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The Honourable Kevin Sorenson

Standing Committee on Public Accounts

Wednesday, October 31, 2018

● (1530)

[*English*]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good afternoon, committee and honoured guests.

This is meeting number 116 of the Standing Committee on Public Accounts on Wednesday, October 31, 2018. We are here today in consideration of the public accounts of Canada 2018.

I would remind all who are here at the committee, in the audience and around the table, that we are televised today. Please, if you have a phone or a communication device of any kind, turn it to mute or vibrate or something that's less of a distraction.

The mandate of the Standing Committee on Public Accounts is to review and report on the public accounts of Canada and all reports of the Auditor General of Canada. For those who may be watching, and for those here, probably 95% or 98% of the time we are reviewing our Auditor General's reports and conducting studies in regard to them, but the other part of our mandate is to review the public accounts. That's what we're here to do today.

We are pleased to have with us a number of witnesses.

From the Office of the Auditor General, we have Mr. Michael Ferguson, Auditor General of Canada, as well as Ms. Karen Hogan, principal, and Ms. Renée Pichard, principal.

From the Department of Finance, we have Mr. Paul Rochon, deputy minister, and Mr. Bradley Recker, director general, fiscal policy.

Lastly, from the Treasury Board Secretariat, we have Mr. Roch Huppé, comptroller general of Canada; Ms. Janique Caron, assistant comptroller general, financial management sector; and Ms. Diane Peressini, executive director, government accounting policy and reporting, office of the comptroller general of Canada.

Welcome to all.

We have two presentations, I believe. We'll begin with Mr. Ferguson, please.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General): Mr. Chair, thank you for this opportunity to discuss our audit of the consolidated financial statements of the Government of Canada for the 2017-18 fiscal year.

With me is Karen Hogan, the principal responsible for that audit. I'm also accompanied today by Renée Pichard, the principal responsible for our recently tabled commentary on the 2017-18 financial audits, which reports on our financial audits of federal organizations.

The government's consolidated financial statements are one of its key accountability documents. For the fiscal year that ended on March 31, 2018, the government had a deficit of about $19 billion and a net debt of $759 billion. Net debt is the amount by which the government's liabilities exceed the value of its financial assets.

[*Translation*]

Our independent auditor's report, or audit opinion, is on page 48 of volume 1 of the public accounts.

We found that the statements conformed to generally accepted accounting principles for the public sector in all material respects, which means that you can rely on the information they contain.

Not many national governments receive a “clean” audit opinion on their financial statements. The Government of Canada should be proud to have accomplished this every year for the past 20 years.

[*English*]

This year, our audit of the government's financial statements took us more than 60,000 hours, which is longer than it takes to complete seven performance audits. This financial audit matters because it supports parliamentary oversight of the government, promotes transparency and encourages good financial management.

Our commentary on financial audits includes three observations that resulted from our audit of the government's consolidated financial statements.

[*Translation*]

Our commentary report is not an audit report. It highlights the results of all of the financial audits we conducted and provides commentary on the results. Our intention is to provide parliamentarians with useful and easy to find information on our financial audits.

Our three observations on the government's 2017-18 financial statements involve pay administration, discount rates for management estimates, and National Defence's inventory management. I will briefly address each of these matters.

● (1535)

[*English*]

The first is pay administration. Again this year, we found deficiencies in the government's internal controls for pay expenses, which meant that we had to carry out detailed audit tests of the $25 billion in salaries and benefits processed through the Phoenix pay system. We looked at about 16,000 pay transactions across 47 departments. We found that 62% of the employees in our sample were paid incorrectly at least once during this year. The government underpaid some employees and overpaid some employees. We estimated $369 million in underpayments and $246 million in overpayments.

Despite the significant number of individual pay errors, they didn't result in a financially significant error in the government's total reported pay expenses. This was because overpayments and underpayments partially offset each other, and because the government recorded year-end accounting adjustments to improve the accuracy of its pay expenses. These adjustments changed only the reported pay expenses in the consolidated financial statements. They didn't correct the underlying problems, nor did they correct the pay errors that continue to affect thousands of employees.

The second item in our observations is positive, as it resolves an issue we raised in the previous two years. During the 2017-18 fiscal year, the government completed its review of the discount rates used to estimate its long-term liabilities. The review was rigorous and addressed an important issue.

The most significant impact of changing how discount rates are determined was on the valuation of public sector unfunded pension liabilities. This change resulted in an increase in those liabilities of $19.6 billion compared with prior years. In our view, this better reflects the value of what it will cost the government to meet its pension promises.

[*Translation*]

We are pleased to note that the balances from last year's financial statements were adjusted. This makes it easier to compare results from year to year. The details of the change are shown in note 2 of the audited financial statements.

The third matter in our observations involves the recording and valuation of National Defence's approximately $6 billion of inventory. We have brought this matter to the attention of Parliament in each of the past 15 years. We are pleased with the department's action in the past years. It followed the plan presented to this committee in 2016-17. We expect further progress in the coming years as National Defence completes the steps necessary to improve its inventory management practices.

In addition to our observations on the government's consolidated financial statements, our commentary report discusses other issues that I would like to highlight today.

First, based on our discussions with National Defence, we expect the department to make progress in resolving the accounting issues associated with its Reserve Force pension plan in the next couple of years.

Second, we note that the government made some improvements to its financial statement discussion and analysis. We will continue to work with the government on ways it can enhance that financial information. We also believe we can help the government to streamline other information it includes in the public accounts to make it easier to understand.

[*English*]

Third, the government has more than 30 significant IT projects planned or under way. These projects represent risks for the government, since federal organizations rely on these complex IT systems to deliver services to Canadians. The government must monitor the progress of these projects, and test and assess the systems prior to conversion.

Finally, our commentary report discusses the information that supports parliamentary approval of government spending. Approximately two-thirds of government spending is not voted on by Parliament through the main estimates process because it was authorized through other legislation in the past. Parliamentarians need to understand the nature of these amounts.

Every year there's a difference of several billion dollars between the amounts presented in the budget and those in the main estimates. This year, the difference amounted to $62.5 billion. We believe the majority of this amount should be included as statutory expenditures in the main estimates.

● (1540)

[*Translation*]

Mr. 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 consolidated financial statements. We appreciate their effort, cooperation, and help.

I would also like to sincerely thank our staff for the dedication and long hours they put into completing our financial audits.

Finally, Mr. Chair, I would like to say that I am pleased that again this year the committee has decided to hold this hearing so soon after the release of the consolidated financial statements, while the information is still current.

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

[*English*]

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

We'll now turn to Mr. Huppé, comptroller general of Canada.

Welcome.

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

[*Translation*]

Thank you, Mr. Chair and members of the committee. I appreciate this opportunity to discuss the public accounts of Canada for 2017-18.

I am joined today by two of my colleagues from the Treasury Board of Canada Secretariat, Janique Caron, assistant comptroller general of the financial management sector, and Diane Peressini, executive director of government accounting policy and reporting.

[*English*]

Mr. Chair, the public accounts include the audited consolidated financial statements for the 2017-18 fiscal year, which ended on March 31, 2018, 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.

I am pleased to note that for the 20th consecutive year the Auditor General has issued an unmodified or “clean” audit opinion of these financial statements. This demonstrates once again the high quality and accuracy of Canada's financial reporting and the Government of Canada's commitment as an institution to the responsible financial management and oversight of taxpayer dollars.

In terms of highlights, the public accounts are showing an annual deficit of approximately $19 billion, virtually unchanged from last year, with an accumulated deficit of $671.3 billion. The ratio of accumulated deficit-to-GDP is 31.3%, down from 32% in fiscal year 2016-17.

