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Chair: Mrs. Kelly Block



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• (1110)

[English]

The Chair (Mrs. Kelly Block (Carlton Trail—Eagle Creek, CPC)): I call this meeting to order.

I would like to welcome you to meeting number 14 of the Standing Committee on Public Accounts.

I would also like to acknowledge that we have some individuals who, I believe, are subbing in for our regular members. Welcome to all of you. We really appreciate being on this committee, and I think you'll enjoy your time here today. I also want to wish you all a happy new year. I know we're near the end of January, but since this is our first meeting, I wish you all the best in 2021.

The committee is meeting today in public to study the public accounts 2020. I'd like to take about five minutes at the end to discuss a bit of committee business, if that is agreeable with the members.

Today's meeting, of course, is taking place in a hybrid format. As we heard, nobody is in the room. It is also the first meeting of this committee to take place in a webinar format. This format is for public committee meetings and available only to members and their staff.

Members may have remarked that the entry to the committee was much quicker and that they immediately entered as an active participant. All functionalities for active participants remain the same. Staff will be non-active participants only and can therefore only view the meeting in gallery view. Staff will also remain on the webinar in an observer role during periods of suspension.

Although I know we are all familiar with how our meetings work, I would just like to remind members of a few rules to follow. They probably bear repeating now at the beginning of the session.

For all of us, interpretation services are available for this meeting. You again have the choice, at the bottom of your screen, of floor, English or French. Before speaking, click on the microphone icon to activate your own mike. When you are done speaking, please put your mike on mute to minimize any interference. When speaking, please speak slowly and clearly. Unless there are exceptional circumstances, the use of headsets with a boom microphone is mandatory for everyone participating remotely. Should any technical challenges arise, please advise me. Please note that we may need to suspend for a few minutes as we need to ensure that all members are able to participate fully.

I would now like to welcome our witnesses.

Joining us today from the Office of the Auditor General are Auditor General Karen Hogan; Chantale Perreault, principal; and Étienne Matte, principal.

From the Department of Finance, I would like to welcome Deputy Minister Michael Sabia, who hopefully will be joining us soon; Nicholas Leswick, assistant deputy minister from the economic and fiscal policy branch; and Darlene Bess, chief financial officer, financial management directorate, corporate services branch.

Also, from the Treasury Board Secretariat, we have the comptroller general of Canada, Roch Huppé; Roger Ermuth, assistant comptroller general, financial management sector; and Diane Peressini, executive director, government accounting policy and reporting.

Ms. Hogan, I will turn the floor over to you for your opening remarks.

Ms. Karen Hogan (Auditor General of Canada, Office of the Auditor General): Madam Chair, thank you for this opportunity to discuss our audit of the Government of Canada's consolidated financial statements for the 2019-20 fiscal year. With me are Chantale Perreault and Étienne Matte, financial audit principals.

The government's financial statements are one of its key accountability documents. Our audit of the financial statements matters, because it supports parliamentary oversight of the government, promotes transparency and encourages good financial management.

This year, our audit of the government's financial statements took approximately 33,000 hours to complete and involved most of our financial auditors. Our audit opinion on the Government of Canada's consolidated financial statements is on page 52 of volume I of "Public Accounts". We found that you can rely on the information contained in the financial statements. In all material respects, the information is presented fairly and conforms with generally accepted accounting principles for the public sector. In other words, we issued a clean opinion.

A few years ago, we started to present an annual commentary report to Parliament that highlights important information about the results of our federal financial audits. In our current commentary on financial audits, we made three observations about the government's 2019-20 consolidated financial statements—one related to pay, one to National Defence's inventory, and a new observation related to payments made by the Department of Finance.

First, we once again found deficiencies in the government's internal controls for pay, which meant that we had to carry out detailed audit tests of the \$26 billion in salaries and benefits processed through the Phoenix pay system. We selected a sample of pay files and tested the accuracy of basic pay and acting pay. Data quality problems continued to create pay errors for thousands of federal employees. We found that 51% of employees in our sample were paid incorrectly at least once during the 2019-20 fiscal year. Despite the significant number of individual pay errors, overpayments and underpayments partially offset each other. As a result, the pay errors did not significantly affect the government's financial statements. However, the underlying problems and the errors continued to affect thousands of employees.

Second, for 17 years we have been reporting on National Defence's difficulties in recording its inventory. This year we estimated that the department's inventory and asset pooled items were understated by about \$759 million out of a total of \$8.7 billion. National Defence continued to implement the long-term action plan it submitted to this committee in 2016. In our view, errors in reported quantities and values are likely to continue until the plan is fully implemented.

[*Translation*]

Third, we examined payments made by the Department of Finance Canada under a new long-term agreement. In our view, the department did not obtain the proper authority of Parliament before making these payments. One of Parliament's fundamental roles is to approve all spending of public money to provide accountability and transparency to Canadians. We have recommended that the Department of Finance of Canada obtain the proper authority before making any other payments under the agreement, which was done in December for the current year.

In our commentary report, we also noted opportunities for organizations to improve their systems and practices. Again this year, we noted unresolved IT matters that could compromise the government's data integrity and affect financial reporting. These matters included system access given to people who did not need it, access retained by people who no longer needed it, and weaknesses in the controls over access granted between organizations.

Another important subject in our commentary report is the COVID-19 pandemic, which affected our financial audit work. We collaborated with the federal organizations we audit and with central agencies to better understand the challenges we all faced. We expect that the pandemic will also significantly affect the government's 2020-21 financial statements and our financial audits. We will adjust the nature, timing, and extent of our future audit work as needed.

Madam Chair, I would like to thank the comptroller general, his staff, and the staff of the many departments, agencies, and Crown

corporations involved in preparing the government's financial statements. We appreciate their collaboration, particularly during these challenging times.

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

Thank you.

• (1115)

[*English*]

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

I would just like to ask the clerk if there is somebody else bringing remarks today.

The Clerk of the Committee (Ms. Angela Crandall): Yes. It's Mr. Huppé.

I believe he's back.

Mr. Roch Huppé (Comptroller General of Canada, Treasury Board Secretariat): I'm very sorry about that. We're having major IT issues, so we're just back. I have to say, I missed part of the Auditor General's comments. I'm sure they were captivating as usual. I will dive right into my comments if you will allow me.

[*Translation*]

Thank you, Madam Chair, for the opportunity to discuss the public accounts of Canada with the members of the committee.

Even though you cannot see them at this time, I am joined today by two of my colleagues from the Treasury Board of Canada Secretariat, Roger Ermuth, assistant comptroller general of the financial management sector, and Diane Peressini, executive director of government accounting policy and reporting.

The public accounts include the audited consolidated financial statements for the 2019-20 fiscal year, which ended on March 31, 2020, in addition to other unaudited financial information. They are part of a series of reports to Parliament and Canadians that outline how the Government of Canada spent the money that it requested from Parliament and how it generated revenues.

The consolidated financial statements are audited by the Office of the Auditor General, and I am pleased to note that, for the 22nd year in a row, the Auditor General has issued an unmodified or "clean" audit opinion of these financial statements.

As the former auditor general pointed out to the committee, not many national governments receive a clean audit opinion on their financial statements—let alone do so every year for two decades. I am very proud that the work of the financial management community is so strong that we can sustain this accomplishment year after year.

In particular in this unusual year, I must thank all the departments for the extra effort they put in to undertake the year-end work while working from home, with all the additional challenges that entailed.

It is a clear indication that the members [*Technical difficulty—Editor*].

• (1120)

[*English*]

The Chair: We seem to have some technical difficulty.

Mr. Lloyd Longfield (Guelph, Lib.): We were just getting to the good part.

Mr. Matthew Green (Hamilton Centre, NDP): Perhaps this is where he was going to talk about the IT audits.

Mr. Lloyd Longfield: No, it's the deficit paragraph.

The Chair: Madam Clerk, how shall we proceed?

The Clerk: We can have the IT people call Mr. Huppé and see if we can get him back. Perhaps we could start the round of questioning. He had approximately two and a half minutes left in his presentation.

[*Translation*]

Mr. Roch Huppé: Good morning. Can you hear me?

[*English*]

The Chair: Yes, we can hear you.

[*Translation*]

Mr. Roch Huppé: I am back, by phone.

[*English*]

I'm really sorry about this. It seems we're having major issues with the Wi-Fi.

I'm almost done. If you'll allow me, I'll use the phone for now and quickly finish the speech. Sorry you can't see me.

Is that acceptable?

The Chair: Yes. Please proceed.

Mr. Roch Huppé: Thank you.

[*Translation*]

I would like to thank my colleagues from the Department of Finance and the receiver general for their continued co-operation and support in the production of the public accounts of Canada. In addition, I would like to thank the Office of the Auditor General for its continued co-operation and assistance.

[*English*]

Turning to the financial statements, as the committee will have noted, overall the government ended the year showing a deficit

of \$39.4 billion, up \$25.4 billion from the previous year, and up \$22.6 billion more than projected in budget 2019. The accumulated deficit rose \$35.9 billion to \$721.4 billion in 2020. At the same time, the ratio of accumulated deficit-to-GDP is 31.3%, up from 30.8% in the previous year.

