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Board of Internal Economy

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• (1120)

[*Translation*]

Hon. Anthony Rota (Speaker of the House of Commons): Welcome to the ninth meeting of the Board of Internal Economy in the 43rd Parliament.

We will begin with the first item, the adoption of the previous meeting's minutes.

Are there any comments? Is this agreed to?

Okay, it has been agreed to.

[*English*]

We'll go on to item two, business arising from the previous meeting. Are there any items? No. That's good.

Now we'll go on to item three, the 2019-20 audited financial statements.

We're going to start with Daniel Paquette, the chief financial officer, who is accompanied by José Fernandez, the deputy chief financial officer; and from KPMG, Charly Thivierge-Lortie, audit senior manager, and Andrew Newman, audit partner.

[*Translation*]

Mr. Paquette, go ahead.

[*English*]

Mr. Daniel Paquette (Chief Financial Officer, House of Commons): Thank you, Mr. Speaker.

I'm here today to present to you the audited financial statements for the House of Commons for the fiscal year ending March 31, 2020. These audited financial statements are prepared by the House administration and present only one of our financial reports that we bring to the board to help you in your role of oversight of House financial activities. They are a formal record of our House financial activities for the financial positions as they were as of March 31, 2020.

As part of the financial reporting cycle, you'll recall that last June I provided you with a year-end financial report for the fiscal year 2019-20. The purpose of the report was to present the detailed comparators between the spending and the spending authorities for 2019-20 with those of 2018-19.

Today we are looking at the 2019-20 audited financial statements. These audited financial statements are prepared using the accrual basis of accounting rather than the expenditure basis. This

means that they reflect the effect of a transaction in an event in the period in which it occurs rather than in the period in which the appropriations are used. Some of the main differences you'll be noting as a result of this is that the net cost of operations include the services we've received without charge—that is, the cost of the buildings we occupy and the employer's share of the employee benefits. You will also note that the inclusion of a statement of financial positions includes inventory, capital assets and amortization, liabilities for employee benefits as well as the liabilities for vacation pay and compensatory leave.

The House of Commons financial statements were prepared in accordance with the Canadian public sector accounting standards. Also, as you'll hear in the next presentation, each year these financial statements are audited by an external independent auditor, currently KPMG.

This year, as for as long as we've had our financial statements audited, we've received an unqualified audit opinion. To me this is a testament to the efforts made by my team to ensure the systems and practices are in place to ensure reliable financial information is available for decision-making in all our financial reporting.

[*Translation*]

I would like to take a few minutes to talk about the highlights regarding financial statements.

The statement of financial position provides an overview of the House of Commons' asset and liability balances.

The assets, in the amount of \$89 million on March 31, mainly consist of funding provided to the House to support its activities; receivables, which mainly consist of money to be collected from departments, agencies and other federal parliamentary institutions to which the House provides support; as well as capital assets, namely assets whose purchase price exceeds \$10,000.

On March 31, 2020, the House's liability was \$84 million. That mainly includes amounts payable to suppliers and employees' social benefits. The budget item that has changed the most is that of accounts payable and accrued liabilities. That increase is attributable to a longer period during which normal wages were incurred but unpaid, compared with the previous year. There is also the 2018-19 retroactive economic increase for employees, which was approved before March 31, but paid only the following year.

Let's now go to the statement of operations and the net financial position.

Our net operating costs have increased by about \$10.5 million. Those costs fluctuate from year to year depending on various factors, such as different initiatives presented in the House of Commons administration's strategic plan 2019-22. As we mentioned in other reports, those initiatives include investments for computer and printing equipment renewal in constituency offices, additional resources for services for members as employers, and costs stemming from an election year.

I will not spend a lot of time explaining the different significant differences in the net operating costs, as they are the same as those we discussed in June, when we presented the financial report on the year-end results.

It should be noted that many of those differences are due to the fact that 2019-20 was an election year. That mainly led to an increase in wages and social benefits of the teams who supported the transition, as well as severance payments for members and their employees. There is also an increase under the budget item related to computer and office equipment owing to the computer equipment renewal done during an election. However, there is a decrease in travel costs, which come under the transportation and communications budget item.

Those financial statements will be published on the website today, following the meeting.

I will now yield the floor to the KPMG representatives, our auditor, so that they can present the result of their audit on those financial statements. I could answer questions after their presentation.

[*English*]

Andrew, I'll hand it over to you.

Mr. Andrew Newman (Audit Partner, KPMG): Thank you.

I am Andrew Newman, the independent external auditor of the House of Commons. I am pleased to introduce as well my colleague Charly Thivierge-Lortie, the senior manager responsible for the financial statements of the House of Commons.

Mr. Paquette has just presented the financial statements of the House for the year ended March 31, 2020. My role here today is to confirm my independent audit opinion on these financial statements, as well as to provide the members with a summary of our findings resulting from our audit.

Our audit opinion is attached to the financial statements presented by Mr. Paquette. Our audit was performed under Canadian generally accepted auditing standards, which are the professional standards followed for all financial statement audits in Canada. The financial statements are prepared using public sector accounting standards, which are the standards used by all governments in Canada and are issued by the Public Sector Accounting Board of Canada, on which I have had the privilege to serve for the past 12 years, including six years as vice-chair.

Our audit opinion, which is on the first page of our auditor's report, states:

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the [House of Commons] as at March 31, 2020, and its results of operations, its accumulated surplus and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Our auditor's report is signed "KPMG LLP" and dated August 11, 2020.

