



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Public Accounts

PACP • NUMBER 019 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Monday, December 5, 2011

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Chair

Mr. David Christopherson

Standing Committee on Public Accounts

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• (1530)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I now call this 19th meeting of the Standing Committee on Public Accounts to order.

I recognize Mr. Saxton.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

Just before we hear from our witnesses, I would like to ask for clarification from the chair that when we go into committee business—I believe it's at 5:15 today—we will be carrying on from where we left off. I would also remind the chair that I have a motion before the committee, which I would like to have resolved.

I ask for the chair's clarification and confirmation that we will be continuing from where we left off with my motion in an in camera session.

Thank you.

The Chair: I'm not sure that's correct.

I'm going from memory, so I stand to be corrected, but my recollection is that at the last meeting, the time expired. We hadn't reached agreement, and that was that. I didn't make any commitment that any ongoing meetings were continuations. Where I have, I've been very clear and I've honoured that commitment when I've made it. I don't believe I made it at the end of the last one, nor was it appropriate. It was a meeting to deal with committee business. We went in camera. We dealt with it, and the time expired before a conclusion was reached. Today is a fresh day, and 5:15 is an order I put in, in the hope that the committee would endorse it, because right now we don't have a plan for Wednesday.

Mr. Andrew Saxton: Mr. Chair, you do confirm that my motion is still before the committee?

The Chair: What do you mean before the committee? It's not on the floor.

Mr. Andrew Saxton: It's on the floor. It was introduced.

The Chair: But the meeting expired.

Mr. Andrew Saxton: It was being debated. It was not resolved. That motion is still before the committee.

Do I have your confirmation, Mr. Chair?

The Chair: No.

I'll consult with the clerk.

Mr. Andrew Saxton: Are you saying that my motion expired?

The Chair: Hang on. When I'm ready to say something, I'll say it. I'm not ready yet.

• (1530)

(Pause)

• (1530)

The Chair: Okay. I have two things.

First, I'm being advised that we would pick up where we left off, which wouldn't have been my thinking, but I'll take the advice of the clerk—that even without a declaration, that's where we are in committee business. I don't know whether we ended up in rotation, or whether we just start fresh.

When we go in committee at 5:15, we start fresh, so that part starts over. It's kind of a hybrid. We're starting over, but the first item of business is what you had on the floor last time. Unlike before, when I said it was a continuation, and we were automatically in camera and we automatically picked up with the speakers list that I had at the time, that's not the case now. We'll need to do that at 5:15.

The other advice I'm getting from the clerk is that we're now getting into debating the actual merits of committee business, which will be discussed at 5:15, and that I would be wise to bring us back to dealing with the matter at hand.

Is that clear enough?

Mr. Andrew Saxton: Will we be going in camera?

The Chair: That will be up to the committee.

Mr. Byrne.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thank you for recognizing me, Mr. Chair.

The notice of the agenda that went out to committee members for the second item, committee business, did indeed provide a notice of my motion to ask the Auditor General of Canada to appear before the committee.

The Chair: I'm sorry, Mr. Byrne.

Mr. Kramp, you have a point of order?

• (1535)

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Chair, where Mr. Byrne is going now, quite frankly, commenting or making a statement with regard to his motion, is perhaps a corollary to the motion that's already before committee in camera. Trying to make a statement now out of camera that is related to an in camera statement is a breach of the privilege of this committee.

I would like to ask the chair to recognize that fact. Mr. Byrne has every right to make any statement he wishes, but there is a time and a place, and it should be done without divulging the privilege of this committee and the process we have followed. If the chair wishes to go along that way, I would propose that we go in camera right now.

The Chair: I'll tell you what we're going to do. We're going to defer all of this until 5:15 and then we'll start thrashing it out. I'll hear points of order and we'll move, hopefully, in an appropriate fashion.

Right now we're going to do the public accounts. That's what we're scheduled to do. All talk of committee business will wait until the proper time on the agenda, which is 5:15.

I'd like to get on with the meeting at hand.

Mr. Kramp.

Mr. Daryl Kramp: I would like to propose to the chair that we do just exactly as the chair says, excuse the witnesses and go in camera at 5:15 to discuss the issues. I would like a vote on that now.

The Chair: I don't need a vote right now. I have an order of the day. If we start the meeting, then the agenda has been adopted. At 5:15 I'm bringing things to a halt, and we'll deal with committee business at that time.

Right now I'm going to turn to our witnesses and ask them to start.

Folks, you're turning this into a circus. We've already shortened the time, because we're going to have committee business. The only thing being talked about right now is what's going to happen at 5:15, and that's the second matter on the agenda. The first matter is the public accounts of 2011, and I am prepared right now to move to our witnesses to begin that analysis. We'll fight the other stuff out at the appropriate time.

Hon. Gerry Byrne: Point of order, Mr. Chair.

The Chair: Oh boy, it better be good.

Hon. Gerry Byrne: I'm not arguing on a point here. I just want to confirm that my motion, which I did indeed provide notice for—

The Chair: No, stop, please. I've already ruled on that. We're going to deal with all of that at 5:15. We're not going to do it right now. There is nothing that I'm hearing from you on a point of order that necessitates interrupting what we have scheduled. We'll deal with committee business at 5:15.

Hon. Gerry Byrne: Mr. Chair, I haven't been able to speak.

The Chair: That's because your time is at 5:15. Unless you have something to say about public accounts 2011, you're out of order.

Hon. Gerry Byrne: I appreciate your taking the other members' points of order. I guess we'll proceed.

The Chair: We will proceed, and nobody's point of order was approved.

Can we please move on with the meeting at hand? Thank you.

My apologies to the witnesses. Most of you have been around long enough that you've seen this before. But again, I do apologize.

Today we have with us the Office of the Auditor General, the Treasury Board Secretariat, and the Department of Finance.

I'd ask that you all be kind enough to introduce yourselves, and then we'll begin with Ms. Cheng's opening comments.

Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada): My name is Nancy Cheng. I'm the assistant Auditor General, responsible for the public accounts. With me are Louise Bertrand, as well as Tammy Squires. They are co-principals on the public accounts audit.

The Chair: Mr. Ralston.

Mr. Jim Ralston (Comptroller General of Canada, Treasury Board Secretariat): I'm Jim Ralston, Comptroller General of Canada. With me is Tom Scrimger, who is the assistant Comptroller General, financial management sector; and Sylvain Michaud, who is the executive director, government accounting policy and reporting; and my colleague, Doug Nevison, who is the director of fiscal policy at the Department of Finance.

The Chair: Great. Welcome.

Did that cover everyone? Okay.

Ms. Cheng, you have the floor.

Ms. Nancy Cheng: Mr. Chair, thank you for the opportunity to discuss our audit of the financial statements of the Government of Canada for the 2010 to 2011 fiscal year. As I noted, I am accompanied today by Louise Bertrand and Tammy Squires, the two principals who were responsible for the audit.

We are pleased that the committee is holding this hearing on the public accounts of Canada. This is an important accountability report of the government. The Comptroller General will be explaining to the committee the key points in the government's financial statements. I will focus on our audit opinion and observations.

[*Translation*]

Canadian standard-setters have adopted the International Standards on Auditing as the new Canadian auditing standards. The purpose is to ensure high-quality audit practices in Canada that are comparable with those of other countries. The standards came into effect this year, and we used them to audit the government's financial statements. Adopting these standards resulted in a number of changes, including the format and wording of the auditor's report.

Our independent Auditor's Report on the 2010-2011 financial statements can be found on page 2.4 in volume I of the Public Accounts of Canada. For the 13th consecutive year, we have issued a "clean" audit opinion. Mr. Chair, this is a major accomplishment. We commend the government for its efforts and due diligence in preparing these statements.

●(1540)

[English]

I would also like to draw your attention to two items we have noted in the observations. First, I would like to address the question of parliamentary votes and the granting of spending authority. Two principal types of votes are used in Parliament to grant such authority: the capital vote and the operating vote. The issue relates to how departments and agencies charge their capital expenditures against these votes. Under current government guidance, significant capital expenditures are being charged to operating votes even when departments have a capital vote. As well, some entities that do not have a capital vote incur capital expenditures in excess of the \$5 million threshold, which is used to determine if an entity should receive a capital vote or not.

In our view, the Treasury Board of Canada's secretariat needs to assess the circumstances in which capital votes are required, and the factors that determine which expenditures are to be charged to capital votes rather than operating votes. Doing so will ensure the framework is clear and remains relevant, in order to support parliamentary authority and government accountability to Parliament. The secretariat has agreed that such a review would be timely, and that it would conduct one during the next year.

[Translation]

Next, as a matter of principle, I would like to underscore the importance of having accounting standards that are developed and promulgated by a recognized and independent standard-setting body. The Public Sector Accounting Board of CICA, the Canadian Institute of Chartered Accountants, has promulgated a set of public sector accounting standards which is applicable for all levels of government, as well as government organizations.

The government's financial statements are prepared in accordance with stated accounting policies that conform to these accounting standards. Canada is a world leader in preparing high quality summary financial statements of a national government largely because we follow these standards.

