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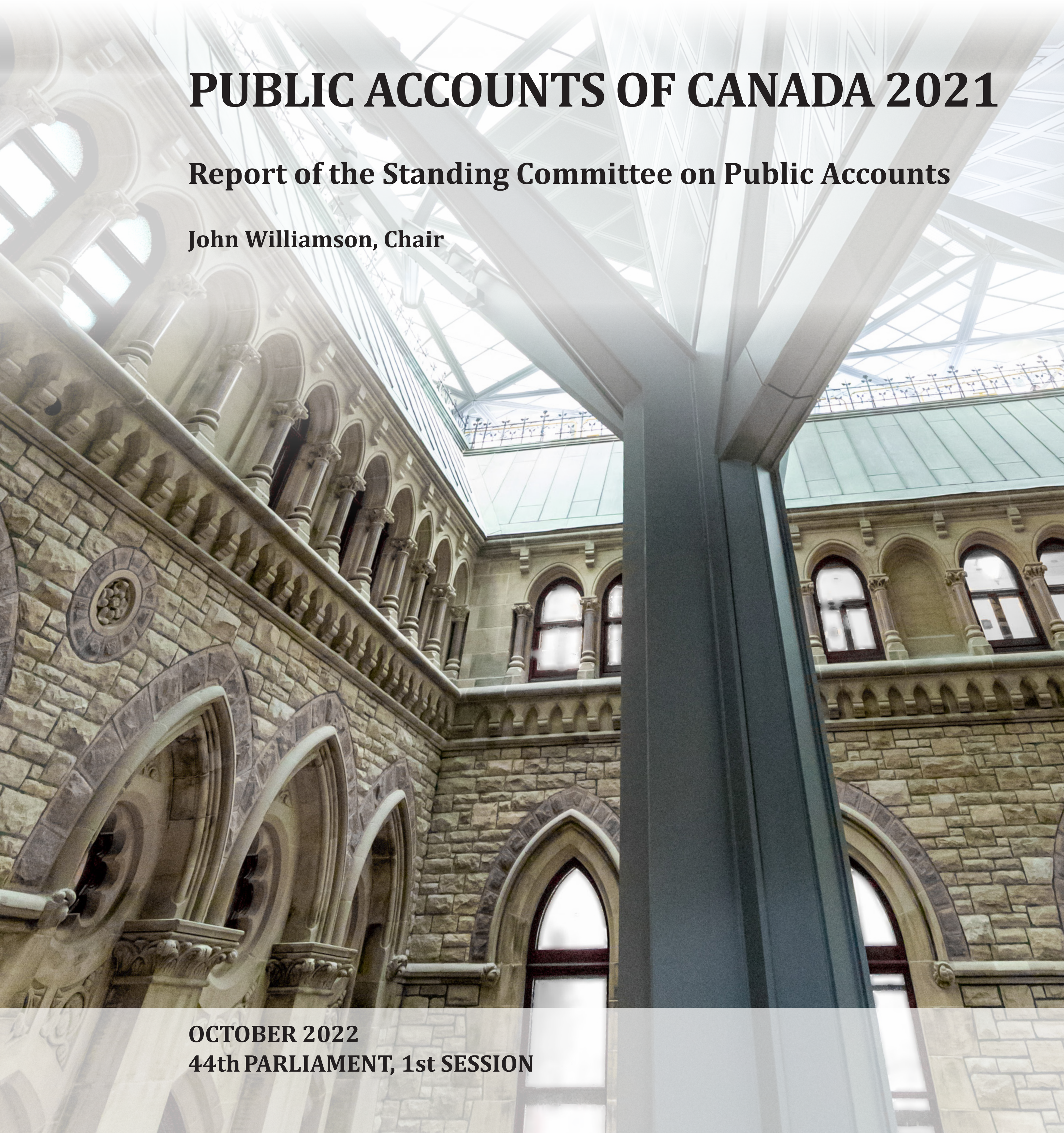
CANADA

PUBLIC ACCOUNTS OF CANADA 2021

Report of the Standing Committee on Public Accounts

John Williamson, Chair



OCTOBER 2022
44th PARLIAMENT, 1st SESSION

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John Williamson
Chair

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NOTICE TO READER

Reports from committees presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

TWENTIETH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the committee has studied Public Accounts of Canada 2021 and has agreed to report the following:

PUBLIC ACCOUNTS OF CANADA 2021

SUMMARY OF RECOMMENDATIONS

Table 1—Summary of Recommendations

Recommendation	Recommended Actions
Recommendation 1	That, in the event that a decision has been made to revise the Public Accounts of Canada after they have been audited and signed-off for the fiscal year, 1) the explanation of the revision be prominent in the presentation of the Consolidated Financial Statements of the Government of Canada; 2) the Auditor General of Canada comment on the revision in the Commentary on the Financial Audits as part of the study of the Public accounts of Canada; and 3) the Secretary of the Treasury Board, the Comptroller General of Canada, and the Auditor General of Canada appear before the House of Commons Standing Committee on Public Accounts to discuss the situation.
Recommendation 2	That the Government of Canada amend the *Financial Administration Act* to change the deadline for the tabling of the Public Accounts of Canada from December 31st to October 15th, to align with the tabling date of some Canadian provinces and peers in the Organization for Economic Co-operation and Development.
Recommendation 3	That the Government of Canada consider requiring Crown corporations to divulge all expenditures in the same manner as federal departments and agencies in Volume III of the Public Accounts of Canada; consult with interested stakeholders on the ways this could be achieved, the advantages it would provide and the potential additional administrative burden this could cause; and that it provide the Committee with a report comprising of a comprehensive analysis of this matter, no later than 30 April 2023.

INTRODUCTION

The Public Accounts of Canada

The Public Accounts of Canada are presented in three volumes:

- Volume I presents the audited consolidated financial statements of the government, as well as additional financial information;
- Volume II presents the financial operations of the government, segregated by ministry; and
- Volume III presents additional information and analyses.[1]

The *Public Accounts of Canada 2021*, which pertain to the 2020–2021 fiscal year, were tabled in the House of Commons on 14 December 2021.

The Government of Canada's Responsibility

The federal government is responsible for the preparation and fair presentation of its consolidated financial statements in accordance with Canadian public sector accounting standards.[2] To meet "its accounting and reporting responsibilities, the Government maintains systems of financial management and internal control which give due consideration to costs, benefits and risks. These systems are designed to provide reasonable assurance that transactions are properly authorized by Parliament, are executed in accordance with prescribed regulations," and are recorded properly.[3]

The Auditor General of Canada's Responsibility

Per section 6 of the *Auditor General Act*, the Auditor General of Canada (AG) is responsible for expressing an opinion on the Government's consolidated financial

1 Public Services and Procurement Canada (PSPC), *Public Accounts of Canada 2021*.

2 Ibid., Volume I, Section 2 — Consolidated financial statements of the Government of Canada and report of the Auditor General of Canada, Statement of responsibility, p. 56.