Revenues increased by \$1.9 billion from 2019, primarily reflecting increases in income tax revenues and introduction of the fuel charge.

Program expenses, excluding the net actuarial losses, increased by \$23.9 billion from 2019, reflecting increases in all major categories of expenses, including fuel charge proceeds returned.

It is important to note that the March 31, 2020 results included the start of the COVID-19 pandemic, when costs such as two weeks of the Canada emergency response benefit and transfer payments were incurred, as well as impacts on estimates for loan loss provisions and tax revenues, which increased the total program expenses compared to the previous year and thus the annual deficit.

Those points are among what I would call the highlights. My colleagues and I look forward to discussing the results of this year's public accounts with the committee in more detail.

I would also like to engage the committee on how to improve the public accounts. There have been no significant changes to the form and content of the public accounts since the government moved to accrual accounting in 2003. With more, and timelier, online reporting of information, I feel that there would be merit in examining the current practice of presenting information annually in three volumes totalling over 1,200 pages. As well, I believe some of the thresholds of reporting have not been increased in 40 years and could be changed, such as in the sections on payments of claims against the Crown, as well as losses of public money and property.

I would appreciate your feedback on that.

Thank you for your attention.

The Chair: Thank you very much for your opening remarks.

We will now move to our first round of questioning. It's a six-minute round, and we will start with Mr. Lawrence.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Sorry, can we actually start with Mr. Webber?

The Chair: Absolutely.

Mr. Webber, go ahead.

Mr. Len Webber (Calgary Confederation, CPC): Well, Mr. Lawrence, that was very kind of you. Thank you very much for that; and thank you, Madam Chair.

I'm going to ask my first question to our wonderful Auditor General, Karen Hogan.

In your opening statements, you talked about how another important subject in your commentary report is the COVID-19 pandemic, which obviously affected your financial audit work, and that you had collaborated well with the federal organizations and with central agencies to better understand the challenges they've all faced and we've all faced.

You said you expect that the pandemic will also significantly affect the government's 2020-21 financial statements and your financial audits, and that you will adjust the nature, timing and extent of our future audit work as needed. That statement alone I find rather ambiguous. I need to get some clarity on that.

What exactly are you looking to do in the next audit? I know we're looking forward here into the next audit, but the government has gone through a significant spending spree and our debt has increased significantly. Is the audit going to be a three-year audit? Do you plan on releasing progress reports during this very unusual year of the pandemic?

Maybe you could just give us some more clarity on what your thoughts are for the upcoming audit on the 2020-21 financial statements that you indicated in your opening statement.

• (1125)

Ms. Karen Hogan: When we talk about the nature, extent and timing, it is really the types of testing that we will do. As you mentioned, there is an increased amount of spending, so we definitely see that being a larger bucket of money that we will have to figure out how to audit.

Our financial audits are done in a very tight time frame, with really close collaboration with all of the departments. This isn't going to make it longer. There might be a need for us to adjust timing, as we did this past year for the 2020 public accounts, in order to allow departments to finalize their books and gather the audit evidence that we need, and then in order to allow us enough time to look at that evidence.

It will simply be adjusting to new controls, new ways of looking at evidence as we all deal with remote work, and converting many controls to an automated form versus a paper form in the past.

I don't expect that it will cause any unexpected delays, but I think it was important to note that the pandemic continues to impact both the financial statements and our work.

Mr. Len Webber: You don't see any significant delays, then, with this audit with your auditors all working from home and such. It's not going to be a long-drawn-out audit that we perhaps would get in three years or that kind of thing.

Ms. Karen Hogan: No, not at all. Financial statement audits are actually completed and wrapped up very quickly after year-end. As we saw in 2019-20, between the extra time that the departments and

agencies and our audit needed, the audit was only delayed by about five or six weeks, and I don't anticipate that it would be anything bigger than that in the coming year.

It does require all of us to work together for a common goal.

Mr. Len Webber: That's good to hear. Thanks for that.

You also mentioned that this year your financial statements audit took approximately 33,000 hours to complete and it involved most of your financial auditors. How does that compare to previous years' audits? Was this 33,000 hours significantly more or less? I anticipate it probably was more, but maybe you could give us some clarity there.

Ms. Karen Hogan: This is the largest financial audit that our office undertakes. As you can imagine, auditing the whole of the Government of Canada is a large endeavour.

In prior years, we would have seen our audit run anywhere from about 44,000 hours to a little less than 33,000, so we did see this year being a little bit more than a typical year, but less than the first few years when we had to deal with the increase in work when the Phoenix pay system first rolled out. This is about average, and I would expect it will take us perhaps the same amount of time or a little bit more next year.

Mr. Len Webber: Great.

You indicated that you issued a "clean opinion" this year, meaning exactly what, Ms. Hogan?

Ms. Karen Hogan: We audit the government's financial statements and compare them to generally accepted accounting principles that are applied to the public sector. We look to ensure that they are fairly stated and that they are free of errors that would impact the user's decision. A clean opinion basically means that you can rely on the information in the financial statements.

It is something that very few countries can say they receive, so Canada and all of the departments and agencies and Crowns that are involved in the development of these statements should be proud of that.

• (1130)

Mr. Len Webber: Excellent.

Madam Chair, do I have some more time left over there?

The Chair: I believe you have about 20 seconds.

Mr. Len Webber: Okay, I'm just going to leave that 20 seconds for my colleague, Mr. Lawrence, who kindly gave me the first round.

Thanks, Madam Chair.

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

We will now turn to Mr. Longfield, for six minutes.

Mr. Lloyd Longfield: Thanks, Madam Chair.

It's great to see all our colleagues around the table, especially the people who have prepared the work for us. Ms. Hogan and Mr. Huppé, thank you for your work.

I'll give a special welcome as well to Mr. Sabia in his new position. Congratulations on your appointment. It's great to see you here this morning, as well.

There was lots of reading over the holidays and lots of stickies are now on the books. I wanted to draw attention to volume III, section 2, under "Supplementary information required by the Financial Administration Act". Mr. Huppé, to pick up on the last comment in your opening remarks around losses of public property, on pages 147 to 163, it's showing 14,951 cases of loss of public property due to accidental loss, damage or destruction, with a total of \$21,372,105 that aren't expected to be recovered. There were 3,616 cases of loss of public property as a result of offence or other illegal acts, resulting in losses of \$1,127,128 that aren't expected to be recovered. Finally, there are 104,399 cases of loss of public money due to an offence, an illegal act or accident, resulting in an estimated \$4,699,469 that, again, is not expected to be recovered.

That's a lot of taxpayer dollars that we are now not going to be able to recover. How does this compare to previous years?

This is for Mr. Huppé or any official.

Mr. Roch Huppé: Thank you for the question, Madam Chair.

I don't have the exact numbers for previous years. I would tell you that based on my experience, it does vary from year to year. That said, I would say that, overall, there are some big ticket items. They are basically.... Certain misrepresentations are done through our tax systems by some individuals, sadly. There is some misrepresentation on the employment insurance program also.

Over the years, I think there are some cases where it's a recurring theme. That log of the damage of property, for example, went down drastically compared to last year. That's because we had some vandalism on one of our ships. That was reported last year. The drop in that one is close to \$11 million and it was due to that.

There isn't a very accurate trend in these things. For different reasons, it will vary from year to year. Sadly, there are always cases of lost property. We talk about a major one being on the national defence side. They have a lot of inventory, so there are cases that are recurring in nature.

Mr. Lloyd Longfield: Thank you.

We did hear from Defence earlier on a follow-up to the previous audits. Maybe that's something.... It wasn't in the management notes, but it looked like some big numbers there. Thank you for your clarity.

Mr. Sabia, one that I looked for first off was the incoming revenue for climate change—the price on pollution—and then the outgoing revenue back to provinces and territories, to see whether we were balancing.

Under section 2 of volume I, "Notes to the consolidated financial statements of the Government of Canada", part 4(a), "Fuel charge proceeds", on page 63, states that the revenues earned from pollution pricing amount to \$2.65 billion, which is another big number. Then in part 5(c), under expenses, it says that fuel charge proceeds were returned, totalling \$2.63 billion.

Almost all proceeds were returned, but given that this program was designed to have all proceeds returned back, could you maybe explain the discrepancy—as a result of taxes not being reassessed or assessed or whether it was a timing issue—to see that money being collected by the government isn't being held by the government and that it's actually being returned, the way the policy was intended?

• (1135)

Mr. Michael Sabia (Deputy Minister, Department of Finance): First, Madam Chair, let me thank Mr. Longfield for his welcome, which is much appreciated on my part.

I would also say that welcome is appropriate because I've only been here for about four weeks or so. If you don't mind, I'll ask my colleague, Nick Leswick, to take on that question.

Mr. Lloyd Longfield: Great, thanks.

Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): Thank you for the question. You're right; there is a slight discrepancy. It's under \$20 million on a \$2.6-billion program. It's just a matter of revenue and expense recognition over the accounting period. Rest assured that every dollar that is collected through the fuel charge will be returned to the payers in the jurisdiction in which it was paid. Those will match entirely over time.

Mr. Lloyd Longfield: Thank you.

I have only 20 seconds, so again, thank you for all these notes. I wish we had more time, but I will turn it back over to the chair.

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

Perhaps I can take your 20 seconds and join you in welcoming Mr. Sabia to committee and congratulating him on his appointment. We look forward to working with him in the future as well.

I will now turn to Mr. Blanchette-Joncas for six minutes.

[*Translation*]

Mr. Maxime Blanchette-Joncas (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Good morning, Madam Chair.

I join you in congratulating Mr. Sabia. He played a very important role in a Quebec jewel, the Caisse de dépôt et placement du Québec, which is a legacy of Jean Lesage and Jacques Parizeau. He has my full respect and I welcome him.

I'll start with you, Ms. Hogan. Thank you for being with us again. We make it a habit, and it's a renewed pleasure at every opportunity. To paraphrase a very popular Sunday night show on CBC/Radio-Canada, I'd even say you're our fan favourite.

I'm glad to see how much attention you've paid to the gigantic blunder of the Phoenix payroll system. Beyond the administrative aberrations, there have been nightmarish consequences on the payroll of thousands of civil servants. I know that this issue is being resolved, but it raises deep and troubling questions about the management of a payroll system by a G7 country. I wouldn't be surprised if this were the case in a banana republic, but it's quite surprising in Canada.

In the last four years, Canada has had the worst results for employee payroll errors. The percentage of employees affected has increased from 46% to 51%. In other words, one out of every two paycheques now has errors. I should point out that your sample included only acting pay and basic pay of employees. These are the only salaries you examined. These payrolls represent 92% of the \$26 billion managed by the Phoenix payroll system. You'll understand that this does not inspire me, nor does it make the public feel confident.

On a scale of 1 to 10, what is your expectation of the degree of satisfaction of the people involved, once this terrible saga has been finally and completely settled?

Ms. Karen Hogan: I'd like to begin by thanking you for your welcome comments. I love appearing before the committee and I am very grateful for your support in all of our work.

You talked about errors in payroll. I like numbers, but I don't know if I could give you a number on a satisfaction scale. I'm looking ahead and seeing how the government is correcting the situation and adjusting the pay of the employees in question. Indeed, 51% of the employees in our sample had witnessed errors in their pay this year. However, we are also seeing a decrease in the number of pay adjustment requests. It is important to note that the situation is improving.

Payroll is a shared task. Many people have to ensure that payroll data is not erroneous. By working together, departments will be able to adjust their employees' pay in the future. Before transitioning to a new payroll system, it is important to have the right data.

● (1140)

Mr. Maxime Blanchette-Joncas: Thank you, Ms. Hogan.

Indeed, it's good to look to the future, but people have died because of the disasters of the Phoenix payroll system.

I know there's a plan of action and we're going to fix it, but according to the numbers I just gave you, one out of every two people still has errors in their pay. I can't imagine that we aren't immediately looking for a quick solution.

I recognize the sensitivity of my question, but do you have the confidence of Parliament? You are acting as a watchdog for taxpayers. Beyond your findings and observations, can you assure the committee that you will follow up on what I believe to be the scandal of our time, just as the sponsorship scandal was in the past decade?

Ms. Karen Hogan: Since the transition to the Phoenix payroll system and the transformation of payroll management, we've been auditing the steps the government has taken, and I can tell you that we will continue to audit payroll and put pressure on the government. As this is a very significant expense in the financial statements of the Government of Canada, we will still be spending time on it as part of our financial audit.

Mr. Maxime Blanchette-Joncas: Madam Chair, can you tell me how much time I have left, please?

[*English*]

The Chair: Yes. I believe you have one minute left.

[*Translation*]

Mr. Maxime Blanchette-Joncas: Thank you very much.

Ms. Hogan, you mentioned the payroll system, of course. I've also seen that there are going to be some problems with the payroll services, so I'd like you to confirm one thing: do you have any additional levers that you need to be able to move more quickly in that regard? According to the report, we will have to wait until 2022 to catch up with all the expected delays.

How can we intervene as quickly as possible?

Ms. Karen Hogan: This is a question that should be put to the government. We estimate that at the current rate of processing of pending payroll intervention requests, these will not be resolved until 2022.

Obviously, the government deals with new requests for intervention more efficiently, but old requests still need to be processed. It is also important to understand that there will always be requests for payroll intervention in any given period. That said, the government needs to improve its process around the management and sharing of information between departments.

[*English*]

The Chair: Thank you.

[*Translation*]

Ms. Karen Hogan: With respect to delays in processing requests, you must ask the government how it is going to rectify this.

[*English*]

The Chair: Thank you, Ms. Hogan.

We will now move to Mr. Green for six minutes.

Mr. Matthew Green: Thank you, Madam Chair.

Again, it's an absolute pleasure to be back in this committee; it's one of my favourite committees.

We definitely have the opportunity as parliamentarians to dig into the work and hear from government. One of the most important aspects is hearing from the Auditor General about finding ways in which we can improve government, which I believe is the core reason all of us are here.

I'll begin with my questions for the Auditor General.

Our 2019–2020 financial audits have raised management letter points, some of which were not resolved within the year. Of the total management letter points that were unresolved as of 30 June 2020, 40% have been unresolved for 2 years or more, 28% have been unresolved for between 1 and 2 years, and another 32% were newly issued within the past year.

Can you take a moment to talk about the importance of the management letter points and why you issue them? Then, perhaps most important, of the management letter points that have been unresolved, would it be possible to know why?

• (1145)

Ms. Karen Hogan: Thank you, Madam Chair.

We issue management letter points after most of our financial audits, as throughout the course of our audits we find opportunities to improve internal controls, streamline operations or improve financial reporting practices. We take the time to make some of those recommendations and get management's commitment to a timeline and an action plan in order to continue to improve financial reporting.

Those are, then, very important. We started to monitor them and follow them up a few years ago, because we recognize that some of them take a long time to resolve and others are resolved more quickly. We thought that a more rigorous follow-up would keep the pressure on departments and Crowns to improve their practices.

Most that remain unresolved in the longer buckets are really about IT access. We always carry out work to make sure that we didn't find any inappropriate access, but as you can imagine, so many individuals access IT systems that it takes rigour to stay on top of warning about proper access and removing it when an individual leaves an organization or changing it when they change functions.

It would be up to the departments to tell you individually why they take so long, but I think it's because of the vastness of how many individuals have access to systems, hence why we're seeing some time to weed through all of that.

Mr. Matthew Green: I noted in your opening comments, and of course section 23 where you talk about it, that you targeted access controls because they're fundamental for financial processes that depend on IT. Then you go on to state that access controls go beyond financial processes. In an IT environment, access controls ensure that only authorized individuals can access electronic data, and if those controls are absent or weak, the data's integrity is at risk. To ensure that, particularly in a COVID era where there's just an increasing volume of information that is going to be transmitted from home and through the government, we need to have that efficiency.

Can you take a moment and explain why that should be a significant concern?

Ms. Karen Hogan: Data is used to make good, informed decisions, and data is used to develop financial statements where the government is accountable to the promises they've made. The financial statements then show you the actual result. Therefore, it's important that the data isn't compromised by an individual who shouldn't have access to it.

You want to limit who has access to what. People only need so much information to do to their jobs, so it is really just a best practice that you should make sure that those who have access have the right access to the right information and only when they need it.

We've talked a lot about data quality, and this is the entry into good, proper data quality, because good data allows you to make better-informed decisions.

Mr. Matthew Green: Maybe just help me understand more specifically as I drill down into this. You noted in your opening remarks on system access that there were instances where it was granted but people didn't need it or no longer needed it. It seems to me that it ought not be a complicated matter for systems management that strict requirements are put in place, department to department, to ensure that this is not the case.

Why would that be the case, and why haven't departments come along on this? What should they be doing to address it?

Ms. Karen Hogan: At times when you're talking about a Crown corporation, the controls are all very centralized and fixes like this probably happen a lot more quickly than they would in the government itself, where sometimes central agencies manage access to main systems, hence there is a constant communication and oversight that's needed and a horizontal management of access.

Again, I think a good question to ask the government is where it sits in its priorities to control. What I can tell you is that when we look at access controls and we see that individuals have access they shouldn't have, we also look for compensating controls where there is monitoring to make sure that those people didn't access that information, so we're happy to see that as well.

This is really about cleaning up access. Even though we haven't seen any issues, the risk is there and that's why a good cleanup is needed.

• (1150)

Mr. Matthew Green: Thank you.

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

We will now move on to our second round, starting with Mr. Lawrence for five minutes.

Mr. Philip Lawrence: Thank you very much, Chair.

I welcome and congratulate the deputy minister, Mr. Sabia.