We note that the government has issued a set of accounting standards, known as Treasury Board Accounting Standard 1.2 or TBAS 1.2. All departments listed under section 2 of the Financial Administration Act have to follow these government standards in preparing their financial statements. The government has full discretion to provide additional direction or guidance on financial reporting to departments and other government entities.

But, like the whole of government financial statements, the underlying accounting principles ought to be consistent with the public sector accounting standards. At present, there are some differences between TBAS 1.2 and the generally accepted accounting principles for the public sector.

We are currently working with the Secretariat to resolve these differences and hope to complete that this month. The observations also highlighted a number of other issues that we have reported in the past, including accrual based appropriations which we discussed with this committee last Monday. They are listed on pages 2.37 and 2.38 in volume I of the Public Accounts.

●(1545)

[English]

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

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

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

Mr. Ralston, please begin your opening remarks.

Mr. Jim Ralston: Thank you, Mr. Chair and members of the committee.

[Translation]

Thank you very much for the invitation to appear before this committee to discuss the Public Accounts of Canada.

For the 13th consecutive year, the Auditor General has issued an unmodified opinion, formerly termed "unqualified opinion" on the government's financial statements. This testifies to the high standards of the government's financial statements and reporting.

[English]

I would like to thank the Office of the Auditor General for the continued professional working relationship we have enjoyed.

[Translation]

Mr. Chair, we have tabled a slide presentation outlining some of the key financial results for the fiscal year ended March 31, 2011.

We can go through the presentation, or if you would prefer, we can simply table the presentation and go straight to questions from the committee.

[English]

The Chair: Let me test the will of the committee. On a quick show of hands, how many would like to have the slide presentation? And those who would like to go straight to questions? All right. It looks like we're going to go ahead.

Do you want to give us a quick run-through of your presentation?

Mr. Jim Ralston: Thank you, Mr. Chair.

I'm going to ask Mr. Michaud to give us the presentation.

[Translation]

Mr. Sylvain Michaud (Executive Director, Policy and Liaison, Treasury Board Secretariat): Thank you, Mr. Chairman.

I will begin on page 3, with the Public Accounts of Canada cycle. The cycle begins with the publication of the budget by the Department of Finance. Revenue projections and charges for fiscal 2010-2011 were included in the 2010 budget, which was published in March of that year.

The main estimates for 2010-2011 were also tabled in March 2010, and the supplementary estimates were tabled in May and November 2010.

As far as the supplementary estimates (C) are concerned, they were tabled last February, but votes were not authorized, since Parliament was dissolved on March 26 for the general election.

The budget plan of June 2011 contained an update of estimated results for 2010-2011. On October 12 last, the Minister of Finance made public the annual financial report for 2011. Lastly, the Public Accounts of Canada were tabled on November 3, 2011.

The next page gives you an overview of the Public Accounts of Canada. They are divided into three volumes.

The first volume contains a summary analysis of the government's financial operations. In fact, the first section, the analysis of the financial statements, presents an overview of the summary financial statements and important activities which influenced the financial statements in the course of the fiscal year. The financial statements of the Government of Canada, as well as the report and the observations of the Auditor General, are contained in section 2.

As for the second volume, it contains the financial operations of the government broken down by each departmental portfolio.

Lastly, the third volume contains additional information and analysis, including the financial statements of revolving funds and information required by the Financial Administration Act.

This leads me to talk about the financial results for 2010-2011, which you will find on page 5. As you heard, for the 13th consecutive year, the Auditor General issued an unmodified audit opinion on the financial statements of the government.

In 2010-2011, the deficit stood at \$33.4 billion, which represents a decrease of \$22.2 billion from the \$55.6-billion deficit recorded in 2009-2010.

Part of the deficit, a sum of approximately \$16.5 billion, was due to measures taken under Canada's Economic Action Plan. The accumulated deficit stood at \$550.3 billion on March 31, 2011.

The ratio of accumulated deficit to GDP was 33.9%, which represents a decrease of 0.1% from the previous year, and represents roughly half of its peak of 68.4% on March 31, 1996.

The next page compares actual results with results presented in the 2010 budget. I would like to point out the fact that the numbers contained in the 2010 budget were updated following a review of projections within the 2011 budget.

However, the budget amounts included in the financial statements are based on amounts originally budgeted for 2010-2011 in the 2010 budget, and are based on accounting standards.

The next page compares actual results to amounts presented in the June 2011 budget. Revenues exceeded projections by \$1.5 billion, and this was due in particular to higher-than-expected revenues from corporate taxes and other sources.

Program charges were lower than estimates by \$1.2 billion, and this was due to accounting adjustments at the end of the fiscal year, which were lower than projected.

The next pages compare the results from 2010-2011 to those of the previous year. Among other things on page 8, it should be pointed out that total revenues increased by \$18.5 billion compared to the previous year. Over half of this increase is due to higher tax revenues from individuals, which totalled \$9.5 billion.

Total program expenses decreased by \$5.2 billion in 2010-2011, and this was due in particular to the one-time financial support package given to the automobile sector in 2009, and to the transition payment made to Ontario and British Columbia in 2009-2010 for the harmonized sales tax.

The accumulated deficit increased by \$31.2 billion, compared to an increase of \$55.4 billion in 2009-2010. This was due to the impact of the world economic recession and stimulus measures implemented to counter the effects of the recession.

Lastly, other comprehensive income or loss provisions increased by \$2.1 billion. This is in large part due to the unrealized gains in the increase of the value of General Motors common shares held by the government.

● (1550)

Page 9 provides details on revenues, and more specifically with regard to the increase of \$18.5 billion in revenues in 2010-2011.

First, tax revenues increased by \$11.3 billion. The increase in personal tax revenues, in the amount of \$9.5 billion, is due to an increase in personal income and to the end of the home renovation tax credit, on January 31, 2010.

Corporate tax revenues decreased by \$0.4 billion, despite a significant increase in corporate profits. This decrease is in great part due to a lower tax rate and to other factors related to timing, which saw revenues increase in 2009-2010.

GST revenues increased by \$1.4 billion. This increase is due to the increase of demand following the economic recovery. Other tax revenues decreased by \$0.7 billion. They include the tax on energy, the income tax on non-residents, import duties and other custom fees and taxes.

EI premium revenues increased by \$0.7 billion compared to the previous fiscal year, and this was due to the decrease in the unemployment rate and to the fact that premiums remained the same in 2011.

As for details on the main expenses by category, on page 10, benefits to seniors increased by \$1 billion because of the increase in the number of seniors, and because benefits are indexed to the consumer price index.

Employment insurance benefits decreased by \$1.7 billion because of the lower unemployment rate.

The main transfers to other levels of government decreased by \$4 billion compared to the previous fiscal year, because of the one-time financial support of \$5.9 billion given to Ontario and British Columbia in 2009-2010. This followed their decision to adopt the harmonized sales tax. This decrease was partly compensated by a legislated increase in various transfers.

Other transfer payments, including transfers to aboriginals, farmers, students and businesses, support for research and development, as well as for foreign and international aid, decreased by \$3.1 billion compared to the previous fiscal year. This decrease is for the most part due to the one-time financial support given to the auto sector in 2009-2010.

Lastly, public debt charges increased by \$1.5 billion because of the increase in the outstanding amount of interest-bearing debt.

The last page provides information on the interest-bearing debt. The interest-bearing debt was \$801.8 billion on March 31, 2011, which represents an increase of \$39 billion. This increase is mostly due to an increase of the unmatured debt, due mainly to financial requirements linked to the budget deficit. The unmatured debt represented 73.7% of the interest-bearing debt on March 31, 2011.

Pension liabilities and liabilities for other future benefits increased by \$7.3 billion to \$204.3 billion on March 31, 2011. Public sector pension liabilities represented 18% of the interest-bearing debt, and 7% of other future benefits for employees and veterans.

Lastly, in 2010-2011, the average effective interest rate on the public interest-bearing debt stood at 3.9%, which represents a decrease compared to 4% for 2009-2010.

That concludes my presentation, Mr. Chairman.

• (1555)

[English]

The Chair: Thank you very much.

Unless someone has a reason to object, we'll now begin with our rotation questions. With that, Mr. Saxton, you have the floor.

Mr. Andrew Saxton: Thank you, Mr. Chair.

Thank you to our witnesses for being here today.

My first question is for the Office of the Auditor General. The public accounts state that due to many factors, the Canadian economy has had the strongest recovery to date among G-7 countries, and I quote: "Indeed, Canada is the only G-7 country to have recovered both all of the GDP and all of the employment lost during the recession."

Can you please comment on the factors that contributed to this successful recovery?

Ms. Nancy Cheng: The question the member posed goes beyond the scope of the audit of the public accounts. For the purpose of the audit of the public accounts, we comment on the financial reporting and the fair presentation of the statements. So from this perspective, I'm not in a position to really answer that question.

Mr. Andrew Saxton: Even though the report itself contains that very quote?

Ms. Nancy Cheng: We are not commenting on how well the government has performed. What we comment on is whether presentations of revenue numbers, the expense numbers, and the resulting financial position are fair.

