Commentary on the 2021–2022 Financial Audits

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada

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Table of Contents

Introduction

1. This report highlights the results of the **financial audits*** we—the Office of the Auditor General of Canada—conducted in federal organizations for the fiscal years ended between 31 July 2021 and 30 April 2022. (We refer to these as the 2021–2022 financial audits.) This report provides a commentary based on those audit results. We also provide additional insights on 2 areas related to our financial audits:

- increasing requirements for the government to do **environmental, social, and governance reporting**[1]
- a new accounting standard for the government's recording of **asset retirement obligations**

2. As in the commentaries of the 2019–2020 and the 2020–2021 financial audits, we report this year on certain financial effects of the **coronavirus disease (COVID-19)** pandemic on the consolidated **financial statements** of the Government of Canada. More specifically, this report

- highlights spending on public health and direct support measures since the pandemic began
- discusses the government's process for accounting for overpayments or payments to ineligible recipients of COVID-19 benefits
- provides information on the level of the federal debt

3. This commentary is not a **performance audit**. We have conducted 9 performance audits related to the COVID-19 pandemic since 2019, which are published in separate reports on our website. As noted in paragraph 17, we expect to report in December 2022 on a performance audit related to specific COVID-19 benefits. We will continue to conduct performance audits on specific elements of the government's COVID-19 response.

* Bolded terms are defined in the Glossary

Financial effects of Canada's COVID-19 economic response

The government's response to the pandemic continued to have an impact on its consolidated financial statements

4. Starting in 2020, the Government of Canada introduced various measures in responding to the COVID-19 pandemic. These measures required approval from Parliament—through legislation—before public funds could be spent. The government's COVID-19 economic response involved measures to

- directly support individuals and businesses
- protect health and safety
- provide credit and **liquidity** support for businesses and other measures to support the economy

5. As the pandemic continued into the 2021–22 fiscal year, some measures ended, some measures were extended, and new measures were introduced. The overall amount the government spent, or loaned, in responding to the pandemic in the 2021–22 fiscal year was approximately $76 billion, a decrease from $299 billion in the prior year. This amount represented 16% of the government's 2021–22 program expenses, compared with 49% in the prior year.

6. The government spent $54.0 billion on direct support measures for individuals and businesses in the 2021–22 fiscal year. Exhibit 1 shows the amounts spent yearly on these measures since the beginning of the pandemic.

Exhibit 1—Government spending on direct support measures to individuals and businesses in response to the COVID-19 pandemic

	Expenses, after deducting overpayments, by fiscal year (in millions of dollars)			
Support measures	**2019–20**	**2020–21**	**2021–22**	**Total**
Canada Emergency Wage Subsidy and Temporary Wage Subsidy	-	80,166	22,291	102,457
Canada Emergency Response Benefit and Employment Insurance Emergency Response Benefit	6,500	63,693	(994)	69,199
Canada Recovery Benefit	-	14,417	12,526	26,943
Canada Recovery Caregiving Benefit	-	1,957	2,162	4,119
Canada Recovery Sickness Benefit	-	409	939	1,348
Canada Worker Lockdown Benefit	-	-	910	910
Other direct support measures for individuals and businesses	-	51,604	16,207	67,811
Total	**6,500**	**212,246**	**54,041**	**272,787**

Source: Based on the Office of the Auditor General of Canada's analysis of data in the consolidated financial statements of the Government of Canada

7. The government spent $14.5 billion on COVID-19 measures to protect health and safety in the 2021–22 fiscal year. It also held in its inventory health and safety items that were not yet put into use. We list several key measures in Exhibit 2, outlining the amounts spent yearly since the beginning of the pandemic.

8. The government provided $7.1 billion of liquidity support for businesses in the 2021–22 fiscal year, mainly through loans under the Canada Emergency Business Account and Large Employer Emergency Financing Facility programs. Some of these support measures were managed by Crown corporations and reported in their respective financial statements. The net effects of these support measures are subsequently reported in the government's consolidated financial statements.

Exhibit 2—Government spending on measures to protect health and safety

	Expenses and purchases of related assets by fiscal year (in millions of dollars)			
Health and safety measures	**2019–20**	**2020–21**	**2021–22**	**Total**
Safe Restart Agreement (includes inventory)	-	15,844	605	**16,449**
Safe Return to Class Fund		2,000		**2,000**
Helping Health Care Systems Recover	-	4,000	-	**4,000**
Canada's COVID-19 Immunization Plan	-	1,000	-	**1,000**
Vaccines and therapeutics (includes inventory and prepaid expenses)	-	2,706	5,562	**8,268**
Personal protective equipment and medical equipment (includes inventory)		2,071	2,830	**4,901**
Rapid tests and rapid test kits (includes inventory and prepaid expenses)			2,569	**2,569**
Other protecting health and safety measures	700	3,774	2,970	**7,444**
Total	**700**	**31,395**	**14,536**	**46,631**

Source: Based on the Office of the Auditor General of Canada's analysis of data in the consolidated financial statements of the Government of Canada

9. For the 2021–22 fiscal year, the overall impact of all these COVID-19 measures on the Government of Canada's consolidated financial statements was approximately

- a $66.6-billion increase in expenses
- a $67.7-billion increase in liabilities (equivalent to the increase in expenses and assets)
- a $2.7-billion increase in financial assets (mainly because of loans provided under liquidity support programs, after deducting repayments, and **accounts receivable** recorded for benefit programs, after deducting amounts recovered)
- a $1.6-billion decrease in non-financial assets (mainly because of new purchases of health and safety items, after deducting previously purchased items put into use)
- a net $66.6-billion increase in the annual deficit

These transactions are reported in the government's consolidated financial statements in the **Public Accounts of Canada** (Exhibit 3).