3 Ibid.

statements, based on his or her audit conducted in accordance with Canadian generally accepted auditing standards.[4]

Specifically, the AG's objective is "to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report" including an opinion thereon.[5] To do so, the AG follows the guidelines of the Canadian Institute of Chartered Accountants "and reviews the financial statements with a materiality of 0.5% […] (Materiality is the term used to describe the significance of financial statement information to decision-makers.)."[6]

Regarding the *Public Accounts of Canada 2021*, the Office of the Auditor General of Canada (OAG), provided the Government of Canada with an unmodified audit opinion on its consolidated financial statements for the 23rd consecutive year. This opinion is an important contribution to the ability of Canada to meet its commitments under the United Nations' 2030 Agenda for Sustainable Development. In particular, the opinion helps Canada meet Sustainable Development Goal 16.6: "Develop effective, accountable and transparent institutions at all levels."[7]

On 3 May 2022, the House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on the *Public Accounts of Canada 2021* with the following in attendance:[8]

> OAG — Karen Hogan, Auditor General of Canada; Etienne Matte, Principal; and Chantale Perreault, Principal
>
> Treasury Board Secretariat of Canada, Office Of The Comptroller General Of Canada — Roch Huppé, Comptroller General Of Canada;

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4 Ibid., Auditor General of Canada — Independent Auditor's Report, p. 57. For additional information, refer to the *Auditor General Act*.

5 Ibid., p. 58.

6 House of Commons, Standing Committee on Public Accounts, *Government Decisions Limited Parliament's Control of Public Spending of the 2006 Report of the Auditor General of Canada*, 1st Session, 39th Parliament, October 2006.

7 Office of the Auditor General of Canada (OAG), Commentary on the 2020–2021 Financial Audits, para. 32, p. 12.

8 Note that on 26 April 2022, the Committee held a preliminary in-camera hearing on the *Public Accounts 2021* to further develop its knowledge of this topic with representatives from the OAG, the Office of the Comptroller General of Canada, and the Canadian Audit & Accountability Foundation (a not-for-profit organization dedicated to promoting and strengthening public sector auditing, legislative oversight, and accountability).

Monia Lahaie, Assistant Comptroller General, Financial Management Sector; and Diane Peressini, Executive Director, Government Accounting Policy and Reporting

Finance Canada — Michael Sabia, Deputy Minister; Nicholas Leswick, Associate Deputy Minister; and Evelyn Dancey, Assistant Deputy Minister, Fiscal Policy Branch[9]

THE PUBLIC ACCOUNTS OF CANADA 2021

The *Public Accounts of Canada 2021* outline the government's financial performance during the 2020–2021 fiscal year and its financial position as at 31 March 2021. Table 2 presents the consolidated figures for the 2020–2021 and 2019–2020 fiscal years.

Table 2 — Consolidated Statement of Operations, 2020–2021 and 2019–2020

	2020–2021	2019–2020
Revenues	316,446	334,131
Expenses–Program expenses, excluding net actuarial losses	608,522	338,467
Expenses–Public debt charges	20,358	24,447
Total expenses, excluding net actuarial losses	628,880	362,914
Annual deficit before net actuarial losses	(312,434)	(28,783)
Net actuarial losses	(15,295)	(10,609)
Annual deficit, in millions of $	(327,729)	(39,392)
Annual deficit, as a % of GDP	(14.9)%	(1.7)%

Source: Public Services and Procurement Canada, *Public Accounts of Canada 2021*, Volume I, Section 1 — Financial statements discussion and analysis, 2021 Financial Highlights, p.15.

9 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 44th Parliament, 3 May 2022, Meeting No. 17.

Additional selected financial highlights include the following:

- The government posted a budgetary deficit of $327.7 billion for the fiscal year ended 31 March 2021, compared to a deficit of $39.4 billion in the previous fiscal year. This significant difference was due to the effects of the COVID-19 pandemic on Canada's economy along with temporary measures implemented through Canada's Economic Response Plan;

- The budgetary deficit before net actuarial losses stood at $312.4 billion in 2021, compared to $28.8 billion in 2020. The calculation is intended to supplement the traditional budgetary balance and improve the transparency of the government's financial reporting by isolating the impact of the recognition of net actuarial losses arising from the government's public sector pensions, other employee benefits, and future veteran benefits;

- Compared to projections in presented in Budget 2021, the annual deficit was $26.4 billion lower than the $354.2-billion deficit projected, mainly reflecting higher-than-expected revenues and lower-than-expected program expenses;

- Revenues decreased by $17.7 billion, or 5.3%, compared to 2020, primarily reflecting lower excise taxes and duties, particularly due to COVID–19 shutdowns; the one-time enhanced Goods and Services Tax (GST) credit payment; lower Crown corporation revenues due to the impacts of the COVID-19 pandemic; and the Bank of Canada's secondary market purchases of Government of Canada securities;

- Program expenses excluding net actuarial losses increased by $270.1 billion, or 79.8%, from 2020, largely reflecting transfers to individuals, businesses, and other levels of government under the Economic Response Plan;[10]

- Public debt charges were lower by $4.1 billion (16.7%), largely reflecting lower interest charges on the government's public sector pensions and other employee and future veteran benefits, lower interest on treasury

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10 PSPC, *Public Accounts of Canada 2021*, Volume I, Section 1—Financial statements discussion and analysis, p. 8.

bills, and lower Consumer Price Index adjustments on Real Return Bonds;[11]

- The accumulated deficit (the difference between total liabilities and total assets) stood at $1,048.7 billion at 31 March 2021. The accumulated deficit-to-GDP (gross domestic product) ratio was 47.6%, an increase from 31.2% in 2020;[12]

- Total liabilities of the government consist of unmatured debt (i.e., debt issued on the credit markets), pension and other future benefit liabilities, other interest-bearing liabilities, and accounts payable and accrued liabilities. In 2020–2021, total liabilities amounted to $1,652.2 billion, a 32.3% increase from the previous year;[13]and

- As reported by the International Monetary Fund (IMF), Canada's total government net debt-to-GDP ratio (includes the net debt of the federal, provincial/territorial and local governments, and the net assets held in the Canada Pension Plan and Quebec Pension Plan), was 33.0% in 2020. This is the lowest level among Group of Seven (G7) countries, which the IMF expects recorded an average net debt of 104.9% of GDP for the same year.[14]

Regarding the international comparison of Canada's net debt-to-GDP ratio in the *Public Accounts of Canada 2021*, this specific calculation does not include actuarial assessments of future CPP/QPP payment obligations, nor future statutory employee and employer contributions to both schemes; i.e., it does not include the amounts it may have to pay out or the amounts it could collect.