This year, the government reviewed its methodology for the selection of discount rates to promote consistency in measuring financial statement items. Discount rates are used to estimate today's value of future cash flows.

This change was applied to a number of liabilities and assets. For the unfunded pension obligations, the new methodology represents a fundamental change in the government's discounting approach. It is therefore considered a change in accounting policy and was implemented retroactively.

[*Translation*]

Much work goes into these financial statements, which are prepared under the joint direction of the Minister of Finance, the President of the Treasury Board, and the Receiver General for Canada.

I would like to thank the financial management community of the Government of Canada for their excellent work in helping to prepare the public accounts. Its members are responsible for maintaining detailed records of the transactions in their departmental accounts and maintaining strong internal controls.

● (1545)

[*English*]

I would like to thank the Office of the Auditor General for its continued co-operation and assistance. In particular, as noted in his observations, the OAG has invested many hours and has worked closely with my office to achieve this 20th unmodified audit opinion.

[*Translation*]

We very much appreciate their professionalism and collaboration.

We look forward to addressing your questions to aid you in your study of the Public Accounts.

[*English*]

Also, Mr. Chair, I would note that last week there was a short deck presentation that was provided to this committee. Obviously, if there are any questions on that deck, we would welcome these questions.

Thank you.

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

We'll now move to the first round of questioning, which is a seven-minute round.

We'll go to Madame Mendès, please.

[*Translation*]

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

Thank you all for being here this afternoon.

Welcome, Mr. Huppé. This is our first official meeting with you. My sincere congratulations on being appointed comptroller general.

Mr. Ferguson, I would also like to commend you on how well your speeches are written. It is a real pleasure to read them in French because they are so well written and all the sentences are excellent.

We are pleased that the Commentary on the 2017-18 Financial Audits was presented separately, even though it took us some time to find it. This document is very informative and helps us better understand what the Public Accounts of Canada are about. It is not necessarily easy for us as neophytes to accounting to understand the essence of the Public Accounts of Canada.

As a government representative, I am very pleased that the auditor general has issued an unmodified audit opinion for 20 years in a row. Once again, I note that it is without partisanship. The entire public service should be congratulated for conducting the country's financial management in such a clear and professional manner.

I have a lot of questions about pension funds and how the calculation of rates has become much more realistic. This will also reassure those who analyze the state of Canada's finances.

Mr. Huppé, could you fill us in on the how and the why? I know the auditor general has identified this problem for the past two years. How did you go about revising the pension fund rates? What exactly does it mean for future pensioners in Canada?

Mr. Roch Huppé: Thank you for your question.

On the last part of your question, I want to point out that this revision will not change the amounts people will receive. The discount rates were revised to give a more accurate picture of liabilities. It shows what it will cost us today and what our liabilities are for projected spending.

People will receive the pension they are owed, but the amounts will be paid out over the next 10, 20 and 30 years. In the financial statements, we have to discount those amounts to indicate their value as accurately as possible. That is why we undertook this exercise, further to the recommendations from the auditor general, who pointed out that the rates we were using were at the higher end of acceptable rates. As a result, the higher the rate, the lower the liabilities. We wanted to make sure our liabilities were correctly assessed and were not underestimated.

We looked at the various accounting principles and standards that we had to follow, and the best practices of other governments in Canada and abroad. We arrived at an analysis that led us to change our methodology to make it much more realistic with respect to our borrowing rate. That is the part of pensions that is unfunded.

● (1550)

Mrs. Alexandra Mendès: You guessed my next question.

Mr. Roch Huppé: We reassessed our liabilities, which we think is more accurate.

Mrs. Alexandra Mendès: What do you mean by the ”unfunded” part of pensions? Does that mean that it is not invested in some kind of assets?

Mr. Roch Huppé: There is a distinction to be made among pension funds.

Most pension funds that are considered “unfunded” are those used before 2000. Since 2000, there are only a few of them left, and the presentation now shows only funded pension funds.

Let me explain. In both cases, both the employee and employer contribute to the pension fund. An unfunded fund is one in which those amounts are not protected; they are not put in a separate account and are not managed separately. The contributions are collected in an unfunded model and the payments come right out of the consolidated fund.

Mrs. Alexandra Mendès: So it really has nothing to do with investing in real estate or not, for example.

Mr. Roch Huppé: No.

Mrs. Alexandra Mendès: Okay, I see. It takes a few years to understand everything involved.

[*English*]

Mr. Ferguson, the difference you underlined between the budget and the main estimates, the $62.5 billion, how could it be included in the main estimates on an ongoing basis?

If I understand correctly, that was your point.

Mr. Michael Ferguson: Yes.

The issue we're raising there.... Again, just by way of trying to help parliamentarians understand some of those documents, if you look at the budget, it says there's an amount of $330-something billion that would be budgeted to be spent. If you look at the main estimates to see how much is going to be voted on by Parliament, and how much of that is statutory, so already approved by Parliament, it was $270-something billion. That's a difference of $62 billion.

My starting point is that if the government is planning on spending $330 billion, there should be a very clear path to how Parliament has authorized or will authorize the spending of that $330 billion. Parliament should be authorizing all of it. Parliament is the body that authorizes the government to spend money.

Then, when I see that there's an amount that is considered statutory and an amount that's considered voted, to me, those are the only two ways that Parliament can actually approve spending. They either have to vote on it, or it has to be already built into legislation and authorized by Parliament. I would expect those two numbers to add up to the $330 billion, but they don't. They add up to $270 billion, a $62-billion difference.

There is a table in the main estimates, and I believe also in the budget, that explains what's in that $62 billion. For example, some of it was children's benefits, which is a program authorized under the Income Tax Act. If there's a piece of legislation that authorizes that program, why is it not considered statutory like all of the other statutory payments?

One thing I noticed was that even when you look at how much is statutory and how much is voted, two-thirds of the amount in the main estimates is considered to be statutory. At the end of the day, Parliament is only voting on about $110 billion of the $330 billion that is in the government's budget, which is, I would say, the reverse percentage as the provinces.

I understand that there are things like equalization at the federal level. Nevertheless, I think there are some types of payments that the federal government considers statutory that perhaps the provinces might consider to be things that need to be voted.

I'm just trying to bring all of that information to your understanding.

● (1555)

The Chair: Thank you very much, sir.

We will now move to the opposition.

Mr. Kelly, you have seven minutes.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you.

It's good to see you, Mr. Ferguson. Thank you for your work on behalf of Canadians.

Thank you to our other witnesses today.

In the public accounts, you report the $615 million worth of pay errors. Of course, we know you characterized the Phoenix system as an “incomprehensible failure”. Part of your explanation of “incomprehensible” was that there was every bit of oversight and management that would seem appropriate, yet it happened.

Do you think that the underlying issue may not be a lack of oversight but the quality of oversight? I raise this now because we have 30 other significant IT projects that you've identified in your report, and if we don't have the right people, people capable of properly managing a major IT change in a department, as you rightly pointed out in your report, we risk further incomprehensible failures.

Do we have people who are qualified and actually capable of delivering oversight on IT? We still have $615 million that wasn't paid correctly in these accounts.

Mr. Michael Ferguson: In general, I would say that there are a lot of very capable people in the federal civil service, people who are very capable of managing projects and keeping projects in line. IT projects are particularly difficult, of course.