Exhibit 3— Where the overall effects of the COVID-19 measures were reported in the government's consolidated financial statements

Public Accounts of Canada
2021–2022 Volume I

Consolidated statement of operations and accumulated deficit (in billions of dollars)

Expenses	
Major transfers to other levels of government	3.4
COVID-19 income support for workers	15.6
Canada Emergency Wage Subsidy*	22.3
Other transfer payments	16.9
Other expenses	8.4
Increase	**66.6**

Annual deficit	
Increase	**66.6**

Consolidated statement of financial position (in billions of dollars)

Liabilities	
Unmatured debt	67.7
Increase	**67.7**

Financial assets	
Other accounts receivable	1.1
Loans, investments, and advances	1.6
Increase	**2.7**

Non-financial assets	
Inventories	(0.3)
Prepaid expenses	(1.3)
Decrease	**(1.6)**

* Includes the Canada Emergency Wage Subsidy and the Temporary Wage Subsidy

Source: Based on the Office of the Auditor General of Canada's analysis of data in the Government of Canada's consolidated financial statements and in the financial statements of Crown corporations

10. Overall, we found that, in all material respects, the government properly accounted for COVID-19 measures in its 2021–22 consolidated financial statements. In addition, our independent auditor's report on the government's consolidated financial statements included an **emphasis of matter paragraph**. We did this to draw attention to certain amounts in, and notes to, the consolidated financial statements that described the effects of the COVID-19 pandemic on the Government of Canada, which were significant. That paragraph does not modify our audit opinion.

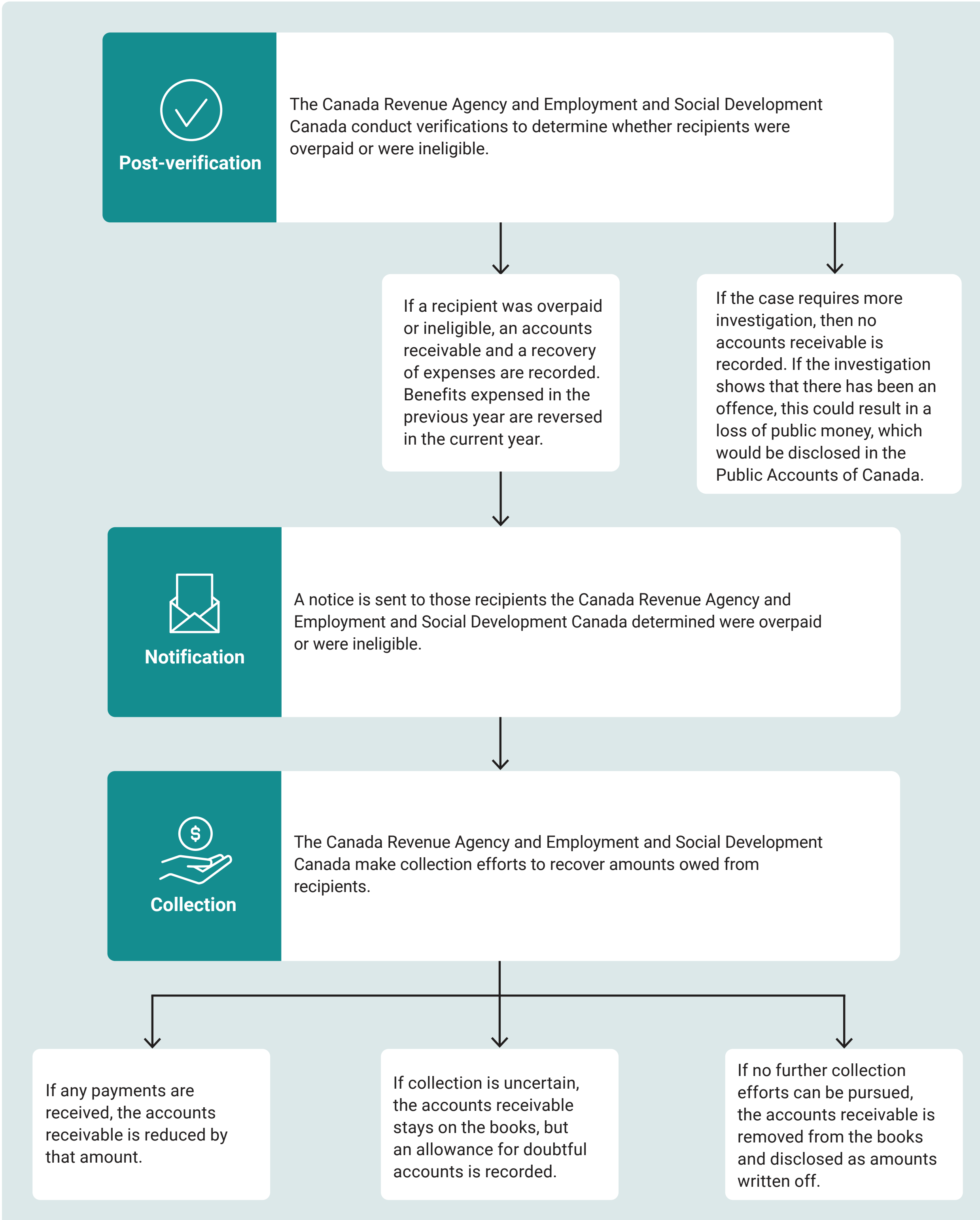
The government has begun a multi-year process of identifying and collecting overpayments or payments made to ineligible recipients

11. Our Commentary on the 2020–2021 Financial Audits reported that the Canada Revenue Agency and Employment and Social Development Canada had begun to do post-payment verifications on some of the COVID-19 measures (listed in Exhibit 1). The aim of this multi-year process, outlined in Exhibit 4, is to identify and collect overpayments or payments made to ineligible recipients.

12. The amounts of benefits the government overpaid or paid to ineligible recipients are identified over time as the government's post-payment verifications are completed. As noted in our first performance audits of the Canada Emergency Response Benefit and the Canada Emergency Wage Subsidy, these programs had limited controls in place before payments were made to recipients. As a result, there was a risk of overpayment. The government has disclosed the overpayments it determined in the notes to its 2021–22 consolidated financial statements. It also indicated that the amounts of overpayments determined in future years could be significant.