I'll present my question to Mr. Leswick, because I want to build on the issue of carbon taxing, but if Mr. Sabia wants to enter the conversation, that would be great.

Mr. Leswick, I'm just a little confused about your answer, as you seem to convey that it is revenue-neutral. However, it says in there that \$2.7 billion goes back to the government of origin. That doesn't necessarily mean individual Canadians, now, does it?

Mr. Nicholas Leswick: Thank you for the question and for asking for added clarity.

It does go back to Canadians through the climate action incentive payment, which is administered through the personal income tax system. It doesn't go back to the government of jurisdiction; it goes back directly to households via that tax transfer program.

Mr. Philip Lawrence: Is there also GST paid on the carbon tax, or HST as the case may be?

Do Canadians pay HST or GST on the carbon tax?

Mr. Nicholas Leswick: No. The fuel charge is levied upstream, so the GST or HST is not applied against the fuel charge downstream at the consumer or household level.

Mr. Philip Lawrence: Are you saying that GST is not charged on the carbon tax?

Mr. Nicholas Leswick: GST is not charged on the carbon tax.

Mr. Philip Lawrence: How come I have statements from many constituents that show that GST or HST is charged on the carbon tax?

Mr. Nicholas Leswick: I appreciate the question.

I think I would take it away just to make sure I'm understanding your question clearly and then clearly how the fuel charge is administered at the producer level, which is where the origin of the revenue is. I just want to make sure I completely put the plug in the wall in terms of understanding both sides of this.

Mr. Philip Lawrence: I would appreciate it if you did that. Thank you.

Continuing on a different track, the Auditor General indicated that the department did not obtain the authority of Parliament to make payments to the Province of Newfoundland and Labrador of \$138 million in 2019 and 2020 under the Hibernia oilfield agreement. Do you agree with this assessment?

Mr. Michael Sabia: Mr. Lawrence, I will take that one. Nick, please jump in if you want to clarify anything I'm about to say.

I think this issue has been with us for some time. From the department's perspective, I think, Mr. Lawrence, you're probably aware that with all the respect in the world for the work of the Auditor General and her team, this is an area where I guess I would say the Government of Canada has not fully shared the analysis or

the conclusion arrived at by the Auditor General, and that the government does believe it had authority under the Financial Administration Act for that payment.

All that being said, in the current year we have pursued that through supplementary estimates. I believe the Auditor General is comfortable with that path forward, and I can assure you that going forward—because these payments to Newfoundland and Labrador will continue, as you know, for some extended period of time—we are working now on finding the best way of regularizing this, fully in the spirit of the comments and concerns that have been expressed by the Auditor General. This is an issue that I think we have put behind us, and we will certainly be putting it behind us going forward.

Mr. Philip Lawrence: Perhaps I could just get commentary from the Auditor General. Do you stand by your comments that the payments were made without the authorization of Parliament, or are you agreeing with the deputy minister?

Ms. Karen Hogan: The Hibernia agreement called for an appropriate legislative measure to be put in place to ensure that parliamentary authority was received. I still stand by our view that initially that was not properly obtained, but including it in supplementary estimates (B), that measure going forward to have Parliament authorize that payment, satisfies the concern we raised.

• (1155)

Mr. Philip Lawrence: Thank you.

Maybe I'll go over to Mr. Huppé for his comment on this. The Treasury Board is to review the expenditures of government. How was this allowed to occur, that \$100 million was spent without parliamentary permission?

The Chair: Thank you very much, Mr. Lawrence. Your time is up, so perhaps we could pursue that line of questioning during another round.

I will now move to Mr. Sorbara for five minutes.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair.

[*Translation*]

Good morning, everyone.

[*English*]

My first question is for the Auditor General. It's a bigger-picture question. We are in a time of COVID. We have seen a lot of departments.... For example, as a PS to National Revenue, the CRA was called upon to deliver benefits to Canadians in a very short period of time. Within 48 hours, Canadians received the response benefits, and now the recovery benefits.

Where do you see digitization within the Auditor General's office? You obviously examine a lot of government, really all of government. For me, digitization is a huge thing going forward, not only to drive growth but to be efficient and deliver services and goods to Canadian citizens. Can you comment on that briefly, please?

Ms. Karen Hogan: I agree with you that the pandemic has definitely seen almost every Canadian interact with the government in an electronic or digital way. I think everyone across the federal public service needs to look at their own processes and see how we can move further towards digitization to support that. That is something we plan to do within our office with some of the increased funding we received. I think it is where we all need to go, because we've seen that it's needed.

Mr. Francesco Sorbara: Yes, and we must do it without delay. We have no time to lose.

My second question relates to page 68 of volume I. I am someone who grew up in the private sector and saw his parents save, sacrifice and work very hard to build a future for their children in this blessed country we live in. I worked in the private sector for some 20 years before coming into public office. I see the increase in terms of personnel costs from \$49 billion to \$55 billion from 2019 versus 2020. It's actually on page 67 of volume I.

Can I get an explanation of what drove the increase in staff expenditures, and where this 11% increase was allocated to, because, frankly, it's not sustainable on a year-on-year basis?

Mr. Roch Huppé: Maybe I can take a first crack at it. We can certainly provide a more fulsome analysis of that increase, but what I could safely say is that from year to year, obviously, there's an increase in wages. Probably an important piece of that is in relation to that. Essentially, we book what we call an accrual. Say, we have a collective agreement under negotiation, for example. We will also estimate the value of the increases and book it, because in accrual accounting we need to actually book the expenses within the right fiscal year.

I can also tell you that on the 2.4% increase on salaries within what we call the public service—so the core, the traditional departments—there was an increase in the personnel expenses on the military side, the regular force, of 2%, and an increase of 10% as it relates to the Canadian reserve forces.

Mr. Francesco Sorbara: Okay. Could you send us some more details? I have about a minute left and I do want to move on to the next question.

Mr. Roch Huppé: Absolutely.

Mr. Francesco Sorbara: To Mr. Sabia, *benvenuto* in your new role. I used to visit your bond managers at the Caisse de dépôt as a bond analyst on the south side. I spent many days in lovely Montreal. I'm very happy to see you in your role and I think your experience is very key at this time.

Mr. Michael Sabia: Thank you.

Mr. Francesco Sorbara: I'm going to throw this to you for the last of my time. Please comment on digitization within government and other initiatives that you think can be pursued on a big-picture basis.

• (1200)

Mr. Michael Sabia: Well, I guess I would make two comments. I agree with what the Auditor General said in terms of the importance of digitizing government services and facilitating access of Canadians to their government on a digital foundation. We have all

lived it, and we're living it through the pandemic, so I fully agree with that.

Actually, Mr. Sorbara, I'd like to broaden your question here. One thing that we are thinking hard about and working on is the importance of digitization across the breadth of the Canadian economy.

[Translation]

Mr. Maxime Blanchette-Joncas: On a point of order, Madam Chair.

[English]

The Chair: Yes, Mr. Blanchette-Joncas.

[Translation]

Mr. Maxime Blanchette-Joncas: I want to let you know that the interpretation is not working right now.

[English]

The Clerk: It has been resolved.

[Translation]

The Chair: Thank you.

[English]

Mr. Michael Sabia: Mr. Sorbara, to come back to the point I was making, I think we've seen, through this experience we've all been living, that digitization is something that we have to think about on a pan-Canadian basis across every sector, particularly for small and medium-sized businesses, which are really the backbone of the Canadian economy. One thing we are thinking about in the context of finding levers to enhance Canada's growth prospects going forward is actually the very broad application of measures to encourage the expansion and development of digitization across the Canadian economy, and certainly the government is part of that.

The Chair: Thank you very much, Mr. Sabia. I'm sorry; we've gone over time.

Mr. Francesco Sorbara: Thank you, Chair, for your discretion in allowing Mr. Sabia to elaborate.

The Chair: You're welcome.

We will now move to our third round of questioning. I call this our "rapid-fire round" because it's only two and a half minutes.

We will start with Mr. Blanchette-Joncas for two and a half minutes.

[Translation]

Mr. Maxime Blanchette-Joncas: Thank you, Madam Chair.

My question is for Mr. Huppé.

Thank you for being here. This is the first time we've met, if I'm not mistaken. It's a pleasure to see you.

In your opening remarks, you welcomed the results of the Office of the Auditor General's audits as a whole, as well as the collaboration of your colleagues in the Department of Finance. I imagine that this is a matter of the courtesy and team spirit that senior government officials must demonstrate. It is to your credit.

On the other hand, without wanting to diminish your enthusiasm, I can't quite understand how one can be enthusiastic about the ongoing crisis of the Phoenix payroll system. It's a lamentable failure. I don't want to exacerbate the situation, but there's nothing to be happy about in this crisis, which has been going on for years and will not be resolved for many months to come. I don't think it's good news.

As I mentioned earlier, according to current figures, half of the workers who receive basic or acting pay have payroll problems. These are the worst results in the last four years. I've done some checking and it means that close to 150,000 people are affected. I can't see how anyone can be enthusiastic about that.

