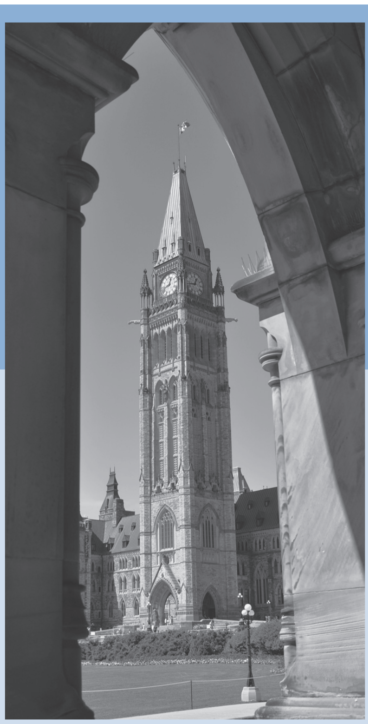


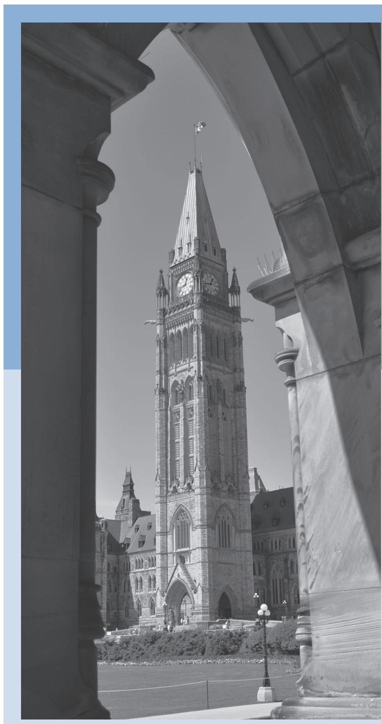
December 2019

Report of the Auditor General of Canada to the Parliament of Canada

Commentary on the 2018–2019 Financial Audits

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada



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The Report is available on our website at www.oag-bvg.gc.ca.

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Roadmap to this report

This report is not an audit report. We highlight the results of the **financial audits*** conducted by the Office of the Auditor General of Canada in federal organizations for fiscal years ended between July 2018 and April 2019 (the 2018–2019 financial audits).

We audited the **financial statements** of 69 federal organizations, including the Government of Canada. We concluded that 68 of them met the requirements for clarity, completeness, and accuracy that federal organizations must comply with. We are still working to issue an audit opinion on the financial statements of National Defence's Reserve Force pension plan.

We also briefly discuss the new format of the **independent auditor's report**.

We report on 1 new and 3 recurrent significant instances of non-compliance.

We describe how the purchase of the Trans Mountain pipeline was reflected in the 2018–2019 **Public Accounts of Canada**.

We also provide an overview of opportunities for improvement that we brought to management's attention during our 2018–2019 financial audits.

In May 2018, we issued our Commentary on the 2016–2018 Performance Audits of Crown Corporations. This report follows up on 2 topics in that report: timeliness of approvals of corporate plans and delays in board appointments at Crown corporations.

The Auditor General's observations on the Government of Canada's 2018–2019 consolidated financial statements continue to note challenges with pay administration and with National Defence's inventory and asset pooled items, which are capital assets that are managed like inventory.

We also provide additional insights on 4 areas from our financial audits:

- significant projects with information technology components
- how voted expenditures can be used by departments and agencies
- basic concepts of **defined benefit pension plans**, which are explained in a video on our website
- the life cycle of a government loan receivable

* Bold terms are defined in the **Glossary**.

Results of the 2018–2019 financial audits

For additional information, see the "Commentaries on Financial Audits" page on our website.

Most audited financial statements were credible and provided on time

The Office of the Auditor General of Canada provided the Government of Canada with an **unmodified audit opinion** on its consolidated financial statements for the 21st 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."

Overall, we were satisfied with the timeliness and credibility of the financial statements prepared by 68 government organizations we audit, including the Government of Canada.

One opinion is still outstanding: the one on National Defence's Reserve Force pension plan. For many years, we have not been able to issue an audit opinion on the plan's financial statements. This has been because of significant and persistent problems with the department not retaining all the documents that support the data used to estimate pension obligations. Although National Defence has been actively developing ways to retain this information and gathering the supporting documents needed for us to complete our audit, much work remains to be done. On the basis of the progress made by National Defence and the audit work we performed to date on the 31 March 2018 financial statements, we expect to be able to complete the audit in early 2020.

The independent auditor's report has been enhanced

The independent auditor's report in the 2018–2019 Public Accounts of Canada and any other recently audited financial statements has a new format. This was required because of changes in auditing standards effective for periods ending on or after 15 December 2018. The enhanced auditor's report offers more organization-specific information, which will better help users of financial statements make informed decisions.

Our independent auditor's report on the consolidated financial statements of the Government of Canada is found in Section 2 of Volume I of the Public Accounts of Canada.

We noted 4 significant instances of non-compliance

We noted 4 instances of non-compliance during 3 financial audits this year. A new instance came up during the audit of the National Arts Centre. The corporation used funds from one project to cover the cost overruns of another project, which, in our opinion, was not in accordance with approved authorities. For more details about the National Arts Centre, refer to our independent auditor's report in the organization's 2017–2018 Annual Report.

The 3 other instances of non-compliance were the same ones we reported in our Commentary on the 2017–2018 Financial Audits and remained unresolved. Two of these instances related to appointments of officer-directors, which came up during the financial audits of Ridley Terminals Inc. and the Canada Development Investment Corporation. The third instance related to the remuneration of the President and Chief Operating Officer of Ridley Terminals Inc.

For more details about the financial audit of Ridley Terminals Inc., refer to our independent auditor's report in the organization's 2018 Annual Report. For more details about the audit of the Canada Development Investment Corporation, refer to our independent auditor's report in the corporation's 2018 Annual Report.