13. Once the government determines it has made an overpayment or a payment to an ineligible recipient, in most cases, it records accounts receivable. The government recorded accounts receivable of $3.7 billion as at 31 March 2021, and this balance rose to $5.1 billion as at 31 March 2022, as shown in Exhibit 5. This accounts receivable will increase in future years for any additional overpayments or ineligible payments the government determines. Conversely, the accounts receivable will decrease by any amounts recovered from recipients or eventually written off.

Exhibit 4—Simplified process for accounting for overpayments or payments to ineligible recipients of COVID-19 benefits



Source: Based on the Office of the Auditor General of Canada's audit of the consolidated financial statements of the Government of Canada

See long description of Exhibit 4—Simplified process for accounting for overpayments or payments to ineligible recipients of COVID-19 benefits.

Exhibit 5—Accounts receivable as a result of completed post-payment verifications of COVID-19 benefits

	Amounts by fiscal year (in millions of dollars)		
	2019–20	2020–21	2021–22
Cumulative COVID-19 benefit expenses, after deducting overpayments*	6,500	167,142	204,976
Accounts receivable	-	3,742	5,119

* Includes net expenses for the Canada Emergency Response Benefit, the Employment Insurance Emergency Response Benefit, the Canada Emergency Wage Subsidy, the Temporary Wage Subsidy, the Canada Recovery Benefit, the Canada Recovery Sickness Benefit, the Canada Recovery Caregiving Benefit, and the Canada Worker Lockdown Benefit.

Source: Based on the Office of the Auditor General of Canada's audit of the consolidated financial statements of the Government of Canada

14. The government, in its annual consolidated financial statements, also estimated the portion of the accounts receivable that may not be recovered if recipients do not repay amounts they owe to the government. This is recorded as an **allowance for doubtful accounts**. This amount is reported in note 13(b) to the government's consolidated financial statements within the amount of the allowance for doubtful accounts related to other accounts receivable. The government discloses any claims written off in the unaudited supplementary information in Volume III of the Public Accounts of Canada.

15. In some cases where an overpayment or a payment to an ineligible recipient is determined, the government may need to further investigate the circumstances. If the case involves an offence—for example, identity theft—the amount may be considered a loss of public money. The government discloses these amounts in the unaudited supplementary information in Volume III of the Public Accounts of Canada. For the 2021–22 fiscal year, the public accounts disclosed losses of $7.6 million related to fraudulent claims for the Canada Emergency Response Benefit. Because these benefits were paid and recorded in the consolidated financial statements of prior years, there is no impact on the annual deficit in the 2021–22 fiscal year. As the government continues its post-payment verification process over several years, it may disclose additional such losses.

16. The government has begun efforts to collect amounts from recipients for benefit overpayments and ineligible benefit payments. As at 31 March 2022, the government had recovered $1.4 billion of these amounts.

17. As required by *An Act to provide further support in response to COVID-19* of 2021, our office has undertaken a performance audit

of specific COVID-19 benefits (listed in Exhibit 1). We expect to report to Parliament in December 2022. That performance audit examined whether

- benefit payments were accurate and were paid to eligible applicants
- timely procedures were undertaken to recover overpayments or payments made to ineligible recipients
- the programs were managed efficiently and administrative effectiveness was measured
- the programs' objectives were achieved and provided value-for-money outcomes

The government estimated the amount of loan incentives related to the Canada Emergency Business Account

18. The Canada Emergency Business Account program provided interest-free loans to small and medium-sized businesses (Exhibit 6). Unlike most other COVID-19 benefit programs, this program involved loans, which recipients need to repay. The government will forgive a portion of the loan, up to 33%, as an incentive if the recipient repays the required portion of the loan by 31 December 2023.

Exhibit 6—Canada Emergency Business Account program

	Amounts by fiscal year (in millions of dollars)	
	2020–21	2021–22
Beginning balance of loans receivable	-	44,881
Loans issued	45,282	3,767
Loans repaid	(401)	(3,160)
Loan incentives realized	-	(822)
Ending balance of loans receivable	**44,881**	**44,666**
Estimated remaining loan incentives	**(13,085)**	**(13,778)**

Source: Based on the Office of the Auditor General of Canada's audit of the consolidated financial statements of the Government of Canada

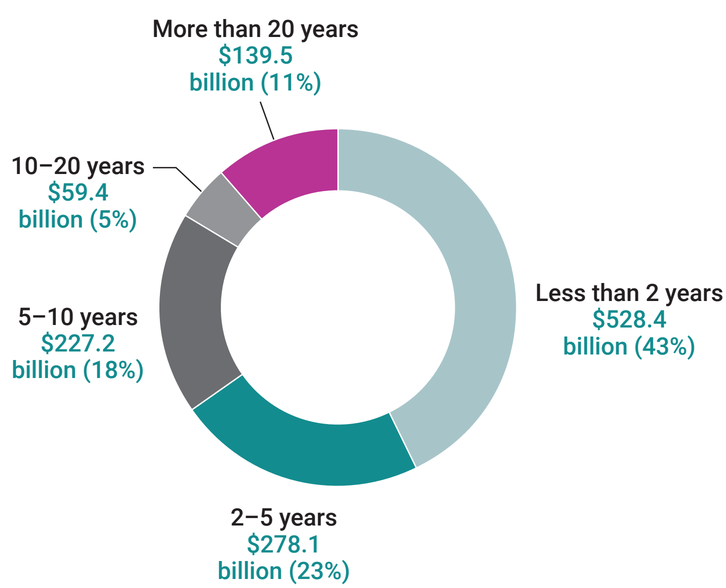
19. In its consolidated financial statements, the government will annually update its estimate of the cost of the loan incentive until the 2023–24 fiscal year. This is when the 31 December 2023 deadline passes and the amount will become known with certainty. Any remaining

adjustments will be reflected in the 2023–24 consolidated financial statements. In addition to the loan incentive, since some loans are at risk of not being repaid, the government will annually estimate an allowance for valuation, which is the amount deducted from its loan balances to reflect anticipated losses. This amount is reported in note 16 to the government's consolidated financial statements within the amount of the allowance for valuation for other loans, investments, and advances.

