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TRANSCRIPTION PROVISOIRE—BROUILLON

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday 21 March 2018

The committee met at 9:02 in room 151.

Committee business

The Chair (Mr. Ernie Hardeman): I call the public account committee to order. I have a statement here that was graciously prepared by the Clerk that I just want to read so we all understand where we're at:

“With prorogation last Thursday, all outstanding business before the committee on public accounts has been terminated. However, pursuant to standing order 108(h), the report of the Auditor General and the public accounts of the province that were tabled in the second session of this Parliament are still before the committee should you wish to consider any matters related to those documents, because these documents are said to be permanently referred.

“I've called the meeting today to see if there is an interest from the members of the committee to resume consideration of outstanding business from the second session of Parliament. Prior to prorogation, the committee was to debate two notices of motion from the third party and a number of draft reports from public hearings that were held. What does the committee wish to do with those?”

Interjections.

The Chair (Mr. Ernie Hardeman): The committee is fine with continuing on where we were at?

Mr. Randy Hillier: Proceed.

The Chair (Mr. Ernie Hardeman): Thank you very much.

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The Chair (Mr. Ernie Hardeman): With that, we will then start the day's business, first of all, with the auditor, who wants to make a statement on some of the documents that are laying on your desk.

Ms. Bonnie Lysyk: There are two items. I'll start with the one on climate change. It's just to make you aware that the federal environmental commissioner, who resides within the federal auditor general's office, coordinated—pulled together—a report based on the reports that were tabled in each jurisdiction by each auditor general's office. We tabled our report in Ontario in December 2016, so they will have taken information from that report and put it into this consolidated report and have pulled together a report ...

P001-0900-21 ends

P001-0905-21 begins

(Ms. Bonnie Lysyk)

... information from that report and put it into this consolidated report and have pulled together sort of a report that talks to the state of climate change initiatives in Canada overall.

The process that is taking place is—the Environmental Commissioner there is tabling in Parliament on March 27. It will refer to our report. I just wanted to make the committee aware of this. I wasn't of the mind that we would be tabling their report in the Legislature here, because ours was tabled December 16, like I said, which is about close to a year and a half. So there wasn't really any point, I thought, in re-tabling the same information for Ontario.

Some jurisdictions, though, are tabling it. We made a choice in the office to just post the federal report on our website. If I get a question, I'll respond to it, but I'm not part of the group that will be available right now to media to discuss this report. I just wanted to make you aware of that, mainly because we were the first ones out with our report. We think there are more current things that are happening in the ministry that we didn't go back and re-audit. And so—what is it—BC and Alberta just tabled within the last month along with the feds, so they will probably be more vocal on this issue than we will be. But I thought, as the public accounts committee, you may want to be aware of it. We'll post it on our website. The committee of deputy ministries from all over Canada were the ones that provided a response into this federal report. But we call this more of a collaborative audit, where our team initially worked with a group to develop the criteria that we actually used at the end of the day when we did our audit. Okay? So it's not one—yes?

Mrs. Liz Sandals: So if it—

The Chair (Mr. Ernie Hardeman): Yes.

Mrs. Liz Sandals: When did you do the audit?

Ms. Bonnie Lysyk: We completed our work during 2016. We tabled in December 2016.

Mrs. Liz Sandals: I'm just trying to get a sense in my own head. Would that have been before the—that would be before the carbon credit auction started and before the Climate Change Action Plan spending started?

Ms. Bonnie Lysyk: No. The announcement and the design of the cap-and-trade was already in place and we commented on that in our 2016 report.

Mrs. Liz Sandals: But it wouldn't have been implemented.

Ms. Bonnie Lysyk: The first tranche wouldn't have been—the first entry into that cap-and-trade market wouldn't have been—

Mrs. Liz Sandals: So it's sort of at the design stage as opposed to where we're at now, the implementation stage.

Ms. Bonnie Lysyk: Correct, correct. And there was no federal announcement of a carbon tax concept, so like I say, we were first there in terms of presenting that report. Both mitigation—there will be two aspects to the federal report that will be talked about. It will be dealing with the carbon tax cap-and-trade issue, but also with adaptation plans. So mitigation, adaptation, will be the subject of their report.