The purchase of the Trans Mountain pipeline was included in the 2018–2019 Public Accounts of Canada

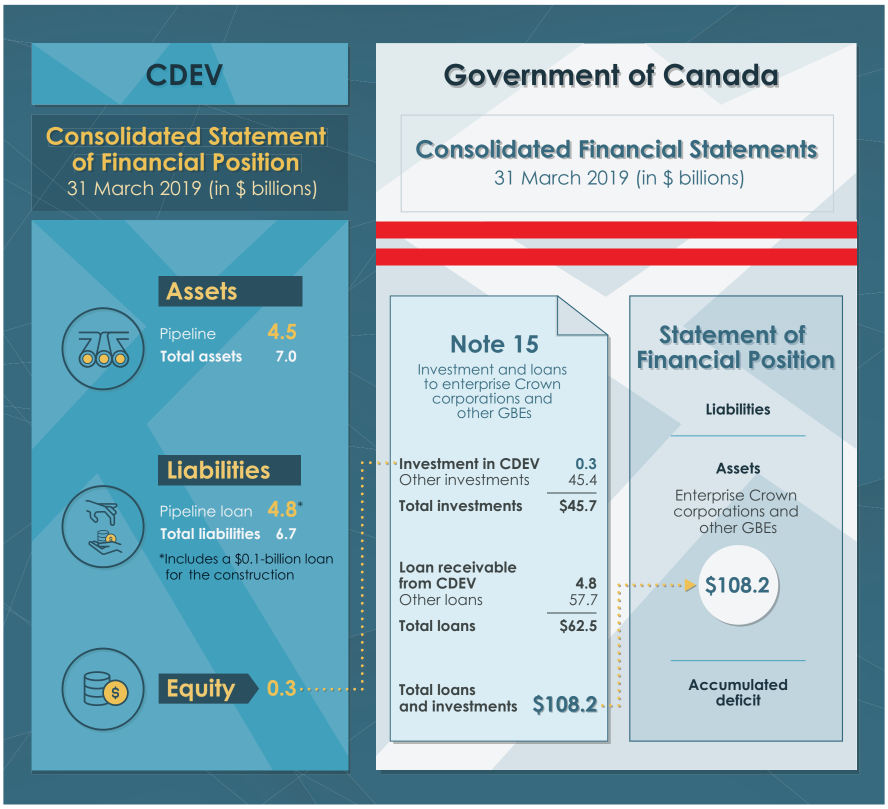
This section provides information to show how the Trans Mountain pipeline was reflected in the government's consolidated financial statements.

In August 2018, the federal government purchased the Trans Mountain pipeline through the Canada Development Investment Corporation, which is a **government business enterprise**. To finance the transaction, the Government of Canada made a loan to the corporation.

Users of the government's consolidated financial statements might expect to see the Trans Mountain pipeline purchase among the government's assets, but it was not. This was because of public sector accounting standards. As the corporation is a government business enterprise, its assets and liabilities must be presented in the government's consolidated financial statements on a net basis as an investment. The Trans Mountain pipeline was, however, presented as an asset in the corporation's own consolidated financial statements.

Exhibit 1 has additional information to help parliamentarians understand how the transaction was reflected in the government's consolidated financial statements.

Exhibit 1 How the Trans Mountain pipeline was reflected in the government's consolidated financial statements



Abbreviations: CDEV: Canada Development Investment Corporation; GBE: government business enterprise

The transaction was mentioned in the government's financial statements discussion and analysis in Section 1 of Volume I of the Public Accounts of Canada.

Opportunities for improvement noted in the 2018–2019 financial audits

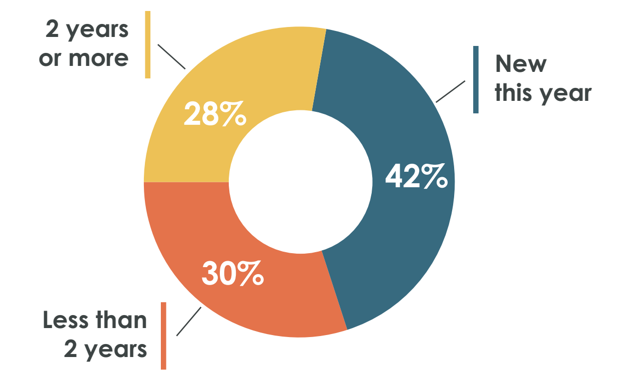
We informed federal organizations, including Crown corporations, of opportunities to improve their practices

Financial audits identify opportunities for organizations to improve their systems of internal control, streamline their operations, or enhance their financial reporting practices. We issue **management letters** to inform the organizations about these opportunities and about more serious points, such as inadequate internal controls that can create risks of errors in financial reports.

As part of our annual financial audits, we follow up on the points we have raised in previous years so we can monitor management's progress in addressing them.

Similar to what we reported last year, of the total management letter points that were unresolved as of 30 June 2019 from our 2018–2019 financial audits, 72% either were newly issued (42%) or had been unresolved for less than 2 years (30%) (Exhibit 2).

Exhibit 2 Unresolved management letter points from the 2018–2019 financial audits



We noted opportunities for improvement in various areas, but the most common ones were

- information technology (IT) general controls over systems supporting financial reporting, mainly related to access
- financial reporting and accounting practices
- compliance with government policies, legislation, and regulations
- financial reporting processes and related controls

We continued to note many opportunities for improvement of IT general controls, mainly those related to access

Similar to what we reported last year, almost half of the unresolved management letter points as of 30 June 2019 resulted from our reviews of IT general controls over systems supporting financial reporting. Such controls included access to programs and data, program development, program changes, and computer operations.

Our reviews are limited to certain financial audits, and the specific controls reviewed depend on the audit approach chosen. In addition, the reviews are not always performed annually and can be limited to following up on previous years' results.

In the reviews we conducted, we targeted access controls because they are fundamental for the functioning of IT-dependent financial processes. Access controls, however, go beyond financial processes. In an IT environment, they ensure that only authorized individuals can access any electronic data. If those controls are absent or weak, the integrity of the data is at risk.

Most of these unresolved management letter points related to the need to improve controls over the access granted to organizations' IT systems. Recurring points we noted included access given to people who did not need it, access retained by people who no longer needed it, and lack of controls over access granted between organizations.