The government expects the interest costs on its debt to increase significantly

20. The government's response to the COVID-19 pandemic involved an increase in spending over several years to provide benefits to Canadian individuals and businesses. To fund these measures, the government increased its borrowings—for example, by issuing **marketable bonds** and **treasury bills**. These borrowings are called market debt, and they make up the majority of **unmatured debt** on the government's consolidated statement of financial position. In the 2020–21 and 2021–22 fiscal years, the total unmatured debt rose $459 billion, from approximately $784 billion to $1.243 trillion, and of this, $1.233 trillion was market debt. The maturity dates of this debt ranged from less than 2 years (43%) to more than 20 years (11%) (Exhibit 7).

Exhibit 7—The composition of the government's $1.233 trillion of market debt, as at 31 March 2022, by maturity date



Source: The Bank of Canada and the 2021–22 Public Accounts of Canada

See long description of Exhibit 7—The composition of the government's $1.233 trillion of market debt, as at 31 March 2022, by maturity date

21. When the term of a marketable bond or a treasury bill comes to maturity, the government may issue new debt to raise funds to pay the maturing debt. This new debt is issued at current market rates, which have recently been increasing. In its **Budget** 2022, the government projected that overall **public debt charges** will rise to $42.9 billion, making up 8.5% of the government's projected expenses, by the 2026–27 fiscal year, compared with 4.9% in the 2021–22 fiscal year.

22. For more information on the government's debt management, refer to the Debt Management Strategy and the Debt Management Report prepared by the Minister of Finance.

Results of our 2021–2022 financial audits

Audited financial statements were credible, and most were provided on time

23. The Office of the Auditor General of Canada provided the Government of Canada with an **unmodified audit opinion** on its 2021–22 consolidated financial statements, which provides credibility to the government's financial reporting. Financial reporting is one way the government demonstrates accountability to elected officials and the public.

24. The audit opinion is also an important contribution to meeting Canada's commitments under the United Nations' 2030 Agenda for Sustainable Development. In particular, the opinion helps Canada meet sustainable development target 16.6: "Develop effective, accountable and transparent institutions at all levels."

25. Overall, we were satisfied with the timeliness and credibility of the financial statements prepared by 68 out of the 69 federal government organizations we audit, including the Government of Canada. As described below, the audited financial statements of the Reserve Force Pension Plan have not been issued on a timely basis.

26. National Defence has overcome many of its earlier challenges in providing the documentation to support the estimated pension obligations needed for our audit of the department's Reserve Force Pension Plan. The department is in the process of preparing the pension plan's financial statements for 31 March 2021 and 31 March 2022. We expect to complete the respective audits by January 2023. Should the 31 March 2022 audited financial statements be reported to Parliament in January 2023, this would be considered to be reported on time. This would be a significant achievement for the department.

We would expect that it will meet this annual reporting deadline going forward.

The Trans Mountain Corporation faced a significant uncertainty about its continued operations

27. In August 2018, the Government of Canada purchased the Trans Mountain pipeline through the Trans Mountain Corporation, a wholly owned subsidiary of the Canada Development Investment Corporation, a Crown corporation. In February 2022, the government announced that

- it would spend no additional public money on the pipeline expansion project
- the Trans Mountain Corporation would instead secure the funding needed to complete the project through third-party financing

The government also reiterated its intention to divest itself of the pipeline asset in the future.

28. In its 31 December 2021 financial statements, the corporation disclosed a significant uncertainty of whether it could continue its operations because of the government's announcement with respect to funding. Our audit opinion on the Trans Mountain Corporation's 31 December 2021 financial statements also drew attention to this uncertainty.

29. In April 2022, after those financial statements and our audit opinion were issued, the corporation entered into an agreement to borrow up to $10 billion from a group of Canadian financial institutions. These funds were intended to allow the corporation to meet its obligations as they become due. The agreement is guaranteed by the Government of Canada, which means that the government would assume responsibility for required payments on any outstanding debt if the Trans Mountain Corporation were unable to do so.

30. The corporation's unaudited financial statements for the first quarter of 2022 reported there was no longer uncertainty over continuing operations. We will examine and report on this in our audit of the corporation's 31 December 2022 financial statements.

The Auditor General's observations on the Government of Canada's 2021–22 consolidated financial statements

Pay administration

Our audit noted continued weaknesses in internal controls of pay processes

31. In 2016, the Government of Canada centralized employee payroll for 46 departments and agencies with the Transformation of Pay Administration Initiative. Since then, weaknesses in **internal control** of the **HR-to-pay process** prevented us from testing and relying on those controls in our audit work. As a result, we performed detailed testing of a sample of federal employees' pay transactions.

32. We expect that the government will return to having pay processes with internal controls that ensure employees are paid accurately and on time. This expectation remains regardless of whether the government keeps its current pay system for some organizations or implements a new one.