Could you tell the committee whether the Treasury Board Secretariat is equally enthusiastic and satisfied with the way the Phoenix file has been managed from the beginning?

Mr. Roch Huppé: Thank you for the question.

[English]

The Chair: Thank you. You will have one minute to answer.

[Translation]

Mr. Roch Huppé: All right.

Of course, my enthusiasm is not related to the problems with the Phoenix payroll system. We consider that situation to be serious, unfortunate and distressing. Rather, my enthusiasm stems from my pride in the work done by public servants.

The pandemic began in mid-March, which corresponds to the end of the federal government's fiscal year. It was an extremely critical time for the financial community.

Thanks to the exceptional collaboration of the various partners, including the Auditor General, the audit of the financial statements was successfully completed.

When producing financial statements, an accurate picture of an organization's financial position must be presented. I'm enthusiastic because, once again this year, the Office of the Auditor General has issued an unqualified audit opinion. So people can rely on these documents.

• (1205)

[English]

The Chair: Thank you very much.

We will now move to Mr. Green for two and a half minutes.

Mr. Matthew Green: Thank you, Madam Chair.

In volume III of the public accounts, "Additional information and analyses", there's a settlement claim for a missed financial opportunity of \$5 million awarded to Thales Canada Incorporated. It's an aerospace, defence and security company. This question is for the Department of Finance.

What are the settlement claims for the missed financial opportunities? It seems like a pretty random \$5-million payment. What are the circumstances around this specific payment?

Mr. Michael Sabia: Mr. Green, if you agree, I'm going to ask my colleague Nick Leswick whether he has an answer to that, or

whether that's one of the ones we should take away and come back to you on.

Mr. Nicholas Leswick: Thank you, Deputy.

Unless Darlene or Roch has an answer, I think that's one we can take away.

Mr. Matthew Green: Okay. I will move it along, and I will continue the question around the procurement with the Newfoundland government. My question follows on Mr. Lawrence's comments.

During that \$135-million payment to the province.... We heard the Department of Finance's answer. I would like to get the answer now from the Treasury Board. Did the Treasury Board president also approve of making these payments without seeking parliamentary approval, and did it require the Treasury Board's final approval?

Mr. Roch Huppé: I'll refer back to Mr. Sabia's answer to that. In a sense, yes, when we go through these complex accounting transactions there is usually a consultation, and my folks are implicated. I have to admit that in this case, we agreed that the Department of Finance had to do their due diligence, reminding people that there was legal advice that was asked for to ensure that they had the proper authorities to use that mechanism to complete the payment.

I have to say that—

Mr. Matthew Green: Just to be clear, the Treasury Board president approved this payment without parliamentary approval.

Mr. Roch Huppé: The Treasury Board president did not approve this payment. This payment came out of the Department of Finance, and the Treasury Board president does not approve such—

Mr. Matthew Green: There don't have to be submissions to the Treasury Board.

Mr. Roch Huppé: No, not on that particular item. My office, the Office of the Comptroller General, was involved in the discussions around the authorities to be used. Our job was to make sure the chief financial officer had done her due diligence to establish the mechanism by which the payment was to be made. We agreed that the due diligence had been done, and they were proceeding in a prudent fashion.

Mr. Matthew Green: Thank you.

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

We will now move on to the next round of questioning, our five-minute round, starting with Mr. Chiu.

Mr. Kenny Chiu (Steveston—Richmond East, CPC): Thank you, Madam Chair.

My first question is regarding the Auditor General's report on the Department of Finance spending without parliamentary approval. I was wondering if you could actually give us a little bit more context to that line, please.

Ms. Karen Hogan: It's the issue we've just been talking about. It had to do with an agreement about Hibernia and the need for proper legislative measures to be in place before payment was made under that agreement. The mechanism used by the government is one that we believe was not the most appropriate, given the inclusion of a Crown corporation in that transaction.

However, as I mentioned earlier, we believe it has now been resolved. They have included that payment in the supplementary estimates (B) and hence have received parliamentary approval for it.

● (1210)

Mr. Kenny Chiu: Thank you.

I'm going to switch over to a list of questions about the DND, the Department of National Defence. What factors have contributed to DND understating its accounts for so many consecutive years? This is for any witness.

Mr. Roch Huppé: Obviously, this is stemming from a long-standing observation and recommendation from the Auditor General.

I think this committee has also heard from National Defence on this particular issue. The Department of National Defence is very decentralized, managing very imposing amounts of inventory. The department actually agreed a while back with the early observations of the Auditor General to put in place an action plan to address this.

We always understood—and I think this committee also understood—that it was going to be a number of years before everything was completely back to normal. The Auditor General has, over the years, recognized that DND is delivering on their action plan. However, there's still some work to do. As I said, it's a very large, decentralized department.

[Translation]

Furthermore, there is employee rotation.

[English]

People moving around a lot obviously means the training has to be perfect. It means the inventory counts have to be done in a timely fashion. It means the directives need to be clear to the employees doing these counts. The systems are being looked at to.... We talked about automation, which I think would make things easier.

Again, I think it's simply the magnitude of the issues at hand. The good news is that there is a lot of ground that has been completed over the last eight years.

Mr. Kenny Chiu: Thank you.

In my previous career, I actually worked for a company that had a project with DND. It was called “the Canadian Forces supply system upgrade” or CFSSU. That was in the nineties, when we actually looked at that, to upgrade the Canadian Forces supply system. The last time I checked—it's been many years, almost two decades.... I'm surprised we're still hearing issues that you identify as contributing factors to this problem.

I'm interested to hear from you what long-term actions are being planned. What has been taking place to remedy the spending behaviours of DND? Two years from now—or one year from now—are we going to hear the same problem from DND?

Mr. Roch Huppé: I'm hoping the improvements will continue. I think there is an expectation that most of the remaining items will be completed this year or the following year. Hopefully, we should see an improvement in how the inventory is managed.

I'm not going to hide the fact.... I've worked at the Department of Fisheries and Oceans, where we had the Canadian Coast Guard. It's very complicated. The action plan will be done. The challenge will be to maintain these controls in the future to make sure they work. Hopefully, the next audit will show that they will be capable of maintaining the right controls in place and adjusting any controls that they need to.

The Chair: We will now move to Ms. Khalid, for five minutes.

Ms. Iqra Khalid (Mississauga—Erin Mills, Lib.): Thank you very much, Madam Chair, and thank you to the witnesses for being here today.

I found your initial statements to be very informative. There are a few questions based on what you said. Mr. Huppé, you talked a bit about how the public accounts could be improved, and you specifically talked about the impact of increased reporting. Could you tell us a bit more about that specific aspect of what you were thinking?

● (1215)

Mr. Roch Huppé: Actually, we initiated these discussions with the previous auditor general, and we kind of agreed. I know Karen does also. We haven't looked at the form of the public accounts in quite a while. The environment has changed. We have a lot more automation. There are a lot more reports being posted on departmental websites, so there is some duplication. For example, in volume II you would see the financial statements of the departments that operate under a revolving fund. Again, the audits of these revolving funds are published on their respective websites.

There is also this notion of *ex gratia* payments. We're divulging in these books, line by line, every *ex gratia* payment over \$100 and grouping *ex gratia* payments under \$100. These limits have been there for up to 40 years in some cases, so we know that \$100 is not worth the same today as it was before. Is there an opportunity to trim down and readjust certain fields? Our thinking was that we would start.... The pandemic stopped us a bit, but we will continue to see what the improvements could be, and we would welcome the engagement of this committee in helping us to work through these proposed changes in the future.

Ms. Iqra Khalid: Ms. Hogan, do you have any comments on this at all?

Ms. Karen Hogan: Roch is quite right. We started this conversation several years ago with my predecessor Michael Ferguson and the comptroller general's office.

Individuals who sit down to try to understand the public accounts are likely a little overwhelmed by 1,200 pages. If you want to encourage people to use those financial statements and find some useful information in them, then I agree that reducing some of the volumes and eliminating some of the duplication of financial statements that are available in other locations would allow those who prepare the public accounts to hopefully do so in a more timely way.

A lot of that information could even be available online so it's more searchable than in these printed volumes or in a PDF. I do think there's an opportunity to improve reporting for the country.

Ms. Iqra Khalid: Ms. Hogan, I'll ask one more question.

You spoke about a better way of data collection and research. How would a disaggregated data system inform this whole reporting mechanism? How could we improve public accounts, and what is the impact on government spending?

Ms. Karen Hogan: I'm not sure I implied that it would be disaggregated. The financial statements are exactly consolidated statements, bringing all of the financial information of departments, agencies, Crown corporations and federal entities into one spot. The financial statements are actually the best place to aggregate all the information together.

It's the information that appears in volumes II and III, which likely already appears in other locations, that isn't really integral to understanding the financial statements but just tells a broader story that maybe not everyone wants to read in those three volumes. It's not about eliminating information; it's about making sure it's in the right place.

Ms. Iqra Khalid: Thanks so much.

Madam Chair, do I have much time left?