We looked at it. We think the content reflects accurately Ontario's situation, but we're just not—we didn't think it was appropriate to table it in Ontario when it really is being tabled as a federal report, sort of a compilation of our work. Okay? I wanted to make you aware of that one.

The Chair (Mr. Ernie Hardeman): Yes, France?

M^{me} France Gélinas: Just for people who are curious, how do we get a copy of this?

Ms. Bonnie Lysyk: The—our report is already posted, but this federal report—we will post it on our website as soon as it is tabled in Parliament. You can basically access it off of the website.

M^{me} France Gélinas: Chair or Clerk or somebody important out there, could you let us know when that happens?

Ms. Bonnie Lysyk: Yes. It will be March 27 at 10 a.m.

M^{me} France Gélinas: So on March 27 at 10 a.m. it will be available on your website?

Ms. Bonnie Lysyk: I would say check at 11 a.m. and you'll be good—11 a.m., it'll be available on the website.

M^{me} France Gélinas: Good enough for me.

Ms. Bonnie Lysyk: Okay.

The Chair (Mr. Ernie Hardeman): Any other comments or questions? Mrs. Sandals?

Mrs. Liz Sandals: Sorry. It will be available on your website, not just the Canadian one?

Ms. Bonnie Lysyk: Yes. Well, you can also get it on the federal website. But we'll post it on ours. Yes.

Mrs. Liz Sandals: But I mean—we'll find yours easier. We know where to look for yours.

The Chair (Mr. Ernie Hardeman): Okay? Everybody happy with that?

Ms. Bonnie Lysyk: And the other one—the other document I wanted you to be aware of, it's a—we had, within our chapter 2—so it was the report that you had people here and we held a hearing on it at the end of February. In that chapter, recommendation 5 dealt with IESO and IESO modifying their ...

P001-0905-21 ends

P001-0910-21 begins

0910

(Ms. Bonnie Lysyk)

... the end of February. In that chapter, recommendation 5 dealt with IESO and IESO modifying their accounting to remove market accounts and rate-regulated accounting from their statements. As a result of lack of communication by their external auditors with us last year and other concerns we had, we initiated a special financial statement-audited IESO.

We actually went into IESO—David was the manager on that file—and we did our own review of the finances at IESO.

This document is for your consideration in your deliberations around your report on the public accounts—chapter 2.

I think a key thing that I wanted to highlight is—there are a few key things. The reason why we do this is because, under our legislation, what we call “component auditors”—which in this case is KPMG—are accountable to us in terms of ensuring that we have no surprises. They're accountable to us in the sense that we review their working papers, and we can ask questions.

Because they are component auditors to the consolidation in the public accounts, we need good, clean, open communication and the ability to work with them well.

Unfortunately, there's a different dynamic happening here in the sense that KPMG provided advisory services on the fair hydro plan, but they also are the external auditors for IESO. That caused us some concerns because of the last-minute changes to IESO statements last year. When we finished our work, we confirmed that the changes that were made to the IESO statements were directly related to the fair hydro plan. We comment on that in here.

We also comment that during our work, management, IESO and the board would not co-operate with us, during this work, in the sense that they continually say they're co-operating, but they stalled on giving us information. They wouldn't sign the management representation confirming that they gave us all the information. They wouldn't also agree on what their roles and responsibilities are with respect to this audit. They basically treated, I think, my audit team like we were subservient to KPMG, which in terms of the law in the Ontario would be the reverse.

Having said all that, we managed through it. Because we couldn't get the documentation we needed under Canadian auditing standards for me to sign an opinion, we have an independent auditor's report, but we have to do what we call a "disclaimer of opinion," meaning because management didn't sign this material, I can't opine. But what I can tell you in this document—and it's in attachment 1—is what the impact of the errors in the IESO statements will be on the public accounts of Ontario. In attachment 1, page 3, we indicate that up until December 31, the annual deficit would be understated by \$1.3 billion. There's other information here.

We also note that on their pension unfunded retirement benefit plans—for the last number of years they've understated their benefit liability on their financial statements. So we are awaiting a number from the actuary on that. To their statements it will be material; to the province's statements, it will be a reportable item over what we call a "material amount." It won't impact the bottom line, but it is significant.