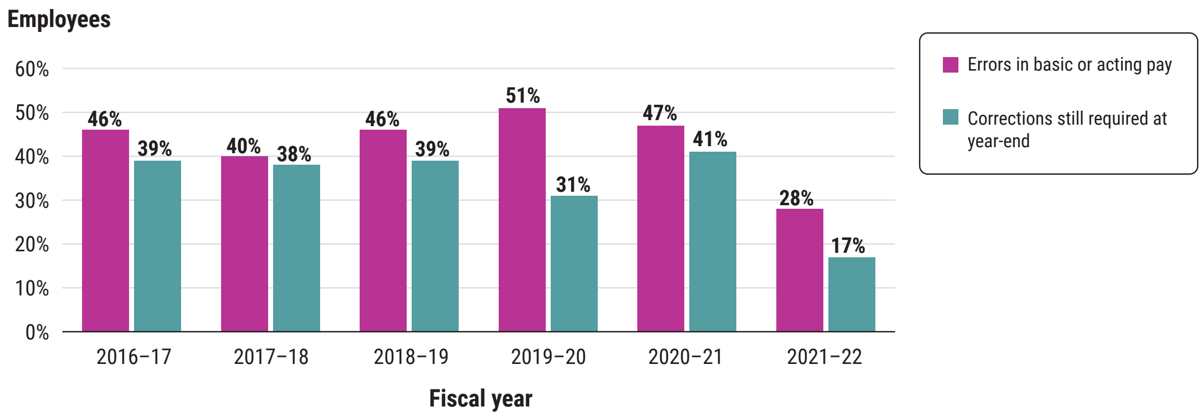
Pay errors continued for many employees

33. In our audit work, we found that

- 28% of employees we sampled had an error in their basic or acting pay during the 2021–22 fiscal year, compared with 47% in the prior year
- 17% of employees we sampled still required corrections to their pay as at 31 March 2022, a decrease from the 41% reported in the prior year (Exhibit 8)

These findings represent an improvement over previous years. However, the percentage of errors is still concerning.

Exhibit 8—Percentage of employees in our sample with an error in basic or acting pay and who were awaiting a correction at year-end



Source: Based on the Office of the Auditor General of Canada's analysis of a sample of employees' pay transactions used in the audit of the consolidated financial statements of the Government of Canada for the 6 fiscal years ending March 31 from 2017 to 2022

See long description of Exhibit 8—Percentage of employees in our sample with an error in basic or acting pay and who were awaiting a correction at year-end

34. We concluded that pay expenses were **fairly presented** in the government's 2021–22 consolidated financial statements. This was partly because

- overpayments and underpayments made to employees continued to partially offset each other
- year-end accounting adjustments were made to improve the accuracy of pay expenses

However, as we noted in previous commentaries, these adjustments did not correct the pay errors for the employees who were overpaid or underpaid.

The number of outstanding pay action requests has increased

35. The Public Service Pay Centre continued to address the outstanding pay action requests during the year. However, thousands of employees are still affected and awaiting the resolution of pay action requests—some outstanding from previous years and some made more recently. As at 31 March 2022, there were 310,500 outstanding pay action requests, an increase compared with 254,500 reported as at 31 March 2021.

36. We have been reporting for several years on the total number of outstanding pay action requests in the departments and agencies served by the Public Service Pay Centre. While some requests involve straightforward actions, such as banking changes or general inquiries,

many others involve employees not being paid accurately or on time. Despite the pay centre’s significant efforts since 2016, the level of outstanding requests has started to rise. This indicates that more efforts are needed, particularly to process requests that have remained outstanding for several years.

The government is at risk of loss for long-outstanding pay action requests involving overpayments

37. In addition to strengthening internal controls and addressing outstanding pay action requests, the government needs to take steps to recover overpayments of salaries, wages, or employment-related allowances. It should proceed in a timely manner because legal limitation periods mean that certain recovery mechanisms may no longer be available to the government in its recovery efforts.

38. The Public Service Pay Centre has many pay action requests involving overpayments that have been outstanding for several years. This means the government could have fewer options to recover the amounts owed, which may eventually result in the amounts being written off. The risk of such losses will persist until the pay centre can process all pay action requests on a timelier basis.

39. As at 30 June 2022, the pay centre estimated that

- outstanding pay action requests involved a total of over $500 million in overpayments to more than 100,000 employees
- about half of these requests had been outstanding for more than 3 years

In the cases where the government approves a write-off of amounts due to the government relating to overpayments of salaries, wages, or employment-related allowances, it discloses the amounts in the unaudited supplementary information in Volume III of the Public Accounts of Canada.

The government continued its work to develop a new pay system

40. As part of our annual financial audit work, we engage with the government to stay apprised of its plans for developing new information systems that could affect financial reporting. The Next Generation Human Resources and Pay system—intended to replace the government’s current system—is a large, multi-year and multi-phase

initiative. “NextGen” is in its initial research and development phase. We note that the government has

- started to design, configure, and test some aspects of the potential pay system to assess its viability
- continued pilot projects with selected departments as part of the initiative

National Defence inventory and asset pooled items

The department is experiencing delays in completing its 10-year action plan

41. For nearly 2 decades, we have raised concerns about National Defence’s ability to properly account for the quantities and values of its inventory. We have also reported on National Defence’s asset pooled items, which are **tangible capital assets** that are managed like inventory. This year, our audit noted a combined understatement of inventory and asset pooled items of an estimated $232 million as at 31 March 2022, of which almost half was corrected by the department during our audit. In our work, we tested different characteristics: quantities, values, and classification. We found errors in at least 1 of the characteristics in approximately 15% of the items we sampled. In our view, these errors indicate continued weaknesses in the department’s internal controls that need to be addressed.

42. In 2016, National Defence established a 10-year inventory management action plan to better record, value, and manage the department’s inventory. While it has completed most of its commitments, one important remaining commitment—namely, implementing a modern scanning and barcoding capability in the inventory management system—is delayed. The original schedule has been delayed because the department is taking more time to clearly define its requirements. It is important that this modernized capability be implemented, given the potential benefits it will bring to the management and accounting of inventory.

43. The action plan’s initiatives, as well as the ongoing monitoring of inventory and asset pooled items, require the department to sustain a significant level of effort. Maintaining adequate records and strong controls over these assets is important to the department’s ability to manage its operations efficiently and cost-effectively. Furthermore, addressing the root causes of discrepancies and strengthening internal controls would improve data quality, which would then improve decision making. These actions would also help ensure the effectiveness of the department’s future investments in technology, such as the planned upgrade to a new system for enterprise resource planning.