We informed organizations of the need to correct these important points because strong access controls are needed to safeguard the integrity of the government's data.

Follow-up on themes noted in previous special examinations

In addition to conducting annual financial audits of Crown corporations, we conduct special examinations, which are a type of performance audit that strengthens corporate accountability. We conduct a special examination of each corporation at least once every 10 years. In this section, we provide insight on common themes we raised in recent special examinations in the area of corporate governance of Crown corporations.

Crown corporations must prepare corporate plans

In May 2018, in our Commentary on the 2016–2018 Performance Audits of Crown Corporations, we reported that timely decisions on corporate plans were a problem in 4 of the 13 Crown corporations we audited between 2016 and 2018. In this report, we provide additional insight on the process for preparing and submitting corporate plans and an update on the timeliness of submissions and approvals of corporate plans.

Importance of corporate plans. Crown corporations operate with considerable independence under the *Financial Administration Act*. As an important step in their accountability to their shareholder (the Government of Canada), most Crown corporations submit their corporate plans to the responsible ministers every year for approval by the Treasury Board. The plans set out objectives, strategies, and operational and financial performance measures and targets.

The process. In March 2018, the Treasury Board of Canada Secretariat updated its Guidance for Crown Corporations on Preparing Corporate Plans and Budgets. The updated guidance provides more details on key milestones and the accountability of Crown corporations to the government (Exhibit 3).

Exhibit 3 **Key steps and time frames for submitting and approving Crown corporations' corporate plans**

Step	Submission of draft corporate plan to portfolio department	Submission of final corporate plan to responsible minister	Submission of corporate plan to Treasury Board
Time before fiscal year begins	**3.5 months** (suggested by Treasury Board of Canada Secretariat guidance)	**8 weeks** (required by regulations)	**Based on planned Treasury Board meetings**

Source: Based on information from the Treasury Board of Canada Secretariat's Guidance for Crown Corporations on Preparing Corporate Plans and Budgets

Timeliness of submissions and approvals. We reviewed the submissions of corporate plans during our 2018–2019 financial audits of the 35 Crown corporations subject to this requirement. We found that 6 of 35 (17%) Crown corporations as of 30 June 2019 had not yet submitted their corporate plans to their responsible ministers within the timeline required by regulations. Furthermore, 4 of 35 (11%) corporate plans as of 30 June 2019 had not yet been approved by the Treasury Board. For Crown corporations to move forward with any changes necessary to continue to fulfill their mandates, they need ongoing communication from the government about the status of their plans. They also need the government's timely decisions on the strategies and objectives in these plans.

Delays persisted in Crown corporation board appointments

In May 2018, in our Commentary on the 2016–2018 Performance Audits of Crown Corporations, we reported delays in the appointments of members to the boards of directors for 8 of the 13 (62%) Crown corporations we audited between 2016 and 2018. As a follow-up, we reviewed the status as of 12 July 2019 of the appointments of external members for the 42 parent Crown corporations we audit.

Importance of a board of directors. Each Crown corporation is governed by a board of directors, or a similar governing body. The *Financial Administration Act* places the board of directors at the centre of the governance regime for Crown corporations. Under this regime, the board oversees the management of each corporation and holds management responsible for its performance. The board is responsible for establishing the corporation's strategic direction, safeguarding the corporation's resources, monitoring corporate performance, and reporting to the government and Parliament. Delays in appointments affect the board's ability to fulfill its important governance role.

Process for board appointments. The maximum number of members on each board of directors is defined in the corporation's legislation. For most Crown corporations, the minister is responsible for appointing the directors with the approval of the **Governor in Council**. Each director is appointed for a specific term. These appointments are expected to ensure, as far as possible, that not more than half of the directors' terms will expire in any given year. For the majority of Crown corporations, once a director's initial appointment term has ended, the director continues in office until a successor is appointed.

Delays in appointments. We found that 13 of the 42 (31%) Crown corporations we reviewed had delays in appointments. This meant that directors either continued to sit on boards after their terms expired while they awaited the government's decision on whether to reappoint or replace them, or the positions became vacant. Of these 13 corporations, 4 had at least 1 sitting director whose term had been expired for at least 1 year, and in some cases, for at least 2 years.

We also noticed that an additional 9 Crown corporations had appointments expiring in the upcoming 6 months and that these directors had not yet been replaced or reappointed.

As shown above, the problem of delays in appointing board members persisted.

The Auditor General's observations on the Government of Canada's 2018–2019 consolidated financial statements

Pay administration

The government made limited improvement in paying employees accurately

For the past few years, we have reported on the challenges the Government of Canada has faced in accurately paying its employees because of the Transformation of Pay Administration Initiative. We do so again this year.

When it was implemented, the Transformation of Pay Administration Initiative centralized pay services for 46 departments and agencies in a newly created Public Service Pay Centre and introduced the Phoenix pay system for all 101 departments and agencies. In the 2018–2019 fiscal year, Phoenix processed approximately $25 billion in pay expenses, the same amount as in the 2017–2018 fiscal year.

As in prior years, as part of our audit of the 2018–2019 consolidated financial statements of the Government of Canada, we selected a sample of employees across all departments and agencies and tested the accuracy of their pay transactions. We found that 67% of the employees in our sample were paid incorrectly at least once during the fiscal year, compared with 62% in the 2017–2018 fiscal year. As at 31 March 2019, 54% of the employees in our sample still required corrections to their pay, compared with 58% as at 31 March 2018. Overall, we found limited improvement compared with the previous fiscal year.

We estimated that the government owed employees $349 million (because the employees were underpaid) and employees owed the government $361 million (because they were overpaid). In other words, there were approximately $710 million worth of pay errors as at 31 March 2019, compared with $615 million as at 31 March 2018.

Since 1 April 2016, we have been testing employees' pay transactions as part of the audit of the Government of Canada's consolidated financial statements. Because errors in employee pay continue, we selected a sample of transactions in which we identified an error in prior years to see if they had been corrected. We found that for almost two thirds of employees in our sample, the same errors remained.

