are there different methods that we could draw on for inspiration?

Mr. Bill Matthews: Do I have 30 seconds to answer the question, Mr. Chair?

[*English*]

The Chair: Yes.

[*Translation*]

Mr. Bill Matthews: This is a bit odd, but I will mention it to you.

[*English*]

Colombia is one of the best countries in the world at tracking its military assets. We don't often think of South America in terms of best practices in accounting and asset management. I know National Defence has recently been put in touch with its counterparts in Colombia to talk about the systems and the practices it uses. There are ongoing discussions with National Defence. The people there are taking this seriously, but this is a real challenge to do.

The Chair: Thank you, Mr. Matthews.

We'll now move back to Mr. Harvey.

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

I think my questions are going to be for Mr. Matthews, but whoever feels it is appropriate is free to answer.

I'm going to concentrate my questions on the $6.3 billion estimated for remediation of environmental sites. The $6.3 billion is on page 2.44. Is it the same as the 10.4% that's identified on page 1.16 under accounts payable and accrued liabilities?

Mr. Bill Matthews: I'll start, and then my colleague Diane will probably add something.

On page 1.16, which is the overview, you'll see accounts—

Mr. T.J. Harvey: It says “environmental liabilities”—

Mr. Bill Matthews: That would be the same liability, yes.

Mr. T.J. Harvey: So our environmental liabilities as a country represent 10.4% of our total liabilities?

Mr. Bill Matthews: This is accounts payable and accrued liabilities by category, not of total debt. That's just a subcomponent of total liabilities.

Mr. T.J. Harvey: I couldn't find a figure. I can see in the tables, I guess in 5.13, where the environmental liabilities have continually grown over the years, and even from 2015 to 2016 where they've grown. Is there an average rate of environmental indebtedness that we use to make broad-based calculations?

Mr. Bill Matthews: There's not an average rate. This is a rather sophisticated model, and it's more sophisticated this year compared with previous years because of the improvements we had to make.

We have the sites we know the Government of Canada is responsible for cleaning up. You get to a stage where you can make an estimate on those because you investigated, and then you start remediating. At the same time that you're remediating those sites, you're assessing other sites that have yet to be assessed. Sometimes the sites you're working on turn out to be more expensive or less expensive, so there are adjustments there, but we're always adding new sites.

The improvement made this year in response to the observation of the Auditor General was that we had some sites that we had yet to assess, and they had zero liability attached to them. The Auditor General was basically pointing out that we probably have enough experience with similar sites to make an estimate of these things, so where there were similar sites, we used a model from Golder to make an estimate of those sites we had yet to assess. When we get in there, we may find out that the real assessment is different from what our model generated, and we'll be updating those liabilities. There are no real trends we can point to here.

● (1645)

Mr. T.J. Harvey: I see that we retired roughly 1,000 sites from 2015 to 2016.

Mr. Bill Matthews: Correct.

Mr. T.J. Harvey: How does the rate of newly identified sites compare with the rate that we're retiring sites?

Mr. Bill Matthews: My recollection is that the rate of newly identified sites has dropped off, but we're still assessing those sites. There's a choice to be made each year with the dollars. Do you invest them in remediation of existing sites, or do you invest them in assessing sites that you know you're responsible for but for which you've yet to get the details? There was a push to get some cleanup done on the remediation front, but that balance changes every year.

Mr. T.J. Harvey: Compared with other countries in the G7 or other countries in general, is there a calculation made to compare what Canada has identified as environmental debt with what similar countries have?

Mr. Bill Matthews: I'm not aware of any comparisons we make in environmental liabilities. A lot of the liabilities are driven by things the government was not necessarily responsible for at the time but became responsible for later. I'm not sure about other countries' experiences in taking ownership of issues they may not have caused. The two mines would be the big example there.

Mr. T.J. Harvey: Right. I forget right now, but looking back on the last time we entertained this last year, I think it was the majority of that debt, right?

Mr. Bill Matthews: There are about five or six sites that represent a big component, and we can come back to that if you like.

Ms. Diane Peressini (Executive Director, Government Accounting Policy and Reporting, Treasury Board Secretariat): I have the numbers here.

The two big mines are about $2.3 billion of the debt. The top five account for $3.6 billion of the $6.7 billion liability for the remediation of environmental sites.