Additional insights from our financial audits

Environmental, social, and governance reporting

Enhanced reporting will soon be required for some federal organizations

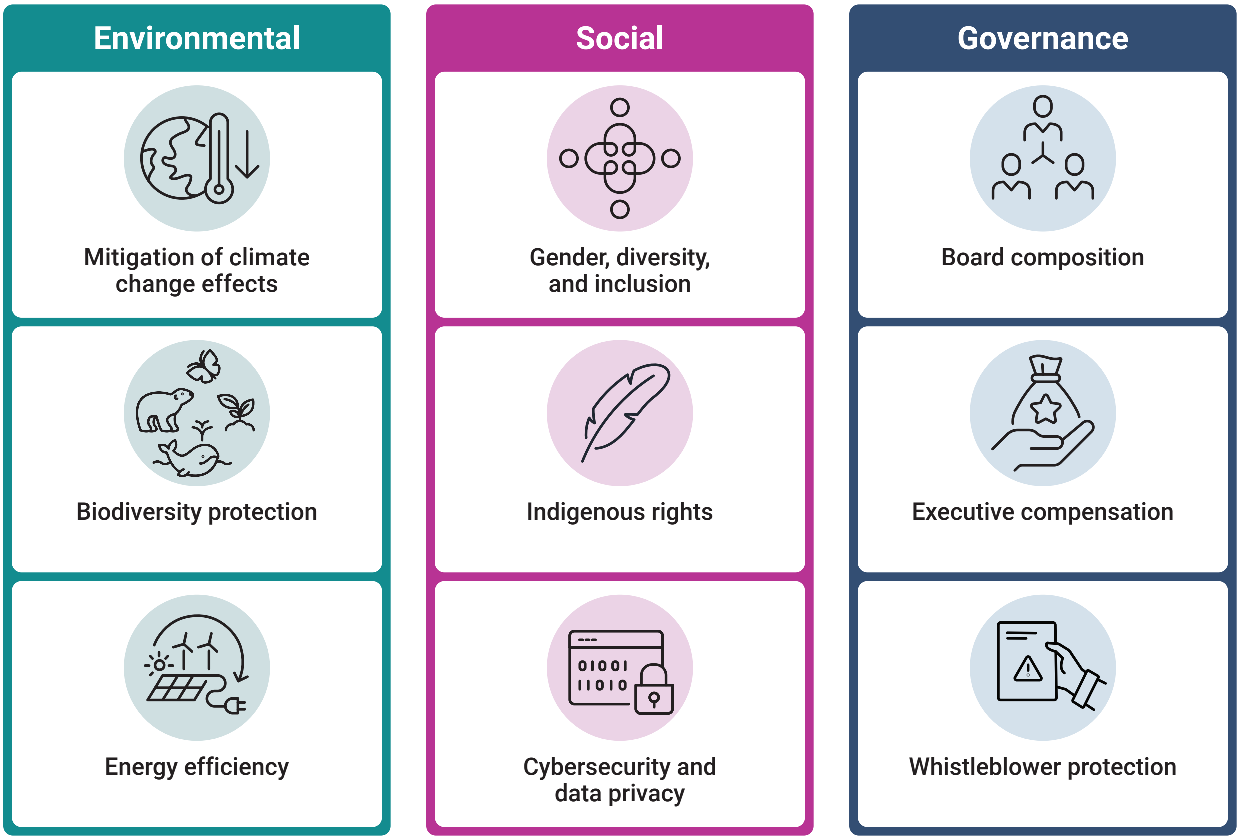
44. Matters relating to environmental sustainability and social responsibility are increasingly important to Canadians as they consider the impact of organizations' actions on people and the planet. Reporting on these matters contributes to accountability. Some federal organizations are voluntarily making disclosures about these matters in their annual reports or in stand-alone sustainability reports. Stakeholders are increasingly assessing how well organizations perform on environmental, social, and governance matters and whether organizations identify significant risks and opportunities in these areas (Exhibit 9). Environmental, social, and governance reporting is also referred to as sustainability reporting.

45. In Canada, accounting standards do not currently require organizations to report on environmental, social, and governance factors or on sustainability. As noted in our 2022 Research Paper on Climate-related Financial Disclosures, there is a growing demand from stakeholders for consistent, comparable, reliable, and clear climate-related financial disclosures. Work is underway at the international level to develop a uniform framework and standards for sustainability reporting. This work could influence the standards that Canada eventually adopts.

46. Even without requirements in accounting standards, federal organizations are increasingly making disclosures on environmental, social, and governance matters because of requirements in federal legislation or in government policies to achieve intended outcomes. Such disclosures include

- triennial reporting on the Government of Canada's progress in meeting its commitments under the Federal Sustainable Development Strategy
- departmental and agency reporting on their use of **gender-based analysis plus** in developing their policies and programs

Exhibit 9—Examples of factors considered when assessing how well organizations perform on environmental, social, and governance matters



Source: Based on information from the website for the Federal Sustainable Development Strategy and several other federal government websites

See long description of Exhibit 9—Examples of factors considered when assessing how well organizations perform on environmental, social, and governance matters

47. Recent government commitments indicate that additional environmental, social, and governance reporting will soon be required or expected. Some examples are the following:

- Under the *Canadian Net-Zero Emissions Accountability Act*, the federal government will have to report on actions it has taken to achieve its greenhouse gas emission targets and commitments to mitigate climate change. The first progress report must be prepared by the end of 2023.
- Under its Green Bond Framework established in March 2022, the federal government will need to report on the allocation of green bond proceeds and the impact of eligible green expenditures. Such reporting is expected to be updated annually, as relevant, after bond issuance.
- Crown corporations will have to report on climate-related financial risks. This reporting is to be aligned with the framework of the

international Task Force on Climate-related Financial Disclosures. This commitment was announced by the government in Budget 2021. The timing of when this reporting will start varies between 2022 and 2024, on the basis of Crown corporations' total assets.

- Crown corporations will have to report on gender and diversity matters starting in 2022. This commitment was announced by the government in Budget 2021.

48. We are following developments related to environmental, social, and governance reporting and will engage with the federal organizations we audit to understand and review any new disclosure requirements. In addition, the Commissioner of the Environment and Sustainable Development is a senior official in our office, who reports to Parliament on the environmental and sustainable development commitments and activities of federal organizations. This work can be found on our website.