The third thing that we came across, which we found interesting—which was given to us in a box of papers after we were basically finished the audit and not given to us online like most of the other documents—is documentation around the fact that the assets of IESO have been pledged as collateral and security for the fair hydro trust. So in order to borrow money at the fair hydro trust, the assets of IESO were pledged. It was with respect to the carrying costs. What it means is that the generators fall behind the creditors for the fair hydro plan trust.

We asked management and the board to disclose this in their financial statements, and they have not. I think we're still wondering why they won't other than the fact that we know that they thought it was a risk, that the generators would not like this. Bruce Power would be concerned that IESO pledged as collateral the incoming revenues they would receive from the LDCs. So the generators fall behind the creditors at the bank ...

P001-0910-21 ends

P001-0915-21 begins

[Ms. Bonnie Lysyk]

... as collateral the incoming revenues they would receive from the LDCs. So the generators fall behind the creditors at the bank now, basically, in receiving their money. That is an item that we have brought up with them. We're concerned that it's not ??note-disclosed.

KPMG: At this point, we understand they've issued a clean opinion; contrary to ours. They've issued a clean opinion and the statements that don't disclose what we think is the correct retirement benefit plan amount, that don't disclose the collateral security-agreement pledging and that use market accounts and rate-regulated asset treatment on their statements.

We don't have for you the IESO statements because the opinion of KPMG and the statements haven't been made public yet. When we get the statements, we will give you the statements because, in our independent auditor's report, we refer to certain notes that talk about the accounting. You will see that when you read this document.

The other thing I just wanted to mention too in terms of an update: The IESO normally has an audit fee of \$86,500 a year on their audit; for the year January to December 2017, KPMG has billed nearly \$600,000 to the organization. Part of that money is for advisory services on writing papers for IESO to defend their position on this accounting and part of it is, they say, for communication with us. They say that we cost \$230,000 to answer our questions. It's ridiculous. We think it's ridiculous. But, anyway, just on this aspect of the fair hydro plan, KPMG has generated about half a million dollars.

We think this accounting is bogus, and we're trying to argue a position—because of the way that they've embedded themselves in the whole transaction. We will pursue this further. We're still working—I mean, we're open to the IESO coming and saying they're going to correct their statements.

When it comes to the provincial statements, we're going to be requesting, again, the ??provincial controller's office to reverse the impact of IESO on the government's statements. The reason why this entity is so important to the government's statements is, from an accounting perspective, we take all the information in IESO, and every number is supposed to be reflected in the government's statements. Because it's wrong in IESO, that's why we have to say to the province, "We need you to correct this." What we're telling in this report is that, at this point, we know it's at least an over-\$1-billion adjustment from this accounting.

I'm just wondering if there's anything else that I haven't mentioned, Susan. Anything else?

Ms. Susan Klein: I think you've covered it.

Ms. Bonnie Lysyk: I've covered it.

This information, then, is for you to cogitate in drafting your report. If there's anything you think you want to comment on with respect to this. If you have any questions on this, feel free to ask. We're more than prepared to address all of these points.

I just want to say that, in my career, it's very unusual to have experienced a management team and a board basically treating our office like they did. But we got through it, and we'll work through them, and we'll continue to work through them. But I think David would say it was probably one of the hardest audits in his career.

Interruption.

Ms. Bonnie Lysyk: Yes, yes.

We also have attached here a management letter. What that is is, when you have an external audit done by your organization and the external auditors look at your organization and they see that there are areas for improvement, you give a management letter. Now, we give this to all our clients if we have issues.

In terms of this management letter, I want to highlight a couple of things. I want to highlight that one item in attachment 2 is bank reconciliations. Pretty much, when you're auditing the bank for an entity, you make sure that an organization is doing bank reconciliations and that they are done. I can tell you that my team was the team that said, "Can I see your bank reconciliations?" and they couldn't provide any to us. So then they had to reconstruct the bank reconciliations for us. But this is an—

Mr. Randy Hillier: But that's a real basic—that is at the essence, here.

Ms. Bonnie Lysyk: You got it; you got it. So then my team had to reconstruct it. It was never pointed out by their previous auditors. And you'll see that, in their response here, they say that they are preparing them on a regular basis. Well, they never did. This is what we've been dealing with: a situation where there are a lot of ...

P001-0915-21 ends

P001-0920-21 begins

(Ms. Bonnie Lysyk)

preparing them on a regular basis. Well, they never did. This is what we've been dealing with: a situation where there are a lot of non-truths that are being provided to us during the course of the audit. That is a simple example of something.