Mr. Bill Matthews: For new members, Mr. Chair, the two big mines are Faro Mine and Giant Mine.

Mr. T.J. Harvey: Is there an increased awareness of those particular sites, of trying to work to remediate those two specific sites over the larger number of small contamination sites, or how has that been evaluated?

Mr. Bill Matthews: They're certainly active projects.

One of the challenges around Giant Mine is how to remediate it. It's a technological challenge. It's not just a matter of getting some heavy equipment out there and tackling it. There has been a lot of work done on the actual approach to remediation.

That's the challenge with environmental liabilities or contaminated sites. They are unique. Some of them can be done very easily. For some, you can just put a fence around and say “keep out”. Others, like Giant Mine, are a real challenge for the industry to figure out how best to remediate.

The Chair: Thank you.

Did you have another quick one?

Mr. T.J. Harvey: There is one other little thing. I noticed that the environmental liabilities table 5.7 identified Indian Affairs and Northern Development's total liability at roughly $3.8 billion.

I was just wondering what makes it such a giant number, compared to the rest of the liabilities within that table.

Ms. Diane Peressini: The two mines are there.

Mr. T.J. Harvey: Oh, they're both in that. Okay. Perfect.

Thank you.

The Chair: Thank you, Mr. Harvey.

Go ahead, Mr. Christopherson.

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

Just following up on Mr. Harvey's question, I have only a really short amount of time, but is there a quick answer to build on where Mr. Harvey was, as to how the public ended up being responsible for these billions of dollars in cleanup when I assume these started out as private interests?

Mr. Bill Matthews: In some cases, Mr. Chair, it did start off as private. When you're into health and safety issues, especially at the time these liabilities were created, there wasn't the governance that exists now, and if you have a health and safety issue and no one else is responsible, the government is often the ultimate risk holder.

Hopefully, the rules now are more effective than they were in the past.

Mr. David Christopherson: That's something worth pursuing.

In the couple of minutes I have, can you tell me if any departments or agencies overspent their parliamentary appropriations?

Mr. Bill Matthews: Thank you for that question, Mr. Chair. There are none this year.

In volume 1, there's actually a note in the financial statements in which we state there are none. If there are any, we disclose those, just to make it easier on members in the future. If you are looking for that, it is in the financial statements.

● (1650)

Mr. David Christopherson: Great. Thank you.

In terms of budget projections, for a long time now there have been accusations, regardless of the party in power, that the government of the day is always generating a forecast for a huge deficit, and then it ends up not being that and then they look like heroes. Then the political accusation is, "You did that on purpose. You set that number up so that you could come in here, *x* number of months later, and look like a hero", and there have been repeated promises by governments coming and going that they're not going to do that any more.

One of the benefits of all of that is that the PBO now exists, and I see that the government is now prepared to honour its promise to make that officer an agent of Parliament. That's very good. Let's make sure that happens ASAP.

However, overall, how is the government doing now, partisanship aside, compared to historically, in terms of those projections? Are we starting to see less of a swing in that range, or do we still have an issue?

Mr. Bill Matthews: I'll start, and then I'll turn to my colleagues from the Department of Finance.

The first thing you'll see is departments lapsing. The Department of Finance knows that departments are going to lapse, so they build a lapse factor into their forecast.

I would say that historically, and my friends from the Department of Finance can correct me, government's been pretty good at projecting expenses. Revenue is often the more challenging piece. If you go back to when this discussion started, the reason was different every year.

If you look at where the expenses were different from projections in budget 2015, it was in areas like employment insurance. The economy was not as strong as originally forecast, and we had transfer payments to Alberta and Newfoundland that were related to fiscal stability. Again, those were for unforeseen things. I think that's explainable.

They may wish to comment on my statement about revenues versus expenses and which are tougher to project.

Mr. Paul Rochon: Thank you.

For the year that just ended, the projected deficit turned out to be $4.4 billion lower than originally estimated in the 2016 budget. That is $4.4 billion in the context of a total budget that includes $300 billion in revenues and $300 billion in expenses. The expense side was very close, almost spot-on.

This past year, the surprise was that revenues came in at $4.3 billion higher than we had projected in the 2016 budget.

Mr. David Christopherson: What is that due to?

Mr. Paul Rochon: It's much higher primarily due to much higher growth in personal income taxes, due to growth in dividend payments.

Mr. David Christopherson: Why is that?

