HOUSE OF COMMONS
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CANADA

PUBLIC ACCOUNTS OF CANADA 2014

Report of the Standing Committee on Public Accounts

David Christopherson
Chair

NOVEMBER 2014

41st PARLIAMENT, SECOND SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

ELEVENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(*g*), the Committee has studied the Public Accounts of Canada 2014 and has agreed to report the following:

PUBLIC ACCOUNTS OF CANADA 2014

INTRODUCTION

The Public Accounts of Canada presents the federal government's consolidated financial statements and other related financial information. It is an important accountability report that provides information about the government's financial performance over the previous fiscal year – its revenues, expenses and budgetary balance. It also provides a snapshot of the government's financial position at the end of the fiscal year – its liabilities, assets and net debt. The *Public Accounts of Canada 2014*, which pertains to the fiscal year 2013–2014, was tabled in the House of Commons on 29 October 2014.[1]

In order to provide independent assurance to Parliament and Canadians on the reliability of the federal government's consolidated financial statements, the Public Accounts of Canada includes an audit opinion by the Auditor General of Canada on whether the financial statements:

- present fairly, in all material respects, the financial position of the government;
- are prepared according to the government's own accounting policies; and
- apply accounting policies in a way that is consistent with previous years, while incorporating changes that are consistent with Canadian public sector accounting standards.[2]

If the Auditor General concludes that these criteria are met, then he or she will provide an unmodified, or "clean," audit opinion. If, on the other hand, the Auditor General determines that there are enough misstatements in the financial statements that a person relying on them would be influenced to change his or her decisions, then the Auditor General will include a modification, or reservation, to his or her audit opinion. In addition, the Auditor General may provide observations on specific issues that he or she believes should be brought to the attention of Parliament, which, while important, are not considered of sufficient significance to alter the overall opinion on the statements.

Each year, the House of Commons Standing Committee on Public Accounts (the Committee) considers the Public Accounts of Canada and the Auditor General's opinion on them. This year, the Committee held a hearing on the *Public Accounts of Canada 2014*

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1 Public Works and Government Services Canada, *Public Accounts of Canada 2014 – Volume I: Summary Report and Consolidated Financial Statements*, Ottawa, 2014.

2 Ibid., p. 2.4.

on 6 November 2014.[3] From the OAG, the Committee met with Nancy Cheng, Assistant Auditor General; Karen Hogan, Principal; and Louise Bertrand, Principal. From the Office of the Comptroller General of Canada, the Committee met with Bill Matthews, Comptroller General of Canada, and Michel Vaillant, Acting Executive Director, Government Accounting Policy and Reporting. From the Department of Finance, the Committee met with Nicholas Leswick, General Director, Economic and Fiscal Policy.

FISCAL PERFORMANCE AND FINANCIAL POSITION

During the fiscal year 2013–2014, the federal government's financial performance improved over the previous year. The budgetary deficit was $5.2 billion in 2013–2014, which was $13.2 billion lower than the $18.4 billion deficit recorded in 2012–2013.[4] Revenues were $271.7 billion in 2013–2014, an increase of 5.9% from the previous fiscal year,[5] and expenses were $276.8 billion in 2013–2014, an increase of 0.6%.[6] As of 31 March 2014, the accumulated deficit – the difference between total liabilities and total assets – was $611.9 billion, an increase of $2.5 billion from the previous year,[7] and the net debt – liabilities less financial assets – was $682.3 billion, an increase of $4.0 billion from the previous year.[8]

The federal government has lowered the percentage of revenues spent on debt financing. In 2013–2014, the interest ratio – public debt charges expressed as a percentage of revenues – was 10.4%, down from 11.2% in 2012–2013 and down from a peak of 37.6% in 1990–1991.[9] Bill Matthews, the Comptroller General of Canada, explained the value of lowering the interest ratio, observing that, "When you can drive down the interest number as a percentage, it basically allows a higher percentage of your spending to be on program spending rather than paying down the debt."[10]

Additionally, according to the Organisation for Economic Co-operation and Development (OECD), Canada's total government net debt-to-GDP ratio was 40.4% in 2013, which is the lowest level among G-7 countries.[11] Nicholas Leswick, General Director at the Department of Finance, described how the debt-to-GDP ratio has gone down:

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3 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 41st Parliament, 6 November 2014, Meeting 37.