I think one of the big failures in Phoenix was the whole system of oversight—how the oversight was put together. The reason we are raising this in terms of these other significant IT projects is that now is the time for the government to stand back and look at all of these projects and ask if we have real external oversight, if we have the opportunity for people to come forward when they think a system is not going to work. Right now is the time, because of all these very significant systems, for the government to make sure that whatever lessons have been learned from Phoenix aren't just learned on the next project that starts up, but are applied back to all of these projects that are already under way.

Mr. Pat Kelly: In your commentary, you specifically mention the Canada Revenue Agency, which has a multi-year project known as the T1 systems redesign. We're already hearing, by anecdote—which is how these things start—about widespread failures. We heard that the system crashed right before the filing deadline earlier this year. We've heard of people from all across Canada complaining that the system will not show that a return has been filed, but in fact it has, which triggers the cessation of benefits or income supports, in some cases.

What risk do we have of another incomprehensible failure on the CRA system redesign? Do you have confidence that the correct oversight is there at the CRA to ensure that we don't have another catastrophic IT disaster on our hands?

● (1600)

Mr. Michael Ferguson: I can't speak to what any of these particular projects have put in place. We haven't gone to do an audit on them to sort that out. Certainly I think those are the right questions for each of the departments that are responsible for these types of large projects: How are they making sure that the project is going to work? Do they have ways of rolling out the projects using pilot projects, and all of those things that were not used in Phoenix? Are all of those steps in place?

You can never guarantee that there will not be a failure when you're dealing with 30 IT systems, but I think they need to make sure that they manage all of these systems appropriately and get them implemented appropriately. If there is a system that is going to be problematic, they need to identify that before it gets put in place and into production and before it is being used widely.

Obviously, it's okay to put in place some pilot projects and learn from that, but what they did with Phoenix was put the whole project in place without its being properly tested and without a pilot project. They need to make sure that this doesn't happen on any of these projects.

Mr. Pat Kelly: I would like to return to the question of whether or not the people with the correct skills are in place. You don't know whether we have the capacity inside the federal civil service to ensure that people are able to judge whether a system is ready to launch or not. Under Phoenix, the management systems were in place, and yet it failed, as you put it, incomprehensibly.

This is the troubling part. How do we know that this won't be repeated over and over again? Is that the weak link? Given the complexity and how specialized this type of knowledge is, does the correct oversight exist, as opposed to simply having management oversight?

Mr. Michael Ferguson: Again I have to say that we haven't looked at any of these systems individually, so I can't tell you what stage they are at, or with what types of issues they are struggling. One of the things we identified in Phoenix, though, was that all of the information about how that project was progressing was going up through the project managers.

There was no way for the deputy minister or other people to get information from other, outside sources to say whether the project was operating as it should. That's something that is critical to have in place, to ensure that information.

Remember the Gartner report, for example, which was done before Phoenix was put in place. That report identified a number of issues and things that should have been dealt with, but the report went back through the project managers. If that report had a way to go to an oversight committee, directly to the deputy minister or somewhere else, perhaps that would have been enough to see that this system wasn't going to work. There were people who had identified the problems that Phoenix was going to bring, but the only way that information got considered was through the people who were responsible for the project.

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

Mr. Christopherson, for seven minutes.

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

Thank you, all, for being here and for all your work.

Right off the top, I want to give a personal thanks. For a couple of years I've been going on about not being able to find things, because things weren't paginated in a way that made sense, at least to this kid from Hamilton. You fixed it. Anybody can find any page really quickly. I appreciate it. Whoever gets the kudos for that, thank you.

I also want to comment on the 20th clean audit. As you know, members, this is the 14th time that I've had the honour of being here when we received a clean audit. I've always felt that this was a time when somebody who gets absolutely no part of the credit at all, because we've never been government, gives a tip of the hat to the two parties that have governed and that have given us these 20 years of clean audits. It gives Canadians an assurance that a lot of countries would love to have—I can tell you, as I travel the world. That is, nobody is robbing us blind, stealing money from the Canadian treasury and putting it in an offshore account. We have our challenges, but that's not one of them.

Most of that credit goes to the bureaucracy, the civil servants, the staff, who diligently, day in and day out, are so dutiful in terms of their responsibilities. That's the only way this happens. As someone from the so far eternal third party, with a couple of exceptions, I want to express my gratitude to previous governments and, more importantly, to the bureaucracy and the civil servants who gave us this. We should all be proud of this. Thank you.

I just want to mention that I had the same question as my friend Madam Mendès about the $65 billion. I think I got as much of an answer as we're probably going to get here. This is the first time I've been exposed to that as an issue, which is why I think my colleague asked the question. This may be one of those I leave with you, Chair and colleagues. That may be one of the items where we want to do a follow-up hearing resulting from these. I can tell you, since I've been here, that would be a first. That would be a real sign of advancement, that we're really starting to do our job in public accounts. This sounds like something really important, macro. This oversight committee, I think, should be seized with this a little more.

I'm certainly someone who's very good at giving criticism when it's deserved and necessary, but I also want to make sure there's an opportunity for credit. In this case, I want to give a shout-out, first of all, to our whole process—how quickly the discount rate was raised as an issue, seized by this committee, and recommendations were made. The bureaucracy grabbed it and ran with it. I could be wrong, but I think it was a couple of years from identifying the issue to having it resolved. That's impressive. I want to thank those who made that happen and give them credit for giving the respect to the AG's work and to this committee that they deserved.

On the defence committee, you mentioned, AG, that for 15 years there's been a problem with inventory. I've been here for every one of them except one. Finally, we can say they're getting there. To all those deputies, current and past, who have been here, thank you. We're finally getting there. It looks like we're on the right path. We need to stay diligent, though, to make sure that the changes go ahead. This is $6 billion. It's been a 15-year, $6-billion problem. We're finally getting it turned around all to the good.

I won't have time to take the floor again in this round, so I have two questions.

One is about the GM shares, volume three, page 132. It's been in the media. I don't think we've spent time talking about it at this committee. It's just shy of $2.6 billion, and there are a lot of questions around that. I'd like to get some comment on that, both what the problem is and your responses, Auditor General and government.

This is my very last point, Chair, and I appreciate your indulgence.

About three pages in, actually in the front part, Mr. Ferguson, you said this: “In this commentary, we also let parliamentarians know that...many federal organizations have granted access to some of their computer systems to people who do not need access”.

● (1605)

In light of the growing concern about StatsCan and personal information, I thought I would ask you to tease that out a bit and give us some sense of what exactly you're talking about there, Mr. Ferguson.

Thank you, Chair.

The Chair: Mr. Ferguson, go ahead.

Mr. Michael Ferguson: First, in terms of the item that you talked about on page 132, I'll just give you a brief introduction to that and then perhaps Mr. Huppé will provide you with more details. Essentially this is the write-off of loans. When the government issues a loan, it sets that loan up as an asset on its books. At the end of every fiscal year it needs to decide whether it thinks it's going to collect on that loan or not. If it thinks it's not going to collect on it, then it has to set up a provision, an allowance for doubtful accounts, saying it's not going to collect it.

As soon as it sets up that allowance for doubtful accounts, that's when the expense would hit the books, to essentially say, “We're not going to collect this loan. We paid out $2.6 billion. We're not going to collect it, so that $2.6 billion doesn't really represent an asset anymore. We have to set up an entry that expenses it.” It will often be years later when the government says, “Okay, now we know for sure we're not going to collect this, so let's write it off,” which just means, “Let's take it out of the records.” The accounting for it as an expense is usually done well in advance, years in advance of when the write-off actually happens.

I'll just go on to the second part of your question, and perhaps Mr. Huppé can then give you some more details, if there are more details.