0920

The other one is the pensions. In every entity within Ontario's public sector that we were able to find statements on that consolidate into the government that have benefit liabilities, those benefit liabilities use a certain discount rate. If there are plan assets, they use that. If they don't have any assets, they use a borrowing rate.

My audit team found out that they were using a plan-asset rate for their liabilities that don't have any plan assets against those liabilities. We've pointed that out. Unfortunately, IESO has not adjusted their statements for it yet. We pointed it out to their auditors and said, "We think that this is going to be material," and they basically signed off without responding to us, other than saying, "We think it can be done both ways."

The only problem is that we can't find a set of statements in the public sector in Ontario that's done both ways. We pulled KPMG's other clients, and they're doing it exactly the same way that we've pointed out to them. This is the kind of thing that we've been dealing with.

Mrs. Liz Sandals: So this isn't on the pension. This is a different issue than OTPP. It isn't about the joint management of the plan; this is just strictly about the discount rate.

Ms. Bonnie Lysyk: That's correct.

The other one is that we found security deposits. Normally, you reconcile security deposits so that you know how much money to give back. These are security deposits on—I forgot what these are on, David.

Interruption.

Ms. Bonnie Lysyk: Right. If you don't need the money anymore, you pay back the security deposit. For their statements, it's material; for the province, it's not. We found over \$1 million that they couldn't figure out whom they owed the money to. They were never doing these reconciliations.

These are some basic things, just going in one year, that we found. We asked at the beginning of this exercise to either have us do your audit without KPMG or have us do a joint audit with KPMG so that it forces the two audit firms—us and them—to sit at the table and go through all of these issues. But the board management chose, "No, we'll keep KPMG. You come and do whatever you want."

So that does put us in a more difficult position. They have said to us that they will consider appointing us as their auditor next year. I would recommend that they do that because I think that they've got some issues that we still need to work with them on.

But having said that, I think that the objective of us doing it this year was to ensure that we met our mandate under our legislation to make sure that the component auditor was basically disclosing everything and handling the audit as we would think would be appropriate.

Mr. Randy Hillier: For how many agencies in total would you roll up their numbers into the consolidated books that your office deals with?

Ms. Bonnie Lysyk: We deal directly with 40.

Mr. Randy Hillier: Forty?

Ms. Bonnie Lysyk: Forty. Because we don't do any of the school boards and hospitals, and that's where the numbers are. But we deal with the Ontario Securities Commission, LCBO, TBO—what else?

Ms. Susan Klein: Ontario Arts Council.

Ms. Bonnie Lysyk: Yes, Ontario Arts Council.

Ms. Susan Klein: Ontario Place, Ontario Science Centre.

Ms. Bonnie Lysyk: Ontario Place, Ontario Science Centre. We have lots.

Ms. Susan Klein: FSCO.

Ms. Bonnie Lysyk: FSCO.

Mr. Randy Hillier: IESO: We could probably describe it—would it be right that they are a complete outlier in both their relationship and how they conduct their relationship with the Auditor General's office?

Ms. Bonnie Lysyk: I would say this: When a board or management recognizes in any other province that an AG's office has issues with their accounting, they would have handled it differently.

Instead of saying to us, "You can come to meetings but you can't talk"—they didn't tell us when the board meeting was. They held a board meeting to approve their statements but they didn't tell us. My team kept saying, "Well, when is the board meeting? We'd like to come." They did it without telling us. After they approved the statements with a KPMG opinion, then they notified us.

Mr. Randy Hillier: Well, that would be obstructionist: not informing you of when the board meeting was happening.

Ms. Bonnie Lysyk: I think we were concerned. I think we were very concerned that this was happening.

P001-0920-21 ends

P001-0925-21 begins

(Mr. Randy Hillier)

... informing you of when the board meeting was happening.

Ms. Bonnie Lysyk: I think we were concerned. I think we were very concerned that this was happening.

Mr. Randy Hillier: The other thing about where KPMG was providing advice on how to reconstruct. My understanding in business is the auditor would not be also—you would go outside for other advice on how to fashion and how to construct your systems. The auditor is supposed to be there to give an impartial, professional view of the financial transactions that have happened. If they were part and parcel of constructing up various schemes, there's no way that they can give that fair, impartial—

Ms. Bonnie Lysyk: I think advocacy is an important issue, right? So, you're not supposed to advocate for particular accounting if you also work as the attest auditor, right? That is part of why we thought it necessary to go in and look at this.