The Chair: You have 25 seconds.

Ms. Iqra Khalid: Okay. Well, I'll cede it. Thank you.

Mr. Lloyd Longfield: Madam Chair, you're on mute.

The Chair: I am so sorry for that. I guess I need to pay—or that was for staying unmuted.

Thank you very much, Ms. Khalid.

We will now move to our next round of questioning. It's a six-minute round.

I've just been asked to remind folks to speak a little more slowly. That is why we were having some problems with interpretation.

We will move to our next six minutes with Mr. Lawrence.

• (1220)

Mr. Philip Lawrence: Thank you very much.

I plead guilty to speaking too quickly. I will try to slow down.

I'd like to go back to Finance to talk about the debt and the deficit, but before I do, I want to clarify one thing. The public accounts say, underneath figure 3, "All direct proceeds generated from the federal fuel charge are returned to the government of origin."

Mr. Leswick, is that not correct, or what am I misunderstanding here?

Mr. Nicholas Leswick: I'm sorry. Can you just refer to the figure?

Mr. Philip Lawrence: It's figure 3.

Mr. Nicholas Leswick: What page is that?

Mr. Philip Lawrence: It's in the public accounts. I'm looking at page 4 of our clerks' report, but they've taken it from there. It's entitled "Sources of Federal Expenses, 2019-2020". The note states, "Figure 3 presents the...federal government expenses in 2019-2020. They amounted to \$373.5 billion.... All direct proceeds generated from the federal fuel charge are returned to the government of origin."

If you can get back to us, that's fine.

Mr. Nicholas Leswick: You're referencing nothing in the public accounts; that's different.

Mr. Philip Lawrence: It's taken from the public accounts, I believe, but perhaps I can email you and we'll get back to this. I don't want to waste your time.

Mr. Nicholas Leswick: Go to page 16 of the public accounts, volume I. There is a shaded box at the bottom of that page that I think should help address the question.

Mr. Philip Lawrence: Okay, I'll take a look at it.

Mr. Nicholas Leswick: It says, "The fuel charge proceeds [returned] \$2.7 billion.... [T]he bulk of proceeds were returned through Climate Action Incentive payments. Eligible individuals residing in these provinces were able to claim the payments". So—

Mr. Philip Lawrence: It's the bulk, but not all, isn't that right? That's what I was trying to get at; some are paid to...other than that. I believe there is a leakage there, but perhaps we can talk about that some other time.

Mr. Nicholas Leswick: Yes, there's a very small leakage, but the bulk is through the climate action incentive payments to households.

Mr. Philip Lawrence: I'll go quickly here. The deficit was \$39.4 billion. Even correcting for the small amount of the pandemic that had started in March, we had quite a large deficit. From my review of things, it's largely because of a drop in tax revenue due to a slowing of the economy.

Mr. Leswick, would you agree with that assessment?

Mr. Nicholas Leswick: Thank you for the question. I can take the lead, and then Mr. Sabia can jump in if he wants to add.

The year-over-year change was roughly \$25 billion. You're right: On the expense side, COVID-related expenses were in the range of \$7 billion, directly related to the emergency response benefit. On the revenue side, however, there were two weeks in the year when there was a huge shock to revenue as the economy virtually shut down overnight. We estimate that even on the revenue side the shock was between \$7 billion and \$10 billion.

There was a lot going on on the revenue side. Mr. Lawrence, you're totally right: There was a slowing economy at the tail end of 2019; there was the COVID-related shock, as I said, which pretty much shut down the economy overnight; and then there were a number of government programs that really obscured revenue receipts, whereby the government provided tax deferrals on corporate taxes, personal income taxes and excise taxes.

Fundamentally, it was really hard to make sense of what was going on with tax receipt right at the tail end of the fiscal year and in the early part of the new fiscal year, just because you had so many interactions in play. We estimate, though, that the revenue shock alone was \$7 billion to \$10 billion.

Again, then, expense of \$7 billion and revenue drop of \$7 billion to \$10 billion takes you to about \$15 billion to \$20 billion of COVID-related impacts upon the public accounts that you have in front of you.

Mr. Philip Lawrence: However, even including the impact, which I grant you is difficult to calculate exactly, there was a trend of slowing revenues while expenses continued to grow. Is that fair?

Mr. Nicholas Leswick: We had slightly higher than expected expenses, and one was related to major transfer programs. We were talking about the Hibernia agreement, which was not forecasted at the time of the 2019 budget. Other expenses relate to a whole pot-pourri of things: litigation, higher pension service expenses. You're talking probably in the range of \$5 billion to \$7 billion on what is a pretty big revenue and expense base.

But yes, I agree....

Mr. Philip Lawrence: Just to clarify, prior to the pandemic, we were already on a course of decreasing revenues and increasing expenses.

• (1225)

Mr. Nicholas Leswick: Remember, we had produced budget 2019, which is the reference in the public accounts, in March 2019. The government did provide a fall fiscal update in late 2019, where we had forecasted a deficit for the year of about \$25 billion.

There was an uptick in expected deficit for the year between those two forecasting periods, yes.

Mr. Philip Lawrence: Would you agree, then, that a significant method of paying down the massive deficit that we will no doubt have from last year, and the over \$1 trillion we owe in debt...that growth is one of the best ways to pay that debt off?

The Chair: Please give a very short answer.

Mr. Nicholas Leswick: Yes.

Mr. Michael Sabia: Well, Nick just said the key word: Our answer is “yes”.

If there were more time to elaborate, I'd be happy to elaborate on our thinking around that. However, yes, growth is fundamental to the well-being of Canadians, as you know, and it's fundamental to our ability to manage our debt over time.

The Chair: Thank you very much. I appreciate that answer.

Mr. Blois, you have six minutes.

Mr. Kody Blois (Kings—Hants, Lib.): Thank you, Madam Chair.

I will give the deputy minister a chance in a moment to explain a little bit about the growth strategy on the other side. I certainly welcome him to his new role.

My first question, either for him or perhaps Mr. Leswick, is about page eight of volume I. We talk about our government debt-

to-GDP ratio, which, of course, was quite healthy in 2020. There are going to be challenges, we know, because of COVID. It talks about the IMF and combining provincial, territorial and local governments, and then also assessing the Canada pension plan and the Quebec pension plan, and the debt-to-GDP ratio stood at 25.9%.

I would like to try to get some clarification. Obviously, the federal debt-to-GDP of the national economy is about 31% in this updated statement. Provinces would also carry their own debt.

How are we duplicating...in the sense that there's only one Canadian economy? Would it not be higher than that? Can someone explain to me a little about why it's at 25.9%?

Mr. Nicholas Leswick: Thank you for the question.

We do reconciliations, and I would ask members to look at page 34. I'll just pause one moment so folks can get to that page. Give me a thumbs-up when you're there. Perfect.

You see the representation of Canada's debt dynamics in an international context. You also see below the accounting framework, to be able to put G7 countries on a comparable basis to compare their respective debt loads. It's a complicated set of math here, but effectively what we're doing is—yes, you're right—putting all governments together, sovereign and sub-sovereign governments all together, to provide a total government perspective.

Then, there are also adjustments, such as...and you can see where we add the assets of the CPP and QPP. It's a necessary adjustment to put things on a comparable basis, because other sovereigns effectively take their CPP and QPP premiums and just put them against general revenues. In order to put it on a comparable basis, we add the assets of these plans into our debt. Likewise, we also bring in the consolidated debts of the provincial governments on top of that.

You can see there are opposing forces that lead to this kind of funky bottom line, which you referred to, where—

[*Translation*]

Mr. Maxime Blanchette-Joncas: On a point of order, Madam Chair. We still have no interpretation.

[*English*]

The Chair: Thank you very much, Mr. Blanchette-Joncas.

[*Translation*]

Mr. Maxime Blanchette-Joncas: However, I am surprised to be the only member of the committee to mention it.

[*English*]

The Chair: The clerk just advised me that we may have lost translation, and you, in fact, confirmed that.

Madam Clerk, do we have this resolved?

The Clerk: Give us a minute, Madam Chair, and we'll get it sorted out.

• (1230)

Mr. Kody Blois: Madam Clerk, I have about two and a half minutes on my clock. Is that about the same as yours? Have we stopped it?

The Clerk: Yes.

The Chair: Yes.

Mr. Kody Blois: Okay, great.

The Clerk: We should be okay now, Madam Chair.

The Chair: Thank you very much.

Please proceed.

Mr. Nicholas Leswick: I can stop there.

Thank you for the question. Hopefully that table will spell out the math behind the question you're asking.

Mr. Kody Blois: It's looking, certainly, at the assets that we hold in pensions to offset the fact that...to make it comparable to other jurisdictions. Okay, I appreciate that.

There is also in this report.... Perhaps this is a question for the deputy minister. The average private sector real GDP growth was 5.5%. That was the estimate on the average when this book was produced. We've had some challenges, a second wave.

Deputy Minister, do you want to weigh in a little bit on whether or not you think that's still an accurate forecast? What are you seeing in terms of some of the economic challenges in the days ahead?