Mr. Andrew Saxton: Okay.

Can you confirm then that Canada has in fact recovered all of the employment lost during the recession, since it says that in the report?

Ms. Nancy Cheng: Maybe this is a good opportunity for us to express what we're actually commenting on. Just now, Mr. Michaud explained the three volumes of the public accounts. We are commenting on section 2 of volume I. Section 2 deals with the financial reporting. You'll see our audit opinion, and you'll also see the observations.

The various comments that you talk about on the performance are assertions from the Department of Finance, and it would be more appropriate if the Department of Finance representative addressed those. Those are not part of the audit scope.

Mr. Andrew Saxton: Thank you very much.

The government's clean audit, which I understand has been the case for 13 consecutive years, testifies to the high standards of the government's financial statements and reporting. Can you please share with the committee the requirements needed for a government to achieve this opinion? Are clean audits common in the rest of the world, and how do we compare with other nations?

Ms. Nancy Cheng: That, indeed, as I mentioned in my opening statement, is a major accomplishment. Very few jurisdictions in the first instance have whole-of-government accounts as we do, so we stand above a lot of countries even just for having whole-of-government accounts. Then to have the accounts come back with clean opinions, no modifications, no qualifications, and no reservations is really a big feat, and we don't see that happening very often in other jurisdictions.

Very few jurisdictions, as far as I know, can match what Canada has here. One of the driving factors is the due diligence that the government follows in preparing the accounts. There is also the due diligence exercised in making sure that we follow well-established standards. We follow the public sector accounting standards, and they are among the best in the world. I think we're comfortable in saying that.

Mr. Andrew Saxton: Thank you very much.

I'd like to congratulate you on successfully implementing the new Canadian auditing standards for the first time this year. Can you give us a quick overview of the new auditing standards and how they differ from those for previous years?

Ms. Nancy Cheng: Mr. Chair, I'll try to be succinct on this one, because explaining those could take up an hour and a half alone.

• (1600)

Mr. Andrew Saxton: Feel free to continue.

Ms. Nancy Cheng: One of the differences we highlighted is indeed in the format and the wording of the independent auditor's report.

If I can draw members' attention to page 2.4 of the public accounts in volume II, you see there is an audit opinion signed by Mr. John Wiersema as the interim Auditor General.

There are differences between this audit and audits from the past. In past audits, what you see are by and large three paragraphs. One paragraph talks about the scope, what it is we are commenting on with respect to our audit opinion. A second paragraph talks a little bit about what the audit comprises. The third paragraph contains any opinion, as far as that goes.

You'll notice here that it is longer. The first paragraph is not very different. Again, it tells you what the scope is—in other words, what we have audited and what the audit covers. Then it has a paragraph that deals with the government's responsibility for the financial statements, so it's specifically providing a heading to highlight the responsibility of management vis-à-vis that of the auditor. It's up to management to actually make sure they have internal control over financial reporting and that they take responsibility and ownership for the financial statements.

Then we go into the auditor's responsibility, and we have multiple paragraphs here. If you go back a year, you'll see only one paragraph. Here we actually emphasize quite distinctly that we are independent and that we follow ethical requirements. Those things are stated right up in the first paragraph under auditor's responsibility.

The paragraph that follows is a little more elaborate than before, but it speaks to the kinds of procedures we follow for an audit. We seek reasonable assurances, not absolute assurance. We have also a separate paragraph that indicates that we've received sufficient audit evidence to support the opinion. That is a specific assertion that is now inserted in the independent auditor's report.

Then finally the opinion paragraph has its own title, and it indicates what the opinion is. It's different from the report on other legal and regulatory requirements. If there are, for example, some other matters that we want to draw the readers' attention to that do not bear on the fair presentation opinion, they are very distinct and the readers can quickly tell that this is additional information the auditor would like them to pay attention to, or would like to draw attention to, but that it doesn't affect the fair presentation opinion.

That is just one difference. The other aspect is—

The Chair: I'm sorry, Ms. Cheng, but I'm a minute over already, and I just can't let it go much longer. If there's more needed, I'm sure government members can pick up on the questioning. My apologies for interrupting.

Monsieur Dubé, you have the floor.

[*Translation*]

Mr. Matthew Dubé (Chambly—Borduas, NDP): Thank you very much, Mr. Chairman.

I would also like to thank our guests, who, as always, are utterly reliable.

I will concentrate on section 4 of the Public Accounts of Canada, volume II, which deals with the Economic Development Agency of Canada for the Regions of Quebec. What I find interesting is that

there are amounts attached to several programs. The report gives an overview of the development of communities, special intervention measures, the competitiveness of companies, infrastructure, and so on.

If you look at the total, you will see that a certain amount was authorized. However, there is a \$50-million gap between that amount and the amount spent. You will find this at point 4.5.

I have a question. Since I am a member from Quebec, I am sure that we could have found a way to spend that money. Our communities certainly need funding, be it for jobs or infrastructure.

Why was the money not used for... Did the government not find anything to spend it on? Was there an accounting mistake? Can you please shed some light on this matter?

[*English*]

Mr. Jim Ralston: Thank you for the question, but unfortunately we're basically prepared to speak about the summary level financial statements and the audit opinion thereon. As Ms. Cheng mentioned, that's the part that is audited. The remainder of the volumes have a great deal of information in them, which we compile, but unfortunately we don't have the ability to answer every detailed question about that.

The particular question you've asked I think would be better posed to the organization.

[*Translation*]

Mr. Matthew Dubé: Thank you.

I find that interesting, because it is a total amount. You are really not able to provide us with more detail on the matter. I am not necessarily talking about a specific point, but about the total budget for this government portfolio. So you really cannot give us any information on this subject? Do you really think that this question should be put to the agency in question?

● (1605)

[*English*]

Mr. Jim Ralston: Yes, I do.

[*Translation*]

Mr. Matthew Dubé: Thank you.

I also looked at section 15, at point 15.8, which concerns the Canadian securities regulation system. Without necessarily wanting to comment on the legitimacy of this bill, we know that the money was not necessarily completely spent. In fact, we are waiting for a ruling from the Supreme Court on this issue. About \$13 million have been spent.

Is it possible for you to tell us how the money was spent, whether this program has not already been started, or whether it has even been authorized, in theory?

[*English*]

Mr. Jim Ralston: Once again, I think that's a detail that is better addressed to the organization.

[*Translation*]

Mr. Matthew Dubé: Can the official from the Department of Finance answer the question?

[English]

Mr. Doug Nevison (Director, Fiscal Policy Division, Economic and Fiscal Policy Branch, Department of Finance): No. I'm afraid the recommendation to go to the department itself is the right one in this case.

[Translation]

Mr. Matthew Dubé: Thank you very much.

I will now talk about corporate income taxes. If you read the Public Accounts of Canada, you will see that about 76% of all income tax, in 2011, was paid by individuals. Conversely, 20% of revenue comes from corporate taxes.

Since I am not an accountant, I was wondering whether, in your expert opinion, this was a reasonable ratio. Is there any reason to re-examine the revenues?

[English]

Mr. Jim Ralston: I'll invite my colleague from the Department of Finance to add something if he wishes, but essentially what we have determined is that the results you see are correctly accounted for. They reflect the administration of the income tax legislation by the Canada Revenue Agency; they presumably reflect the tax policies of the government. It's not an accounting question in terms of the relative balance. It is the outcome of the reality of the operations of the tax system.

The Chair: Thank you very much.

Next is Mr. Hayes. You have the floor, sir.

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

This question will be directed to Mr. Ralston.

At Ontario Lottery, which was a provincial agency, we were always measured against how we did against budget. When I look at this in terms of bottom line here, I see that there was a fairly significant discrepancy—or I would say it's significant, but maybe it isn't substantive—between the budgeted deficit of \$49.2 billion versus the actual deficit of \$33.4 billion, so I have a couple of questions. I'm going to ask all of them now and hopefully you'll capture all of them.

First, is that substantive? In my mind, this could be classified as good-news story because the deficit was less, but it could also perhaps be classified as a poor budgeting story. I want to get an explanation and understanding of the budgeting exercise and some sense of how difficult it is to be accurate. Obviously budgets are based on assumptions, so I'm kind of curious as to some of the assumptions and what assumptions might have changed such that this projected deficit was so much less than what was budgeted.

Mr. Jim Ralston: I'll ask my colleague from the Department of Finance to respond.

Mr. Doug Nevison: Thank you. I would be happy to respond to that.

I think I'll just first take a step back and remind members of the economic situation we've been in for the last couple of years. It has been a time of very high economic uncertainty. To be honest, that has

made forecasting, both economic and fiscal forecasting, a bit challenging over the last two years.

You're right: there's a significant difference between the budgetary balance forecast for 2010-11, at \$49 billion, versus the actual outcome, which was \$33.4 billion. That reflected a number of factors. Some of it had to do with economics, and some of it had more to do with the fiscal and the accounting side.