Mr. Paul Rochon: Well, we are not 100% certain, but it could be due to individuals deciding to take funds out of private corporations in anticipation of tax rates increasing in 2016, both in the provinces and at the federal level.

Mr. David Christopherson: Is that an issue, Auditor General, that we should be looking at, or is that par for the course, in terms of what we are hearing here?

Mr. Michael Ferguson: I think individuals will always respond to tax announcements, and they will always do tax planning. If people were taking dividends out of their corporations at that time in anticipation of changes in tax rates, that's something you would expect would happen. I'm not sure there is anything there that's particularly of issue. The main thing is just to be aware that when there is an expectation of new tax measures, people will do their tax planning and make whatever adjustments they need in their tax planning to be able to put themselves in the best position.

Mr. David Christopherson: Wouldn't you be able to project some of that? If you've done it enough times, and you've done certain things and know there is going to be a behaviour, isn't there some way that this can be taken into account and projected? It sounds as though they were totally surprised.

The Chair: Mr. Rochon, go ahead.

Mr. Paul Rochon: Indeed, we had projected a certain amount, more in the range of $1 billion to $1.5 billion.

Mr. David Christopherson: Why were you so wrong?

Mr. Paul Rochon: Although the absolute amount was off by $3 billion, as a share of the base, and I don't have the exact base, it's—

Mr. David Christopherson: To be fair, you missed the number by three times the amount.

The Chair: Thanks very much, Mr. Christopherson.

We'll go back. Just on the tax planning, when you introduce a new, higher tax rate at 31% or 33%, whatever it's going to be.... As someone once said, if you know it's coming, you work to your own best advantage. In fact, we have one guy running for politics right now who says that if he doesn't pay any taxes, it just shows how smart he is.

Mr. David Christopherson: Thank God that's not in this country.

The Chair: Mr. Chen, go ahead.

● (1655)

Mr. Shaun Chen (Scarborough North, Lib.): I want to start by thanking the witnesses for appearing before our committee today.

As I was reading through this report, and particularly the observations of the Auditor General, it really struck me how important it is for us to have reliable and accurate information, because as government and parliamentarians we require this information to gauge not only how well we, as a country, can meet our financial obligations, but also how we can sustain programs and fund new ones. It's critical that we have accurate data that we can use to make sound decisions, and particularly where there are estimates, it's important that they be reasonable, based on not only sound accounting practices but also on industry's best practices.

I note on page 2.43 in the Auditor General's observations that the government uses discount rates that are “on the higher end”. Even though they are within the “acceptable range” by public sector accounting standards, these rates nonetheless result in “a lower estimate for long-term liabilities”. Contrary to my NDP colleague's pondering of whether or not the government of the day has an overstated deficit, this very much goes against the notion of that, because the discount rate used to estimate the accrued benefit obligations of government-sponsored unfunded pensions is 3.9%, whereas the “benefits sponsored by the consolidated Crown corporations and other entities” have a wide range of discount rates that are used. As stated on page 2.28, these rates can be from 2% up to 3.8% for unfunded pension benefits.

My question to the Auditor General is with respect to the methodology that the government uses. How does it select the discount rates so differently from the other public institutions and the private sector? My second question is, what would the Auditor General recommend with respect to this issue?

Mr. Michael Ferguson: Again, the government representatives who are in the job of preparing financial statements could also speak to this.

When you're dealing with something like pension plans or employee benefits, the first factor is whether the plan is funded, whether there's an asset base behind it. Once there's an asset base behind it, it depends on what the investment policy of that asset base is, which will result in what the assumed rate of return is for the assets for that particular pension plan. There are assets there, they are invested in certain types of investments, and there's an expectation that there will be a return.

That rate is what is used for the funded pension plan.

Mr. Shaun Chen: What about unfunded pensions?

Mr. Michael Ferguson: For the unfunded pension plans, what happens is it's with reference to the government's borrowing rate. It's ow much it would cost the government to borrow if it wanted to fund a particular liability.

When you're comparing discount rates from organization to organization, particularly with pension plans and employee future benefits, you have to know whether you're talking about funded plans or unfunded plans, the length of the liability, and that type of thing. There are many factors that go into it.

What we're pointing out here is that it's important for you, as readers of these financial statements, to be aware of note 8 to the financial statements, which talks about the measurement—the sensitivity, I guess—around estimates, and to know that different numbers for discount rates can result in different estimates of the liabilities.

