



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

PUBLIC ACCOUNTS OF CANADA 2018

Report of the Standing Committee on Public Accounts

The Honourable Kevin Sorenson, Chair

FEBRUARY 2019
42nd PARLIAMENT, 1st SESSION

Published under the authority of the Speaker of the House of Commons

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Chair**

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NOTICE TO READER

Reports from committee 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

FIFTY-SEVENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied the Public Accounts of Canada 2018 and has agreed to report the following:



PUBLIC ACCOUNTS OF CANADA 2017-2018

INTRODUCTION

A. Public Accounts of Canada

The Public Accounts of Canada are published 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, by department;
- Volume III presents additional information and analyses.¹

The [*Public Accounts of Canada 2017–2018*](#) were tabled in the House of Commons on 19 October 2018.²

The House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on the [*Public Accounts of Canada 2017–2018*](#) on 31 October 2018. From the Office of the Auditor General of Canada (OAG), the Committee met with Michael Ferguson, Auditor General of Canada (AG), Karen Hogan and Renée Pichard, Principals. The Treasury Board of Canada Secretariat (TBS) was represented by Roch Huppé, Comptroller General of Canada, Janique Caron, Assistant Comptroller General, and Diane Peressini, Executive Director, Government Accounting Policy and Reporting. Finally, Paul Rochon, Deputy Minister, and Bradley Recker, Director General, Fiscal Policy, appeared on behalf of the Department of Finance Canada.³

B. 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 its stated accounting policies —

1 Public Services and Procurement Canada [PSPC], [*Public Accounts of Canada 2017–2018*](#).

2 Ibid.

3 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018.



based on Canadian public sector accounting standards—and for such internal control as the government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.⁴

C. The Auditor General of Canada’s Responsibility and Opinion

The AG is responsible for expressing an opinion on the government’s consolidated financial statements, based on his audit conducted in accordance with Canadian generally accepted auditing standards. These standards require that the AG comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements of the government are free from material misstatement.⁵

Regarding the [Public Accounts of Canada 2017–2018](#), the AG stated that “the consolidated financial statements present fairly, in all material respects, the financial position of the Government of Canada as at 31 March 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with the stated accounting policies of the Government of Canada.”⁶ This marks the 20th consecutive year that the AG has “provided an unmodified audit opinion on the government’s consolidated financial statements,”⁷ which means that he “concludes that the financial statements gave a fair presentation of the underlying transactions and events according to accounting standards.”⁸

For the past three years, the AG has tabled a separate document entitled [Commentary on the 2017–2018 Financial Audits](#) simultaneously with the Public Accounts. This year, the document includes a section entitled “[The Auditor General’s observations on the government’s 2017–2018 financial statements](#),” which was previously included in the Public Accounts.

4 PSPC, [Public Accounts of Canada 2017-2018, Volume I](#), p. 48.

5 Ibid.

6 Ibid.

7 Office of the Auditor General of Canada [OAG], [Commentary on the 2017–2018 Financial Audits](#).

8 OAG, [Financial Audit Glossary, Unmodified audit opinion](#).

FINANCIAL PERFORMANCE AND STATEMENTS

The *Public Accounts of Canada 2017–2018* outline the government’s financial performance during the 2017–2018 fiscal year, and its financial position as of 31 March 2018. Some financial highlights include:

- There was a deficit of \$19 billion (0.9% of Canada’s gross domestic product [GDP]), which is essentially the same amount and percentage as the previous year.⁹
- Revenues were \$313.6 billion, an increase of \$20.1 billion (6.9%) over the previous year.¹⁰
- Program expenses were \$332.6 billion, an increase of \$20.1 billion, or 6.4%, from the previous year; this reflects increases in major transfers to persons and to other levels of government, as well as other transfer payments.¹¹
- Public debt charges were \$21.9 billion, an increase of \$0.7 billion, or 3.1%, from the previous year.¹²
- The interest ratio—public debt charges expressed as a percentage of revenues—decreased from 7.2% in 2016–2017 to 7.0% in 2017–2018, meaning, in 2017–2018, that the government “spent approximately 7 cents of every revenue dollar on interest on public debt.” It should also be noted that this is considerably lower than the peak value of 37.6% recorded in 1990–1991.¹³
- As of 31 March 2018, the accumulated deficit—the difference between total liabilities and total assets—was \$671.3 billion (31.3% of GDP), compared with \$651.5 billion (32.0% of GDP) the previous year.¹⁴

9 PSPC, *Public Accounts of Canada 2017-2018, Volume I*, p. 11.

10 *Ibid.*, p. 12.