According to the most recent actuarial report on the CPP prepared by the Office of the Chief Actuary, the "respective legislated contribution rates are higher than the minimum contribution rates needed to sustain the Plan, and thus are sufficient to finance both the

11 Ibid. Real return bonds are Government of Canada bonds that provide protection from inflation by providing a cash flow that keeps pace with the cost of living, regardless of their stated interest rates or inflation.

12 Ibid.

13 Ibid., p. 25–26.

14 Ibid., p. 8.

base and additional CPP over the long term."[15] Similarly, the most recent actuarial report of the QPP states that "cash inflows are sufficient to fund cash outflows for each of the years in the projection period, that is, from 2019 to 2068."[16]

At the hearing, in response to questions about how Canada's net debt is calculated in comparison to that of other countries, and about the accuracy of including CPP and QPP assets in this calculation, Nicholas Leswick, Associate Deputy Minister, Finance Canada, provided the following explanation:

> [You] can see the comparison between G7 countries on page 37. We outline the mechanics of going from the accumulated deficit basis, which is the debt metric you see in the public accounts and what the federal government reports on in its updates and budgets: how you get from there to this definition of "total government net debt", which is what the IMF uses to compare on an internationally comparable basis.
>
> […]
>
> The IMF has to do a series of mechanical adjustments to level-set all these G7 countries. You can see those mechanics on page 38. The big elements here, though, are accounting for public sector pensions and benefits, so again, internal to government pensions and benefits, and also, as the member opposite spoke to, the inclusion of the CPP/QPP assets.
>
> A fundamental issue there is that most other G7 countries don't fund their social security schemes, so they take the equivalent of what is the CPP premium and they bring it into their income statement, effectively managing these social security schemes on a pay-as-you-go basis. To establish this level of comparability, the IMF, in a kind of distorted way, takes that into consideration and brings the assets of the CPP/QPP into the accounts of Canada in order to compare these across G7 countries.[17]

Additionally, Michael Sabia, Deputy Minister, Finance Canada, stated that "even if you look at this on a gross basis, Canada ranks either second or third in the G7," and that whether "net or gross, the position of Canada is quite strong on a global basis."[18]

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15 Office of the Superintendent of Financial Institutions, Office of the Chief Actuary, Actuarial Report (30th) on the Canada Pension Plan.

16 Retraite Québec, Actuarial Valuation of the Québec Pension Plan as at 31 December 2018, p. 42.

17 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 44th Parliament, 3 May 2022, Meeting No. 17, 1250.

18 Ibid., 1245.

Composition of Government of Canada Revenues and Expenses for 2020–2021

For the 2020–2021 fiscal year, the largest share of federal revenues came from personal income tax (55.2%); corporate income tax (17.1%); and the GST (10.2%).[19] The largest share of expenses over the same period came from major transfers to persons — i.e., elderly benefits, children's benefits, EI benefits[20] (18.6%); other expenses — i.e., the operating expenses of the government's 131 departments, agencies, consolidated Crown corporations, and other entities (18.5%); and major transfers to other levels of government (16.6%).[21] Other transfer payments accounted for 15.2% of expenses.[22] The Canada Emergency Response Benefit and the Canada Recovery Benefit comprised 12.5% of expenditures while Canada Emergency Wage Subsidy comprised 12.4%.

Figures 1 and 2 provide breakdowns of federal government revenues and expenses, respectively, by various categories as reported in the *Public Accounts of Canada 2021*.

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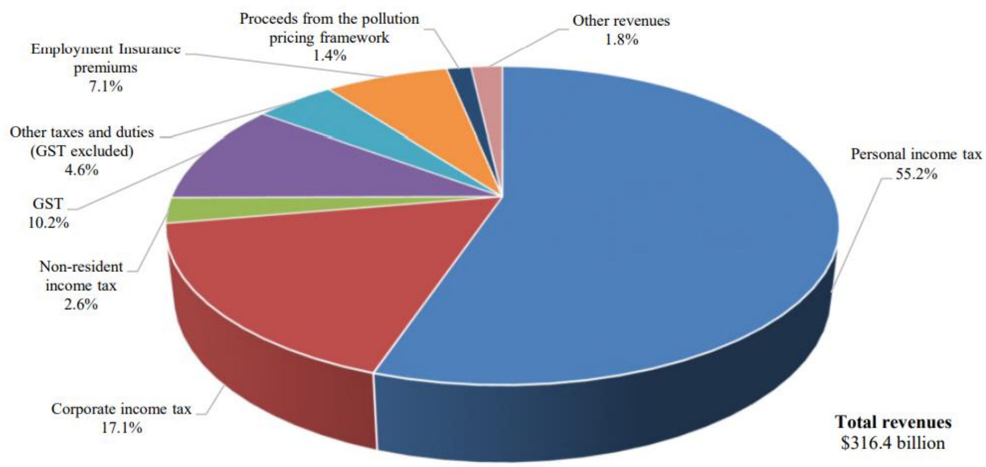
19 PSPC, *Public Accounts of Canada 2021*, Volume I, Section 1 — Financial statements discussion and analysis, Composition of Revenues, p. 16.

20 This expenditure category excludes $24.6 billion in Canada Emergency Response benefits and Canada Recovery benefits.

21 Ibid., p. 20.

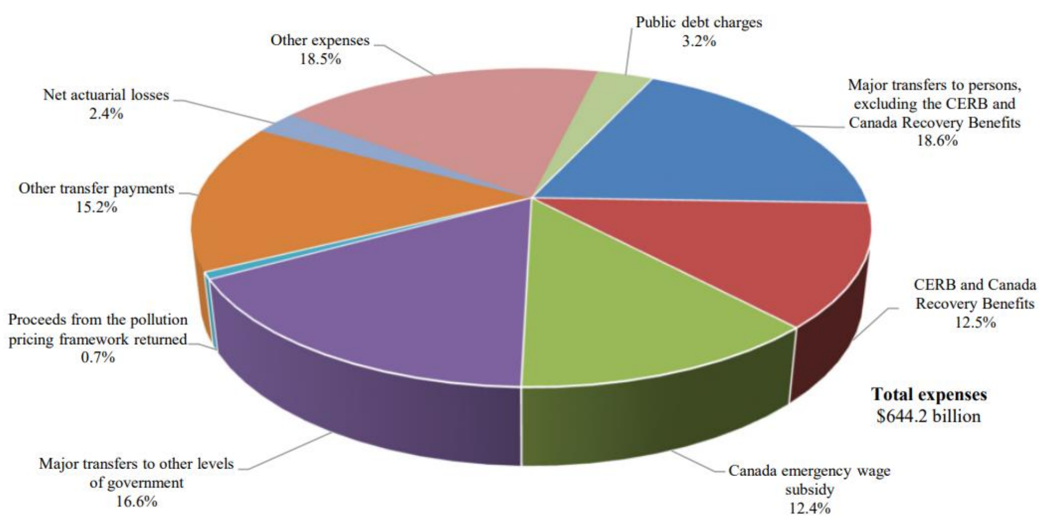
22 These transfers included various COVID-19 response measures: the repayment incentive under the Canada Emergency Business Account program; the Canada Emergency Rent Subsidy and Canada Emergency Commercial Rent Assistance; the Canada Emergency Student Benefit; the one-time payment for seniors eligible for Old Age Security benefits or the Guaranteed Income Supplement; increased funding through Workforce Development Agreements with provinces and territories; the doubling of Canada Student Grant amounts; and the one-time payment to persons with disabilities. Increases in transfer payments also reflect increased transfers to Indigenous peoples and compensation for supply-managed dairy producers as a result of market access commitments made under recent international trade agreements.