The liabilities that are in these financial statements are calculated using discount rates that are within an acceptable range, but when you're trying to put an amount on a particular day on the value of all of the future pension benefits, for example, that the government is going to have to pay over the next many, many years as people retire, you can understand that a lot of estimation that has to go into that, and the discount rate is one of those factors.

● (1700)

Mr. Shaun Chen: For unfunded pensions, you stated that the government uses its borrowing rate. How does that differ from other public institutions and other governments?

Mr. Michael Ferguson: Any time there's an unfunded liability, particularly for things like employee future benefits, the way the discount rate is determined is by reference to the government's borrowing rate.

Now, different governments may end up with a different number. Some use what the borrowing rate is on that day, meaning how much it would cost the government to borrow on that year-end date. I think that the federal government uses more a blend of different borrowing rates, so there's a slight difference there, but in both cases it would be with reference to what the government's borrowing rate is.

The Chair: Thank you.

Before we go to Mr. Doherty, I have a quick question to our finance people.

I know that somewhere, I think in volume 1 in the first few pages, it states that in 2014-15, the rate of interest being paid on our national debt was 9.3%; then in 2015-16, it was down to 8.7%, or somewhere around there. My question is, how much time is actually spent in managing those debt charges? Could you explain quickly?

I know we have long-term debt and short-term debt and bonds and other things that keep debt down, but is there a lot of calculation? I'm asking because a significant amount of money, 9¢ on every dollar coming in, goes to service our debt. How much time is spent in managing the rate?

Mr. Paul Rochon: Both in the Department of Finance and at the Bank of Canada, we put a lot of time into debt management in doing an analysis of what we think is the right and optimal approach to debt management for the Government of Canada. The types of issues we debate and analyze are related to such things as whether in the current interest rate environment, where long-term rates are very low, we should actually structure the debt in such a way as to move more debt out to the longer end of the curve.

Considerations in those types of decisions involve things such as the natural trade-off between locking into long-term debt at a time when short-term interest rates are low. Probably more importantly, we know that there is what you could almost think of as a natural hedge between debt charges and revenues. That is to say, when revenues decline because the economy is weak, debt charges also tend to decline, so we balance those considerations in our analysis.

We've spent a lot of time internally at the bank, in the finance department, and with external consultants in developing models. We update those models every year, and in the budget we present a summary analysis of our conclusions.

The Chair: Thank you very much.

We'll move to Mr. Doherty, please.

Mr. Todd Doherty: Mr. Matthews, what are the main reasons that program expenses increased more rapidly than revenues in 2015-16?

Mr. Bill Matthews: There are a couple of factors on the expense side, and others may wish to weigh in on this question.

The first one is that the economy was weakened after the period of the budget, so you had increased EI expenses as number one. I mentioned already the transfer payments to the Provinces of Newfoundland and Alberta, which were not planned in the budget.

The other point I'll make, before I see if there are any additions, relates to the discount rate discussion we just had. The rate the government used during the year over the previous year actually went down, and that drove additional expenses as well. That was a pretty significant hit there. These were the big ones.

Diane, is there anything you want to add?

● (1705)

Ms. Diane Peressini: Also, some of the changes to veterans' benefits had a significant impact.

Mr. Todd Doherty: I want to talk about the frozen allotments for Indigenous and Northern Affairs Canada. Could you go into the lapse of $904 million, please?

Mr. Bill Matthews: The big part of the lapse related to Indigenous and Northern Affairs Canada was that they are in the business of negotiating specific claims. It's really no different than what I had related to you for infrastructure programs, where you're dealing with other levels of government. To the extent that claim negotiations happened at a slower pace than anticipated, they lapsed money. They are frequently on the list of departments with the largest lapses for that exact reason. It's the same thing, and it's usually around specific claims. That's the basis for it.

Mr. Todd Doherty: Mr. Ferguson, with our aging population base, I'm wondering if you could share with us what the median age of our public service workers is. Does the aging population of our public service workers present a problem for the Government of Canada as we move forward, in terms of our public service sector?

Mr. Michael Ferguson: I'm going to have to defer that question to one of the other witnesses. Before I do that, though, Mr. Matthews mentioned lapsing due to specific claims. We will have an audit on the specific claims process to present to you with our fall report at the end of this month.