In terms of access to computer systems, that's something we identify as a problem in many computer systems. When we're doing our financial audits, one of the things we look at is whether there are controls in place in the financial systems that would let us rely on how those systems process transactions. One of the first things we look for is whether departments are properly controlling access so that only people who need access can access those systems. It's a problem we keep seeing in many departments—they aren't controlling access to their systems. I think it's something we need to dive further into and give you more information about, perhaps in a future commentary report, but it is something that is a concern in many different organizations.

● (1610)

The Chair: Thank you.

Your time is up, but, on that very point, your concern here is not about somebody hacking into the system; it's about whom they actually give access to.

Mr. Michael Ferguson: It's about whom they give access to and what type of access they give to those people.

The Chair: It deals with improper security around access to the system.

Mr. Michael Ferguson: That's right. You're right that we're not talking so much about hacking, although if there aren't good access controls, that could facilitate hacking as well. Primarily, we're looking at this: Only the people who need access should have access, and they should have access only to the parts of the system they need to access.

The Chair: Thank you very much.

We'll now move to Mr. Massé.

[*Translation*]

Mr. Massé, you have seven minutes.

Mr. Rémi Massé (Avignon—La Mitis—Matane—Matapédia, Lib.): Thank you, Mr. Chair.

To begin, I would also like to thank all the teams responsible for the publication of the Public Accounts of Canada. They are extremely useful documents that give MPs access to a ton of very important information.

There is still some way to go, though, to make this information more digestible to us, because we often have to take out the calculator and search for various things.

Along the same lines as my colleague Mr. Christopherson, I would like to add that, last week, the media actually reported that Chrysler's debt had been written off. That $2.6 billion is of course a striking amount given the considerable difference in total debt write-offs as compared to previous years.

As I said, all this information needs to be more digestible. For example, I wanted to figure out the total debt write-offs this year. I had to check a number of pages and do some calculations. I arrived at a total of roughly $4 billion in debts written off every year.

Mr. Chair, I would like Mr. Huppé or Mr. Rochon to answer the following question: do you think the federal government and its departments actually have enough control and the right processes in place to deal with debts and bad debts?

[*English*]

The Chair: Mr. Huppé, go ahead.

[*Translation*]

Mr. Roch Huppé: Thank you, Mr. Chair.

First, several departments are entirely capable of recovering a debt or controlling their receivables.

Second, three quarters of the $4 billion in debts written off each year are Canada Revenue Agency receivables, an agency that collects a tremendous amount of money.

From an accounting perspective, we recognize that we need to assess our assets as effectively as possible to give an accurate picture. Accounting standards require us to review our accounts receivable every year, assess our ability to collect those amounts, and report on the debts that we will be unable to recover.

As to Chrysler's debt, Mr. Ferguson explained earlier the process by which the government decides in the years following the report of a bad debt to ultimately write that debt off. If that process is followed, we do write it off.

Certain departments get better results than others. There are some for which debt collection is not a core activity, so to speak, and whose monitoring framework is perhaps not as well developed. I can assure you, however, that most departments have debt write-off committees. In other words, the final decision whether or not to write off a debt is not made until various committees and senior officials have reviewed the file. Moreover, several departments do not have the authority to write off those debts themselves and have to follow another process instead, such as referring them to the President of the Treasury Board.

● (1615)

Mr. Rémi Massé: Thank you, Mr. Huppé.

Mr. Rochon, forgive me, but I don't have much time.

Mr. Paul Rochon (Deputy Minister, Department of Finance): Of course.

Mr. Rémi Massé: I can hear from you later on.

If I understand correctly, certain departments do a good job, while others could do better.

In recent years, I have done some research because I am very interested in public accounts. I learned that, 22 years ago, the U.S. government enacted the Debt Collection Improvement Act of 1996 to address the challenges that federal departments faced in collecting certain debts. As in Canada, most people pay their debts, but others might have more trouble doing so. With this law, the U.S. government wanted to provide a stricter framework for debt recovery. The initiative paid off because it now collects about $40 billion in debt every year. The key to its success is its speed. Each department has six months to collect a debt on its own, and then it is handed over to the U.S. Treasury.

A few years ago, the Receiver General for Canada launched a pilot project. In your opinion, could we do more to recover debts earlier and thereby improve our results?

In closing, when I look at these figures as the MP for Gaspé, I see that a great deal of money is involved. Sometimes we lose perspective when we see huge sums such as $4 billion, or even $40 billion. But if we take a moment to think about it, we realize that $4 billion is 4,000 million dollars, a huge amount.

So I would like to know if we can do anything to establish a better process to limit debt write-offs as much as possible.

[*English*]

The Chair: Thank you, Mr. Massé.

I'm not certain if that goes back to Mr. Huppé or if you still want Mr. Rochon to answer your first question.

[*Translation*]

Mr. Roch Huppé: Let me begin.

Mr. Chair, I can assure you that our current processes are comparable to those used in the United States and to what Mr. Massé just referred to. We have procedures in place to refer some of our debts if there are outstanding amounts, such as taking deductions at source. The Canada Revenue Agency can take responsibility for collecting a debt.

Mr. Massé also mentioned a pilot projet. It is underway right now, and we expect a report in the coming months. The pilot project, which includes Parks Canada, is intended to determine how to help certain agencies recover their debts, agencies for whom it is not a core activity and that do not have the necessary ability to do it. These agencies call upon people who are experienced in this area to get results.

That said, you have to admit that certain bodies do very good work in this regard, including the Canada Revenue Agency. In recent years, studies of revenue agencies in different countries have been conducted to measure their rate of success, and the CRA is among the best in recovering debt quickly.

● (1620)

[*English*]

The Chair: Thank you.

We are way out of time, but I will give Mr. Rochon an opportunity.

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

[*Translation*]

I would simply add that you have to be careful with the numbers, and perhaps we should explain them better.

In Chrysler's case, for instance, the initial loan was $2.9 billion. Chrysler repaid $2.1 billion of that. Over time, however, with the prevailing interest rates and fluctuations in the rate of exchange, that led to a $2.6 billion write-off from the public accounts.

So it is a bit misleading to say that $2.1 billion was written off for a loan that Chrysler received. In the end, the real benefit to Chrysler in this case is the difference between $2.9 billion and $2.1 billion.

[*English*]

The Chair: Thank you, Mr. Rochon.

We'll now move to Mr. McCauley, please, for the second round.

Mr. Kelly McCauley (Edmonton West, CPC): Mr. Ferguson, you'll be pleased to know that your comment following on the 2012 OGGO report on the estimates about the statutory and legislative spending to be included in the estimates—we're studying it right now in OGGO—is going to be part of our recommendations. I think that's a great point, so I appreciate that you brought it up.

I want to talk to Treasury Board and you about the vote 40, the $7.04 billion dollars that was in the main estimates. How is the spending for that going to appear in public accounts?

Mr. Roch Huppé: First of all, vote 40 does not appear, obviously, in these public accounts, because it was still—

Mr. Kelly McCauley: I realize that. How will it?

Mr. Roch Huppé: Exactly, so in the future....

This funding was set aside in a special-purpose vote—

Mr. Kelly McCauley: I know. I'm sorry. We're very short of time. We have only five minutes.

How will it appear in the public accounts?

Mr. Roch Huppé: It will appear in two ways. One, the money was provided to the departments because the departments came and got their funding from it, so then it would show as expenditures within these different departments, which would see an increase in their appropriations. Two, if that vote is not completely used, then it would be either lapsed or carried forward to the following year, so you would see that.