To start, we saw stronger economic growth in 2010 than we expected when we did the March 2010 budget. I'll remind members that when we do our economic forecasts, they're based on an average of private sector forecasts. At that time, the private sector average was forecasting nominal GDP growth; nominal GDP is sort of the broadest single measure of the tax base in the Canadian economy. They were forecasting growth of just under 5% in 2010-11 and the actual number came out closer to 6.3%. So we saw growth on that front that was quite a bit stronger and that helped contribute to some of the results. I think I would agree that it was a good-news story.

We also saw, related to the economic downturn, that unemployment or EI benefits came in lower than we had projected, in part because of that strength of the recovery. We also saw a couple of one-off measures in 2009-10. For example, there was the HST transition assistance to B.C. and Ontario in the March 2010 budget. That was allocated as an expense consistent with the payment schedule, and subsequent to finalizing the public accounts it was determined that this should be expensed all in one year. So that's another factor.

So a number of factors led to the result, but all in all, I would tend to agree that it was a good-news story.

Thank you.

• (1610)

Mr. Bryan Hayes: Thank you.

To Mr. Ralston again, I'm just looking at interest-bearing debt. It stood at 49.4% of GDP in 2010-11. That's down over 26 percentage points from a high of 76.1% in 1995-96. Again, this sounds like a good-news story. I'm wondering if you can explain the reasons for the lower interest-bearing debt and the implications of having lower interest-bearing debt.

That said, what are the risks we would look at if there were an increase in interest-bearing debt? Are there any risk-mitigating factors in place for that?

Mr. Jim Ralston: Once again, perhaps I could ask Mr. Nevison to comment on that.

Mr. Doug Nevison: I'm not sure I got all the questions, but I'll start with the interest-bearing debt. Yes, we've seen a few things on that front in terms of the results. We've seen a higher stock of debt in the last year, and that's a result of the deficits the government has been running during the recession. That led to an increase in the interest-bearing debt.

One thing we've seen, though, in terms of servicing that debt, is that the interest rates have come down quite considerably in our forecasts. As a result, it hasn't been as significant as perhaps it could have been.

I'm sorry, but I missed the other two questions.

Mr. Bryan Hayes: Just on the 26%...

We're done?

The Chair: Yes. You're actually well over right now. Sorry. The time has expired.

Madame Blanchette-Lamothe, you have the floor now.

[*Translation*]

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): Thank you, Mr. Chairman.

Thank you for being with us today.

My first question is for Ms. Cheng.

On page 2.37 of volume I, it says that the Office of the Auditor General has concerns regarding the way departments and organizations apply their capital expenditures to their operational vote. According to the Office of the Auditor General, this decreases Parliament's oversight with regard to public spending.

Can you explain this process to me and tell me how it affects Parliament's oversight with regard to public spending?

[*English*]

Ms. Nancy Cheng: The question relates to the use of the capital vote and the operating vote. In the first instance, some departments only have one vote, and it's called a program expenditure vote. In that case you won't actually have this scenario coming to service in the way we describe it.

What happens is that often departments have a capital vote as well as an operating vote. Then when an expenditure occurs, where would you charge that?

Mr. Daryl Kramp: Mr. Chair, we've lost the translation.

The Chair: Could we have some help from the...? Where are we, please?

All right?

•(1615)

Ms. Nancy Cheng: Should I continue, Mr. Chair?

The Chair: Please try.

Ms. Nancy Cheng: Basically, Parliament gets to oversee and set a limit for each of these votes. So if you set a limit on the capital vote, then presumably that is a budget you want to oversee to make sure it isn't exceeded. If the practice is such that some expenditures can go either way, then it makes it difficult for you to oversee whether that particular limit is being observed.

The framework was set in place back in about 1992. It is about time to take a look at it.

In the first instance, this \$5 million mark was set some time ago. Some departments we notice actually have major expenditures that are over \$5 million, but because they don't have a capital vote they

can't charge to a separate vote. That oversight mechanism isn't there when in fact they would have a lot of expenditures that might be over the \$5 million mark.

The other thing is that this concept of minor capital, which allows departments to charge capital-type expenditures to an operating vote, is basically allowing each department to set their own limit. What we saw was that in one case, for example, the limit was pretty high, so expenditure of over \$1 million is when it needs to be charged to the capital vote. But some expenditures under \$1 million are still capital in nature, arguably, but they would not necessarily go in the direction of the capital vote.

In another department we noticed that there is no limit set whatsoever, so it's almost like a case-by-case basis. That means there is inconsistent application between departments and agencies. It was something we discussed last year with the Office of the Comptroller General, and the Comptroller General's office is in agreement with us that that inconsistency needs to be looked at as well.

Those are the kinds of issues we're trying to underscore to make the vote structure and Parliament's vote authority oversight work better.

[*Translation*]

Ms. Lysane Blanchette-Lamothe: Thank you. My question is about proactive disclosure. Regarding information on the Department of Foreign Affairs and International Trade, there is no information under the tab "proactive disclosure" under the heading "travel and hospitality expenses". What does that mean? Am I to understand that no money was spent?

[*English*]

Ms. Nancy Cheng: I believe that's a question for the government to answer. It's not part of section 2 in volume I, so it's not something that we actually have specifically audited. We audit the summary financial statements of the Government of Canada.

The Chair: Is there someone you need to call upon now to attempt an answer?

Mr. Jim Ralston: There is some information on ministerial travel in one of the volumes. The comment was actually about proactive disclosure, which is posted on websites. Was the question about the public accounts, or was it about information on a departmental website? I just ask because of the reference to proactive disclosure.

The Chair: It's all going to have to be determined in a future round, because we are over the five minutes, so that will give you time to think about it.

Let's move along. Mr. Kramp, you have the floor now.

Mr. Daryl Kramp: Thank you so much, Chair.

I have three quick questions that I hope I can have three quick answers to; then I'm going to just slip into another closing one.

This is for the Auditor General. Obviously it's a clean report, which is great to hear. But I just have a little question: the term "unqualified opinion" has been changed to "unmodified opinion"—why?

Ms. Nancy Cheng: That's along the line of the change to the Canadian auditing standards. Earlier on, a member asked about the differences. One of the differences is that we call it unmodified, because you could have other information being put into that auditor's report that does not change the opinion on the fair presentation. It's not qualifying, but you can modify the report; I can modify the report and still give you a clean opinion.

Mr. Daryl Kramp: Okay, thank you very much.

Obviously the Auditor General's word is taken with quite a level of confidence. But how can you assure Canadians the figures are absolutely accurate and correct? What assurance can you give us?

• (1620)

Ms. Nancy Cheng: We give you the assurance that the accounts are fairly stated within limits of materiality; we do not give absolute assurance. Absolute assurance is impossible to strive for. Financial statements encompass a lot of significant estimates, so they cannot be exact and precise. Often it's as complete and accurate as it can be, within limits of materiality.

Mr. Daryl Kramp: Fine, thank you.

Mr. Ralston, with these public accounts, do you go to print before or after you have an approval from the Auditor General?

Mr. Jim Ralston: I'll ask my colleagues to help me out if I lose some details in the process.

Essentially, the whole process of putting together and auditing the public accounts is the intersection of two lengthy projects, one parallel to the other—the Auditor General and ourselves. It starts with agreement on plans, and it ends with agreements on what the government has to declare to the Auditor General. This is our view of what the final numbers are, so the Auditor General then knows what he or she is expressing the opinion on. We have a meeting to come to those agreements and understandings, we sign the proofs, and it goes to print only after all of those agreements are in place.

Mr. Daryl Kramp: Okay, thank you, Mr. Ralston.

I know my colleagues have heard me *ad nauseam* in this committee, and I apologize if I repeat myself again.

We are the Standing Committee on Public Accounts, and we have a role of oversight and accountability. I thank Mr. Michaud for running us through the quick template of the actual elements involved in the process. But for new members in the committee, and quite frankly the general public too, it's an extremely complex document and/or sets of documents, with literally hundreds and hundreds of lines on either expenditures or income that quite frankly deserve a great deal of scrutiny. I've often felt one of the weaknesses in our parliamentary process has been the lack of accountability and process with members of Parliament and their opportunity to inspect, to offer critique, and to have assurance in the evaluation—that what we see is what we get. We either agree with it or we don't.

I would—maybe more for the benefit of my colleagues—certainly hope we recognize.... As an example, we could just take one—it can be revenues. We could say, just for taxation alone, whether it's personal or corporate: where does it come from? What are the demographics involved? What are the regional strengths? There are so many areas. I'm concerned that we—as a committee and as a

parliamentary process—don't give justice to the committee. We get caught up in partisan issues rather than considering a full study of this.

Would you like to see Parliament spend more time on the actual study of estimates and the public accounts? I'd like a quick yes or no response, from both the Auditor General and from Mr. Ralston.

Ms. Nancy Cheng: I'll answer with a yes, Mr. Chair.

Mr. Jim Ralston: I would agree.

Mr. Daryl Kramp: That's fine.

Thank you very much, Chair. I'm done.

The Chair: Thank you.

Next is Mr. Byrne. You have the floor, sir.

Hon. Gerry Byrne: Thank you very much, Mr. Chair.