Mr. Todd Doherty: Okay.

Mr. Michael Ferguson: In terms of the demographics of the civil service, I'd have to turn to one of the other witnesses.

Mr. Bill Matthews: It's not my area of expertise, but in terms of what we've seen—and I'm relying on information I saw from my colleague, the chief human resources officer—there's an aging population, and there are two factors there. One is what to do to replace your workforce. The second is the impact on the long-term benefits. I think we talked already about the long-term benefits.

My recollection on that front is that the rate of retirement hasn't happened as quickly as we would have thought. There's been this projection of a wave coming. The wave hasn't really hit, but it still is an aging workforce. The chief human resources officer would be better placed to talk about the strategy to refresh the workforce.

The Chair: Thank you, Mr. Doherty.

Now we will move to Mr. Lefebvre.

[*Translation*]

Mr. Paul Lefebvre: Thank you, Mr. Chair.

I am going to go back to one of the questions that was addressed at the start of the meeting.

This is for you, Mr. Rochon.

How many Canadians have holding companies or family trusts? What are the total amounts held in those holding companies and family trusts? I am trying to determine the wealth of Canadians and of Canada. I do not know whether you can give me an answer. If not, is there someone who could?

Mr. Paul Rochon: I think an estimate could be made based on data from the Canada Revenue Agency.

Mr. Paul Lefebvre: Where is that data?

Mr. Paul Rochon: It is in the databases of the Department of National Revenue.

Mr. Paul Lefebvre: Do we have access to that data?

Mr. Paul Rochon: There are definitely confidentiality issues. Perhaps I could get back to you and tell you whether it is possible to publish aggregate data on that.

Mr. Paul Lefebvre: Thank you.

[*English*]

Mr. Ferguson, I refer you to volume III of the public accounts. I want some clarification. At 2.10 in volume III, with respect to accounts receivable and forgiveness of debts, write-off of debts—and Mr. Matthews, please come in if you wish—am I correct in determining that last year we forgave or wrote off $4.3 billion of money that was owed to the federal government? Am I correct in reading that, $4.352?

● (1710)

Mr. Bill Matthews: I'm looking at the bottom of that page; that looks correct.

Mr. Paul Lefebvre: On a yearly basis, is that the average rate? Is that what happens all the time?

Mr. Bill Matthews: It varies by year, and I want to make sure the members understand when we say “writeoff” or “forgiven”, it's in legislation that it has to be disclosed.

The bulk of these numbers come from the Canada Revenue Agency. Is it an abnormal amount? No, but it's not exactly standard year to year either. It depends on their practices. What is normal is the key departments that drive this, and CRA is usually—

Mr. Paul Lefebvre: I have experience with CRA on a professional basis, so I know they have a lot of those files, but there are other departments. I saw around half were from CRA, but another $2 billion is still written off by other departments.

How can we satisfy ourselves, as the government, as elected officials, that these departments are doing the job of trying to collect these funds? What mechanisms do we have to ensure that they are doing their job of collecting on accounts receivable?

Mr. Bill Matthews: There are two points here.

First of all, my colleague Diane has just informed me that the numbers are relatively consistent with the previous year.

Second, on the writeoff versus forgiveness, “forgiveness” means you no longer owe it. You're off the hook. There are lots of reasons. On the actual writeoff, we still try to collect those figures, but you're dealing with bankruptcies or perhaps people who have left the country, and it's just a matter of wanting to keep the books clean. It's a good thing to put those out there.

Mr. Paul Lefebvre: That's an interesting observation. You said these are people who have left the country or have become bankrupt. Who made the determination? Was it at the ministerial level? How can we satisfy ourselves that this is the case?

Mr. Bill Matthews: Every department is responsible to bring forward their writeoffs on a periodic basis, so student loans—

Mr. Paul Lefebvre: To whom? Is it to your department?

Mr. Bill Matthews: It gets approved by Treasury Board. That's a group of ministers.

We want to encourage this. On the one hand, we don't want it to come down to us on the collection, but we don't want people not coming forward because it's not a convenient thing to do.

It's good housekeeping, really.

Mr. Paul Lefebvre: I agree.

Mr. Ferguson, have you any advice for us as to how we can better pursue this? Again, $4.3 billion is a lot of money. Over 10 years that's $43 billion, when we extrapolate it, and certainly from a taxpayer perspective and as a representative of taxpayers, how can we...if not as this committee, which committee of Parliament can satisfy itself that these departments are doing their jobs of trying to collect these funds?