Figure 1 — Composition of Revenues for 2020–2021



Source: Public Services and Procurement Canada, *Public Accounts of Canada 2021*, Volume I, Section 1 — Financial statements discussion and analysis, Composition of Revenues (p. 16) and Composition of Expenses (p. 20).

Figure 2 — Composition of Expenses for 2020–2021



Source: Public Services and Procurement Canada, *Public Accounts of Canada 2021*, Volume I, Section 1 — Financial statements discussion and analysis, Composition of Revenues (p. 16) and Composition of Expenses (p. 20).

Budgetary Balance

The budgetary balance is the difference between the Government of Canada's revenues and total expenses over a fiscal year and is a key measure of its annual financial performance. For 2020–2021, the annual deficit before net actuarial losses stood at $312.4 billion compared to $28.8 billion in 2019–2020.[23]

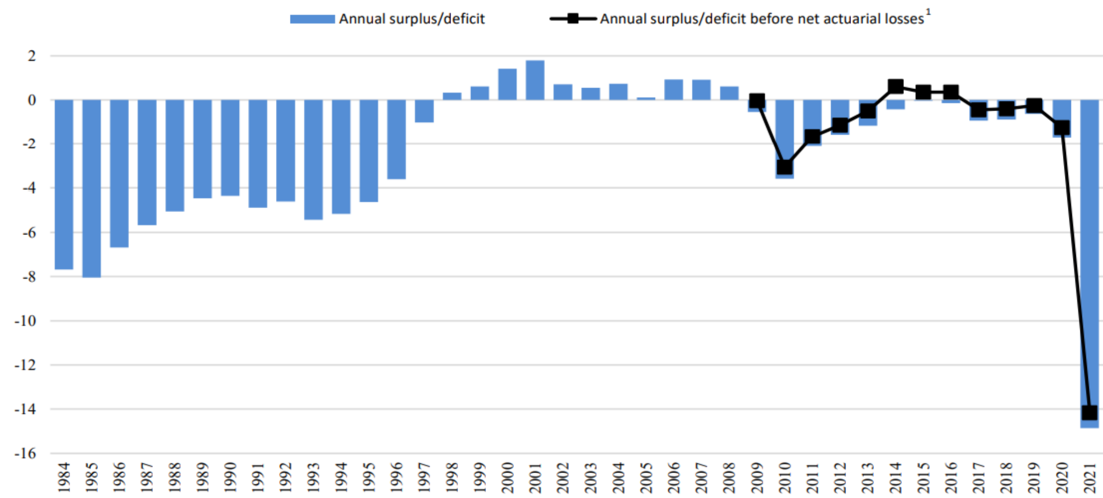
The annual deficit before net actuarial losses represents the difference between the federal government's revenues and expenses excluding net actuarial losses. By excluding the impact of changes in the value of obligations and assets for public sector pensions, other employee benefits, and future veteran benefits recorded in previous fiscal years, it is intended to present a clearer picture of the results of government operations during the current fiscal year.[24]

Figure 3 provides a historical summary of the federal budget balance as a percentage of GDP for the years 1984 to 2021.

23 Ibid., p. 13.

24 Ibid.

Figure 3 — Federal Budget Balance as a Percentage of Gross Domestic Product, 1984 to 2021



Note 1: In 2018, the government implemented (on a retroactive basis) a change in its methodology for the determination of the discount rate for unfunded pension benefits. Fiscal results for 2009 to 2017 were restated to reflect this change, however restated data for years prior to 2009 is not available.

Source: Public Services and Procurement Canada, *Public Accounts of Canada 2021*, Volume I, Section 1—Financial statements discussion and analysis, Annual surplus/deficit, p. 13.

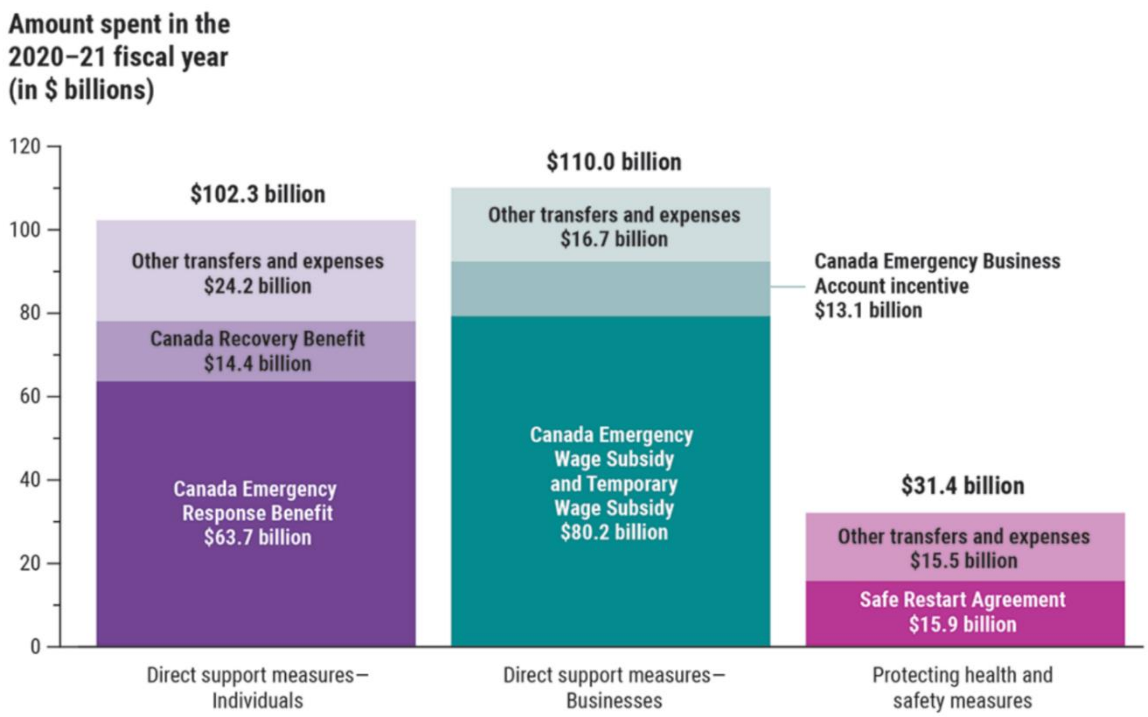
THE OFFICE OF THE AUDITOR GENERAL'S COMMENTARY ON THE FINANCIAL AUDITS

For the past six years, the OAG has published a document separate from, but tabled at the same time as, the public accounts entitled "Commentary on the Financial Audits." In addition to the two usual sections entitled "Results of our 2020–2021 financial audits" and "The Auditor General's observations on the Government of Canada's 2020–2021 consolidated financial statements," the Commentary on the 2020–2021 Financial Audits begins with a section entitled "The Government of Canada's COVID-19 economic response."