Despite continued pay errors, the consolidated financial statements were presented fairly

Despite continued pay errors, we were still able to conclude that pay expenses were presented fairly in the Government of Canada's 2018–2019 consolidated financial statements, because overpayments and underpayments made to employees partially offset each other. In addition, the government recorded year-end accounting adjustments to improve the accuracy of its pay expenses. These adjustments changed only the reported pay expenses in the consolidated financial statements. They did not correct the underlying problems in paying employees accurately, nor did they correct the pay errors for individual employees.

Data quality problems continued to create pay errors for thousands of employees

Data quality. To pay employees accurately, a pay system needs quality data: data that is accurate, complete, and up to date. Departments and agencies need to submit accurate and complete information to compensation advisors in order to update an employee's pay. If this information is incomplete or late, keeping accurate pay records is difficult. Inaccurate pay records can result in errors in pay calculations, which usually requires manual correction. Some examples of pay errors from our audit testing were as follows:

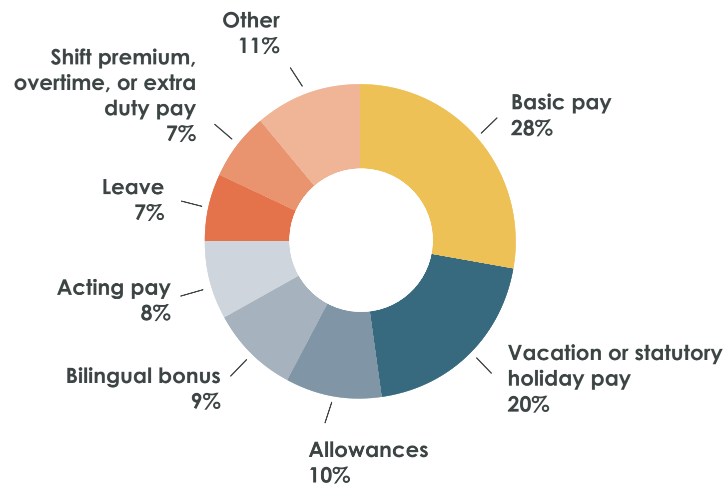
- Documents that were needed to process a change in pay of an employee who was transferred from an agency to a department in September 2018 were not submitted until January 2019. As a result, that employee's salary was not updated for the new role and had still not been corrected by 31 March 2019.
- A document that was needed to process an approved **leave with income averaging arrangement** for an employee was submitted to the Public Service Pay Centre in June 2017 with incorrect

information about leave periods for September 2017. As a result, the pay centre did not process the change, and the employee went on leave without any decrease in pay. The overpayment had still not been corrected as of 31 March 2019.

Pay elements. The number of elements that make up an employee's pay, each with its own set of rules and payment frequencies, adds to the volume of errors and the complexity of processing payroll transactions. All of these pay elements are interconnected. An error in one element can affect others, resulting in complex pay calculations.

Exhibit 4 shows the elements of employee pay in which we noted errors during our audit work for 2018–2019. These elements and the percentages were similar to those we reported last year.

Exhibit 4 Elements of employee pay for which we found errors in our testing



We continue to be of the view that decreasing the complexity of the pay rules governing employees' pay could reduce errors. Streamlining pay rules could minimize the risk of human error when compensation advisors calculate and process pay manually. Any additional errors further increase the existing backlog of **pay action requests** that has been growing since the Transformation of Pay Administration Initiative was implemented in 2016.

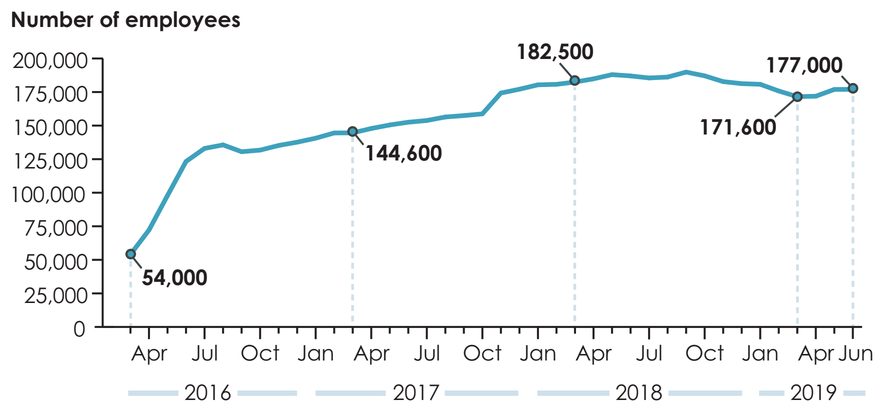
Backlog of pay action requests. In our observations last year, we reported on the number of employees with outstanding pay action requests in the 46 departments and agencies served by the Public Service Pay Centre. As of March 2019, there were 171,600 employees (compared with 182,500 in 2018) with almost 427,000 pay action requests remaining to be processed (compared with 579,700 in 2018).

In June 2019, which was 3 months after the government's fiscal year-end, the backlog of outstanding requests was 401,000, which affected 177,000 employees. This meant that although the number of outstanding requests declined, the number of employees affected increased since the end of the fiscal year. Furthermore, almost half of the requests were over a year old. Therefore, the pay of thousands of employees continued to be inaccurate for long periods of time.

If employees have previous requests that have not been resolved, their current and future pay could have additional errors. In one of the examples in our sample for audit testing, we found that an error in the calculation of an employee's pay raise meant that the employee was underpaid every year, including the current fiscal year. The compounding of this error over several years meant that this employee was underpaid by approximately $70,000.