Mr. Michael Ferguson: From a committee point of view, that would be a matter of asking different departments to appear as witnesses to explain what they do.

When you're dealing with things like writeoffs, obviously the important point is what happens at the very beginning, when they're paying money out in the first place or when there's a loan or there's some reason that people owe money to the government. By the time you get to the writeoff stage, there's not a whole lot left that can be done. When you're dealing with things like Canada Revenue Agency and the tax side of things, there are always going to be people who end up in bankruptcy or whatever, so there are going to be some of those issues. It's taxes. That's a different situation.

However, for some of them, when you're dealing with loans or benefit payments or those types of things, what are those departments doing in the very first place to make sure that only the people who should get those benefits are getting them, or that the people who are getting the loans have the capability to pay them back? I think there's a matter of paying attention to both the front end and the writeoff.

Mr. Bill Matthews: Mr. Chair, if I could add, the member had referred us to—

The Chair: Go ahead, Mr. Matthews.

Mr. Bill Matthews:—page 2.9 and page 2.10. You can actually see under which minister's authority the amounts were written off. Depending on the minister, some of them actually have their own authority, while some have to come to Treasury Board. That's just for members to note.

The Chair: On the writeoffs, I looked through pages 2.9 and 2.10 and I see the different departments. Are any of these foreign entities? Are there any writeoffs to, for example, foreign governments, where we may have some kind of loan for some emerging democracy? Is any of that accounted for in this portion of the public accounts?

● (1715)

Mr. Bill Matthews: I'm just eyeballing this, Mr. Chair. Nothing is jumping out at me based on the nature of departments.

Diane, do you see any?

The Chair: I didn't see any either, but is there another place in these three massive volumes where that would show up?

Mr. Bill Matthews: If the writeoffs happened, they would show up. When you're dealing with foreign governments and emerging democracies, you're often also dealing with grants and contributions, so you may actually see direct payments as opposed to loans. If we ever did get to a stage where we were writing off loans to an emerging democracy, etc., if it had to go through the minister's authority, you would see it here.

Is there anything you want to add on the Paris Club? No?

Okay, thanks.

The Chair: All right.

Mr. Arya had a question, I think.

Mr. Chandra Arya: Thank you, Mr. Chair.

Mr. Matthews, correct me if I'm wrong. You mentioned that the guarantees' upper limit or authorized limit is not usually the case. Was that what you mentioned?

Mr. Bill Matthews: I said that I wasn't aware of other countries doing that, and then I later added—

Mr. Chandra Arya: Out of the total guarantees provided by the government, $266 billion is without any upper limit, but there's another $357 billion which there is a limit to. Anyway, out of that $200 billion... Mr. Rochon, I understand that the insurance program the finance department manages is about $215 billion. In general, what are these kinds of insurance programs you guys manage, as shown in table 11.5?

Mr. Paul Rochon: Can you direct us to the table?

Mr. Chandra Arya: Sorry, let me repeat. It says that the insurance programs managed by the government, as shown under finance, are about $215 billion.

The Chair: What page, sir?

Mr. Chandra Arya: It is page 11.38 in volume I.

The Chair: It's page 11.38 of volume I.

Mr. Paul Rochon: These are the insurance programs that are managed by CMHC, for which the Minister of Finance has the authority to set an overall limit.

Mr. Chandra Arya: This includes CMHC?

Mr. Paul Rochon: Yes, it includes CMHC. It's essentially the Minister of Finance who authorizes limits for the mortgage insurance programs run by CMHC.

Mr. Chandra Arya: But I thought CMHC insurance programs—

Mr. Paul Rochon: Sorry, I should be clear. It's actually CMHC, the Canada Guaranty, and Genworth, the three mortgage insurers that operate in Canada.

Mr. Chandra Arya: But I thought the insurance programs were run by, say... For example, CMHC is around $520 billion. That is in table 9.7.

Mr. Paul Rochon: That's right. The $215 million, David was just telling me, relates to the two private insurers, Genworth and Canada Guaranty.

Mr. Chandra Arya: Sorry?

Mr. Paul Rochon: There's $215 million in a limit that is established for the two private sector mortgage insurers, which are Genworth and Canada Guaranty.