Perhaps we could begin with a fair representation costing of the justice proposals. That would be a fair way to get an analysis of what Parliament is reviewing in terms of legislation and policy and expenditures, but I don't think we're going to see that any time soon, Mr. Chair. That's perhaps a good idea already thrown out.

I want to zero in on what the public accounts of Canada do and what they do not do. I want to zero in specifically on the recording of the G-8 legacy fund. An analysis by the Office of the Auditor General found that spending occurred for the G-8 legacy fund in an unlawful fashion. The purposes for which it was intended were not approved by Parliament, which is contrary to the Financial Administration Act. The interim Auditor General submitted a report to that effect. There was a *mea culpa* by the government, but I'm having trouble finding anything in the public accounts of Canada, which were published after the Auditor General's report, that would indicate this type of expenditure, done outside of parliamentary authority.

Is there anything anyone can point me to, in volume I, volume II, or volume III—there are literally hundreds of pages here—that actually refers to the fact that unlawful spending occurred, spending that was outside of the Financial Administration Act, and that describes it in fairness for Parliament?

Mr. Ralston, would you be able to take that one on?

• (1625)

Mr. Jim Ralston: I can simply refer the member to section 10 of volume III of the public accounts, which contains some details on spending by ministry. That would be a starting point to identify different expenditures. It would of course be up to the analysts to make inquiries about the meanings behind the numbers and about how they were derived, but I would suggest that as a starting point.

Hon. Gerry Byrne: Mr. Ralston, I think you just nailed some of it. That is the trouble. As parliamentarians, as members scrutinizing the estimates documents, unless we had some sort of notion within the estimates that the border infrastructure fund was going to be used falsely to promote the G-8 legacy fund or to convey payments or contributions agreements under the G-8 legacy fund.... If it weren't for the Office of the Auditor General we wouldn't have been able to uncover that, because it's just too buried.

So there's nothing in this document, which was tabled and published after the Auditor General's report, that clearly defines that this \$50 million in expenditure, along with a specific amount during fiscal year 2010-2011, was done outside of the normal envelope. It's not detailed in the public accounts, is it?

Mr. Jim Ralston: As I say, I could refer you to section 10 of volume III. I guess it would be up to you to judge whether the information you seek is there, but that is what's available in the public accounts.

Hon. Gerry Byrne: Thank you, Mr. Ralston.

I'll go now to Madam Cheng, if I could.

One of the things that caused a little bit of a stir and excitement here is that I've tabled a motion before the committee to ask the Auditor General to appear before this committee on the G-8 legacy fund—

Mr. Daryl Kramp: Point of order.

The Chair: Sorry, Mr. Byrne, and I will suspend the time.

Mr. Kramp, I think that was you.

Mr. Daryl Kramp: Going around to my earlier point, Mr. Chair, Mr. Byrne is now slipping into issues that were in camera and in confidence and within the privilege of this committee.

I believe the chair actually has the motion before him, and it would be the final point in that. If the chair were to allow that, we would be breaching the privilege of the committee at that point. I ask the chair to take a look at that motion that is before this committee and to rule on that.

The Chair: Here's my dilemma. It looks as though we're going to have to spend a moment at least on this, because we're into Mr. Byrne's questioning, and I know where he's about to go and I understand what you're saying.

The difficulty I have is that if I'm hearing it right, the government is maintaining that the motion they had before is before the committee—and we would pick that up when we go back, because it's unfinished business—and that also Mr. Byrne's motion is in front. Now, it can't be both. Both motions can't be in front of the committee at the same time. There is only one motion.

To the best of my knowledge, the motion was tabled as a notice of motion with the clerk. I'm not aware that we have been seized of that in camera yet. Therefore, I'm not yet convinced that it's protected by confidence, but I'm listening.

Mr. Daryl Kramp: Fine. Thank you, Mr. Chair.

Whether or not the motion is brought by Mr. Byrne, at issue is still the motion that was presented. If the chair were to allow information to come forward or anything in a line of questioning pertaining to that motion, it would be a breach of the in camera motion that was before—

The Chair: Why?

Mr. Daryl Kramp: Obviously, then, the individuals would be talking directly about the motion that was before the committee in camera, now out of camera. If that were to take place, I personally would hold both the chair and all of the people involved in this committee totally accountable for this.

The Chair: I'm accountable for everything I do anyway.

I'm far more concerned about the notion that somehow it's protected in confidence because it's committee business. It's only committee business that's held in confidence if we're...

I'm having this dialogue because I want to be clear on it. I know we're going to get into it, and I want to get it right. It's not clear to me. I want to make the right decision.

It seems to me that a notice of motion about committee business doesn't automatically make it confidential. That matter may or may not end up being discussed in camera. If it started to be discussed in camera, then I would agree—it's a slam dunk—the committee would be seized of it, and would be seized of it in camera. But right now, it's a notice of motion. I don't know where the confidence protection would come from. But as I said, I am listening.

● (1630)

Mr. Daryl Kramp: Mr. Chair, I'm not talking about the notice of motion. I am talking about the line of questioning now that falls within the parameters of the topic presented in camera—

The Chair: No, but...

Mr. Daryl Kramp: —literally verbatim.

The Chair: Hang on, though. There's nothing to stop the committee from dealing with that notice of motion entirely in public. It will only go in camera if the committee moves to deal with it in camera. And since the member hasn't called up the motion, we can't be in camera; therefore, it can't be in confidence. That's my difficulty.

Beyond that, what we have is a member who wants to use his or her five minutes in whatever way he or she pretty much wants.

Go ahead.

Mr. Daryl Kramp: Might I just say then, Mr. Chair, if that is the chair's ruling—

The Chair: Oh no, no. I'm not ruling. I'm talking it through.

Mr. Daryl Kramp: —then any issue that we discuss in camera we can take onto the floor here and put in whatever form we like, whether it's another question or whether it's a statement. But we can go ahead and do that, as long as we don't say "Oh, by the way, that pertains to something in camera". We're pretending that didn't even exist? Well, quite frankly, Chair, then in camera is a mockery.

The Chair: Don't get me going on what I think about in camera.

I'm still trying to determine.... I'm not ruling, but I am maintaining, in this give-and-take to make the right ruling, that unless it's in camera and has already been dealt with as a confidential matter, I have no mechanism to apply confidentiality to the motion. If the member wants to speak about virtually anything other than.... The member would be out of order should he start repeating something that you said, I said, or anyone else said in camera. But we haven't dealt with it yet.

So I'm trying to determine where he's out of order. This is important. I'm sorry to take the time, but it is important.

Mr. Daryl Kramp: Mr. Chair, following on that logic.... I accept your logic on that. But accepting that logic then, I could take the original motion in camera, read it now, and ask our witnesses what they think of it. Now, that's according to the ruling that you're suggesting.

The Chair: No, no.

Mr. Daryl Kramp: That's exactly it.

The Chair: You're not accurate.

Mr. Daryl Kramp: And I would suggest that is not in order.

The Chair: I agree, but that's not what I said.

Mr. Daryl Kramp: But that is the assumption being taken here.

The Chair: No.

Mr. Daryl Kramp: It's literally verbatim.

The Chair: Hang on. All that has happened is Mr. Byrne has notified the clerk that he has a notice of motion. That's all. That's all he's done.

Mr. Daryl Kramp: I'm not worried about that. The motion isn't it.

Mr. Andrew Saxton: Mr. Chair, you're missing what was said.

The Chair: Go ahead. If I'm missing something, tell me.

I'll go to him, and then I'll come to you. Let me hear the facts now, just the facts.

Mr. Andrew Saxton: With all due respect, Mr. Chair, you will recall that during the last session when we were in camera discussing committee business, Mr. Byrne did bring up this subject. Well, I'm not even going to go there. But subject to this....

The Chair: You just violated the rules yourself.

Mr. Andrew Saxton: Because that's going in camera. We're going down a very slippery slope.

The Chair: That's why I want to take the time. I don't want to get it wrong.

Mr. Andrew Saxton: It's clear that what Mr. Byrne is attempting to do is he's taking things that were done in camera and trying to get them out of camera, and he's using every trick in the book to do that.

Mr. Chair, I just warn you that we're going down a very slippery slope.

The Chair: Well, I hear you, and he can use the tricks as long as they're in order.

Mr. Andrew Saxton: But we're not.... As my colleague Mr. Kramp mentioned, we're not discussing the motion, Mr. Byrne's motion: we're discussing the subject that was discussed at length while we were in camera. So Mr. Byrne now using his motion as a guise to then bring up issues that were discussed in camera is a very slippery slope.

The Chair: It is. I hear you—

Mr. Andrew Saxton: So I just caution you that—

The Chair: —but I find it hard to believe that any subject matter dealt with in camera means that you can never as an MP talk about that subject matter again. What you cannot do is talk about the dynamics that happened within the meeting, but certainly you're not prohibited and muzzled from addressing an issue just because you

dealt with it in camera. You are prohibited from reporting or commenting on what took place in the room.

● (1635)

Mr. Andrew Saxton: Correct.

The Chair: Okay.

Mr. Byrne, I give you your moment.