A. The Government of Canada's Covid-19 Response

The OAG summarized the key economic measures taken by the Government of Canada in response to COVID-19 and their costs, as presented in Figure 4.

Figure 4 — Breakdown of $243.7 billion total spent on COVID-19 direct support



Source: Office of the Auditor General, Commentary on the 2020–2021 Financial Audits, Exhibit 2.

The OAG noted that, as at 31 March 2021, the overall impact of these measures on the Government of Canada's consolidated financial statements was approximately:

- a $24-billion decrease in revenue (due to the Bank of Canada's purchase of federal government bonds and due to the enhanced goods and services tax/harmonized sales tax credit to individuals);
- a $233-billion increase in expenses;
- a $341-billion increase in liabilities;
- a $29-billion increase in financial assets (mainly due to loans advanced under the Canada Emergency Business Account program and to other transactions relating to Crown corporations) and a $5-billion increase in non-financial assets; and

- a net $258-billion increase in the annual deficit.[25]

B. Results of the 2020–2021 Financial Audits

The OAG stated that it was satisfied with the "timeliness and credibility of the financial statements prepared by 68 out of the 69 government organizations"[26] that it had audited, but it noted that it "could not issue [an] audit opinion on the [National Defence] department's Reserve Force Pension Plan on a timely basis."[27] It expects to complete the audits of the Reserve Force Pension Plan's 2020–2021 and 2021–2022 financial statements by January 2023. After that, it expects the financial statements to be prepared on a timely basis (at the same time as the public accounts).

The OAG observed that "[31] of 34 (91%) corporate plans had not been approved by the Treasury Board before the start of each Crown corporation's respective fiscal year."[28]

In 2020–2021, the OAG "noted opportunities for improvement in various areas. Similar to the previous year, the most common were:

- information technology (IT) general controls over systems supporting financial reporting;
- internal controls related to financial reporting;
- compliance with government policies, legislation, and regulations;
- accounting and financial reporting practices."[29]

The OAG observed that, in 2020–2021, five organizations were subject to a cyberattack. The effects of the attacks "included:

- certain systems taken offline and respective operations stopped, causing delays and disruptions to activities;

25 OAG, Commentary on the 2020–2021 Financial Audits, para. 25.

26 Ibid., para. 34.

27 Ibid., para. 35.

28 Ibid., para. 40.

29 Ibid., para. 43.

- lost data, costing time and resources to recover;
- stolen account credentials, unauthorized access to accounts, and unauthorized changes to personal information on compromised accounts of Canadians who interacted with the federal organization.”[30]

C. Observations of the Auditor General of Canada

1. Pay Administration

Since 2016, the OAG audit “has required detailed testing of a sample of federal employees’ pay transactions because of internal control weaknesses in the ‘HR-to-pay’ process. This process links information in human resources (HR) systems with the pay system.”[31] Consequently, the OAG made a number of observations, including that:

- 47% of employees had an error in their basic or acting pay during the 2020–2021 fiscal year, compared with 51% in the prior year;
- 41% of employees still required corrections to their pay as at 31 March 2021, an increase from the 31% reported in the prior year;[32]
- as at 31 March 2021, there were 254,500 outstanding pay action requests, a substantial improvement from the 334,000 requests reported as at 31 March 2020 — however, as at June 2021, the number of outstanding pay action requests had increased to 264,000;[33] and
- as at 31 March 2021, 18% of pay action requests (46,400 requests) were more than three years old (see Exhibit 8). This was an increase from 12% (40,200 requests) the previous year.[34]

Despite these errors, the OAG concluded that pay expenses were presented fairly in the Government of Canada’s 2020–2021 consolidated financial statements, because

30 Ibid., para. 52.

31 Ibid., para. 63.

32 Ibid., para. 65.

33 Ibid., para. 68.

34 Ibid., para. 69.

overpayments and underpayments made to employees continued to partially offset each other.

The OAG expressed concern "that the government's new HR and pay system could repeat weaknesses [the OAG has] found in the HR-to-pay process and could pay some employees inaccurately."[35]

2. National Defence Inventory and Asset Pooled Items

The OAG stated that, for 18 years, it has "raised concerns about the ability of National Defence to properly account for the quantities and values of its inventory."[36] As at 31 March 2021, "inventories at National Defence were valued at about $5.2 billion (or about 53% of the government's total inventories). Asset pooled items were valued at about $3.2 billion and were included in the government's tangible capital assets."[37]

National Defence submitted a 10-year inventory management action plan to the House of Commons Standing Committee on Public Accounts in the 2016–2017 fiscal year. In May 2021, National Defence reported that most of the action plan initiatives were completed. The OAG "continue[s] to be encouraged by the progress made."[38]

OBSERVATIONS AND RECOMMENDATIONS

The following is a selection of the topics raised at the hearing along with three recommendations for the Government of Canada.

The subsequent event and the updated audit opinion

There was much discussion about the late printing of the *Public Accounts of Canada 2021* and the subsequent re-evaluation of the government's financial statements. Roch Huppé, Comptroller General of Canada, provided the following testimony:

> The *Public Accounts of Canada 2021* were tabled on December 14, 2021. The timing of the tabling was a result of the need to ensure that all the necessary adjustments were made to the government's consolidated financial statements in response to a

35 Ibid., para. 73.

36 Ibid., para. 75.

37 Ibid.

38 Ibid., para. 77.

> September 29, 2021 court decision, as well as factoring in the time necessary to print the books.
>
> This court decision altered the estimated contingent liability that was reported in the original financial statements completed on September 9. The government considered the impact of the court ruling and concluded that it required an adjustment to its financial statements. Accordingly, the financial statements were reopened and adjusted after the closing entry was received from Indigenous Services Canada. This is explained in Volume 1, Section 2, Note 22, subsequent events.
>
> This revision is aligned with best practice, as well as public sector accounting standards and Canadian auditing standards. In fact, standards require the Auditor to consider facts up to the time that the financial statements are issued.[39]

For further context, he added the following:

> While this court decision necessarily delayed the publication of the public accounts, I would note that under the *Financial Administration Act*, the President of the Treasury Board is required to table the public accounts by December 31, or, if the House of Commons is not sitting during that period, within the first 15 days once the House reconvenes.
>
> I would also like to note that it is not unusual for the public accounts to be tabled in December in years when there is a fall election. In 2019, for example, they were tabled on December 12. In 2015, they were tabled on December 7.[40]

When asked about the materiality of the $10 billion adjustment to the estimated contingent liability and how it might affect Canada's debt-to-GDP ratio, Michael Sabia responded as follows:

> Mr. Chair, my answer to that is no, not necessarily. It would depend on… It's very counterfactual. We're in the realm of the counterfactual here—how that money is profiled over time. It wouldn't necessarily particularly change the slope of the line on, say, deficit-to-GDP or the deficit numbers themselves.[41]

When questioned about whether there was any thought that the Public Accounts were already finalized and subsequently re-opened — and this action's effects on their audit — Karen Hogan, Auditor General of Canada, provided the following:

39 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 44th Parliament, 3 May 2022, Meeting No. 17, 1140.

40 Ibid., 1145.

41 Ibid., 1315.

> Absolutely. The conversation was about what type of subsequent event, what the nature was and if there a need to open them. There were lengthy discussions and then consultations with standards before the decision was made.[42]

In response to questions about who can initiate a re-opening of the Public Accounts and what justification is deemed reasonable to do so, she explained as follows:

> [There] are different types of subsequent events. As soon as the year-end ends, before the financial statements are signed off and an audit opinion is issued, the government as well as the auditors are required to consider all events and decide whether or not they have an impact that's important enough to adjust the financial statements, be disclosed in the financial statements or just be left to the subsequent year.
>
> In this case between when the financial statements were signed and finished, but not made public, the onus really does lie with the government, the preparer, to determine if something is important enough to reopen the books. Then my job becomes to ask, was that an appropriate action? I signed off on a clean opinion indicating that I agreed that it was.[43]

Lastly, Ms. Hogan explained the rarity of this situation:

> I can tell you that the Government of Canada's financial statements have not had a double dating before since accrual accounting, but we have double dated an audit report in the past, back in 2010. There was a double dating of the public service pension plan audit report for a similar event, a lawsuit that was settled subsequent to year-end. It is very rare that subsequent events are of such importance that the financial statements need to be adjusted.
>
> […]
>
> I looked at why the adjustment was made and how it was made and I believe it was appropriate, which is why my opinion is an unmodified opinion and has been double dated to take into account the one event that adjusted the financial statements.[44]

Although the Committee acknowledges that the Deputy Minister of Finance, the Comptroller General of Canada, and the Auditor General of Canada all agreed that it was appropriate to re-open the *Public Accounts of Canada 2021* to account for the subsequent event described above, it nevertheless recommends:

42 Ibid., 1150.

43 Ibid., 1155.

44 Ibid., 1150.

Recommendation 1

That, in the event that a decision has been made to revise the Public Accounts of Canada after they have been audited and signed-off for the fiscal year, 1) the explanation of the revision be prominent in the presentation of the Consolidated Financial Statements of the Government of Canada; 2) the Auditor General of Canada comment on the revision in the Commentary on the Financial Audits as part of the study of the Public accounts of Canada; and 3) the Secretary of the Treasury Board, the Comptroller General of Canada, and the Auditor General of Canada appear before the House of Commons Standing Committee on Public Accounts to discuss the situation.

Recommendation 2

That the Government of Canada amend the *Financial Administration Act* to change the deadline for the tabling of the Public Accounts of Canada from December 31st to October 15th, to align with the tabling date of some Canadian provinces and peers in the Organization for Economic Co-operation and Development.

The Phoenix Pay System

Regarding the Phoenix pay system, Karen Hogan provided the following:

> I can tell you that we began in 2016, when the Phoenix pay system was implemented and the entire HR-to-pay process was changed within the federal government. Our entire audit approach needed to change because of weaknesses in the IT system and so many changes around the manual processes feeding into that IT system. Since then, we've been doing detailed transactions of actual pay for employees instead of relying on automated computer controls.
>
> This year's audit found that 47% of the individuals in our sample still had an error in their pay at least once during the fiscal year compared with about 51% the year prior. What's concerning is that about 41% of those people were still waiting for their pay to be adjusted at year-end. What we looked at then was the pay action requests. There will always be requests in the system to have adjustments to pay, but what was particularly concerning was that a large portion, almost 20%, of those pay action requests have been outstanding for more than three years. Individual public servants have been waiting a very long time to have their pay adjusted and be accurate.[45]

45 Ibid., 1210.

In addition to explaining that the OAG has issued recommendations to address this situation, when questioned about the biggest barriers to remedy this situation, she provided the following:

> I think there are a few reasons behind why this hasn't been remedied. It's a shared process. There are many parties involved in pay. Each individual department has the responsibility to enter accurate information about a new employee or about changes to an employee's pay. Some departments rely on the pay centre. Other departments do not rely on the pay centre. Everyone uses the Phoenix pay system, where there are some limitations in the system to deal with the pay of the federal government.
>
> The federal government is sort of a “pay behind”, right? We pay a few weeks later, whereas the system is more real time. As soon as you have a real-time adjustment that's not reflected in a timely way, there could be a possibility to have an error in pay. It's about lining all of that up and fixing the complex web of rules around compensation.[46]

Roch Huppé provided further explanations as to what the government was doing to address these long-standing concerns:

> Throughout the past few years, many steps have been taken. Our colleagues at the public services department who handle the compensation have obviously worked diligently. They've hired more staff and more compensation advisers with better training. They've looked at redefining some of the business processes. They've also made a lot of system modifications and adjustments to try to eliminate or decrease the backlog.
>
> Like you said, there's still an enormous amount of backlog, but it has considerably decreased since 2018.
>
> At the same time, our colleagues at Shared Services Canada are working on developing what I would call a next-generation pay system. We'll be looking at doing some pilots with some key departments to come up with a new system and a new solution that will hopefully solve [this problem].[47]

When asked whether end-users will be consulted in the development of the new pay system — to help ensure it does not have the same problems as Phoenix — Roch Huppé stated the following:

46 Ibid.

47 Ibid., 1330.

> I can assure you that a very large consultation process has been ongoing and will continue. I would step out and say that absolutely, every key stakeholder will be consulted through this.[48]

The Government's debt management strategy

In response to questions about the government's debt management strategy, Michael Sabia, Deputy Minister, Finance Canada, provided the following:

> I think the two most important aspects of that are, first, the significant reduction by about a couple of hundred billion dollars in our borrowing requirements that's gone on. That's obviously important and reflects a stronger economic recovery, therefore significant changes, strengthening of the deficit track of the government. The second is the point I made about extending the duration of the portfolio. Those are the two most important things.
>
> I would also say with respect to our public debt charges, that's something that we look at pretty carefully. Right now in the base case, I think for 2022–23, those debt charges as a per cent of GDP are about 1%. They step up a little bit over the fiscal planning period to about 1.3% or 1.4% of GDP. But all of that is well below the 2% to 2.5% that those public debt charges were…say, just before the financial crisis.[49]

Reporting of Crown Corporation Expenditures

In Volume III of the Public Accounts, federal departments and agencies report all transfer payments of $100,000 or more made to individuals and businesses, where the public can see their names and city of residence or place of business. However, Crown corporations are not subject to this requirement, and provide information in their annual plans and reports, but not to that level of detail.