11 *Ibid.*

12 *Ibid.*

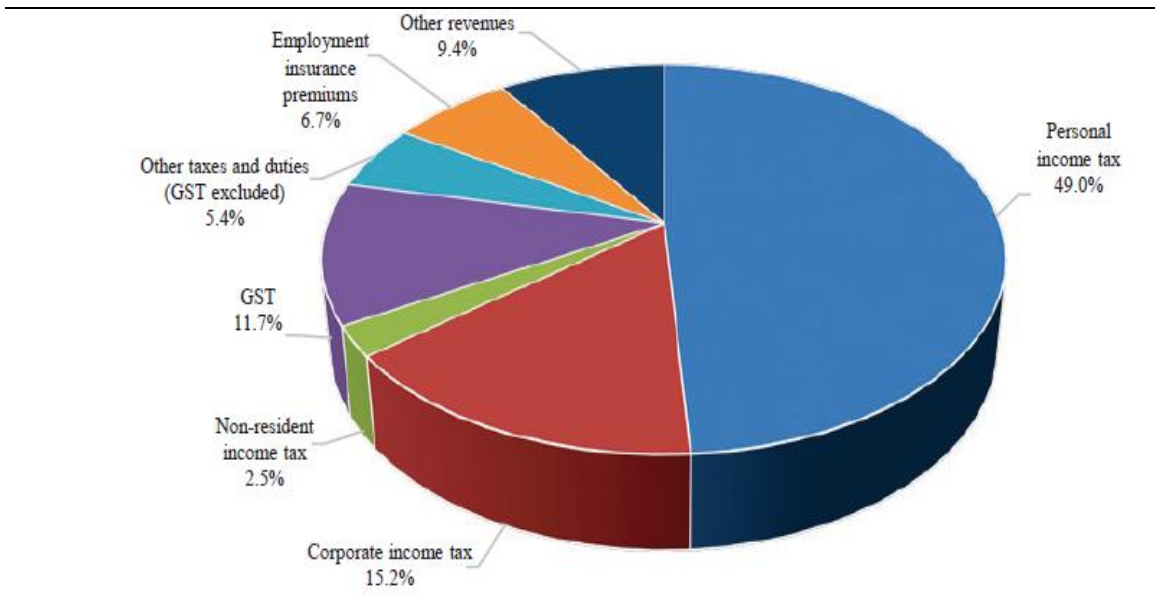
13 *Ibid.*, p. 15.

14 *Ibid.*, p. 12.



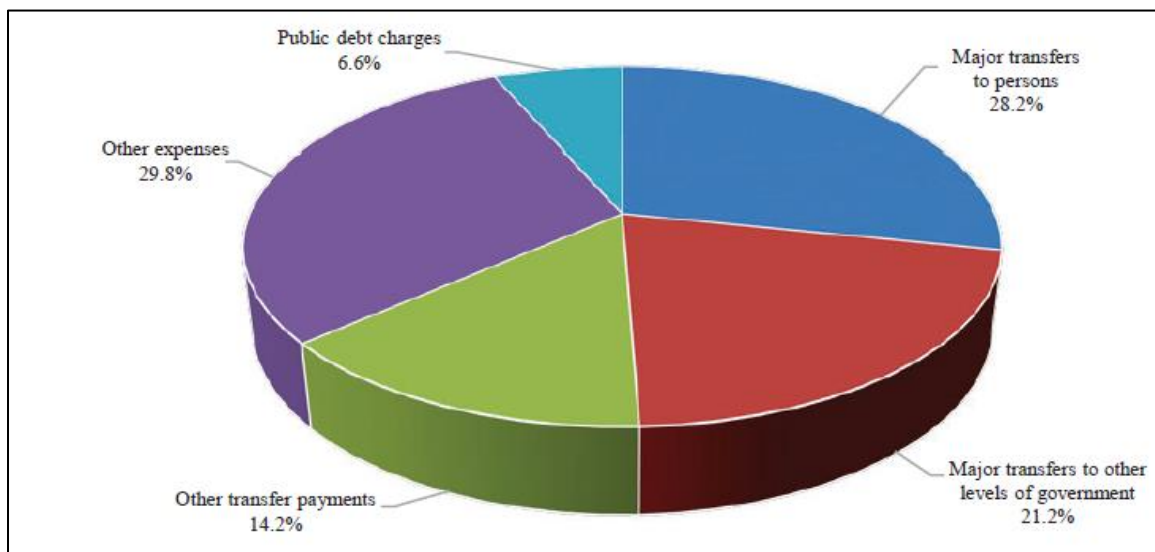
COMPOSITION OF REVENUES AND EXPENSES FOR 2017-2018

Figure 1—Composition of Revenues for 2017-2018



Source: PSPC, *Public Accounts of Canada 2017-2018, Volume I*, p. 13.

Figure 2—Composition of Expenses for 2017-2018



Source: PSPC, *Public Accounts of Canada 2017-2018, Volume I*, p. 15.