Hon. Gerry Byrne: Thank you, Mr. Chair. I appreciate you allowing me to reply to the point of order raised by the members of the government. It's important that those who have been interrupted are afforded an opportunity to reply to what has been raised.

Mr. Chair, what's being done here is that the committee members, myself in particular in this instance, were being raised or held to a standard that doesn't exist. The motion has been tabled as per the Standing Orders.

My motion has been tabled. It has been circulated to committee members. It has not been called yet by the chair. Certain members of the committee are asking me as a member to be held as if this were in camera when it hasn't even been heard yet. How can an expectation be held of me to refrain from even commenting about my motion, to act as if it was in camera...? I know that the government intends to put it in camera—

An hon. member: Point of order, Mr. Chair.

The Chair: On the three or four points of order here, let me just give Mr. Byrne a chance. There's nothing wrong or out of order in terms of him having the floor right now.

I will come to you in a minute.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): My point of order is that we have a lot of high-priced help here. We are being very disrespectful.

Hon. Gerry Byrne: Then, Ms. Bateman, your member should not have raised the point of order.

The Chair: Order, please, order.

Ms. Joyce Bateman: Well, I think—

The Chair: I understand your point, Ms. Bateman, but keep—

Ms. Joyce Bateman: I think he's being very disrespectful to people who have come from their busy schedules to share the information, to enlighten us. We are here. We have an opportunity to ask questions of these professionals. We should respect that our internal business meeting is starting at 5:15 and we should respect the professionalism of these fine public servants.

The Chair: That was the ruling I made at the beginning. Where it got complicated was when Mr. Byrne decided to go down a certain line of questioning and it was your colleagues who said he was out of order. I'm trying to deal now with whether or not Mr. Byrne may continue his comments. That's where we are.

Ms. Joyce Bateman: Well, on a point of order, sir, if you ruled in that way at the start, which you did—

Hon. Gerry Byrne: Mr. Chair, with all due respect, I have the floor here.

The Chair: All right. Just be calm. Nobody's rights are being denied here. There doesn't seem to be a huge abundance of questions, you know. We have time to do this.

We have no choice. The member wants to give his comments, and there are members of the government who say that he shouldn't be allowed to speak down that road. I have to deal with that. I will get back to the main item as soon as I can—

Ms. Joyce Bateman: But my point—

The Chair: —but the next order of business is Mr. Byrne speaking.

Hon. Gerry Byrne: Thank you.

The Chair: He still has the floor.

Hon. Gerry Byrne: Replying to the point of order, Mr. Chair, I think there's not a person in this room who is not seized by the obvious irony that calling electors in a particular electoral district and saying there's going to be a byelection, an imminent byelection, and that the current member has resigned and framing that all as free speech—

Some hon. members: Oh, oh!

The Chair: Order, order.

Hon. Gerry Byrne: —but then at the same time, here we sit in a committee of Parliament, and I have tabled in the proper order a motion before the committee—

An hon. member: Mr. Chair, a point of order.

The Chair: Oh, come on, folks.

Mr. Andrew Saxton: Point of order, Mr. Chair.

The Chair: Look, I see the government members going....

I gave you three or four points of order. Allow Mr. Byrne at least another minute to state his case and then I'll make my decision.

Mr. Andrew Saxton: He's clearly going off topic, Mr. Chair.

The Chair: He's not doing anything that's out of order, colleagues.

Mr. Andrew Saxton: He's clearly going off topic, Mr. Chair.

The Chair: As of right now, the only voice I want to hear is Mr. Byrne's.

Go.

Hon. Gerry Byrne: Mr. Chairman, I have tabled, with all proper order, with all proper precedent, and within the context of the Standing Orders, a notice of motion.

The government is now suggesting that because they in the future intend to call any discussion about my motion into an in camera session, they want to ban my speech about my motion before they even move it in camera. That is a ridiculous restriction on the freedom of a member to be able to present the case about a topic, which is still before, which....

By the way, Mr. Chairman—

Mr. Andrew Saxton: Point of order.

Hon. Gerry Byrne: —the tabling of a motion is a very public process.

The Chair: Okay. Point of order?

Hon. Gerry Byrne: The existence of my notice—

Mr. Andrew Saxton: Point of order.

Hon. Gerry Byrne: —is indeed a public notice.

The Chair: Mr. Byrne—

Hon. Gerry Byrne: The whole world knows of my motion.

The Chair: You've made your point, Mr. Byrne. Thank you.

Mr. Andrew Saxton: Mr. Chair, Mr. Byrne has made it clear that he wants to go into committee business. I would propose, if that's the case, that we allow our witnesses to go so that we can move into committee business. That's exactly what he's doing.

You made a ruling earlier that we're not going to go into committee business until 5:15. Mr. Byrne is ignoring your ruling and wants to go into committee business right now. All he's discussing is committee business. If that's the case, let's allow our witnesses—

• (1640)

The Chair: Order.

It doesn't help when a lot of people talk at once.

Mr. Andrew Saxton: Let's allow our witnesses to go and let's go into committee business. That's what Mr. Byrne seems to want to do at this time.

The Chair: All right, now here's my ruling. The government is concerned, Mr. Byrne, that you're about to comment on things that were previously debated in camera. You know you can't do that.

Please hear me out.

However, Mr. Byrne, in wanting to talk about public accounts, is asking a question about a public accounts procedure. As long as he's not repeating something that was said in camera, he has not violated anything. His notice of motion is merely a notice of motion. I don't see that it carries any protection. But I do caution Mr. Byrne that it would be easy to slip into commenting on things that were talked about in committee, and at that point he would be in serious trouble.

I would also remind Mr. Byrne that his time will be the same, whether he talks about public accounts or his summer vacation. His time will expire.

With that caution, I will allow Mr. Byrne to resume his question.

Hon. Gerry Byrne: I appreciate the opportunity to reply to the points of order. Perhaps if we continue to do that, there will be fewer points of order offered by the government.

Madam Cheng, thank you again for appearing before us.

My line of questioning on public accounts is a correctional measure. The Office of the Auditor General found that spending on the G-8 legacy fund was unlawful, was contrary to the Financial Administration Act, because money was spent for purposes—

Mr. Andrew Saxton: Point of order, Mr. Chair.

I'd like to know where Mr. Byrne got that information.

The Chair: That's not a point of order; that's a point of debate.

Mr. Andrew Saxton: "Unlawful"—I don't think that word was ever used. I would like to have evidence—

The Chair: Mr. Saxton, please. You have a habit of running over when I'm talking, and it's annoying me. Please stop.

Pardon me?

Mr. Andrew Saxton: I am stopping, but go ahead.

The Chair: It's as if I'm the Speaker: when I talk, you don't; when I'm done, then you can speak.

Your point was not a point of order. And if you do this again, you'd better have a real point of order. And I know that you know the difference.

Mr. Byrne, you have the floor, and I hope you have the uninterrupted floor.

Hon. Gerry Byrne: The reporting of expenditures is really what the public accounts is. It's an after-the-fact reporting of how funds were spent, not how they were intended to be spent. Is there anything you would recommend that the Treasury Board Secretariat and the Government of Canada should consider, by way of a reporting standard, to establish whether money was spent without parliamentary authority? You are aware that a notice of motion was tabled before the committee to call the Auditor General before us, because we have not yet heard a stand-alone testimony from the Office of the Auditor General on the G-8 legacy fund.

The Chair: Mr. Kramp.

Mr. Daryl Kramp: Point of order.

You made the statement that if items were discussed that had been previously considered it would not be right or desirable. I am not about to divulge discussions that have taken place, but I think the chair would recognize any exact duplication. So I would ask the chair to make a ruling on this. I would hope that the clerk, who was attending at that point, and our independent authorities could pass judgment on an exact parallel to the statements.

The Chair: There is no reply. I hear your point. I've cautioned Mr. Byrne. He knows he's snuggling up close to the line, but I don't think he's crossed it yet.

Mr. Byrne, continue.

Hon. Gerry Byrne: Mr. Chair, with all due respect—

The Chair: You're using your own time now.

Hon. Gerry Byrne: —if my motion was out of order because it was held in camera, it should have been ruled out of order as it was tabled.

Madam Cheng—and Mr. Ralston, if you would like to jump in—would you be able to advise the committee as to how the public accounts of Canada could be improved so that parliamentarians receive a better, fairer, and more exacting representation of how moneys were spent?

Right now all we know is that there were moneys spent under the Canada border infrastructure fund that the Office of the Auditor General did indeed find were spent inappropriately because they

were not spent for the purposes for which Parliament was informed; they were spent for different purposes. Yet there's no outline of that within the public accounts.

● (1645)

Ms. Nancy Cheng: Mr. Chair, I'll give a few very brief answers.

First of all, in terms of the G-8 and G-20 legacy fund, there is no specific reference, aside from in the individual departments and ministries, where you can see how money was actually spent against that particular purpose. The public accounts weren't set out to deal with that kind of accountability framework. It tends to be more ministerial accountability in terms of reporting back to Parliament.

From what I understand, the public accounts is not set out to do that type of reporting. The requirement for what is reported in the public accounts is really at the pleasure of Parliament. If Parliament chooses that it wants certain information, it could require that and then the government could furnish that information to be included in the public accounts.