Questions parliamentarians could ask to the government

- How will the government ensure that environmental, social, and governance reporting is relevant and complete?
- How will the government ensure that results can be assessed against intended outcomes?

Asset retirement obligations

A new accounting standard will have an impact on the government's consolidated financial statements starting in the 2022–23 fiscal year

49. The Government of Canada owns $91.9 billion of tangible capital assets that are managed by various federal organizations across Canada. The government may be legally required to take actions to remediate or dispose of some tangible capital assets. For example, buildings with asbestos may need to be remediated, or some marine vessels may need to be dismantled.

50. Such future legally required costs are known as asset retirement obligations. Starting in the 2022–23 fiscal year, a new public sector accounting standard will establish how to account for these obligations. The standard

- defines which activities would be included in the retirement of tangible capital assets
- establishes when to recognize and how to measure the liability
- provides the related financial statement presentation and disclosure requirements

51. This new standard will require the government to record a liability at present for costs that will be incurred in the future. The information can be useful for decision making related to the government’s asset management because it provides a more comprehensive view of the costs involved in the life cycle of tangible capital assets. Exhibit 10 shows an example of the accounting for a government-owned office building that will need to have asbestos removed before it is demolished at the end of its life, estimated to be in 20 years.

Exhibit 10—Accounting for asset retirement obligations: An example

Today → 20 years later

When the government begins accounting for the obligation to remove the asbestos from an office building:	The government estimates the anticipated future cost of removing the asbestos in today's dollars. The government estimates it will cost $100 million to remove the asbestos in 20 years. This is the **asset retirement obligation**.	The government adjusts that future amount to today's dollars and records the asset retirement obligation as $60 million in its financial statements.
Each year for the following 20 years:	The government records an adjustment to update the value of the asset retirement obligation. The government may also record adjustments for any changes to the assumptions used in estimating the future costs.	The government's expenses will, over time, gradually increase the initial $60-million asset retirement obligation by $40 million to its ultimate $100-million final cost.
At the end of the building's life:	The government removes the asbestos before the building is demolished.	The asset retirement obligation is removed from the financial statements when the $100 million in removal costs has been paid.

Source: Example developed by the Office of the Auditor General of Canada on the basis of a new public sector accounting standard

See long description of Exhibit 10—Accounting for asset retirement obligations: An example

52. We expect that the estimated asset retirement obligation recorded by the government in its 2022–23 consolidated financial statements will be significant.

The government has a great deal of work to do in its preparation for the new accounting standard

53. The government has been preparing for this new accounting standard since 2019. The Treasury Board of Canada Secretariat

provided guidance and oversight, and departments are responsible for determining the asset retirement obligations for the assets they manage. The government has developed an implementation plan, which includes the creation of an interdepartmental working group.

54. Given the extensive efforts required and the significant financial effects of this standard on the government's consolidated financial statements, it will be important for the government to

- ensure complete identification and timely analysis of the assets with a potential asset retirement obligation
- accurately estimate the timing and costs to retire the assets
- apply key assumptions consistently across federal government organizations

55. In our audit of the 2022–23 consolidated financial statements, we will examine the government's accounting for asset retirement obligations and conclude on whether the reported amounts and related disclosures are complete and accurate.

Questions parliamentarians could ask the government

- How is the government planning to ensure timely, complete, and accurate reporting of asset retirement obligations in the consolidated financial statements?
- How can the enhanced data gathered about the government's assets be used to make timely funding decisions to maintain, refurbish, or replace long-term assets?

Glossary

Accounts receivable—Financial claims arising from amounts owed to the Government of Canada—for example, for use of its assets or from the proceeds for provision of services.

Allowance for doubtful accounts—Management's estimate of the amount of accounts receivable that is unlikely to be paid. It reduces the amount of accounts receivable in the financial statements.

Asset retirement obligations—A legal obligation associated with the retirement of a tangible capital asset.

Budget—A document prepared by the Department of Finance Canada that sets out the Government of Canada's annual economic agenda for Canada.

Coronavirus disease (COVID 19)—The disease caused by severe acute respiratory syndrome coronavirus 2 (SARS CoV 2).

Emphasis of matter paragraph—A paragraph in an independent auditor's report to draw the attention of users of financial statements to a matter that has been presented or disclosed in the financial statements, when, in the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements.

Environmental, social, and governance reporting—The use of quantifiable and measurable factors that represent sustainable practices to assess an organization on its performance related to environmental, social, or governance matters.

Fairly presented—The characteristic of information in financial statements that faithfully represents the underlying transactions and events.

Financial audit—An examination as to whether the numbers presented in financial statements, or other financial information, are reasonably accurate. It is not designed to examine each dollar received or spent, to identify instances of fraud or wrongdoing, or to assess the merits of government policy decisions.

Financial statements—A representation of a government entity's financial position and financial performance. Financial statements include the notes and schedules (such as tables) supporting the statements.

Gender-based analysis plus—An analytical process used to assess systemic inequalities and determine how gender and other diverse identity factors could have an impact on a person's ability to access programs and services.

HR-to-pay process—The process from hiring an employee and entering the employee's pay data into the human resource system up to and including issuing payment and recording the employee's pay expense in the financial statements.

Internal control—An activity designed to mitigate risks and provide reasonable assurance that an organization's objectives, including compliance with applicable laws, regulations, and policies, will be achieved.

Liquidity—The ease with which an asset or security can be converted into ready cash without affecting its market price.

Marketable bond—An interest-bearing certificate of indebtedness—that is, a written promise to repay a debt—issued by the Government of Canada to pay sums of money on given dates.

Performance audit—An audit that seeks to determine whether government programs are being managed with due regard for economy, efficiency, and environmental impact and whether there are measures in place to determine their effectiveness.

Public Accounts of Canada—The government's annual report that includes the audited consolidated financial statements of the Government of Canada and other unaudited financial information, such as the financial statements discussion and analysis and supporting tables, contained in 3 volumes.