The Chair (Mr. Ernie Hardeman): Okay, Vanthof. You had a question?

Mr. John Vanthof: Thanks, Bonnie. I have a couple questions. When IESO was here, specifically we asked if they were fully cooperative with your office. They specifically said yes: You would disagree.

Ms. Bonnie Lysyk: We would disagree. In correspondence to us, they keep saying, "We're cooperative; we're cooperative." But when it came down to the crux of it, why can't you sign a document that says you gave us all the information? Why can't you acknowledge your role as senior management and a board to us in a document that would enable us, also, to do our work in accordance with Canadian auditing standards?

I think it goes back to the beginning. What's wrong with a joint audit? What's wrong with having us double-check, maybe taking your auditors out of the pressure situation that they might be in right now because of the fact that they were advising as well as auditing, and just let a natural audit take its course from our office? But that wasn't the case.

Mr. John Vanthof: So, in my opinion—if, with your opinion—it could possibly be that when IESO was here before this committee, they misrepresented the facts. I'm not asking you to answer.

I have another question, Chair.

The Chair (Mr. Ernie Hardeman): Yes, no, you can have another one, but that question would be more suited for when we're dealing with the report. I just want to, again, point out to the committee that was just information presented here to help you in your consideration, as you get ready for the writing of the report for that. You don't want to get too deep into it. We want as much information as you need, but—

Mr. John Vanthof: Understood, Chair.

The Chair (Mr. Ernie Hardeman): Okay.

Mr. John Vanthof: One more?

The Chair (Mr. Ernie Hardeman): Yes.

Mr. John Vanthof: You said that because of the fair hydro plan, and I need some background on this, the IESO now, the order of security is changed. So the first one in line if something—I'm just trying to think in my language, right? The mortgage on the farm, it was really important who had the first mortgage, the second mortgage and the third mortgage. The person who had the first wouldn't appreciate it very much if all of a sudden they were second. Is that kind of the same?

Ms. Bonnie Lysyk: Yes.

Mr. John Vanthof: So, could you elaborate exactly how that works with the IESO?

Ms. Bonnie Lysyk: I think in terms of the borrowing that was needed by the fair hydro trust, part of that process involved IESO pledging the future collection of revenues from the LDCs. They placed the creditors for the trust ahead of the generators if the circumstances arose that they didn't have enough money to handle both. It was a pledge to cover the carrying costs, the interest costs and the servicing costs of the debt.

The Chair (Mr. Ernie Hardeman): Yes, France.

M^{me} France Gélinas: I feel like—remember when—you were not there for Ornge, sorry. But some of us were there. Remember, we had had the same thing. We had this auditing firm that had done the audit of Ornge and basically put forward a statement that was false. They said that all was good when it was not. I remember we had put in a complaint at the time against ...

P001-0925-21 ends

P001-0930-21 begins

(M^{me} France Gélinas)

... was false. They said that all was good when it was not. I remember we had put in a complaint at the time against—and I can't remember what that was, but they oversaw the people who do that kind of work. I realize that I'm talking about something I know very little about, I just remember that we had done this.

0930

Are we in a position right now, with what you've just shared with us, that we should be reporting what KPMG has done so that things as basic as bank reconciliation—I know very little about accounting, but I know you have to do that every month. I know very little about accounting, but I know that when the auditor comes and asks for information, you co-operate fully. And when they ask you if you've given all of the documents, you sign. You make sure, and then you sign that document.

Do we have enough there to flag them to aid this authority, that I can't remember who they are, that oversees auditors?

Ms. Bonnie Lysyk: You know, it's a complicated process. All I would be comfortable saying at this point is that we're working through this situation and we're trying to resolve this so that there is a positive outcome for everyone. But—

The Chair (Mr. Ernie Hardeman): If we could just stop there, I think, again, that goes beyond presenting the report. This was not on the agenda to be discussed today. We're not asking the committee to come up with solutions, just present the information that you can take forward, study it and then deal with it when we deal with this report.

Mr. Randy Hillier: It could be incorporated into the report.