The other quick comment I would make is that there is one place in the notes to the financial statements where there is an authority issue that the government addresses year after year. If you turn to page 2.12, which is in section 2 of volume I—again, volume I is the only volume we audit—within the public accounts itself, in note 2, you see the right-hand column, under ii, after two paragraphs on that page.

Mr. Chair, if members are able to find that particular page—again, it's 2.12, in volume I—you'll see there is something called "Over-expenditure of spending authorities". So where you've actually set a limit you say the vote authority is *x*, and where an entity has overexpended, the government would then choose to report that. And we do look at that. That is one piece of a compliance issue, I guess, that does get brought forward to Parliament.

Aside from that, with some of these other authority issues it's not obvious to me how they're really reported in the public accounts.

As far as appearing as a witness, we're at the committee's pleasure. Obviously if you would like us to appear on whichever subject we would be happy to do so. It's at the call of the committee.

Thank you, Mr. Chair.

The Chair: Thank you very much. Time has expired.

We'll move to Mr. Aspin. You have the floor, sir.

Mr. Jay Aspin (Nipissing—Timiskaming, CPC): Thanks, Chair.

Welcome, people.

I understand in reading the material that for the thirteenth consecutive year the Auditor General has provided a clean audit opinion on the Government of Canada's financial statements. I just heard within the last five minutes from my colleague opposite that there was some reference to the government spending money unlawfully.

Now, Ms. Cheng, could you correct that? Is that in fact the case? If it is in fact the case, then what's the reference that the Auditor General has provided a clean audit? Is that statement accurate?

Ms. Nancy Cheng: Mr. Chair, there are two things.

In terms of the opinion on the public accounts, first and foremost we comment on the fair presentation of the financial statements. Essentially, where money has been collected, money has been dispersed, revenue that should have come in, the financial position, the annual deficit, the budgetary balance, we express a view on the financial performance to say whether it follows the stated accounting policies, which are in line with the public sector accounting standards. That's one aspect.

The other aspect we would report to Parliament is on anything we felt might be significant or of a nature that should be brought to your attention. There, the latitude is much broader. It could be some of these authority issues. If we do see things that we think are of a level of significance that should be reported, we would include it in the observations. The observations are where we have highlighted the issue of the use of the vote—the capital vote vis-à-vis the operating vote—and then there were a couple of other issues that I highlighted in my opening remarks.

In terms of the performance audit reports, there is a different reporting mechanism, as you can appreciate. I don't think we went as far as using the term “unlawful activities”. It's not something I would be too familiar with and go too far into the subject itself.

• (1650)

Mr. Jay Aspin: So I guess I would be right in describing that this comment of my colleague opposite was entirely misleading and false to accuse the government of spending money unlawfully.

Is that correct?

Ms. Nancy Cheng: I think you are asking me to comment on the subject of another audit, and I would like to be quite prudent in how I answer that question.

I believe the concern was the use of the vote wording in terms of describing those activities. I don't believe we went as far as talking about unlawful activities.

Mr. Jay Aspin: Thank you for that clarification.

The public accounts state that throughout 2010 growth in Canada was fuelled by a strong rebound in consumer and business expenditures. Can you comment on how Canada's action plan or the low interest rates or strong federal fundamentals have fostered this growth?

Ms. Nancy Cheng: Mr. Chair, I would ask the that the finance representative perhaps answer that question, because that's not part of the financial statements in section 1 or section 2.

Mr. Doug Nevison: Mr. Chair, if I may, the recovery in Canada has been driven by a couple of factors.

First off, going into the global recession the Canadian economy had some very strong fundamentals, a very sound banking sector, and budgetary surpluses at the federal level, and most provincial governments had budgetary surpluses as well. That last aspect allowed both the federal government and the provincial governments

to respond with a significant stimulus package. It was roughly equivalent to about 4% of GDP over two years, so \$60 billion in total. That combined with the fact that the Bank of Canada cut interest rates quite significantly.

Those two, both on the monetary policy side and the fiscal policy side, gave a very significant stimulus. It showed up in terms of domestic demand in Canada, so consumption and business investment have been very strong. We've seen nine consecutive quarters of positive domestic demand, and that's a reflection of both—as I said—the strong fundamentals and also the stimulus that was put in place.

Mr. Jay Aspin: If I may, Mr. Chair, I have one final question.

I note that the cumulative deficit, as a percentage of GDP, was 33.9%, say 34%. Could you give me an idea relative to other countries—this number, relative to other countries?

Mr. Doug Nevison: A first point would be that the numbers that are presented here for accumulated deficit are for the federal government, and as you said, it was 33.9% of GDP in 2010-11. When international comparisons are done, they tend to be taken on a total government basis, so they bring in all levels of government—the federal government and the provincial and territorial governments—and in Canada's case it also reflects the CPP and QPP. Converting to that, if I use the most recent IMF numbers, the September *Fiscal Monitor*, on that basis Canada's total government net debt was 32.2% of GDP. The G-7 average was 75.3%.

So our net debt-to-GDP ratio is quite significantly lower than other G-7 countries.

The Chair: I'm sorry, the time has expired. Thank you both.

We'll go over to Mr. Allen. You have the floor, sir.

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

Thank you, everyone.

Perhaps I will start with Madam Cheng on this issue about voting and how we look at what exactly we're voting for, whether it be a capital expenditure or an operation expenditure. You pointed out that there are weaknesses in the system in the sense that quite often capital expenditure is actually in a vote that's not a capital expenditure; it's locked into it.

As parliamentarians, one of the things we do is not only collect folks' money, but we actually spend it, and the only way to do that is to vote on the expenditure. If we don't know what the expenditure is for, in the sense of its being in an operational line when it turns out to be a capital line, are we really being well... I shouldn't use the word “advised”, but are we at least being well looked after in the sense of understanding what we're voting for if it's hidden in somewhere else?

On the other side of it, when money gets transferred that's been approved in a vote at a capital expenditure and ends up elsewhere, is there a mechanism you would see that helps us understand that it moved, other than trying to find it on page whatever in section whatever of volume III? Ultimately we voted for something, and not knowing where it ended up makes it extremely difficult to understand that it went somewhere else.

• (1655)

Ms. Nancy Cheng: There are two points here. First and foremost, you set up a capital vote for a reason. You want to set a certain ceiling to the amount of capital expenditures you want to have incurred for a particular entity. If there is to be a change, I believe there is a process you can follow through the estimates process. They will rectify that in a supplementary estimate to adjust it so they can move money between votes. But it is a decided exercise, because Parliament will have voted on it in the first instance, and it's not a trivial matter to try to adjust it. So it does require a fair bit of work behind the scenes from the public service to make sure it gets corrected if there is a need for a change.

Second, if you see fit to put in some kind of capital ceiling, you want to know that the capital expenditures are flowing through that. Right now the mechanism is set up in such a way that there is inconsistency in practice, and some major expenditures can flow through the minor capital.

We're not suggesting any element of wrongdoing; it's just the way the system is set up. It's not conducive to your oversight, if you choose to exercise that oversight. So in what's before you, it is not necessarily easy for you to see that various capital expenditures are falling below the limit you've set out for that department or agency.

We suggest that perhaps it's time to take a look at how they actually set up those votes, who should get capital votes, and who shouldn't. Right now there's a \$5-million limit, but at the end of the day, by the time you do financial reporting you see that there are patterns of departments that will be exceeding the \$5 million, but they didn't get a capital vote in the first place, so no separate ceiling was set up for capital expenditures, and then everything is flowing through capital.

There are a few things in the system itself, in the framework, but there are also parameters they use that perhaps would be helpful if the government could take a look at it. Our understanding is that the government is in agreement and said they would take a look at that framework in the coming year.

Mr. Malcolm Allen: Thank you for that.

Mr. Ralston, if one looks at the Department of National Defence, for instance, if we look back for three years in the public accounts we can see a pattern of lapsed funding. In 2009 it was substantially less than in the public accounts of 2010-11, where we are looking at \$1.5 billion. It's a substantial amount of money in lapsed funding, and it has increased exponentially since 2009-10.

Are you concerned about that, Mr. Ralston? Should we be concerned about that? It seems to me that's an exceedingly large amount of money that has lapsed, not counting the operating side, where there is not quite the equivalent amount—about 80% of that,

or about \$930 million. That's in excess of almost \$2.5 billion of lapsed funding.

Mr. Jim Ralston: In general, it's difficult to comment on a lapse without understanding how and why it occurred. Often with capital projects it has to do with the pace of the project that may have been affected for any number of reasons. You really can't speculate on it. It would require going to the department and getting an analysis. I'm sure they have an analysis of why the lapse occurred. Then you'd be able to judge the reasons for it. That would be informative. But just simply looking at the number in its raw form can only point you toward asking the first question; it doesn't necessarily answer the question.

The Chair: Thanks to you both. Your time has expired.

Madam Bateman, you have the floor.

Ms. Joyce Bateman: Thank you very much, *Monsieur le président*.