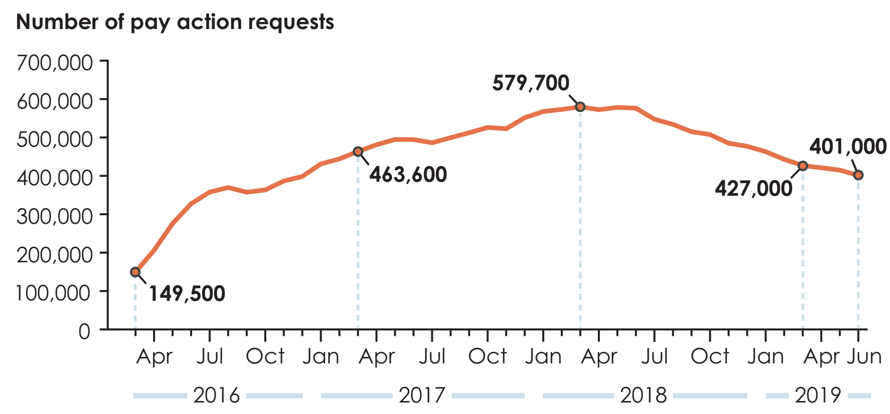
Exhibit 5 shows the number of employees with outstanding pay action requests, and Exhibit 6 shows the number of outstanding pay action requests. These exhibits show only the backlog for the 46 departments and agencies served by the pay centre. They do not show the pay action requests in the other departments and agencies.

Exhibit 5 Number of employees with outstanding pay requests in the 46 departments and agencies served by the Public Service Pay Centre



Source: Based on the Office of the Auditor General of Canada's analysis of data in Public Services and Procurement Canada's Case Management Tool

Exhibit 6 **Number of outstanding pay action requests for the 46 departments and agencies served by the Public Service Pay Centre**



Source: From March 2016 to June 2018, based on the Office of the Auditor General of Canada's analysis of data in Public Services and Procurement Canada's Case Management Tool. From July 2018 to June 2019, based on data in Public Services and Procurement Canada's Case Management Tool.

Paying employees the right amount on time and resolving the backlog of pay problems are shared responsibilities across the government. Public Services and Procurement Canada is responsible for processing payroll transactions, while the departments and agencies have an important role to play in providing complete, accurate, and up-to-date information about changes to employee pay.

The "pay pod" initiative did not reduce pay errors for individual employees

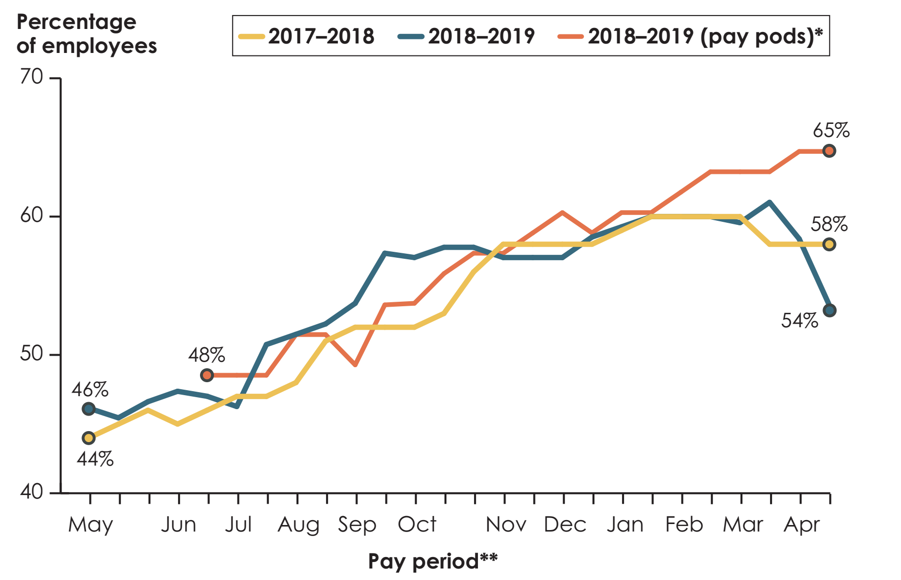
In December 2017, the government implemented a new model with several objectives to resolve pay problems for the 46 departments and agencies served by the Public Service Pay Centre. This model assigns a compensation team, which it calls a "pay pod," to a specific department or agency. The priority of these teams is to process current pay transactions first so that payments are more likely to be issued on time and transactions are not added to the backlog. Pay pods also try to resolve outstanding pay action requests in an employee's file when they affect current pay transactions.

Pay pods were implemented over several months, and as of May 2019, all 46 departments and agencies served by the pay centre operated under this model.

As previously mentioned, for our audit of the government's consolidated financial statements, we selected a sample of government employees whose pay was processed by the Phoenix pay system. We also performed additional testing specifically on employees covered by the pay pods this fiscal year. Given that pay pods were a new initiative, we thought that this testing could provide additional value to the government. We tested a sample of employees covered by the pay pod model from June 2018 (the first month when there was a sufficient number of pay pods operating) to March 2019. We found that 65% of sampled employees still required corrections to their pay as at 31 March 2019. Exhibit 7 shows the percentage of employees in our sample with errors in their pay for both the financial statement audit and the pay pods by pay period.

A significant amount of work remains to resolve current payroll data quality problems, including the backlog, in order to accurately pay employees and to support a successful transition to a possible new pay system.

Exhibit 7 Percentage of employees in our payroll sample with errors in their paycheques by pay period



* Data for pay pods begins in June 2018, which is when a sufficient number of them were operating.

** There were 3 pay periods in May and October.

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 fiscal years ending 31 March 2018 and 31 March 2019

National Defence inventory and asset pooled items

For 16 years, we have been reporting on National Defence's difficulties in recording the quantities and values of its inventory. In many of these years, we have also reported on the department's asset pooled items, which are tangible capital assets that are managed like inventory. The department manages a significant portion of the Government of Canada's inventory and asset pooled items. Overall at National Defence, these assets amounted to $8.8 billion as at 31 March 2019.

Strong controls are needed for financial reporting purposes as federal organizations with inventory and asset pooled items must ensure that quantities and values are accurate and that obsolete items are identified and their values are reduced.

Errors persisted in reported quantities and values of inventory and asset pooled items

National Defence's inventory amounted to $5.6 billion, and its asset pooled items amounted to $3.2 billion, as at 31 March 2019. As part of our audit, we noted errors in the amounts that the department reported in the quantities and values of these assets. We estimated that inventory and asset pooled items were overstated by a total of $850 million (Exhibit 8).