Mr. Kelly McCauley: I want to give you an example. If you look at page 293, there are line items: “Prime Minister's Visit to Tel Aviv..." of $4 spending detail, and “Prime Minister's Bilateral Visit to Havana..." of $32 spending detail. Will money from the vote 40 be broken down in detail as regular spending?

Mr. Roch Huppé: Yes, vote 40 will appear in the appropriations of the departments. Obviously, as a result of the budget measures, it won't be as—

Mr. Kelly McCauley: Will it show specific details?

Mr. Roch Huppé: It will depend on what the expenditure is about, to be honest with you. If it's about professional services, it will be included as professional services. In volume II, you have a series of breakdowns of the expenditures by the department, but the link to—

Mr. Kelly McCauley: Let me give you another example. In A2.11, there's almost a third of a billion dollars for stabilizing the Phoenix pay system. We've asked what that money is going to be used for. There's no answer. No one seems to know exactly. How will that third of a billion dollars show up to Canadians and parliamentarians in the public accounts? Will it show up in detail, like the $4 coffee on the Prime Minister's trip, or will it show as a line item transfer of a third of billion dollars?

Mr. Roch Huppé: It will show as a transfer to the department, and then it will show up as an expenditure, depending on the types of expenditure. If the money is used, for example, for additional staff, it will show as salary expenditures. If the money is used to hire outside expertise, it will show as professional services.

Mr. Kelly McCauley: You're saying it will show as detailed as regular spending in the public accounts.

Mr. Roch Huppé: Yes, exactly.

Mr. Kelly McCauley: Mr. Ferguson, is that your understanding of the vote 40?

Mr. Michael Ferguson: I haven't really looked into the details of how it's going to show up in the public accounts. However, certainly —as I understand with vote 40—the departments have to go through the process to request that they get an allocation, so at some point there should be an accounting of, out of vote 40, what was approved for what departments, how it was transferred to those departments, and then how it shows up in their public accounts.

Mr. Kelly McCauley: The reason I ask this is that we've asked the Parliamentary Budget Officer, and we've also asked other folks from Treasury Board, including Mr. Pagan. Their comment is that it will come across just as a line item of transfer of the full amount. Can you explain the discrepancy between what we've heard in testimony in the operations committee and what you're saying now?

● (1625)

Mr. Roch Huppé: If I am not mistaken, actually, there are already amounts from vote 40 that have been allocated to the departments, because the departments did what we call a "Treasury Board submission" and we have on our site an information base, a list, and we could provide the committee with a list of these amounts. The allocations to the different departments are actually what's left in the vote 40. We have that accounting.

Mr. Kelly McCauley: I've seen the website. It's not as well detailed as it should be, because every time you update it, it shows only that month. It doesn't show the year.

Mr. Roch Huppé: Yes, it will show the transfer, and then the expenditures will show in purple.

Mrs. Alexandra Mendès: Mr. Chair, on a point of order, I sit with Mr. McCauley at operations, too, so I know what he's talking about, but our colleagues don't necessarily know what we're talking about, and we're here today to discuss public accounts—the current public accounts, not the future ones—so I'd like us to stick to the point.

We're not all at the same level of understanding of what you're talking about, Mr. McCauley, with all due respect.

The Chair: Each individual has a certain parameter within which they can move down. If he was not talking about government expenditures and government.... He's asking about a process of how something will appear in public accounts, so I don't necessarily accept it as a point of order. I think it's still within the parameters of an individual to ask those kinds of questions. Much as when it happens at estimates, it's a fairly broad opportunity.

Carry on, Mr. McCauley.

Mr. Kelly McCauley: I appreciate that.

What I'm just trying to get at, again on public accounts.... We've heard from Mr. Christopherson on twenty years of clean sheets. Canadians have a right to know how their taxpayer money is being spent with enough detail to show a $4 coffee as a Global Affairs purchase. We've heard testimony that a third of a billion dollars for Phoenix stabilization will show only as a line item. You're presenting contradictory testimony to what the PBO, as well as Brian Pagan from your own department, have stated. I'd just like to know how it's going to show up in public accounts so that Canadians know how their taxpayer money is being spent.

Mr. Roch Huppé: I don't think I'm being contradictory to what my colleague, Brian—

Mr. Kelly McCauley: They stated specifically that it will only show as a one third of a billion dollar line item.

Mr. Roch Huppé: Yes, the transfer shows—

The Chair: Let Mr. Huppé respond.

Mr. Roch Huppé: On the transfer from that vote 40, one line will show the transfer going to the department. Then with regard to what you're asking, you'll have a reflection of the votes being increased in volume two by department. Then we're asking, how are you going to see the spend? Then, line by line, depending on what they spend on, it will show, based on the types of expenditures, against that department, not against TBS, obviously. If you take a look in volume two, as an example, department by department, you're going to see throughout the year—and that's what the public accounts do—the spend and what the spend was on—such as salaries—broken down by votes. You wouldn't see necessarily a Phoenix line, because we don't have a line for the breakdown, the coding of our expenditures. To deal with the Phoenix issues, we hire more people. That shows as the salary expenditures and so on and so forth that you would see through the expenditures of the department. You would have to ask a department to do a reconciliation between those.

The Chair: Be very quick, with a yes-or-no question.

Mr. Kelly McCauley: Just very quickly, are you satisfied with how that will appear, then, Mr. Ferguson, in terms of transparency and accountability and our ability to track the spending?

Mr. Michael Ferguson: As I'm listening to the conversation, I'm thinking of it more from the point of view of us being one of the departments in vote 40. We have had to go through the process to access money through vote 40. We will get an allocation, and in fact we have received our allocation now, but for us it's an increase in our budget that we are going to spend on doing audits. In our particular situation, trying to track how much of the money on vote 40 was spent on public accounts and how much was spent somewhere else really wouldn't be very meaningful because it's just coming in as part of our overall work that needs to be done. There may be other cases, though, in which departments are being allocated from vote 40 an amount for a specific project to do something, and in that case you would expect to see more of an accounting that says, "this specific project now is allocated..., and here's how it's spent."

The Chair: Thank you very much, Mr. Ferguson. We may come back to that.

Mr. Arya.

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

Mr. Rochon, I have a question on international development assistance. I think there was a transfer of $2.8 billion, if I'm not wrong. It's on page 350.

Mr. Paul Rochon: Is that in volume one?

Mr. Chandra Arya: Yes, it's in volume one. It is $2.8 billion.

The Chair: What page is that?

Mr. Chandra Arya: It's in table 11.4, on page 350 of volume one.

What is this transfer?

● (1630)

Mr. Paul Rochon: These are the total of the transfers to the World Bank and the African Development Bank for international assistance.

Mr. Chandra Arya: I thought they were different. That's under finance—

Mr. Paul Rochon: Sorry, there's a few other things in there, but primarily that's what they relate to.

Mr. Chandra Arya: I thought the African Development Bank and the International Development Association are all covered under finance. That is $2.28 billion.

Mr. Paul Rochon: That is correct.

Mr. Chandra Arya: Is this $2.8 billion part of that?

Mr. Paul Rochon: The $2.8 billion is part of that because the Minister of Finance is the governor for the World Bank.

Mr. Chandra Arya: Okay. Is the international humanitarian assistance of $468 million distinct from that?

Mr. Paul Rochon: I'm sorry, I was referring to Global Affairs, as my colleague Brad Recker is pointing out.

Pardon me, you're asking, what is the $2.2 billion from the department?

Mr. Chandra Arya: No, what is the $2.8 billion?

Mr. Paul Rochon: Is that money from Global Affairs to the World Bank?

Mr. Bradley Recker (Director General, Fiscal Policy, Department of Finance): That would be the entirety, I believe, of the transfer payments related to international development.