4 *Public Accounts of Canada 2014*, p. 1.4.

5 Ibid., p. 1.6.

6 Ibid., p. 1.9.

7 Ibid., p. 1.11.

8 Ibid., p. 1.19.

9 Ibid., p. 1.8.

10 Meeting 37, 1600.

11 *Public Accounts of Canada 2014*, p. 1.20.

> We've maintained an eye on our debt dynamics, so that our debt burden does not overwhelm the size of our economy. It has been going down recently. From a federal government perspective, we've gone from peaks of close to 70% debt-to-GDP ratios in the mid-1990s to something in the order of 30% today. So when you put that into a total government perspective, you can see how we contribute to the all-of-Canada picture.[12]

The revenue ratio – revenues as a percentage of GDP – was 14.4% in 2013–2014, up from 14.1% in 2012–2013, but overall the ratio has declined by an average of 18% over the 1996–1997 to 2000–2001 period.[13] Mr. Leswick explained that the government continues to collect more tax revenues because the economy is growing. The revenue ratio overall is decreasing because "our economy is growing faster than the pace of tax collection."[14] He also commented, "While tax rates are going down, the economy is growing, people are consuming more, and people are making more money, so we collect more taxes, notwithstanding a lower effective tax rate. It's really just a function of economic growth."[15]

With respect to future growth, Mr. Leswick told the Committee that uncertainty coming from Europe and slowing growth from China will weigh on Canadian domestic growth and the country's export potential. He said, "external demand is probably the greatest risk to the Canadian economy at the moment."[16]

Total expenses in 2013–2014 increased by $1.7 billion, or by 0.6%, over the previous year.[17] Major transfer to persons, such as the Guaranteed Income Supplement, Old Age Security, Employment Insurance benefits, and Universal Child Care benefit, were up by 2.7% in 2013–2014 over the previous year. Major transfers to other levels of government, such as the Canada Health Transfer, Canada Social transfer, and equalization payments were up 3.6%. Other transfer payments, such as aboriginal programming and infrastructure spending, were up 5.3%. Departmental program expenses, however, were down 1.9%.

The Public *Accounts of Canada 2014* includes a comparison of actual financial performance to the forecasts provided in the March 2013 budget and the February 2014 budget. The 2013–2014 budget deficit was $12.9 billion lower than predicted in the 2013 budget and $10.7 billion lower than predicted in the 2014 budget.[18] The comparison of the actual financial performance to the forecast in the 2013 budget is driven by accounting standards, as results should be compared against the initial budget. Mr. Leswick explained

12 Meeting 37, 1620.

13 *Public Accounts of Canada 2014*, p. 1.5.

14 Meeting 37, 1625.

15 Ibid., 1700.

16 Ibid., 1600.

17 *Public Accounts of Canada 2014*, p. 1.9.

18 *Ibid.*, p. 1.10

that a comparison is also made to the 2014 budget because more complete fiscal data is available by then. He said, “By the time you hit February Budget 2014, we have at least two quarters of economic data and we have eight periods of fiscal data—or what the government has actually spent for eight months of the year—so it's obviously a more robust forecast when we're only a couple of months from the finish line.”[19] Mr. Matthews commented on the fact that the 2014 budget was able to project program expenses within 1% of the actual result, stating:

> When our colleagues at Finance do the budget, they know that departments are not going to spend all of the money that Parliament authorizes, so they make their own projection as to what will actually be spent. I believe the number you're looking at here in a projection would factor in Finance and central agency assumptions of spending patterns. When you saw the lapse that we've been seeing in the papers, that was the comparison against what Parliament authorized, so it was much higher. This 1% here really speaks to Finance's ability to forecast accurately, and they did a pretty good job.[20]