The Chair (Mr. Ernie Hardeman): Yes, that's why it was presented, so the committee can look at putting it into the report and dealing with it then. So I don't want to spend too much time today discussing the merits of the report, just to make sure that you understand why it's presented and what's in the report.

Any other general comments?

Mr. Randy Hillier: Yes, just on this—getting a handle on this. You're saying that you found out that the IESO assets—the revenue from the LDCs were pledged for the creditors of the hydro trust, but those would already be pledged to the creditors of each of the LDCs.

Ms. Bonnie Lysyk: The power generators.

Mr. Randy Hillier: Yes. So how could—

Mr. John Fraser: Chair? Chair?

The Chair (Mr. Ernie Hardeman): I think, again, we're well beyond—

Mr. Randy Hillier: I'm just trying to understand—

The Chair (Mr. Ernie Hardeman): No, we can understand that when we discuss it.

Mr. Randy Hillier: Okay.

The Chair (Mr. Ernie Hardeman): Okay, any other just general comments? If not, we do have two motions. Does somebody want to move the motion?

Mr. John Vanthof: With your indulgence, Chair, we would like to withdraw the first motion, version 1.

The Chair (Mr. Ernie Hardeman): You're withdrawing the first one?

M^{me} France Gélinas: Version one. They have two. They have version one and version two.

The Chair (Mr. Ernie Hardeman): They have two motions, and the first one is withdrawn.

Mrs. Liz Sandals: So you've withdrawn the 2018?

Mr. John Vanthof: Yes.

M^{me} France Gélinas: The one that says, "v1," as in version one.

The Chair (Mr. Ernie Hardeman): Okay, if you would read the motion into the record.

Mr. John Vanthof: I move, in accordance with section 17 of the Auditor General Act, that the Standing Committee on Public Accounts request that the Auditor General conduct a value-for-money audit of the Tarion Warranty Corporation, to be tabled in 2019.

M^{me} France Gélinas: No.

Mr. John Vanthof: And I would like to make a friendly amendment to my own motion, if that's possible.

Interjections.

Mr. John Vanthof: I don't know how the process works, but, my friendly amendment, if I could—I would like to strike "to be tabled in 2019".

Ms. Lisa MacLeod: We're good with that.

The Chair (Mr. Ernie Hardeman): So it's just an elimination of the last five words?

Mr. John Vanthof: That's right.

The Chair (Mr. Ernie Hardeman): Okay. The committee is aware of that change?

Mr. John Fraser: We're aware of the change.

The Chair (Mr. Ernie Hardeman): Further debate?

Mr. John Vanthof: Basically, we think we've had a lot of issues with the Tarion warranty system and we believe it's very appropriate for the Auditor General to do an audit. I think it's pretty self-explanatory.

The reason we made the change, we don't believe we need to restrict the Auditor General when this is conducted. At whatever time she has the time and the resources to do it is when it should be conducted.

The Chair (Mr. Ernie Hardeman): Okay. Further debate?

Mr. Randy Hillier: Sold.

The Chair (Mr. Ernie Hardeman): If not, all those in favour of the motion? Opposed, if any?
The motion is carried.

Ms. Lisa MacLeod: Wow. Unanimity in here. This is crazy ...

P001-0930-21 ends

P001-0935-21 begins

(The Chair, Mr. Hardeman)

Opposed, if any? The motion is carried.

Ms. Lisa MacLeod: Wow. Unanimity in here. This is crazy.

The Chair (Mr. Ernie Hardeman): Okay. That concludes the items on the list.

For the next meeting we will have the draft report of government advertising and the draft report on immunization.

Does the committee wish to start those today?

M^{me} France G  linas: Immunization? Let's get it done. It's pretty good.

Mrs. Liz Sandals: I don't care which order but we might as well start something.

The Chair (Mr. Ernie Hardeman): They haven't seen a report yet.

Mrs. Liz Sandals: Yes, it was sent out two weeks ago.

The Chair (Mr. Ernie Hardeman): Okay. What are the committee's wishes?

Ms. Lisa MacLeod: Immunization will be the first, then on to political advertising.

Mr. John Fraser: Immunization first. That's good. We're good with that.

The Chair (Mr. Ernie Hardeman): Okay. We'll go into closed session then to do immunization. Is that the committee's wishes? Okay.

The committee continued in closed session at 0936.