Mr. Michael Sabia: Is your question with respect to 2020-21?

Mr. Kody Blois: My apologies, it's 2021 growth. It's talking about a rebound of 5.5%. My question, broadly, is this: Is that still accurate, in your view, given the fact that this was a few months old when it was published?

Mr. Michael Sabia: That's a very fair and a very good question. This morning, the International Monetary Fund published a new global outlook. One of the points that it emphasizes in that report—these are its words—is “exceptional uncertainty”. All of these estimates are very difficult to make, given the situation that you are all very familiar with. I think we need to be cautious in any kind of very specific point estimate of what growth will be.

I will say that what we are seeing is.... If you think about the economic dimension of the pandemic, we had this tremendous downturn in the economy. In the second quarter, I think we had a drop of something like 38%. It's almost—or I think, indeed—unprecedented. Then we saw a very quick comeback, a resurgence of growth.

What we're seeing, both in Canada and globally, is that through the course of the late fall as the second wave developed momentum, the estimates that were made in the fall were probably erring somewhat to the up side because of the intensity of what we've seen in the second wave, and therefore the need that governments at all levels—and, indeed, in all countries—have taken with respect to trying to lock down their economies, so—

The Chair: Thank you.

Mr. Kody Blois: Madam Chair, I have it at about five minutes and 30 seconds, and I started right ahead—or not.

The Chair: Okay, I—

Mr. Kody Blois: I apologize. I do try to keep my time, and I have it at five minutes and 35 seconds. That would include [*Inaudible—Editor*].

The Chair: I appreciate that. I'm going by my clock and between the clerk....

Mr. Kody Blois: Okay.

Mr. Michael Sabia: Is it possible that I could just finish the sentence?

The Chair: Absolutely. You can take the next 20 seconds.

Mr. Michael Sabia: Okay.

As a result of those lockdown activities, that's having an impact, and that will probably lead us to a world of somewhat lower growth than that number would have suggested.

Mr. Kody Blois: If I could, with the 10 seconds that I have.... I didn't have the chance to ask about that, but obviously our interest rates were relatively low in 2020 as proportionate to our revenue.

Can you speak at some point—if someone asks you the question—about how much of that is locked in and how much we might be able to save in terms of interest rates and costs in the days ahead?

Mr. Michael Sabia: If somebody asks me the question, I'll be happy to answer it.

• (1235)

The Chair: Thank you very much, Mr. Blois and Mr. Sabia.

I appreciate that our time is so limited, and it goes by very quickly.

That being said, Mr. Blanchette-Joncas, you have six minutes.

[*Translation*]

Mr. Maxime Blanchette-Joncas: Thank you very much, Madam Chair.

I'll come back to Mr. Huppé, since I didn't have time to go any further earlier.

Mr. Huppé, you piqued my curiosity when you mentioned in your opening remarks that it was rare for national governments to be given unqualified audit opinions consecutively.

To your knowledge, among the other G7 countries, have any of them received qualified audit opinions in recent years?

Mr. Roch Huppé: Thank you for your question.

If I am not mistaken, the United States sometimes receives qualified audit opinions in connection with the audit of its financial statements. I believe this is also the case in some other countries.

What I was mentioning is that the Government of Canada has had an unqualified audit opinion for 22 years. Some jurisdictions can get an unqualified audit opinion one year, but a qualified audit opinion the next year. I believe we are the only G7 country to have had an unqualified audit opinion for 22 consecutive years.

Mr. Maxime Blanchette-Joncas: Thank you very much for these clarifications, Mr. Huppé.

When I was talking about your enthusiasm earlier, I didn't mean to undermine it, on the contrary. Having said that, Canada boasts one of the best public services in the world, yet it can't manage to put in place an adequate payroll system. I think it's disastrous. I can't remain unmoved by the fact that people are losing everything, including their homes and their credit ratings. It has even driven people to suicide.

In 2018, a damning report from the Office of the Auditor General noted slow progress. Initially, the federal government was very slow to respond. Then, a second report on the implementation of measures was long in coming. I would say it's a little too late, because there are people who have suffered from this or are suffering from it now.

Have senior Treasury Board Secretariat officials been sanctioned in this regard? In terms of resolving this issue, incompetence is clearly a factor. There may be people who need to acquire more specific skills, but there is no time to raise their level of competence. Tragedies have happened.

What can you tell us? Were people reassigned or fired to remedy the situation?

Mr. Roch Huppé: Thank you for your question.

I want to reiterate that my enthusiasm was not intended to minimize this reality, which is really distressing. I agree with you, people have suffered in an extremely concrete way.

I can assure you that people are working very hard to remedy the current situation. For example, we are trying to improve the Phoenix payroll system, and some of the processes put in place have led to improvements. We are also in the process of designing and implementing a new system.

Given the position I hold, I am not looking for sanctions that may have been taken. Furthermore, sanctions and reprimands are confidential information. Therefore, I can't give you any more details at this time.

Mr. Maxime Blanchette-Joncas: Thank you for these clarifications, Mr. Huppé.

You will understand that I am conveying the cry for help of many of my fellow citizens who are at the end of their rope. Every day, people come to see me. When there is no accountability, it takes away all credibility from our public authorities. I would be surprised if this current situation, this tragedy, this scandal, were accidental.

My next question is for you, Mr. Sabia.

It's a real pleasure to meet you, even virtually. As I mentioned earlier, your professional background speaks for itself. I can assure my colleagues on the committee that your time at the Caisse de

dépôt et placement du Québec was commended by the entire Quebec business community and has been beneficial to Quebeckers' bottom line.

I also commend your commitment to public service. You could have retired comfortably with your family and friends and retained a role as an attentive observer. I sincerely want to emphasize that your renewed commitment honours you, and I thank you for it.

You are now in the position of outsider, if I can use this qualifier in a non-pejorative way. This role in the senior civil service is new for you. You were not a career public servant in Ottawa. With that in mind, I'd like to get your more personal perspective.

You have managed billions of dollars as CEO, both in the private sector, when you were at Bell Canada, and more recently at the Caisse de dépôt et placement du Québec. You therefore have in-depth knowledge of the management of a large organization.

Now you are at the Department of Finance. Do you feel the same freedom of action that you have enjoyed in recent years? Specifically, is your room to manoeuvre reduced by more restrictive government policies?

We know that the coming months will be difficult. In light of the elements raised by the Auditor General and Mr. Huppé regarding the Phoenix payroll system, do you really believe that you, as Canada's top money manager, can prevent another fiasco like the one with the Phoenix payroll system?

● (1240)

[*English*]

The Chair: I'm sorry, Mr. Sabia, but we are over six minutes for this member to have posed his question to you. I would remind members that if they want time for someone to answer a question, they need to leave time in their questioning.

I will provide time for Mr. Sabia to give us a short answer to that question.

[*Translation*]

Mr. Michael Sabia: Thank you, Madam Chair. It will be quite a challenge to give a short answer to such a question.

Mr. Blanchette-Joncas, thank you very much for your comments. You're very kind.

Concerning the Phoenix issue, honestly, I'm not in a position to answer you, because I'm not at the heart of this matter. I am familiar with this story since it received a lot of media coverage, but I am not currently in a position to give you a direct answer to this question.

However, I feel that the current circumstances and economic conditions in Canada, as well as those around the world, provide an opportunity for the government and the Department of Finance to be creative in finding the solutions that Canada needs to get its economy back on track and increase the level of growth.

So the answer is twofold. Concerning Phoenix, I am not able to answer for the moment. As to whether there will be an opportunity to take advantage of our creativity, my answer is yes. Rahm Emanuel said it well:

[*English*]

“Never waste a good crisis.”

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

We will now go to Mr. Green for six minutes.

Mr. Matthew Green: Thank you very much, Madam Chair.

I aspire to one day having the kind of glowing recommendations Mr. Sabia received from Mr. Blanchette-Joncas. Maybe at some point in time I'll ask him to write me a reference. It's very nice to see the goodwill in the room this early in the year.

In all seriousness, I have some questions again about volume III, around the total compensation that has been paid out by Crown-Indigenous Relations and Northern Affairs for the victims of day schools, the Sixties Scoop and the breach in legal obligations related to reserve lands, totalling about \$3 billion.

I'm not sure, but my first question might go to the Treasury Board. Do you know how this amount compares to previous years?

Mr. Roch Huppé: Actually, I don't have the exact amount of the settlements from last year, but I would step out on a limb and say that it is increasing, because we came across a few of these settlements in the past year. As you know, as these cases work their way through negotiation and litigation, we reached a point where, in these particular cases, there was a successful settlement, so I would think that it is probably a little bit higher than what we saw last year. We could get back to the committee with the exact numbers, if that's okay, also.

Mr. Matthew Green: That's fine.

Can you give us a sense of what is still outstanding?