The Public Accounts of Canada also includes information about how much each department and agency spent in the fiscal year as compared to its spending authorities approved by Parliament in an appropriation bill. The spending authorities provide a limit to spending, which departments and agencies cannot exceed. As the spending authorities lapse at the end of the fiscal year, any amounts not spent are considered to have lapsed. In total, departments and agencies lapsed $7.4 billion in authorized spending in 2013–2014.[21] This amount includes $926 million lapsed by the Department of National Defence and $172 million lapsed by the Department of Fisheries and Oceans.[22] Mr. Matthews told the Committee that most of the lapsed funding was planned due to cut backs, stating:

> Ironically, in years when we're cutting back, lapses are typically higher than in years when we're not. It's kind of a strange phenomenon, but it speaks to the importance of not overspending your budget. In this fiscal year, when you actually look at the net lapse, the vast majority of it is planned: capital carry-forward, operating carry-forward.[23]

He also noted that with respect to grants and contributions, the lapses primarily occurred in two areas, “infrastructure, which is complex negotiations, so no big surprise; and our friends at Indian and Northern Affairs, where again, negotiations can be difficult stuff, so you often see large lapses there.”[24]

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19 Meeting 37, 1650.

20 Ibid., 1655.

21 *Public Accounts of Canada 2014*, Volume II, p. 1.49.

22 Ibid., pp. 19.9 and 12.10.

23 Meeting 37, 1655.

24 Ibid.

In 2013–2014, the Employment Insurance (EI) Operating Account balance was $3.2 billion.[25] As there was a deficit carried over from the previous year, the accumulated deficit at the end of the year was $2.7 billion. The government projects that the account balance will improve as the economy grows. Mr. Leswick commented, “In terms of the EI operating account balance, our most recent projection was in Budget 2014, where we projected the cumulative balance in a deficit position for 2014-15 of approximately $1.5 billion, leading to successive surpluses in future years—gradually going to the surplus position as the economy strengthens.”[26]

The Economic Analysis section of the *Public Accounts of Canada 2014* indicates that over one million more Canadians are working as of December 2013 than in July 2009, when the economic recovery began.[27] However, the analysis does not provide information on the number of jobs lost during the global recession, and thus the net number of jobs created since 2007. It also does not indicate whether the average income has increased or decreased, nor does it mention the labour force participation rate. When asked about this information, Mr. Leswick observed that, “the Canadian economy has recovered all of the jobs it had lost, and more, during the recession.”[28] He also commented that, “we boast the highest participation rates in the G-7. … As the economic highlights suggest, we have the best job creation record since 2006.”[29]

An important part of the government’s financial statements is the consolidated statement of financial position at the end of the fiscal year – its liabilities, assets and accumulated deficit.[30] When asked whether there was sufficient information with respect to the assets and liabilities associated with the public sector pension plans, both prior to 2000 when the plans were unfunded and since 2000 when funds have been invested by the Public Sector Pension Investment Board, Mr. Matthews responded, “If you look at the government's financial statements, we have substantial disclosure around the pension plans, both funded and unfunded. From my own perspective, it's too much.”[31] While acknowledging that there was an international accounting standard for the presentation of public sector pension assets and liabilities, Mr. Matthews said that the federal government follows the standards set by the Canadian Public Sector Standards Board.

25 *Public Accounts of Canada 2014*, p. 4.19.

26 Meeting 37, 1635.

27 *Public Accounts of Canada 2014*, p. 1.3.

28 Meeting 37, 1605.

29 Ibid.

30 *Public Accounts of Canada 2014*, p. 1.24.

31 Meeting 37, 1625.

THE AUDITOR GENERAL'S OPINION AND OBSERVATIONS ON THE PUBLIC ACCOUNTS OF CANADA 2014

The Auditor General gave the federal government's consolidated financial statements for the fiscal year ending 31 March 2014 an unmodified opinion – the 16th consecutive year in which the government has received such an opinion.[32] He concluded that the financial statements fairly presented the government's financial position, that the statements were prepared in accordance with the government's stated accounting principles, and that these principles were applied in a manner consistent with the preceding year, after giving retroactive effect to the change in the method of accounting for the premiums and discounts arising from the buy-back of bonds.