When asked about the possibility of requiring Crown corporations to provide this data in the Public Accounts, Roch Huppé agreed to send the Committee "a more detailed reply on the most realistic processes that could be initiated to get what" was requested.[50] The reply received by the Committee states that "while changing the level of spending disclosure by Crown corporations, to provide more visibility into their spending either through the Public Accounts, their Annual Reports, or other means would be possible,

48 Ibid.

49 Ibid., 1240.

50 Ibid., 1325.

doing so would require extensive consultations and (potentially) financial support for changes to [their] individual financial systems."[51]

As the Committee aims to improve accountability and the transparency of the Public Accounts, it therefore recommends:

Recommendation 3

That the Government of Canada consider requiring Crown corporations to divulge all expenditures in the same manner as federal departments and agencies in Volume III of the Public Accounts of Canada; consult with interested stakeholders on the ways this could be achieved, the advantages it would provide and the potential additional administrative burden this could cause; and that it provide the Committee with a report comprising of a comprehensive analysis of this matter, no later than 30 April 2023.

Fraud related to COVID-19 emergency benefits

In its Commentary on the 2020–2021 financial audits, the OAG noted the following:

> Some measures, such as the Canada Emergency Response Benefit, the Canada Emergency Wage Subsidy, and the Canada Recovery Benefit, were designed to deliver benefits to Canadians quickly. The government paid benefits to individuals or businesses once they attested that they met the eligibility criteria. As a result, there is a risk of overpayments of benefits whether due to errors or fraud. To address this risk, post-payment verifications are required to identify any overpayments. The amounts to be recovered related to these overpayments are reported in the consolidated financial statements in the year the overpayments are determined. For some measures, the government has begun to carry out post-payment verification to identify overpayments. It expects its post-payment verification to continue for several years.[52]

When questioned about the projected amount of fraud related to these programs, Michael Sabia stated the following:

51 Treasury Board of Canada Secretariat, Follow-up Responses to the House of Commons Standing Committee on Public Accounts — Public Accounts of Canada 2021, May 3, 2021.

52 OAG, Commentary on the 2020–2021 Financial Audits, para. 25.

> We are in the process of checking those amounts, together with our colleagues from the Canada Revenue Agency and other federal departments. I cannot give you any exact figures right now.
>
> We recognize that, given the scope of the financial and human crisis caused by the pandemic, the government's priority was to act very quickly, and rightly so in my opinion. Now we have some work to do to look into this matter. There are and there will be processes to correct situations where individuals may have received certain amounts in error.[53]

In the 43rd Parliament, the Committee adopted reports on the Canada Emergency Wage Subsidy and the Canada Emergency Response Benefit, which included recommendations requiring Finance Canada, the Canada Revenue Agency and Employment and Social Development Canada to provide the Committee with follow-up reports about the efforts made to recuperate overpayments. These will be studied carefully by the Committee.

Pricing Pollution Framework

According to the *Public Accounts of Canada 2021*:

> As part of the federal carbon pollution pricing framework, the government returns all direct proceeds from the fuel charge to the jurisdiction of origin in the following manner:
>
> - For jurisdictions that voluntarily adopt the federal carbon pollution pricing framework, directly to the governments of those jurisdictions. As of March 31, 2021, $19 million ($6 million in 2020) were paid or payable;
> - For other jurisdictions that do not meet the federal benchmark requirements:
>   I. Directly to individuals and families through Climate Action Incentive (CAI) payments. These payments are provided for under the *Income Tax Act* and are delivered through the personal income tax system. In 2021, $4,547 million ($2,630 million in 2020) of CAI payments were made or were payable by the government;

53 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 44th Parliament, 3 May 2022, Meeting No. 17, 1225.

II. Proceeds were used for federal programming to support specified sectors. As of March 31, 2021, $98 million ($7 million in 2020) were returned.[54]

During the hearing, there was some discussion about the revenue neutrality of carbon pricing, because of the $98 million returned through federal programming. Michael Sabia provided the following:

> The accounting structure is that it's based on the period in which revenues are received and expenses are incurred, so when they are assessed or when they are disbursed. Because of that, that does lead to, as I say, some timing differences. Those timing differences will resolve themselves over time. For the year 2022–23, they should disappear given that we will be providing climate action incentive payments on a quarterly basis, which will resolve some of these timing differences.
>
> The second thing is that will over time resolve itself and, I think, in the very near term. As you know, the vast bulk of those payments are made and that gets you very close to the issue of revenue-neutral. There are some payments to be made to small and medium businesses, to farmers and to indigenous Canadians. They are in the works. They need to be done. As those payments are made and we resolve these timing differences, then members of Parliament will see that this is operating on a purely revenue-neutral basis.[55]

CONCLUSION

The Committee commends the Government of Canada for maintaining the integrity of its financial controls and reporting, which resulted in a twenty-third consecutive unmodified audit opinion from the Auditor General of Canada.

Notwithstanding the above, the Committee has made three recommendations in this report to help the Government of Canada improve the way it manages its financial administration and reporting, specifically regarding Crown corporations, the tabling date of the Public Accounts of Canada, and the re-evaluation of financial statements. Furthermore, the Committee strongly encourages the government to work diligently to find ways to rectify the persistent problems associated with the Phoenix pay system.

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54 PSPC, *Public Accounts of Canada 2021*, Volume I, Section 2 — Consolidated financial statements of the Government of Canada and report of the Auditor General of Canada, Notes to the consolidated financial statements of the Government of Canada, p. 71.

55 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 44th Parliament, 3 May 2022, Meeting No. 17, 1305.

APPENDIX A
LIST OF WITNESSES

The following table lists the witnesses who appeared before the committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the committee's webpage for this study.