Exhibit 8 Estimated overstatement errors that we noted in our audit

	Overstatement error (in $ millions)		
Type of asset	**Quantity**	**Value**	**Total**
Inventory	$100	$170	$270
Asset pooled items	$280	$300	$580
Total overstatement	**$380**	**$470**	**$850**

National Defence has to continue to improve the quality of its inventory and asset pooled items records in order to report accurate and complete data throughout an asset's life cycle.

National Defence made progress in implementing its long-term inventory management action plan

To resolve its challenges in properly recording the quantities and values of its inventory, National Defence submitted a long-term inventory management action plan to the House of Commons Standing Committee on Public Accounts in 2016. One of the plan's several initiatives is to implement a system to tag all inventory and asset pooled items. The implementation of this system is expected to begin in the 2022–2023 fiscal year. In our view, errors in reported quantities are likely to continue until this system is in place.

For the second year, the department reported to the committee that it essentially met the commitments in its inventory management action plan. We reviewed documentation and are pleased with the continued progress to meet its 2018–2019 commitments.

Additional insights from our financial audits

Significant projects with information technology components

Many significant ongoing or planned information technology projects represent risks for federal organizations

Federal organizations rely on information technology (IT) systems to deliver services to Canadians, process financial transactions, and prepare financial reports. These systems must be reliable in order for organizations to deliver programs successfully and also to have credible financial reports that they base decisions on and present to Parliament.

This year, our financial audits made us aware of about 30 significant projects with IT components—planned or underway—that affect financial reporting at various federal organizations, including Crown corporations. During our financial audits, we noted new projects as well as projects that were completed during the year. The current or planned projects we are aware of are significant, because they involve systems that are undergoing major conversion or replacement as well as changes to IT management in some organizations. Examples include the following:

- The Canada Border Services Agency (CBSA) has a multi-year initiative to transform the collection of tax and duty for goods imported into Canada. The CBSA Assessment and Revenue Management project is expected to modernize and streamline the importing of commercial goods into Canada. The project is expected to be completed in spring 2021.
- Employment and Social Development Canada has an initiative known as the Benefits Delivery Modernization that is expected to improve Canadians' access to services and benefits, including speeding up the application processes. This initiative aims to renew business processes and technology for Employment Insurance, Old Age Security, and the Canada Pension Plan to transform the way benefits are delivered. The department informed us that the definition phase of the initiative started in 2017 after it researched best practices and lessons learned from organizations that had undergone similar transformations. Given that full approval and funding have yet to be received, the timelines have not yet been defined. Once the initiative is approved, the department expects to implement various projects over several years.
- Employment and Social Development Canada, which is responsible for the Canada Student Loans Program, is implementing a new IT system being developed by a third party that is expected to enhance the client-service experience and will manage the program across the entire lending cycle. The new system is being launched in phases. It started in 2018, additional features were made available for students in 2019, and further enhancements are expected to be

implemented through the end of 2021. The program provides loans and grants to eligible students to help them access and afford post-secondary education. The program also administers loans and grants to students on behalf of some provinces.

- The Canada Revenue Agency has a multi-year project underway to significantly modify the systems for processing individual tax returns to address a major IT sustainability risk. This project, known as the T1 Systems Redesign, began in the 2013–2014 fiscal year and is being implemented in phases. It is expected to be completed in the 2019–2020 fiscal year.

The government is exploring alternatives to replace the Phoenix pay system. This initiative was not at the project stage but could become a major project.

The risks and challenges involved in projects with IT components depend on their type and complexity. Examples of significant risks often seen in such projects include

- inappropriate governance and project management
- incomplete or inaccurate business case
- poor data quality
- system functions not working as intended or unforeseen impacts on other systems
- lack of organizational capacity
- issues with change management, including training of employees or end users

It is important for federal organizations to implement good governance and project management practices to manage the risks and challenges of significant and complex projects with IT components. In 2019, the Treasury Board approved new project management policies that focus on clear accountabilities, capacity building, and risk management. Among other things, these new policies were the government's response to a rapidly changing technological environment and the need for more agility. One of the key areas of the new policies is to require organizations to clearly define and realize expected outcomes and benefits.

Our Commentary on the 2017–2018 Financial Audits listed some commonly used practices to help manage the risks and challenges of these types of projects. It also included questions parliamentarians could ask federal organizations planning significant and complex projects with IT components to ensure they anticipate and address possible issues.

How voted expenditures are managed by departments and agencies

What can departments and agencies do with the voted expenditures

Every year, Parliament authorizes expenditures for departments and agencies through the **Main Estimates** process. Approved spending or authorized expenditures are called voted expenditures. Departments and agencies decide how to manage their voted expenditures to achieve the results they expect in a cost-effective manner, subject to applicable requirements such as policies and conditions imposed by the Treasury Board. More information on how Parliament approves government spending is in our Commentary on the 2017–2018 Financial Audits.

During the fiscal year, the spending plans of departments and agencies may change as their needs evolve or circumstances change. They may request changes to their voted expenditures after Parliament has approved the Main Estimates. The government may table 1 or more **Supplementary Estimates** in order to seek parliamentary approval of new spending measures. Two additional situations may occur:

- **A transfer between votes within an organization or between departments and agencies.** The government may transfer funding between departmental votes or from a department or agency to another for a variety of reasons.
- **A transfer between fiscal years (known as reprofiling).** A department or agency may need to revise the timing of when expenditures will occur to implement an initiative. In that case, the department or agency may ask the Department of Finance Canada to move funding between fiscal years.