Thank you to all of our witnesses for being here today. This is certainly a subject that interests me greatly. As a chartered accountant, I take such pride when I see in a professional journal that the work you have influenced in the Government of Canada is getting international recognition. Not just the work of the Government of Canada, but the work of the Office of the Auditor General is regularly noticed internationally for leadership in this area.

I have a question for both Madam Cheng and Mr. Ralston.

First, to the Office of the Auditor General, you were interrupted when you were talking about public accounts—just because the time had moved on. On the public sector auditing standards, this is the first year you referred us to that tiny little paragraph that probably has so much roll-up going into it it's not even funny. My understanding is that you have implemented the public sector auditing standards for the first time this year. Can you take a minute or two to outline the key pieces that have changed?

• (1700)

Ms. Nancy Cheng: Earlier I was able to talk about the change in the independent auditor's report, but even prior to the change, Canadians had very good standards. So in essence and in principle, things have not changed that much in terms of what we do with respect to audits. The new international standards call for more rigour in documenting what we've done, and in documenting decisions and conclusions in our audit files. So that particular aspect is not as evident to either the management, in this case government, or to the committee, but we would see that a fair bit in our own files.

The other aspect is that the standards require that we have good interaction with those charged with governance. In this particular case, that means we would have to further demonstrate how we have dialogued with the Comptroller General's office, with the Deputy Minister of Finance, the Receiver General, as well as the Secretary of the Treasury Board, to make sure we apprise them of our plans, what we do in terms of the audit, but also on audit findings.

There is an emphasis to say that if we come across any significant deficiencies on controls, the auditors need to and shall report back to those charged with governance. So all those things have more rigour, if you will, in terms of how we interact and communicate with the government department, as well as those who sign the statements on behalf of government.

The standards themselves are quite voluminous, so certainly there is a lot of rigour to the standards themselves.

I think I will stop there, unless you have something more specific to ask. Otherwise, it could take a fair bit of time.

Ms. Joyce Bateman: I appreciate that, and perhaps that's a subject for a subsequent meeting at this committee, because certainly it's an important international leadership piece, and we're very proud to be Canadians.

Moving over to the Office of the Comptroller General, and Mr. Ralston, all these big volumes are your babies, right? You created these books. I'm curious, because I remember way back when I wrote the uniform evaluation exams, you did the consolidation work, and I loved it. Pepper and salt—not everybody loved those consolidations. Could you enlighten this committee, and perhaps give us the tools so we could share with our constituents what's involved in this? This is an incredibly huge consolidation process, is it not? Could you enlighten us briefly? Or take us along as you want, because I'm really interested in this.

Mr. Jim Ralston: I'll be very brief, Mr. Chair.

First, all three volumes of the public accounts are compiled by the Receiver General housed in the Department of Public Works and Government Services Canada. There is a large compilation, but in the sense that you refer to it, consolidation, the only consolidation that occurs is in section 2 of volume I, which is the summary-level financial statements of the government. So for the consolidation process, all departments, all the consolidated entities, have to supply the information in a prescribed format. We do all the things you would remember—elimination, entries to get rid of internal transactions—the idea being that we want to present the government at the end of the day as one entity in its transactions with the outside world, with all internal transactions washed out.

• (1705)

The Chair: Your time has expired. Thank you both.

Over now to Mr. Byrne. You have the floor, sir.

Hon. Gerry Byrne: Thank you, Mr. Chair.

I want to follow up on your expression, Madam Cheng, about the lawfulness or unlawfulness. Spending has to occur within the context of the Financial Administration Act—is that correct?

Ms. Nancy Cheng: Yes, sir.

Hon. Gerry Byrne: The Financial Administration Act describes that Parliament—and unfortunately I don't have the section here, but I will have it shortly—is required to vote or to approve expenditures for purposes for which they are intended. The fact that the border infrastructure fund was used, admittedly, as a vehicle or conduit for the G-8 legacy fund—the gazebos, the skating rinks, and so on.... I understood the Auditor General found that Parliament was not properly informed, and quite frankly was misinformed of what it was

voting on, what it was approving, or authorizing. Do you feel as though that was a contravention of the Financial Administration Act?

Ms. Nancy Cheng: This is not a subject I've prepared for in terms of the briefing, nor was it my audit file, so I'm answering to the best of my knowledge in terms of what I know.

I believe the office position was that this is not a case of non-compliance with the law. The concern that we highlighted is along the line of how the expenditure was being described in terms of vote spending and that it was different in the end. I don't think we went as far as indicating that these activities were unlawful—that is, outside of the FAA—and that the funding should not have been expended.

Hon. Gerry Byrne: Understood.

Those relevant sections of the Financial Administration Act that describe what particular activities are being offered to Parliament in terms of description versus what it's authorizing, do you have something for me on that? Specifically, I'm referring to section 28, part 3, public disbursements:

Where an appropriation is made for any purpose in any Act of Parliament for granting to Her Majesty any sum of money to defray expenses of the federal public administration for a fiscal year, no payment shall be made pursuant to that appropriation out of the Consolidated Revenue Fund unless a warrant, prepared on the order of the Governor in Council, has been signed by the Governor General authorizing expenditures to be charged against the appropriation...

Also, section 27,

All estimates of expenditures submitted to Parliament shall be in respect of payments during the fiscal year to which the estimates relate and expenditures that will be incurred during that fiscal year.

In terms of public disbursements, the Financial Administration Act is fairly clear that what is described to Parliament must, indeed, be held to account, and if it's not described to Parliament it's not lawful. Is that not a fair representation of the act?

Ms. Nancy Cheng: Mr. Chair, I would think it would be more appropriate to have my colleague who was responsible for the file to actually answer that question. It wasn't a section that I had studied at length and it would be inappropriate for me to try to interpret that for this hearing.

Hon. Gerry Byrne: Thank you, Ms. Cheng.

Mr. Ralston, one of the great questions I think parliamentarians and senior officials like yourself struggle with is making the main estimates in the parliamentary reporting more straightforward. There has been some degree of criticism that not a whole lot of plain language is used, so parliamentarians don't often have access to the information they require to actually make informed decisions and have informed discussions about what's in the main estimates. You may disagree with that, but many pundits follow that point of view.

Do you have any opinions as to how the process could be made more clear? You referred specifically to the sections on the G-8 legacy infrastructure fund. It is in part III. There is some notation of it. You have to admit, it would be pretty difficult and a reasonable person would have to spend an awful lot of time and energy to try to find this stuff out. Is there any way that you would recommend to make it more clear?

•(1710)

Mr. Jim Ralston: The challenge with summary-level financial information in an organization the size of the Government of Canada is that there are millions and millions of transactions that occur every year. The challenge is to summarize them in a way that's meaningful and would address the questions that people would most commonly have in mind. It is simply impossible. As voluminous as these public accounts are, it's simply inconceivable that every conceivable question could be answered in detail in these documents. The challenge is exactly as you say: what do you choose to disclose? How do you choose to disclose it so that it's as informative as it can be for perhaps the great majority of common questions? Will it be without further analysis and digging for the ultimate final reference? It cannot be.

The Chair: Sorry, the time has expired.

On to what will be our last speaker, Mr. Dreeshen. It will actually be less than five minutes to hold to the 5:15.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much, Mr. Chair.

Thank you very much for coming today. There are a couple of things I wanted to start with. I suppose the most striking commentary is found in the discussion and analysis on section 1.3, where you talk about the types of things that have happened in 2010 and 2011 and the concerns. It's the most synchronized recession we've had since the 1930s. And also you talked about the weakening global economic growth, about things that are happening in the U.S. and in Europe. Throughout all of this our economy and our fixed fundamentals have kept us in the top of the pack. I'm interested in the comments on the growth of real consumer spending on goods and services as well as the business investments in machinery and equipment. And just how much of an effect was there for the demand for Canadian exports, weakened because of U.S. and European and

economic stress? Also, how are we positioned in order to manage this future stress?

Mr. Jim Ralston: Mr. Chair, I think the question is for Mr. Nevison.

Mr. Doug Nevison: Thank you, Mr. Chair.

As I mentioned, consumer spending and business investment have been very strong as of late, through the third quarter of the year. As I said, we've had nine consecutive quarters of domestic demand growth, which is quite significant, particularly compared to a lot of other countries that haven't seen domestic demand come back to their pre-recession levels. That's been very timely, in the sense that, as you mentioned, exports have been very weak because of what's going on in the global economy. I don't have the growth rates with me offhand, but as I said, it's been nine consecutive quarters of growth and we've gone past the pre-recession peak.

Mr. Earl Dreeshen: Thank you.

Mr. Chair, you've indicated that I'm going to perhaps be cut off here, but I'd just like to go back into some of the discussions that we've had. I'm afraid we won't have enough time to deal with our business planning in this particular session.

I would like to move that we adjourn immediately.

The Chair: The motion to adjourn is in order.

Adjourn the hearing or the meeting?

Mr. Earl Dreeshen: The meeting.

The Chair: The whole meeting, very well.

There's a motion to adjourn the meeting, which is in order, non-debatable, and we'll go straight to a vote.

(Motion agreed to)

The Chair: This meeting stands adjourned.

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