Members, this is a clean, unmodified audit opinion that members of Parliament should expect their financial management team to achieve. We have also provided to the members of the board an audit findings report. In summary, our financial statement audit was fundamentally completed as planned. The pandemic required that our detailed audit procedures be performed in a virtual, secure environment, and that was achieved. I do want to thank the House of Commons administration team for their additional efforts and commitment to the audit process to make a virtual audit not only possible but relatively smooth.

During our audit, we did not identify any audit adjustments in the amounts recorded in the books and records and reported in the House financial statements. What this means is that the financial reports prepared by management prior to the audit did not change as a result of our audit. During our audit, we also did not identify any internal control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. We have provided recommendations for improvements to management with respect to certain payroll processes, primarily around the documentation of the performance of certain procedures. Management agreed with our recommendations and are currently working to implement those improvements. We will review their progress during our 2021 financial statement audit.

Members, in short, this is a positive audit report. I would like to thank House management once again for their diligent participation in the audit process, and thank this board for finding the time in your busy agenda for the financial statements and audit results to be presented. This is an important aspect of governance for all organizations, particularly in the public forum that you work in every day.

I would welcome questions, if the members have any.

Thank you.

• (1125)

[*Translation*]

Hon. Anthony Rota: Are there any questions?

[*English*]

Seeing none, we'll move on to the next section—

Mr. Peter Julian (House Leader of the New Democratic Party): Excuse me, Mr. Chair.

Hon. Anthony Rota: Mr. Julian, please go ahead. I'm sorry, I didn't see you.

Mr. Peter Julian: I raised my hand, and then I used the "raise hand" function. We're still dealing with the new virtual environment, which is really my question.

I think it's reassuring that you didn't find any deficiencies in the audit, and no adjustments. What I'm interested in hearing a little bit more about is how you were able to achieve a full audit in a virtual, secure environment. Of course, the information needed to be secure. This is quite a different environment for this kind of audit procedure. I think it would be interesting to have a brief summary, I guess, of some of the measures that needed to be taken to perform an audit in this kind of environment.

Mr. Andrew Newman: I presume that is for me.

Mr. Peter Julian: Yes.

Mr. Andrew Newman: The world certainly changed for auditors in all sorts of financial audit statements when the pandemic hit in mid-March, and audits went from on-site services to virtual services, really across the board and across Canada. As a firm, KPMG had put in the protocols around working virtually and having our teams fundamentally work from home.

From an aspect of security of information, we worked very diligently with your team, and certainly Mr. Paquette can speak to the security aspects of information from their side. From our side, KPMG in Ottawa is a secure federal government office. We are audited by PSPC not only on an annual but also an ad hoc basis with regard to that, including our IT systems and our ways to communicate between offices. We use that. We had that security already pre-defined and we use it to transfer information between the House and KPMG to protect it appropriately.

• (1130)

Hon. Anthony Rota: We will now go to Mr. Richards.

Mr. Blake Richards (Chief Opposition Whip): Thank you.

I wonder, Mr. Newman, if you could just explain to us this issue that was related to the payroll documentation and maybe just what that concern was. You or maybe the administration would need to give us this, but what is being done to remedy the situation there?

Mr. Andrew Newman: Thank you for the question. I welcome this opportunity to assure the members that the issue isn't around people being paid the wrong amount or that employees were being improperly paid or anything. It revolves around the documentation of certain reviews and approvals within the employee file itself.

We identified this as we changed our approach a little bit with regard to the Phoenix pay system and went from what is called a "substantive approach", where we picked a sample and looked at it, and moved to a controls-based approach, where we looked at the controls around the House to really assess why the House was getting pretty good results around employees' pay.

We looked at the controls and the processes. In that, we identified, again, recommendations for improvements. These aren't significant control deficiencies around consistency and documentation

of the performance of procedures within the employee file. It's not that the procedures were not performed. It was just documenting them in the employee file so that when auditors like us come in there is evidence that those procedures were completed.

Mr. Blake Richards: Okay.

You mentioned that you made recommendations for improvement. How do those recommendations get brought forward and what is done to follow up on those recommendations to make sure they are being put in place?

Mr. Andrew Newman: Absolutely. Those recommendations are brought forward in a formal letter from us to management, and management has agreed with all of our recommendations. I want to emphasize that.

Management gets an opportunity, obviously, to work at and implement those recommendations, and they have committed to do so. Then, when we come back to do our audit for 2020-21, we will look to make sure our recommendations have been appropriately implemented and that those issues have been resolved. If not, it would be accelerated into a significant deficiency and the comptroller of this committee would see it next year.

Mr. Blake Richards: Thank you.

Hon. Anthony Rota: Very good. Are there any further questions?

Okay. That being established, maybe we'll move on.

Thank you, Mr. Paquette, Mr. Fernandez, Monsieur Newman and Madame Thivierge-Lortie.

I understand that it is normal and good governance practice for independent auditors to have a discussion in camera with board members, without management present, regarding the preparation of the year-end audited financial statements.

I would therefore like to propose to the board members that we hold a short in camera session without the House administration officials to allow board members to have this discussion. Do I have the acceptance of members to proceed to in camera? Yes? Okay.

Thank you. What we will do is take a short break to transition into in camera. At this time, I will ask the House administration officials to exit the room, both in person and virtually. Once this discussion is complete, those in person will be summoned back into the room and those virtually will receive an email summoning them to rejoin the room as well.

[Proceedings continue in camera]

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