Mr. Roch Huppé: Right now, the larger part of our contingent liability has to do with indigenous-type claims around the \$25-billion mark. That said, there is also a disclosure note in relation to that. I would tell you that the exposure.... We have more and more of these cases, sadly, that we have to deal with. As we work our way through the process, we reach a point where, in accounting, we have to—

• (1245)

Mr. Matthew Green: I'm going to put a direct question to you, sir, and I'm going to ask for a direct response.

Mr. Roch Huppé: Sure.

Mr. Matthew Green: I sense the unease, because I get a sense that the actual liabilities are much more than \$25 billion. I am noting here “a breach in legal obligations relating to reserve lands”. What would that actually entail? Would that entail trust funds? Would that entail lease agreements with band council reserves related to liabilities from the Crown to these communities?

Mr. Roch Huppé: All this package.... These results and land claims, for example, are what we call “specific claims”, as was the case with the residential schools. These cases come in, and obviously.... So I agree.

To respond to your question, the exposure is probably higher than that, but—

Mr. Matthew Green: Could I just wager? I'm looking at all outstanding claims in my community. Today we have “1492 Land Back Lane”, McKenzie Meadows, the 1784 Haldimand Tract agreement and six miles on either side of the Grand. We're not even getting into Wet'suwet'en territory and unceded territories, but I will put to you the question: Is it the case that all current claims in court would present as a potential future liability, or have you discounted that in your accounting plan?

Mr. Roch Huppé: No, exactly. What I was trying to get at is that, in the world of accrual accounting, we officially book in the statements a contingent liability when it reaches certain criteria. If there is a high likelihood, above 70%—and there is usually a legal analysis that's done—that we think we will have to settle or that we will lose, through litigation, and we are able to actually estimate an amount, and it's not frivolous, then we have to start booking that officially in our statements.

That's why I'm saying that the exposure is obviously most likely larger than that, but as these cases work their way through the system, we may reach a point where we need to book some of these other cases also.

Mr. Matthew Green: I heard the word “frivolous”. I am wondering, based on the actual contract laws—particularly if there is infrastructure going through a community, if there are moneys that have been put in trust through treaties, which are real, contractual agreements—what would be the order of magnitude of those calculations, even if it's not reflected in your accounting?

Mr. Roch Huppé: I don't have the.... In a lot of these cases, we're not at the point where we can actually estimate an amount that would be close to reality. Again, as I said, the books are audited, and we have to have justifications in order to assess and estimate an amount, so—

Mr. Matthew Green: But if moneys are to be put in trust, then that's real money. That's money that the government has a responsibility for.

Mr. Roch Huppé: Yes, in cases where we actually have money put aside, where we have an estimate, where we have the knowledge and where we think that we will end up having to pay, these amounts would be reflected in the \$25 billion or so that you see there, as I said.

Mr. Matthew Green: I am unresolved with that answer. It's not that you're wrong, but I just can't accept that there is any indication from government that it actually has any incentive to settle these cases. I think it's clear that if they were to settle based on the real obligations of the Crown, then we would probably be in the trillions of dollars in terms of what is owed in real time, not just from claims that are based on the future or present value of land, but also past considerations of trust moneys that have been borrowed against for infrastructure—the St. Lawrence and all these other projects.

Is there any avenue through which public accounts can receive information that would reflect the true cost of liability from the Crown to indigenous communities, based on existing legal contracts and treaties?

• (1250)

The Chair: Mr. Huppé, I will allow for a short answer to that question.

Mr. Matthew Green: Madam Chair, it's probably going to take longer, so Mr. Huppé can just go ahead and send that to us in writing, if that would be okay. Maybe Mr. Huppé could just report back to the committee on ways that we can best unpack and understand Canada's liability to first nations, Métis, and Inuit across the country.

Thank you.

The Chair: Perfect. I appreciate that suggestion, Mr. Green. We will ask you to provide that to us, Mr. Huppé.

Colleagues, I indicated that we needed at least five minutes to deal with some committee business. Because we have ended our six-minute round, I am proposing that we thank our witnesses for joining us today.

We really appreciate the opportunity to study the public accounts with each one of you. I've appreciated the questions and the answers. I would just give you the opportunity to disconnect from this call so that we can move to our committee business.

Mr. Michael Sabia: Thank you very much.

Mr. Roch Huppé: Thank you very much.

The Chair: Are we good to go, Madam Clerk?

The Clerk: Yes, we are.

The Chair: Thank you very much.

Thank you, colleagues, for allowing me to move us into committee business. As I said, I know I indicated five minutes. I'm usually very optimistic in what we can accomplish in that amount of time, but I just wanted to let you know that what we need to do is take a look at the budgets that have been presented to us. Please take your copies of the draft budgets that were sent to you yesterday. These are standard budgets for the studies we are doing, and, as has been explained before, if at the end of the study there are unused funds, they are returned to the general budget for committees. I'm hoping that you had an opportunity to look at them and I would like to know if you have any questions.

Mr. Sorbara, I see your hand up.

Mr. Francesco Sorbara: Thank you, Chair.

I have no questions, but are we going quickly through them?

The Chair: It would be my suggestion that we could probably adopt them all together if there are no questions or concerns with any of the budgets that have been presented, if that's acceptable to the committee.

It looks like that is acceptable. Do I have a motion to approve these budgets as presented?

Thank you, Mr. Longfield and Mr. Blanchette-Joncas. It is moved and seconded that we will adopt these budgets.

(Motion agreed to)

The Chair: Great. That's carried. Thank you so much.

Next, you were provided with a proposed calendar of meetings for January and February. I hope you've also had an opportunity to look at that.

I will let you know that the Auditor General will be tabling a report at the end of February and has asked if the committee would be willing to use one of its meeting times to host a virtual lock-up, much like the one that would normally precede such a tabling. I put that to you. I think we were looking towards the end of February. February 23 might be the date. I can ask the clerk to confirm that.

Do you have any questions or concerns for the proposed calendar?

The Clerk: I can confirm that the tabling is proposed for the 25th, and the Auditor General sent a letter to the Speaker this morning confirming that.

• (1255)

The Chair: Thank you very much, Angela.

If there are no questions or concerns with the proposed calendar, can we adopt the calendar as presented?

Some hon. members: Agreed.

The Chair: That's great. Thank you so much.

Mr. Longfield, I see your hand.

Mr. Lloyd Longfield: Yes, thanks, Madam Chair.

I wonder if there is any output from this morning's meeting. We don't do a report. We don't do a letter back to the House. We just accept the public accounts. What do we do with this morning's meeting?

The Chair: That's a very good question. I will turn to our clerk, perhaps, to provide us with some guidance.

Then I see your hand, Mr. Blanchette-Joncas.

The Clerk: Actually, the analysts are in a better position to answer that.

[*Translation*]

Mr. Maxime Blanchette-Joncas: Thank you, Madam Chair.

I would just like to point out that on two occasions during the meeting we lost time due to interpretation problems.

Is it possible to check with the clerk to find out what exactly happened, so that everyone's speaking time is respected, and so that this does not happen again?

[*English*]

The Chair: Thank you very much, Mr. Blanchette-Joncas. I appreciate your raising that issue, and we will certainly try to provide you with that feedback on what occurred during the meeting.

I would now like to turn to André, who has his hand up to answer the question for us.

Mr. André Léonard (Committee Researcher): Yes, thank you.

With regard to reporting on the public accounts, we usually produce—

[*Translation*]

Mr. Maxime Blanchette-Joncas: Excuse me, Madam Chair, I have a point of order.

[*English*]

The Chair: Mr. Blanchette-Joncas.

[*Translation*]

Mr. Maxime Blanchette-Joncas: As I just mentioned, we have no interpretation at the moment.

[*English*]

The Chair: Thank you very much.

Mr. André Léonard: I'm just going to start over again and see if the translation works.

[*Translation*]

Mr. Maxime Blanchette-Joncas: It's working now. Thank you.

[*English*]

Mr. André Léonard: With regard to reporting on the public accounts, we usually do prepare a report on the public accounts. It looks a little bit like the briefing note that we prepared, and we also

add some quotations from the discussion that was held today, the issues that were raised. As well, we may have recommendations in it, so if there's something in particular that you would like to see in there, perhaps we could find time to discuss that. We ourselves can also think of possible recommendations. I'm thinking about Mr. Huppé, who was saying that there might be an opportunity here to think about changes to the public accounts, the presentation, etc., so we may have a recommendation in there as to thinking about that, discussing this issue, or reviewing the presentation of the public accounts. I'll defer to you, but if there are any recommendations that could be included in that report....

The Chair: To clarify, we will be doing a report that will be drafted by our analysts and presented to us to review and perhaps add any recommendations that we would like to from this meeting today. Is that correct? Okay, thank you very much.

● (1300)

Further to your point, Mr. Blanchette-Joncas, I will ask the clerk to look into what exactly the cause was of our losing translation, and we will work very hard to make sure that it doesn't continue to happen, although some things are beyond our control here in committee. We will provide you with that analysis for sure.

I note that we are very close to 12. If there are no other questions or comments, is the committee in agreement to adjourn?

Thank you very much. It was great seeing you. Enjoy the rest of your day.

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