Mr. Paul Rochon: And we have finance numbers, too.

The Chair: His answer, though, is that this is the allotment to the World Bank, and it would be an international development line item.

Am I correct on that?

Mr. Paul Rochon: That's correct. Under finance, you have the International Development Association for multilateral debt relief. Those are amounts that are paid to the World Bank, as well as the African Development Fund, so the African Development Bank.

Mr. Chandra Arya: Just for me to understand clearly, this $2.8 billion includes the $2.2 billion in the line above?

Mr. Paul Rochon: I see your question. No, that is a different line.

Mr. Chandra Arya: Then that $2.2 billion goes to the International Development Association, including the African Development Bank?

Mr. Paul Rochon: That's correct.

Mr. Chandra Arya: For me, this international development under Global Affairs is a distinct item of $2.8 billion.

Mr. Paul Rochon: Correct.

Mr. Chandra Arya: Where does that go to?

Mr. Paul Rochon: Where does the Global Affairs amount go to?

Mr. Bradley Recker: I'm not certain.

Mr. Chandra Arya: Okay. You can always come back to us on that. Thank you.

The next is table 11.6, page 354 of volume 1. Under Finance, it says,"Mortgage or Hypothecary Insurance Protection" of $350 billion. I understand the two approved mortgage insurance companies are the Genworth Financial Mortgage Insurance Company and the Canada Guaranty Mortgage Insurance Company. On the approximately $350 billion, is the government making any revenue out of the guaranty provided?

Mr. Paul Rochon: Yes, we charge a guaranty fee.

Mr. Chandra Arya: How much is it?

Mr. Paul Rochon: I don't have that in front of me, but I could easily get that for you.

Mr. Chandra Arya: Okay.

Mr. Paul Rochon: Actually I do have it. We raised $22 million in the current fiscal year from that guaranty fee.

Mr. Chandra Arya: That's $22 million for the outstanding guaranty of around $250 to $300 billion?

Mr. Paul Rochon: It's equivalent to 2.2% of the premiums. This is a situation where the two private sector entities are insuring mortgage loans in exchange for the government guaranty, which is a 90% guaranty in the case of default. We charge a fee equivalent to 2.25% of the premiums they raise.

Mr. Chandra Arya: Okay. Do we need to do this? I know you do this justice and say that there's no problem of loss under this guaranty, but do we actually need to do this? Maybe there was a time when these sorts of guaranties were required to make it attractive for the companies to lend the money for a mortgage, but do we still need this?

● (1635)

The Chair: Thank you, Mr. Arya.

Mr. Rochon.

Mr. Paul Rochon: The guaranty fee is principally in place to provide a level playing field between the private sector insurers and the Canada Mortgage and Housing Corporation, which is also active in the area and insures about a half of the market. Of course, CMHC has an implicit 100% Government of Canada guaranty. So the 90% guaranty to the private insurers was to provide a level playing field between private sector entities and the government's Crown corporation, CMHC.

The Chair: Thank you, Mr. Rochon.

Thank you, Mr. Arya.

We'll now come back to Mr. McCauley.

Mr. Kelly McCauley: I'd like to take a couple of seconds of my time to recognize that this might be Mr. Christopherson's final public accounts meeting.

Mr. David Christopherson: It's not only for public accounts; it might be the last one.

Mr. Kelly McCauley: Oh, I see. You're like Iron Man.

Mr. Ferguson, am I correct there was about $9 billion of lapsed funding from the last fiscal year?

Mr. Michael Ferguson: I don't know the exact amount, but that sounds about right.

Mr. Kelly McCauley: Could we assume, then, that there was a billion-dollar adjustment for the discount rates, but that, adding this in, if that money had been spent, we would have been looking at a $28-billion deficit for last year?

Mr. Michael Ferguson: I guess you could say that if the government had spent any additional amount without getting any additional revenue it would go right onto the bottom line.

Mr. Kelly McCauley: Do you know how much of that lapsed funding is identified in next year's budget? I'm curious.

Mr. Michael Ferguson: That's not information I would have.

Mr. Kelly McCauley: I want to go back to the discount rate. You mentioned that public accounts added a billion-dollar deficit and, I think, several billion dollars going forward. Are you satisfied with the partial change in how we're setting the discount rate for the public service pensions?

Mr. Michael Ferguson: I think they have done a very good job on that analysis. Yes, the amount they've come up with is a sound amount for valuing the obligations for pension promises in the unfunded portion of the pension plan. Yes, I think it's a very good change.

Mr. Kelly McCauley: Post-2000, are you satisfied with the discount fund? It's one pension system. For one employee who has been here pre-2000, their pension doesn't change. It's the same obligation, but we have two different discount rates, which goes against a lot of international standards and PSAB recommendations. Are you comfortable with a different discount rate for the post-2000 pensions?

Mr. Michael Ferguson: The government has always kept the pre-2000 and the post-2000 separate. It has done that forever. At least since 2000 when that happened, it has been keeping those two items separate in its financial statements.

Public sector accounting standards say that when you have a funded portion of pension promise, you use the assumed rate of return on the plan assets as your discount rate. For the funded part of the plan, they use the assumed rate of return because that's what accounting standards say you use.

For the unfunded portion, you are supposed to use a discount rate based on your borrowing rate.

Mr. Kelly McCauley: Okay.

Mr. Michael Ferguson: There was a method the federal government was using, and over the years it was becoming more and more evident that this method was not producing the right discount rate. We talked to the comptroller general's office about the issue, and they realized that they needed to look at all of their discount rates, which they've done over the past two years. They've made the change.

Yes, I'm satisfied that they now have the right method of calculating the discount rate for the unfunded portion of the pension plan. They've always had an appropriate rate for calculating the discount rate on the funded portion of the pension plan.

Mr. Kelly McCauley: I've been reading the submissions to the PSAB study they're doing on discount rates right now. It's incredibly fascinating reading—actually, it's as dry as heck. Every single organization—and I think 25 have written in.... Even the Treasury Board submission says it's six of one or half a dozen of the other how you do the asset-backed portion from 2000 forward. If PSAB comes out with a different recommendation, should we be changing how we're doing the discount?

Mr. Huppé, Mr. Rochon or the others, you can chime in on that.

● (1640)

Mr. Michael Ferguson: When we talk about giving the federal government a clean audit opinion for 20 years in a row, we are judging its accounting against the public sector accounting standards. If the public sector accounting standards require a change in how something is accounted for, we expect the government to adopt that within whatever transition period the public sector accounting board specifies.

Mr. Kelly McCauley: You just recommend change, much as you did for the pre-2000?

Mr. Michael Ferguson: We wouldn't have to recommend it—we would just expect it.

Mr. Kelly McCauley: Thank you.

The Chair: Would you say likewise, Mr. Huppé or Mr. Rochon?

Mr. Roch Huppé: Likewise. Obviously, we would align with any changes in the public accounting standards.

The Chair: All right. Thank you, Mr. McCauley.

We will now move to Mr. Sarai.

Mr. Randeep Sarai (Surrey Centre, Lib.): Thank you.

I have a few questions. If we were to write off the loan, that would take it off the books but it wouldn't extinguish liability. Am I right? The person who's owing that amount still owes it. The government has assumed that the ability to collect on that is gone.

I'm just curious. What's the percentage of bad debt that actually gets collected? Is there a percentage?

Mr. Roch Huppé: I don't have the global amount offhand, but having previously been a CRA employee, I can tell you that's a good question. I've had that question many times in committee.