Mr. Chandra Arya: Okay.

Mr. Paul Rochon: The remainder is for CMHC.

Mr. Chandra Arya: My second question is on volume 3 at page 2.17, regarding the Senate. It states that for "Loss following a review of claims for living allowance in the National Capital Region and/or travel and/or office expenses", the "Amount expected to be recovered" is $664,000. Do you think this is completely recoverable?

Mr. Bill Matthews: This represents the best estimate of what's recoverable. We will update that in future years.

That represents our best estimate. With estimates, the only thing we know is that they're going to be wrong. We will come back and update based on what actually happens, but it was our best estimate at the time that these figures were prepared.

Mr. Chandra Arya: Okay.

Mr. Rochon, I have one question. Did federal budget projections more often underestimate than overestimate the size of budgetary balances over the last 10 years? If you look at the last 10 years, were the projections underestimated more often than they were overestimated?

● (1720)

Mr. Paul Rochon: I can't tell you offhand, but I can easily get you that information.

Mr. Chandra Arya: Thank you.

Mr. Paul Rochon: Just to be clear, going back to your last question, the limits for the mortgage insurers are $215 million for the two private sector mortgage insurers and $600 million for CMHC, of which CMHC has used $520 million.

Mr. Chandra Arya: Okay. On a related question, why should you give guarantees to a private sector insurer?

Mr. Paul Rochon: The guarantee is provided to the private sector insurers because there's an implicit 100% guarantee on the CMHC as a crown corporation of the Government of Canada. Therefore, to allow for some form of level playing field, the government has said they will guarantee 90% of the losses of the private sector mortgage insurers.

Mr. Chandra Arya: Why not stop giving guarantees to private sector insurance? Why shouldn't we just go back and do everything through CMHC?

Mr. Paul Rochon: The benefit of having the private sector insurers is that they are, at a minimum, responsible for the first 10% of their losses. The way that guarantee would operate is that effectively those insurers would need to go bankrupt before we would put in place a guarantee. Clearly there's an interest in the Government of Canada ensuring the stability of the housing market.

Mr. Chandra Arya: Mr. Matthews, did any department or agency overspend?

Mr. Bill Matthews: No department or agency overspent their vote this year. We do disclose that in one of the notes to the financial statements, so it's there for your reference.

The Chair: Thank you very much.

I think we're getting close to the end here. I guess there are a couple of questions that are maybe not so much for the table but that we have a bit of an interest in.

First of all, for the Auditor General, in the course of an audit or even in the course of going through these public accounts, were you able to identify any weaknesses or potential improvements in terms of internal controls, internal audits, or internal management styles within departments that perhaps should be highlighted or that we should be more aware of, more so than what may be hidden away in the three volumes?

Mr. Michael Ferguson: In terms of anything that we feel the committee should be aware of, we put that in our audit observations. The important things that we feel the committee should be particularly aware of are in there.

We will also send to individual departments or organizations management letters that deal with more day-to-day things. If we feel that they need to improve some of their practices around recording journal entries or something like that, we will put those things in a management letter that we send to the department. We keep an eye on those from year to year. If it's something of significance and something that we feel that Parliament should be aware of, we will put that in the audit observations, but we will make other observations to the departments.

The Chair: All right.

Go ahead, Mr. Matthews.

Mr. Bill Matthews: One of the things that falls under my responsibility is the internal audit function of the Government of Canada. All internal audits are made public, but if I could make one observation on the most constant theme we bump into, it's lack of documentation.

It's not that a rule was broken, but it's just that the record-keeping wasn't as good as we would like. That's the one that keeps popping up audit after audit.

The Chair: Now we have got three or four or five others who have said that they would like to have a question. I waited until the end and then took the chair's prerogative to ask a couple of questions, but now hands are shooting up, so I will probably leave it here.

I have one more question to Mr. Matthews. I hope this isn't too long a question, because we only have five minutes left.

I looked to the analysts and they showed me where the line items of P3s were, but how were they accounted for? What's the accounting process for our P3s?

● (1725)

Mr. Bill Matthews: All P3s are different. You have to look at it and basically ask whether the government has an asset or not.

In all the cases, the government is often the ultimate risk holder. People talk about P3s being risk-free to government, but you have to look at the deal. The government is the risk holder. More often than not, they end up as an asset on our books, either when it's done or at some point through the project. Generally speaking, they end up as an asset.