Nancy Cheng, Assistant Auditor General, described the significance of achieving consecutive years of clean audit opinions, stating:

> Having 16 years of unmodified and clean audit opinion is indeed an exceptional accomplishment. I did get my staff to take a quick look at other G-8 countries to see what the situation might be with respect to their financial reporting and the status of audit results. Some of them don't even have what we call whole-of-government accounts, where all ministry information is brought together, so that you have a portrait of the country as a whole. For example, Germany and Italy don't have whole-of-government accounts. ... We have a denial of opinion in the United States from as far back as 2007 up to the current state. … Indeed, this is an exceptional accomplishment on the part of Canada, and we do have high-quality financial statements.[33]

Mr. Matthews spoke of the hard work that goes into preparing the financial statements, telling the Committee that:

> [A]ll members of the finance community in the Government of Canada should be proud of that. I cannot mention the audit opinion without thanking my colleagues from the Auditor General. This is a great deal of work that requires excellent collaboration, and we had that again this year.[34]

The Committee agrees that having 16 consecutive years of unmodified audit opinions on the federal government's consolidated financial statements is a noteworthy accomplishment. It commends the work of the officials in departments and agencies that prepare the government's financial statements, the financial guidance and leadership of the Office of the Comptroller General of Canada and the audit work of the Office of the Auditor General of Canada.

In his observations on the Public Accounts, the Auditor General provided an update on an issue that he has been reporting on since 2003 – the Department of National

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32 *Public Accounts of Canada 2014*, pp. 2.4 and 2.41.

33 Meeting 37, 1545.

34 Ibid., 1535.

Defence's efforts to improve the recording and valuing of its inventory and asset-pooled items.[35] The Auditor General noted some progress in the Department's performance of physical counts of inventory at year-end; however, there was limited progress on a number of controls related to the management of inventory. In a plan provided to the Committee in October 2013, the Department indicated that it would move to a single resource management system. The Auditor General observed that while the Department converted its inventory and asset-pooled items to the single resource management system during 2013–2014, the conversion was not sufficiently planned, leading to additional year-end adjustments of approximately $1 billion.[36]

Ms. Cheng commented that the Department has made some progress in implementing compensating controls, however, "They haven't quite got it to the point that we can derive sufficient assurance from it to rely on it for the existence and conditions of the inventory, but they're moving in that direction."[37] She indicated that some of the problems may be related to a lack of awareness or insufficient training.[38] She stressed the importance of implementing appropriate controls by saying, "Strong financial management controls reduce the risk of misstating the consolidated financial statements and making decisions without accurate information."[39]

The Committee encourages the Department to continue to improve its recording and valuing of its inventory and asset-pooled items and trusts that the Department will resolve this issue soon.

CONCLUSION

The federal government's financial performance during 2013–2014 was better than expected, with the actual budget deficit of $5.2 billion being $10.7 billion lower than forecast in the February 2014 budget. The budget deficit was also $13.2 billion lower than the deficit recorded in the previous year. At the end of the fiscal year, the accumulated deficit – the difference between total liabilities and total assets – was $611.9 billion, an increase of $2.5 billion. However, within the global economic environment, risks are tilted to the downside and future economic growth projections, and thus forecasts of the federal government's revenues and expenses, will need to be prudent.

The federal government also received a 16th consecutive unmodified, or "clean," audit opinion from the Auditor General on its consolidated financial statements. The Committee notes that this is a significant achievement. Nonetheless, the Department of

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35 *Public Accounts of Canada 2014*, p. 2.41.

36 Ibid., p. 2.42.

37 Meeting 37, 1555.

38 Ibid.

39 Meeting 37, 1530.

National Defence needs to continue its work on improvements to the recording and valuing of its inventory and asset-pooled items.

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Finance	2014/11/06	37
Nicholas Leswick, General Director, Economic and Fiscal Policy Branch		
Office of the Auditor General of Canada		
Louise Bertrand, Principal		
Nancy Cheng, Assistant Auditor General		
Karen Hogan, Principal		
Office of the Comptroller General of Canada		
Bill Matthews, Comptroller General of Canada		
Michel Vaillant, Acting Executive Director, Government Accounting Policy and Reporting		

MINUTES OF PROCEEDINGS

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 37 and 39*)* is tabled.

Respectfully submitted,

David Christopherson
Chair