Out of the writeoff, if my memory is correct, every year we collected around $200 million to $250 million of money stemming from written-off accounts.

Mr. Randeep Sarai: Do you have any idea of what that is as a percentage of the written-off debt? Would that be like a low 10%?

Mr. Roch Huppé: If you take a look at the previous years, usually the CRA's writeoffs will be around $2.8 billion to $3.2 billion. Obviously, the amount I'm quoting here, around $200 million, is not on that particular year. They are stemming from accounts that have been written off.

Mr. Randeep Sarai: Could it be 10% of that?

Mr. Roch Huppé: It's a small portion, obviously, but as you say, if there's a reason we think we could collect, the debt is not necessarily extinguished.

Mr. Randeep Sarai: I'm just trying to get a handle on this. When you say unfunded prior to the nineties for pension liabilities, does it mean amounts to pay are short, or may be short, or other, in terms of pensions?

Mr. Roch Huppé: As I explained a little bit earlier, on the contributions, unfunded and funded, in both cases, we've received the contributions from employees and employers. I would tell you right now, as you can see, for the liability, the unfunded shows as a full liability. The pension fund is in a slight deficit position, but if it's unfunded, logically it is a liability, correct?

I don't know if my team has a number on the actual unfunded.

Mr. Paul Rochon: But the key point is that the liability is recorded in the current debt, so if I retire tomorrow, all of the liability the government will incur from my pension plan is already recorded in the debt.

Mr. Randeep Sarai: Okay.

Mr. Paul Rochon: What happens afterwards is cash payments.

Mr. Randeep Sarai: For layman's purposes, let's say you need $100 for retirement. It's saying it's underfunded by $10. Does that mean the government has to raise $10 by the time that total fund is short, or does that mean we expect it to be full by the time it is paid out, and that by that time, we will have that $10?

I'm really being simplistic. It's more for the viewers out there.

Mr. Paul Rochon: It's not a question of the liability the government has, but of the cash needing to be paid out. The pensions we are saying are unfunded will affect our future cash flows in a negative way. They will not affect the liability of the government. That deficit won't change, but the cash requirements will go up.

Mr. Roch Huppé: The expenditures have already been recorded.

Mr. Randeep Sarai: Then how do you account for the Phoenix overpayments or underpayments? Is there an accurate payroll at the end of the year, or do we estimate and expect to resolve it in the following year; i.e., do we use contingencies? If we're saying there's $260 million perhaps overpaid, and $300 plus a million underpaid, how do departments accurately calculate their payroll expense for the year? This seems to be a new phenomenon.

● (1645)

The Chair: Thank you, Mr. Sarai.

Before we go into an answer here, you see that the lights are blinking and the bells are ringing. It's calling us to a vote.

We are in the same building where the vote takes place. They will be half-hour bells. I will need unanimous—

Mrs. Alexandra Mendès: Who witnesses here whether there are half-hour bells?

The Chair: It has to be a half-hour bell if there are committees.

Mrs. Alexandra Mendès: It is?

The Chair: It's a half-hour bell.

Do we have a motion to carry on until 10 minutes before...?

(Motion agreed to)

The Chair: I'm sorry, Mr. Sarai. Did you finish your question?

Mr. Randeep Sarai: I think I finished it. I just wanted to know how you accurately calculate payroll. Is the Phoenix issue still ongoing? Compared to how it was in the past, is it a challenge?

Mr. Roch Huppé: I won't hide the fact that it's a challenge in the sense that there are errors in the pay. Basically, the different organizations have set up some control frameworks to make sure they reconcile the different pay expenditures. As an example, if we owe money to someone, at the end of the year, we do an accrual, payables, to reflect the fact that we owe money. What you're seeing here is accrual accounting. It's not because we haven't paid that person that we don't account for expenditures. Basically, when there's a recognition at the end of the fiscal year that we still owe money because of mistakes in the pay, we will still recognize the expenditure.

The Chair: Thank you, Mr. Sarai.

We'll now move to Mr. Christopherson.

Mr. David Christopherson: Thank you, Chair.

I have three quick things.

One, when I raised the issue of the GM shares, I had the dollar amount and line item right, but it wasn't the GM shares; it was the Chrysler shares. That's my mistake.

Going back to the 2014 report from the Auditor General, it said, which was just quoted in a recent article, “we found it impossible to gain a complete picture of the assistance provided, the difference the assistance made to the viability of the companies, and the amounts recovered and lost Further on the Auditor General says, “there was no comprehensive reporting of the information to Parliament.” I'm seeking both the backstory and the going-forward story, if there is one, with regard to that.

That's one. I have only five minutes, so I'll lay my questions out and see how far we can get in an answer. That was page 132.

This is on page 161, under “Losses of public money or property—Update to cases reported in previous years' Public Accounts”. When I arrived, the sponsorship scandal was just exploding into the main event that it became for years. By the way, that all started with the Auditor General's report and this committee. That's how that all happened, and it ended with an inquest.

Most of us thought that at least the dollar aspect of the scandal, if not the political stench, was gone. I just need an explanation here, because I don't understand. It says “Sponsorship Program”, and then shows a loss in 2008-09. The amount was a little over $2.1 million. The amount recovered in previous years was $122, I guess, million. The amount recovered in 2017-18 was $15 million. The amount not expected to be recovered is over $2 billion. The amount expected to be recovered in subsequent years is zero. I'd like an explanation. Why is this still going on and what do these numbers mean?

Last, if I can, Chair, I'll just throw my question out there. It was on the RCMP, on page 170 in the section “Professional and special services” under “Protection services”. It says $140 million. I don't understand that. Someone help me. It's in volume III.

● (1650)

The Chair: Mr. Huppé.

Mr. Roch Huppé: I'll try to be quick.

With respect to public services procurement, obviously there's a requirement to publish any changes to previous years' losses. I don't have all of the details, obviously, but if this is something that would be completed, we would have to take a look at the reasoning for it being there. However, we have an obligation to report on these previous losses.

On the accounting, we could certainly provide the committee with an accounting of these loans regarding what amount was loaned, what amount was recovered and so on. We have that information.

Mr. David Christopherson: That would be helpful. Thank you.

Mr. Roch Huppé: It's not a problem.

On the RCMP one, you said it was on page 170, right?

Mr. David Christopherson: Yes. It's just about halfway down the page under “Public Safety and Emergency Preparedness”. It shows the RCMP and then, under “Protection services”—which is kind of what I thought they did—which is under “Professional and special services”, there's a line item for $140 million. I just wondered what that is. I thought protection services was what they did.

Mr. Roch Huppé: Honestly, we'd have to get back to you with the details on that. They must contract out different.... Actually, you know what? One of the things that come back to me—and we can validate this—is that the RCMP offers policing services. For example, in Ontario, they have the OPP. In certain provinces, they don't.... That's probably what it is.

Mr. David Christopherson: It's revenue from the agreements they have with provinces...?

Mr. Roch Huppé: Yes, and the expenditures relation.... Exactly.

Mr. David Christopherson: Would you confirm that for me, though, please? Could you send me something?

Mr. Roch Huppé: Yes, definitely.

The Chair: Mr. Ferguson, do you have a comment on that very point?

Mr. Michael Ferguson: Yes. It's on the first two parts of his question.

The Chair: All right. Go ahead.

Mr. Michael Ferguson: On the reference to our report in 2014, what we were looking for, I believe, if my memory serves me, was some sort of an assessment of how much the assistance actually helped the industry. That's different from the collectibility issue. We were looking more for some results reporting.