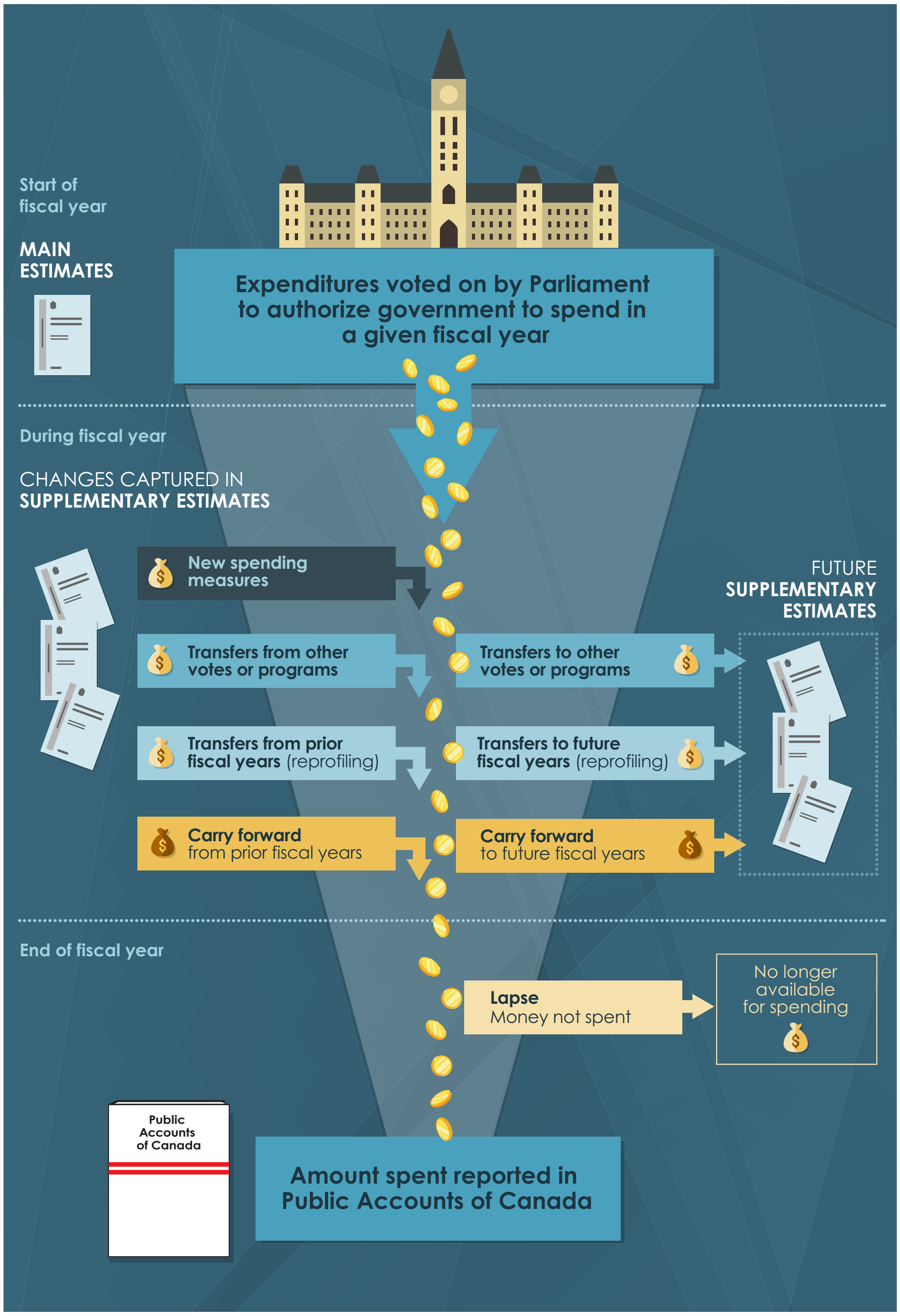
Every year, Parliament also approves amounts included in central votes managed by the Treasury Board. A central vote gives authority to the Treasury Board to allocate funds from the vote directly to departments when the amounts and conditions have been satisfied. One example is the government contingencies central vote. When a department or agency needs additional money to meet urgent or unforeseen requirements, it may ask the Treasury Board to access funds from the government contingencies central vote.

The actual costs of an organization's activities can be lower than the amounts forecast in the voted expenditures. In these cases, at the end of the fiscal year, most departments or agencies may carry forward into the following year up to 5% of voted operating expenditures and up to 20% of voted capital expenditures that were not spent during the fiscal year.

At the end of the fiscal year, any unspent voted expenditures remaining after reprofiling and carrying amounts forward will lapse, meaning they are no longer available for spending by departments and agencies.

After the end of the fiscal year, each department and agency reports through the Public Accounts of Canada on the status of the funds approved by Parliament and the amounts it spent during the fiscal year (Exhibit 9).

Exhibit 9 How voted expenditures are managed in a fiscal year



Public sector pension plans

Public sector pension plans have a large impact on the government's financial statements

The Government of Canada sponsors a number of defined benefit pension plans covering substantially all federal public service employees, as well as members of the Canadian Armed Forces, members of the Royal Canadian Mounted Police, members of Parliament, and others. In addition, some Crown corporations and other federal organizations maintain their own defined benefit pension plans covering substantially all of their employees.

The federal public sector pension plans have a large impact on the government's financial statements. In the government's 2018–2019 statement of financial position, the public sector pension liability totalled close to $169 billion.

Given the size of these liabilities and their potential impact on the government's finances, it is important to understand how they are presented in the financial statements, which have a wealth of information about pension plans. We created a video* that explains basic concepts about pension plans and how defined benefit pension plans are presented in the financial statements.

Life cycle of a government loan receivable

The Government of Canada issues loans to a variety of borrowers for different reasons

The federal government provides loans to individuals, organizations, and other governments. The government's 2018–2019 consolidated statement of financial position shows $26 billion in loans, investments, and advances (other than those to other Government of Canada–related organizations), with a provision for bad debt of more than half of that amount (Exhibit 10).

* The video is available on our website at www.oag-bvg.gc.ca.