THE AUDITOR GENERAL OF CANADA'S OBSERVATIONS REGARDING THE PUBLIC ACCOUNTS OF CANADA 2017-2018

Regarding the audit of the federal government's consolidated financial statements, the AG sometimes makes observations on matters that the Office would like to bring to Parliament's attention. For the fiscal year ended 31 March 2018, the AG made three key observations on the following subjects: the transformation of pay administration (pertaining to the Phoenix system), the discount rates selected by management, and the Department of National Defence's inventory.¹⁵ He also added "[Additional insights from our financial audits.](#)"

A. Transformation of Pay Administration

According to the OAG, "[the] Transformation of Pay Administration Initiative centralized pay services for 46 departments and agencies in a new Public Service Pay Centre and included the implementation of the Phoenix pay system for all 101 departments and agencies. In 2017–2018, Phoenix processed approximately \$25 billion in pay expenses. The government continued to have numerous challenges in accurately paying employees this fiscal year."¹⁶ In his testimony before the Committee, the AG said that his office had "looked at about 16,000 pay transactions across 47 departments" and "found that 62% of the employees [in the sample] were paid incorrectly at least once during this year."¹⁷

The OAG also "estimated that the government owed employees \$369 million (because the employees were underpaid) and employees owed the government \$246 million (because they were overpaid). In other words, there were approximately \$615 million worth of pay errors as at March 31, 2018."¹⁸ The AG also said that despite "the significant number of individual pay errors, they didn't result in a financially significant error in the government's total reported pay expenses. This was because overpayments and underpayments partially offset each other."¹⁹ The OAG encouraged "the

15 OAG, [Commentary on the 2017–2018 Financial Audits.](#)

16 Ibid.

17 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018, 1535.

18 OAG, [Commentary on the 2017–2018 Financial Audits.](#)

19 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018, 1535.



government to continue its initiatives to address the number of outstanding pay action requests.”²⁰

The Committee agrees with the OAG and has tabled two reports in the House of Commons concerning the Phoenix pay system, one examining the government’s response to its problems,²¹ the other analyzing how they occurred.²²

B. Discount Rates Selected by Management

According to the OAG, “[during] the 2017–2018 fiscal year, the government completed its review of the methods it uses to determine the discount rates for estimating its long-term liabilities. This review resulted in a change to the valuation of long-term liabilities in the following areas:

- public sector pension and other employee and veteran future benefits;
- environment liabilities;
- asset retirement obligations;
- capital leases.”²³

This action had been recommended in the two previous years by the OAG, which stated that it is “satisfied that the government has addressed [its] recommendations from prior years.”²⁴

The AG explained the impact of this change:

The most significant impact of changing how discount rates are determined was on the valuation of public sector unfunded pension liabilities. This change resulted in an increase in those liabilities of \$19.6 billion compared with prior years. In our view, this

20 OAG, [*Commentary on the 2017–2018 Financial Audits*](#).

21 House of Commons, Standing Committee on Public Accounts, [*Report 1, Phoenix Pay Problems, of the Fall 2017 Reports of the Auditor General of Canada – Part I*](#), Forty-Second Report, 1st Session, 42nd Parliament, March 2018.

22 House of Commons, Standing Committee on Public Accounts, [*Report 1, Building and Implementing the Phoenix Pay System, of the 2018 Spring Reports of the Auditor General of Canada*](#), Fifty-Third Report, 1st Session, 42nd Parliament, November 2018.

23 OAG, [*Commentary on the 2017–2018 Financial Audits*](#).

24 Ibid.

better reflects the value of what it will cost the government to meet its pension promises.

We are pleased to note that the balances from last year's financial statements were adjusted. This makes it easier to compare results from year to year.²⁵

C. Department of National Defence Inventory

According to the OAG, “National Defence’s inventory is a significant item in the consolidated financial statements of the Government of Canada. It accounted for \$5.7 billion of the government’s \$6.7 billion total inventory as at March 31, 2018. It is divided into two subgroups:

- ammunition, valued at \$3.3 billion as at March 31, 2018;
- non-ammunition, or “consumables,” valued at \$2.4 billion as at March 31, 2018.”²⁶

Furthermore, on 30 May 2018, “the department reported to the committee that it substantially met the commitments in its action plan for the 2017–2018 fiscal year. The following are some of the key results National Defence reported:

- It had analyzed and corrected the prices of approximately 70,000 high-risk consumable stock codes. The remaining consumable stock codes are expected to be addressed in next year’s action plan;
- It had monitored (and adjusted, if necessary) ammunition pricing, which it analyzed and corrected last year;
- It had completed more test counts and quality assurance procedures over certain inventory items than it had originally committed to;
- It had disposed of certain obsolete items that had been previously written off in the consolidated financial statements.

25 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018, 1535.