Organizations and Individuals	Date	Meeting
As an individual	2022/04/26	15
Nancy Cheng, Assistant Auditor General (Retired), Office of the Auditor General of Canada		
Canadian Audit and Accountability Foundation	2022/04/26	15
Carol Bellringer, President and Chief Executive Officer		
Office of the Auditor General	2022/04/26	15
Etienne Matte, Principal		
Sophie Miller, Assistant Auditor General		
Chantale Perreault, Principal		
Treasury Board Secretariat	2022/04/26	15
Roch Huppé, Comptroller General of Canada		
Monia Lahaie, Assistant Comptroller General, Financial Management Sector		
Diane Peressini, Executive Director, Government Accounting Policy and Reporting, Office of the Comptroller General		
Department of Finance	2022/05/03	17
Evelyn Dancey, Assistant Deputy Minister, Economic and Fiscal Policy Branch		
Nicholas Leswick, Associate Deputy Minister		
Michael J. Sabia, Deputy Minister		
Office of the Auditor General	2022/05/03	17
Karen Hogan, Auditor General of Canada		
Etienne Matte, Principal		
Chantale Perreault, Principal		

Organizations and Individuals	Date	Meeting
Treasury Board Secretariat	2022/05/03	17
Roch Huppé, Comptroller General of Canada		
Monia Lahaie, Assistant Comptroller General, Financial Management Sector		
Diane Peressini, Executive Director, Government Accounting Policy and Reporting, Office of the Comptroller General		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 15, 17, 24, 25, 26, 27, 28 and 29) is tabled.

Respectfully submitted,

John Williamson, M.P.
Chair

Conservatives Question Liberal Carbon Tax In Public Accounts

The cost of the Liberal government is driving up the cost of living. The more Prime Minister Trudeau spends, the more things will cost. It's Justin-Flation. Grocery Prices are up by 10.8% - rising at the fastest pace in 40 years. The average family of four is now spending over $1,200 more each year to put food on the table, not to mention rising costs of heat, gasoline and rent. Now is not the time to be increasing taxes on hardworking Canadians. Conservatives call on the government to cancel all planned tax increases, including payroll tax hikes planned for January 1st and tax hikes on gas, groceries and home heating on April 1st.

Carbon Tax:

Conservatives uncovered evidence in the Public Accounts of 2021 that the Liberal carbon tax is not 'revenue neutral' as the government claims. As Canadians know, GST is charged on the carbon tax – so when the carbon tax goes up the federal government collects more GST. It's a tax on a tax. The Deputy Minister of Finance confirmed that GST collected was "over and above" the $4.3 billion collected by the carbon tax - but would not provide the amount.[i]

The Department of Finance also confirmed that $98 million dollars collected under the carbon tax was not returned to Canadian families.

It is clear that more information will be required for Canadians to understand how much money the federal government is making off the carbon tax.

The Parliamentary Budget Officer's report from March 2022 offered this estimate:

"The Government will also collect revenue from GST on its carbon levy. We estimate that $239 million in GST revenue from carbon pricing will be collected in 2021-22, increasing to $837 million in 2030-31 under HEHE carbon pricing."[ii]

The same PBO report makes clear that six out of ten Canadian households subject to the federal carbon tax are receiving less back than they pay in carbon taxes.[iii] Canadians living in rural areas, and those working in agriculture or natural resources are hurt the most by carbon tax increases.

And the PBO also hinted the negative impacts of the carbon tax cash grab could be much wider:

"Our estimates, however, only account for the economic impact of carbon pricing on personal income tax revenues. Future work may expand the analytical scope to include additional budgetary impacts."[iv]

For theses reasons Conservative members of the committee recommend:

Recommendation:

- **That the government cancel their plan to <u>triple</u> the carbon tax.**
- **That the Parliamentary Budget Officer prepare an annual report on the revenue neutrality of the carbon tax, the negative impacts on GDP growth and subsequent lost personal income tax because of the carbon tax.**
- **That the Parliamentary Budget Officer prepare a report on the carbon tax's impact on inflation for the next 10 years.**

Post-Audit Changes to Public Accounts 2021:

Canadians and parliamentarians must have complete confidence that the fiscal reporting from the federal government is free of political interference. For the first time since the federal government adopted accrual-based accounting, that belief is being questioned due to a lack of transparency over changes made to the Public Accounts 2021 (fiscal year 2020-21) <u>after</u> they had been audited and approved by the Auditor General, Comptroller General, Deputy Receiver General and Deputy Minister of Finance and the Secretary of the Treasury Board.

The importance of such trust and confidence is not mere hyperbole.

The Auditor General testified, "The decision to reopen the financial statements once they've been signed off is not one for me to make."[v] The Auditor General also confirmed this was the first time the Public Accounts were re-opened post audit since the adoption of accrual-accounting practices by the federal government.[vi]

The re-opening and changing the Financial Statements led to a delayed tabling of the public accounts. Such a delay does not serve elected officials, nor Canadians. It resulted in parliamentarians being asked to approve over $8.7 billion in voted government expenditures in the Supplementary B Estimates before the previous fiscal year's results were made public. It also forced parliamentarians to vote on government expenditures before being able to examine results achieved with the previous year's spending due to the delayed release of the Departmental Results Reports, which release coincides with the Public Accounts.

The Supplementary B's with $8.75 Billion in Voted budgetary expenditures and $4.66 Billion in Statutory budgetary expenditures were tabled in the House November 26, and deemed reported December 9, a full week before the Public Accounts were tabled in the House. Parliamentarians were required to vote on Supplementary B's without any information on what last year's expenditures achieved.

The Prime Minister's own mandate letters to the Ministers directed them to "raise the bar on openness...and transparency." The majority recommendation does not raise that bar. Having a one-sided "explanation" in the Public Accounts after the fact or a "comment on the revision" by the Auditor General on one of our most important public documents does little to promote "openness and transparency." Nor does it allow parliamentarians to achieve their main role, which is approving government expenditures in an informed way.

As the Public Accounts are tabled by the President of the Treasury Board, the Treasury Board must provide a clear explanation to the Public Accounts committee as to why such changes were made, and the Auditor General must provide a clear rational why they agreed and made the changes as suggested.

For theses reasons Conservative members of the committee recommend:

Recommendation:

- **That, in the event that a decision has been made to revise the Public Accounts of Canada after they have been audited and signed-off for the fiscal year:**
    - **The Secretary of the Treasury Board and the Comptroller General of Canada present a report on the rational to do so to the House of Commons Standing Committee on Public Accounts;**
    - **The Auditor General of Canada present a report to the Committee on whether or not this revision leads to changes in the audit opinion of the financial statements of the Government of Canada; and**
    - **All three of these officials appear before the Committee to discuss this matter.**

[i] https://www.ourcommons.ca/DocumentViewer/en/44-1/PACP/meeting-17/evidence
[ii] https://distribution-a617274656661637473.pbo- dpb.ca/6399abff7887b53208a1e97cfb397801ea9f4e729c15dfb85998d1eb359ea5c7
[iii] Ibid.
[iv] Ibid.
[v] https://www.ourcommons.ca/DocumentViewer/en/44-1/PACP/meeting-17/evidence
[vi] Ibid