Public debt charges—The interest and servicing costs on the Government of Canada's outstanding debt.

Tangible capital assets—Non-financial assets having physical substance that are acquired, constructed, or developed and are intended to be used on a continuing basis. Their useful life typically extends beyond an accounting period.

Treasury bill—A short-term interest-bearing certificate of indebtedness—that is, a written promise to repay a debt—issued by the Government of Canada to pay sums of money on given dates.

Unmatured debt—Debt of the Government of Canada issued on the credit markets, and other obligations, that has not yet become due. Unmatured debt includes marketable bonds, treasury bills, retail debt, foreign-currency-denominated debt, and obligations related to capital leases and public–private partnerships.

Unmodified audit opinion—An opinion expressed by an auditor when the auditor concludes that the financial statements gave a fair presentation of the underlying transactions and events according to accounting requirements.

Annexe — Image descriptions for Commentary on the 2021–2022 Financial Audits

Exhibit 4—Simplified process for accounting for overpayments or payments to ineligible recipients of COVID-19 benefits

Go back to Exhibit 4

This flow chart shows the simplified process for accounting for overpayments or payments to ineligible recipients of COVID-19 benefits.

The first step of the process is post-verification. The Canada Revenue Agency and Employment and Social Development Canada conduct verifications to determine whether recipients were overpaid or were ineligible.

- If a recipient was overpaid or ineligible, an accounts receivable and a recovery of expenses are recorded. Benefits expensed in the previous year are reversed in the current year.
- If the case requires more investigation, then no accounts receivable is recorded. If the investigation shows that there has been an offence, this could result in a loss of public money, which would be disclosed in the Public Accounts of Canada.

The second step of the process is notification. A notice is sent to those recipients the Canada Revenue Agency and Employment and Social Development Canada determined were overpaid or were ineligible.

The third and final step is collection. The Canada Revenue Agency and Employment and Social Development Canada make collection efforts to recover amounts owed from recipients.

- If any payments are received, the accounts receivable is reduced by that amount.
- If collection is uncertain, the accounts receivable stays on the books, but an allowance for doubtful accounts is recorded.
- If no further collection efforts can be pursued, the accounts receivable is removed from the books and disclosed as amounts written off.

Source: Based on the Office of the Auditor General of Canada's audit of the consolidated financial statements of the Government of Canada

Exhibit 7—The composition of the government's $1.233 trillion of market debt, as at 31 March 2022, by maturity date

Go back to Exhibit 7

This pie chart shows the composition of the government's $1.233 trillion of market debt as at 31 March 2022. The amounts are shown by maturity date as follows:

- $528.4 billion, or 43%, of the market debt had a maturity date of less than 2 years.
- $278.1 billion, or 23%, of the market debt had a maturity date from 2 to 5 years.
- $227.2 billion, or 18%, of the market debt had a maturity date of 5 to 10 years.

- $59.4 billion, or 5%, of the market debt had a maturity date of 10 to 20 years.
- $139.5 billion, or 11%, of the market debt had a maturity date of more than 20 years.

Source: The Bank of Canada and the 2021–22 Public Accounts of Canada

Exhibit 8—Percentage of employees in our sample with an error in basic or acting pay and who were awaiting a correction at year-end

Go back to Exhibit 8

This bar chart shows for each fiscal year from 2016–17 to 2021–22 the percentage of employees in our sample with an error in basic or acting pay and who were awaiting a correction at year-end. The chart shows that the percentage of employees in our sample who had an error in basic or acting pay during the fiscal year decreased from 46% in 2016–17 to 40% in 2017–18 and then increased to 46% in 2018–19 and to 51% in 2019–20. The percentage then decreased to 47% in 2020–21 and to 28% in 2021–22. The chart also shows that the percentage of employees in our sample who were awaiting a correction at year-end was steady at either 38% or 39% for the 3 fiscal years from 2016–17 to 2018–19 and then decreased to 31% in 2019–20. The percentage then increased to 41% in 2020–21 and then decreased to 17% in 2021–22.

Source: Based on the Office of the Auditor General of Canada's analysis of a sample of employees' pay transactions used in the audit of the consolidated financial statements of the Government of Canada for the 6 fiscal years ending March 31 from 2017 to 2022

Exhibit 9—Examples of factors considered when assessing how well organizations perform on environmental, social, and governance matters

Go back to Exhibit 9

Examples of factors considered when assessing how well organizations perform on environmental matters are mitigation of climate change effects, biodiversity protection, and energy efficiency.

Examples of factors considered when assessing how well organizations perform on social matters are gender, diversity, and inclusion; Indigenous rights; and cybersecurity and data privacy.

Examples of factors considered when assessing how well organizations perform on governance matters are board composition, executive compensation, and whistleblower protection.

Source: Based on information from the website for the Federal Sustainable Development Strategy and several other federal government websites

Exhibit 10—Accounting for asset retirement obligations: An example

Go back to Exhibit 10

This flow chart shows an example for accounting for asset retirement obligations.

When the government begins accounting for the obligation to remove the asbestos from an office building, the following happens:

- The government estimates the anticipated future cost of removing the asbestos in today's dollars. The government estimates it will cost $100 million to remove the asbestos in 20 years. This is the asset retirement obligation.

- The government adjusts that future amount to today’s dollars and records the asset retirement obligation as $60 million in its financial statements.

Each year for the following 20 years, the following happens:

- The government records an adjustment to update the value of the asset retirement obligation. The government may also record adjustments for any changes to the assumptions used in estimating the future costs.
- The government’s expenses will, over time, gradually increase the initial $60-million asset retirement obligation by $40 million to its ultimate $100-million final cost.

At the end of the building’s life, the following happens:

- The government removes the asbestos before the building is demolished.
- The asset retirement obligation is removed from the financial statements when the $100 million in removal costs has been paid.

Source: Example developed by the Office of the Auditor General of Canada on the basis of a new public sector accounting standard