26 OAG, [Commentary on the 2017–2018 Financial Audits](#).



[The OAG] reviewed documentation and [is] pleased with the department's actions taken to meet its 2017–2018 commitments in its multi-year action plan."²⁷ However, the AG expects "further progress in the coming years as National Defence completes the steps necessary to improve its inventory management practices."²⁸

D. Other Issues

1. Information Technology Projects

The OAG noted that there are "more than 30 significant projects with information technology (IT) components—planned or underway—that affect financial reporting at various federal organizations, including Crown corporations. These projects are significant because they involve systems that are undergoing major conversion or replacement as well as changes to IT management in some organizations."²⁹ The AG added the following:

[Now] is the time for the government to stand back and look at all of these projects and ask if we have real external oversight, if we have the opportunity for people to come forward when they think a system is not going to work. Right now is the time, because of all these very significant systems, for the government to make sure that whatever lessons have been learned from Phoenix aren't just learned on the next project that starts up, but are applied back to all of these projects that are already under way.³⁰

Therefore, the Committee recommends:

Recommendation 1

That the *Government of Canada* ensure that all information technology transformation projects within the federal government have independent external oversight and that senior management in the departments concerned take into account the potential problems identified by all participants in these projects.

27 Ibid.

28 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018, 1535.

29 OAG, [Commentary on the 2017-2018 Financial Audits](#).

30 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018, 1555.

2. Statutory Expenditures in the Main Estimates

The AG also noted that, in the Main Estimates, forecast statutory expenditures of \$62.5 billion in 2018-2019 were not included in the total statutory expenditures, which in large part explains the difference between the 2018 budget (\$338.5 billion) and the Main Estimates (\$276 billion).³¹ To address this point, he provided the following:

For example, some of it was children's benefits, which is a program authorized under the Income Tax Act. If there's a piece of legislation that authorizes that program, why is it not considered statutory like all of the other statutory payments?³²

Additionally, the OAG stated it would continue discussions “with the government to identify opportunities to improve the information in the Main Estimates and to help Parliamentarians understand and scrutinize all of the government’s spending plans.”³³

Therefore, the Committee recommends:

Recommendation 2

That the *Government of Canada* consider including all statutory expenditures, including those related to the Employment Insurance program and the Canada Child Benefit, in the total statutory expenditures in the Main Estimates.

CONCLUSION

The Committee would like to thank the Auditor General of Canada and his Office for their thorough audit, and congratulate the Government of Canada for receiving its 20th consecutive unmodified audit opinion, which attests that it properly reported its overall financial performance for 2017-2018 to Parliament and to Canadians. It also acknowledges the Government’s response to the Committee’s recommendations in its report on the *Public Accounts 2016-2017*, which pertained to the internal controls of the pay administration system, the determination of the discount rates used in the Public Accounts, and an improvement in how they are presented.

In this report, the Committee makes two recommendations to the federal government: one to help prevent excessive spending or potential missteps regarding significant

31 Treasury Board of Canada Secretariat, [2018-19 Estimates](#), p. I-9.

32 House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, [Meeting No. 116](#), 31 October 2018, 1550.

33 OAG, [Commentary on the 2017-2018 Financial Audits](#).



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information technology projects; and the other to ensure that all information on statutory expenditures is included in the Main Estimates.

SUMMARY OF RECOMMENDED ACTIONS

Table 1—Summary of Recommendations

Recommendation	Recommended action
Recommendation 1	The <i>Government of Canada</i> should ensure that all information technology transformation projects within the federal government have independent external oversight and that senior management in the departments concerned take into account the potential problems identified by all participants in these projects.
Recommendation 2	The <i>Government of Canada</i> should consider including all statutory expenditures, including those related to the Employment Insurance program and the Canada Child Benefit, in the total statutory expenditures in the Main Estimates.

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
Canadian Audit and Accountability Foundation John Reed, President and Chief Executive Officer Lesley Burns, Director, Oversight Andrew Lennox, Associate	2018/10/24	114
Office of the Auditor General Karen Hogan, Principal Renée Pichard, Principal	2018/10/24	114
Treasury Board Secretariat Janique Caron, Assistant Comptroller General, Financial Management Sector Diane Peressini, Executive Director, Government Accounting Policy and Reporting, Office of the Comptroller General of Canada	2018/10/24	114
Department of Finance Paul Rochon, Deputy Minister Bradley Recker, Director General, Fiscal Policy	2018/10/31	116
Office of the Auditor General Michael Ferguson, Auditor General of Canada Karen Hogan, Principal Renée Pichard, Principal	2018/10/31	116

Organizations and Individuals	Date	Meeting
Treasury Board Secretariat Roch Huppé, Comptroller General of Canada Janique Caron, Assistant Comptroller General, Financial Management Sector Diane Peressini, Executive Director, Government Accounting Policy and Reporting, Office of the Comptroller General of Canada	2018/10/31	116

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. 114, 116 and 126](#)) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson, P.C., M.P.
Chair