In terms of page 161, Mr. Chair, just for the record, the numbers on page 161 are in dollars. For example, the amount recovered in 2017-18 is $15,000, not $15 million. The amount not expected to be recovered is $2 million, not $2 billion. As you can see at the top of the table, this is shown in dollars, not in thousands.

That's just to make sure people understand the magnitude of those numbers.

The Chair: Okay. Thanks.

Mr. David Christopherson: Do you have a problem with that? Is that an issue? Is it normal that it would be this long and still recorded...?

Mr. Michael Ferguson: Well, I think particularly with something like this, it comes down to.... I think this goes back to the question earlier on. To me, what it shows is that the government continues to work some of these files and, when possible, they can recover something. Here, it's a question of how in 2017-18 they were still able to recover $15,000, probably on a file that you would have expected they wouldn't be able to collect much more on.

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

Mr. Arya.

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

I would like to go to table 6.19 on page 172 of volume I. Under “Canadian Forces Superannuation Account”, there's one item for $1.8 billion that's called “Actuarial adjustment”. Is that because of the discount rate changes you've made? It's a significant amount.

The Chair: Do we have the right page? We are at page 172. Under “Canadian Forces Superannuation Account”, he's referring to the third item under “Receipts and other credits”, which is an actuarial adjustment of $1.8 billion.

Mr. Roch Huppé: I'll turn to my team. We're not sure if.... We have actuarial gains and losses when we revalue, and obviously the discount rate is part of that revaluation. Then we have to amortize these gains or losses over a duration or period, but we can definitely give you a bit more information on that particular number.

● (1655)

Mr. Chandra Arya: Thank you.

I would like to come back to these guarantees issued, in table 11.6 at page 354.

Mr. Rochon, you mentioned that the reason for this $281 billion in guarantees issued is to create a level playing field between the CMHC and the two private sector organizations.

Mr. Paul Rochon: That's correct.

Mr. Chandra Arya: The entire $281 billion, that number, is mentioned on page 356. It goes to two companies: Genworth Financial and Canada Guaranty Mortgage.

Mr. Paul Rochon: Just to be clear, the $350 million is the maximum amount—

Mr. Chandra Arya: I know.

Mr. Paul Rochon: —that we would guarantee.

Mr. Chandra Arya: If you come to page 356, though, under the same heading of “Mortgage or Hypothecary Insurance Protection”, you mention that as of March 31, 2018, the guarantees under PRMHIA are estimated at $281 billion.

Mr. Paul Rochon: Right. Those are the guarantees in force. That's the total value of mortgages that those two companies have insured.

Mr. Chandra Arya: Okay.

Mr. Paul Rochon: To be clear, the government is not providing $350 billion, actually, in this case, to those two companies.

Mr. Chandra Arya: How much are the guarantees insured by the federal government, then?

Mr. Paul Rochon: It would be a combination of the guarantees for the private insurers of $350 million plus a $600-billion limit for the CMHC, so a total limit on the mortgage guarantees of $950 billion.

Mr. Chandra Arya: Where is the CMHC reflected in these accounts?

Mr. Paul Rochon: It's in volume I, table 11.8, on page 359.

Mr. Chandra Arya: Got it.

Thank you, Chair. I'm good, but Ms. Yip has a question.

The Chair: Very quickly, Ms. Yip, and then Mr. McCauley will have the final question.

Ms. Jean Yip (Scarborough—Agincourt, Lib.): In the OAG's commentary on the financial audits, it's mentioned that almost a third of all the management letter recommendations to federal organizations remain unresolved more than two years after being initially brought to organization management's attention. What can we do to have the government ensure that these recommendations are acted on by management in a timely and effective manner?

Mr. Michael Ferguson: Again, as we've talked about, when we do performance audits, there are lots of times when we don't see our recommendations being acted on. In the financial audit world, we see that the government does act on our recommendations. Most of them are dealt with within that two-year time period. I think what worries us the most about the outstanding ones again goes back to things like the access issue on IT systems and making sure that when we identify access issues, those are dealt with more quickly.

Some of these recommendations do take some time to implement. As of right now, I don't think we are particularly concerned with how long they are taking, but I think there needs to be more attention paid to the access issues on IT systems.

The Chair: Thanks very much.

Thank you, Ms. Yip.

Mr. McCauley will have the last time segment for today. Then we'll have to go to the vote.

Mr. Kelly McCauley: Great. Thanks.

Mr. Rochon, I'm impressed with your memory that you would know exactly what table number that was earlier.

Voices: Oh, oh!

The Chair: Mr. McCauley, I'm very impressed with Mr. Rochon for a number of reasons.

Mr. Kelly McCauley: Don't burn up my time, Chair.

Voices: Oh, oh!

Mr. Kelly McCauley: You mentioned that if you retired, you would do etc., etc. If you cashed out early, you would use a different discount rate for your cash-out for your pension than the government's actually using for their long-term liabilities for their anticipated return on it post-2000, would you not? And if so, why?

Mr. Paul Rochon: If I cashed out early, it would affect the total actuarial value of my pension benefit over the course of the rest of my life.

● (1700)

Mr. Kelly McCauley: If you took the paycheque, my understanding is that it's—

Mr. Paul Rochon: It wouldn't necessarily affect the actual....

If I cashed out early, yes, I'd have to think this through.

Mr. Kelly McCauley: If you cashed out early and took the money and ran, the discount rate used to determine your portion would be a different discount rate, a more generous discount rate, than that used for the anticipated return.

We're short on time, so let me get back to—

The Chair: Mr. Ferguson does have an answer on that.

Mr. Michael Ferguson: Mr. Chair, something you need to understand when you're dealing with pensions is that, as Mr. Huppé explained earlier on, at a point in time you predict what the cash flows are going to be. Based on how many people are in a plan, when they are going to retire, and what their salaries were, the actuaries can put together an estimate of how much cash is going to be paid out over the next 50 or 70 years, or whatever. That estimate of cash doesn't change no matter what the discount rate is. That estimate of cash is the estimate of cash.

When you then say we're paying these amounts of money out over many years, how much is that worth today? That's when you have to decide what discount rate you use. There can be many different discount rates. The discount rate we've been talking about is a discount rate for accounting purposes, and the accounting standards say for accounting purposes here is how you set the discount rate.

When you're talking about cashing out, you are talking about a solvency basis, essentially. If everybody decided today to cash out, you would use a different discount rate, because you're changing the cash flow. Would people cashing out today use a different discount rate? Yes, they would, but that's not the assumption that is used for accounting and to set the discount rate for accounting.

The Chair: Mr. McCauley.

Mr. Kelly McCauley: I have one last question. I want to get back to post-2000. I understand we're using the anticipated rate; it's technically an arbitrary rate. How are you deciding that, and what vetting do you get for that? You said that if PSAB comes up with a new recommendation on how we should look at our liability and our discount rate, it could be $40 billion or $50 billion higher. How are you accounting for that risk, and what could the bad risk be? What could we end up with on the books, if it is a change in the discount rate?

Mr. Roch Huppé: Obviously, if we would align to a change in standards, and, yes, it would have an impact on the liability. We haven't made that analysis, and we can't say what the actual rate would be. I can't say it's going to be $40 billion or $50 billion, but I agree there would be an impact on it, and we would align to any changes in the standards, if they decided to go that way

Mr. Kelly McCauley: Where are you putting the anticipated rate of return?

The Chair: I'm sorry, we're out of time. We have to get to the votes.

I want to thank everyone for coming. We're going through three large volumes. Thank you for your ability to help us wade through them. If there are other answers or questions that were posed, and you would like to give us more information on some of those, please send them to our clerk and our clerk will take care of them.

The meeting is adjourned.