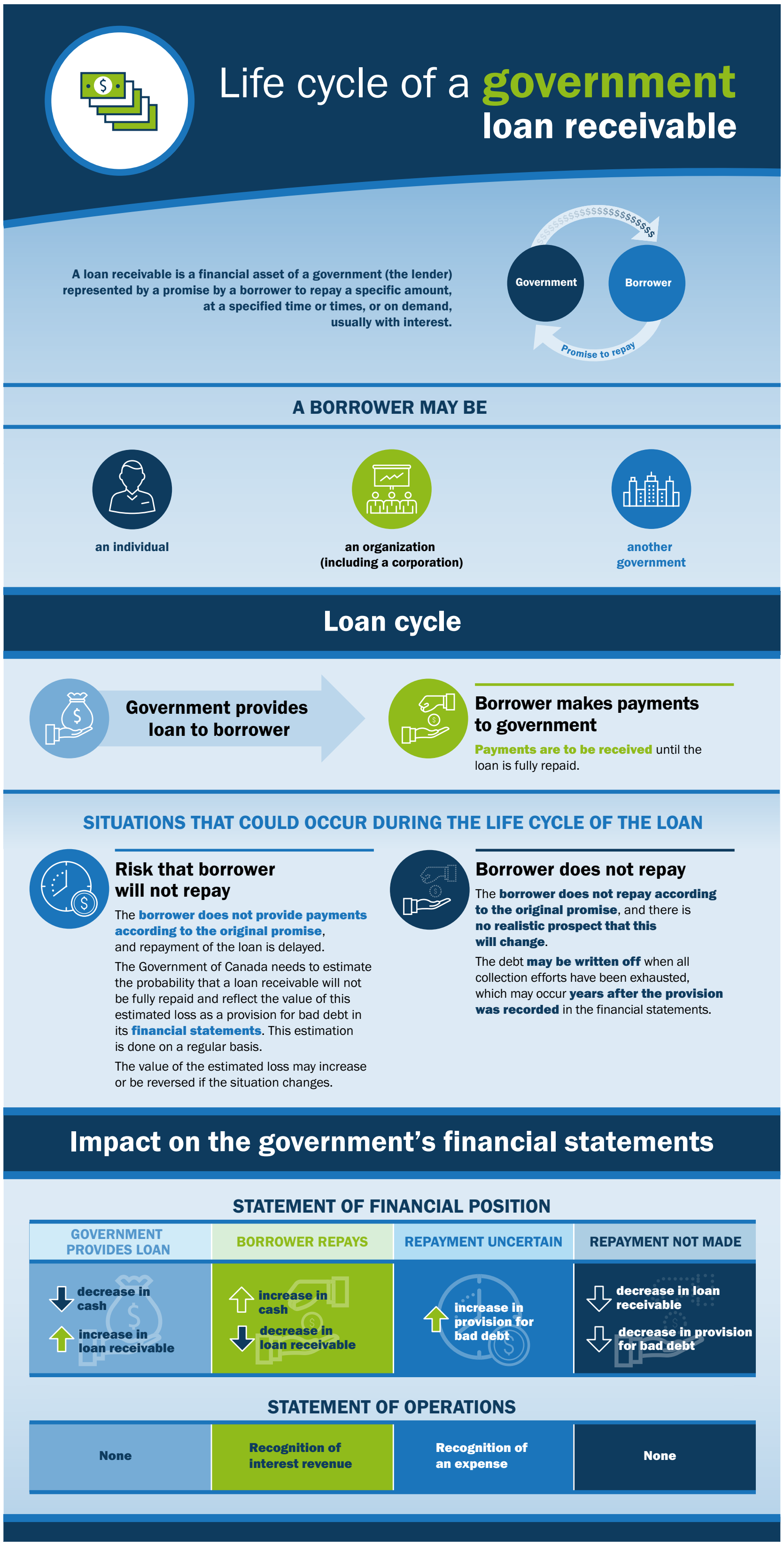
Exhibit 10 Amounts of government lending reported in the statement of financial position

Type of lending reported	Amount of lending (in $ billions)	
	2018–2019 fiscal year	2017–2018 fiscal year
Loans and advances to national governments and international organizations	$25	$24
Other loans	$9	$9
Loans under the Canada Student Loans Program	$21	$20
Less: provision for bad debt (also known as valuation allowance)	$29	$27
Total other loans, investments, and advances	$26	$26

Source: 2018–2019 Public Accounts of Canada—Volume 1, Section 9

Exhibit 11 provides an overview of the life cycle of a loan receivable, including the impact of the provision for bad debt and the write-off of a loan receivable on the financial statements of the Government of Canada. For example, loans issued under the Canada Student Loans Program represented a significant balance. In the 2018–2019 fiscal year, loans and interest receivable for this program totalling $579 million were written off or forgiven.

Exhibit 11 How a government loan receivable affects the government's financial statements



About our financial statement audits

To find out more about the Office of the Auditor General of Canada's work on the government's financial statements, see the "Financial Audit" section on our website (on the "What we do" page at www.oag-bvg.gc.ca).

Glossary

Defined benefit pension plan—A type of pension plan that promises a certain level of pension, which is usually based on the plan member's salary and years of service.

Financial audit—An examination of 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) that support the statements.

Government business enterprise—A government organization that can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues from outside sources.

Governor in Council—The Governor General, acting on the advice of Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

Independent auditor's report—A written opinion of an auditor regarding an entity's financial statements. The report is written in a standard format, as mandated by generally accepted auditing standards.

Leave with income averaging arrangement—A special work arrangement that allows employees to take an extended leave without pay (for a minimum of 5 weeks and a maximum of 3 months) while averaging their income over a 12-month period. This income averaging allows them to continue receiving part of their regular salary during their leave without pay.

Main Estimates—A document prepared annually by the Treasury Board of Canada Secretariat that outlines how the government plans to spend public funds for the coming fiscal year. It is presented to the House of Commons for approval.

Management letter—A letter that identifies opportunities for changes in procedures to improve an organization's systems of internal control, streamline its operations, and/or enhance its financial reporting practices.

Pay action requests—Anything from a request to change an employee's address or bank account information, to a request to enter parental leave or a promotion, or a request to fix a pay error.

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.

Supplementary Estimates—The documents that identify the spending authorities (votes) and amounts and adjustments not included in the Main Estimates. Parliamentary approval is required to enable the government to proceed with its spending plans.

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.