The Government of Canada has a few P3s. The B.C. government has a lot more and has more experience, but we have some big ones. I'm going from memory, but I think most of them are in our books as an asset.

The Chair: Good.

We will take your questions if you can do them in 30 seconds each. Mr. Christopherson, the time clock is running.

Mr. David Christopherson: Thank you, Chair. I hear you, sir.

My question regards gender-based analysis. How much of what we currently have in front of us would have had that lens? This is looking to the future, I know, but can any of the finance folks give an indication of how quickly we're going to see that? Then when we start getting reports, the answer will be 40%, 60%, and finally 100%.

There's no page to gender-based analysis; I just mean overall. We could start with the comptroller. To what degree do we have gender-based analysis going on now, in terms of what's in front of us, and how much is that going to change over the next few years? Tell us as much as you can.

Mr. Bill Matthews: That's a tough question to answer, but I'll be quick.

Mr. David Christopherson: Well, easy ones aren't worth asking.

Mr. Bill Matthews: In theory, it's most or all of what's here, but I think the real question is the quality of the gender-based analysis. It's really a quality issue, as opposed to—

Mr. David Christopherson: It takes me back to the data issue that the Auditor General raised early on. Sorry, go ahead.

Mr. Bill Matthews: I'd just say it's really a question of quality. Things like expenses for national debt aren't going to have gender-based analysis, but real programs should, in theory, all have gender-based analysis. However, I think the quality is the real question.

Mr. David Christopherson: Okay.

The Chair: Thank you very much.

Mr. David Christopherson: We're coming that way, just so you know.

The Chair: Mr. Doherty, you have 30 seconds.

Mr. Todd Doherty: My questions are for Mr. Ferguson and Mr. Matthews. The last time you were here, Mr. Ferguson, I was reminded by the chair that it was for the review of National Defence. There were some areas of concern regarding non-compliance in reporting, either simply not following through or not placing high priority on that.

Mr. Matthews, you mentioned not filling out the documents properly. Is it a matter of ability to fill it out or just an unwillingness to do it?

Mr. Bill Matthews: I'm not sensing any lack of willingness, and my comment was not specific to National Defence—

Mr. Todd Doherty: No, no, no. I mean in terms of departments overall.

Mr. Bill Matthews: I think what you'll find is that especially some of the smaller organizations, since they don't have the resources, are wearing multiple hats. They would struggle more than the larger ones to dot the *i*'s and cross the *t*'s.

The Chair: Mr. Matthews and Mr. Harvey, you have the final say of the public accounts meeting. Have at it.

Mr. T.J. Harvey: In table 5.7 on page 5.12, towards the bottom it identifies “Consolidated crown corporations and other entities”. Atomic Energy of Canada identified a new liability this year of $1.109 billion that wasn't identified in the March 31, 2015 column, but it has shown up there now. It doesn't directly correlate to retirement of Atomic Energy Canada nuclear facilities, so I'm wondering where that figure came from and how that liability is measured for the nuclear facility decommissioning at Atomic Energy of Canada Limited.

Is that all federal debt, and if so, what's the total figure of debt? Do provinces pay a portion of that?

Mr. Bill Matthews: My recollection is that this is all federal, but I'm going to get Diane to weigh in here in a second.

What happened with the Atomic Energy liability is that there was a shift in the accounting standards they followed, and the discount rate is very important there. I believe that responds to the change, but I'm going to see whether Diane has anything to add. If not, we may need to get back to you on that one.

Ms. Diane Peressini: A portion of the increase dealt with one of their asset retirement obligations for a liquid waste cementation project. Also, there were some assets transferred from Natural Resources Canada to AECL this year. That also resulted in an increase in what was booked by AECL. It was a Port Hope area initiative.

● (1730)

Mr. T.J. Harvey: Thank you.

The Chair: Thank you very much, all, and thank you for honouring the time on the 30-second questions.

I want to thank all our professionals—our Auditor General and comptroller and Department of Finance—for being here. We appreciate it.

In the course of today's questioning, there may have been an answer that you want to fill out a little bit more. Contact our clerk if that's the case; please feel free to do that. I usually say that even on the trip home, you may say, “I should have answered that differently.” If that turns out to be the case, please get hold of us again.

We appreciate your being here.

Thank you, committee.

The meeting is adjourned.