



# Standing Committee on Public Accounts

35<sup>th</sup> Yukon Legislative Assembly

Second Report

*Yukon Public Accounts 2020-21*

April 2022



**Standing Committee on Public Accounts**

**35<sup>th</sup> Yukon Legislative Assembly**

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***Yukon Public Accounts 2020-21***

**April 2022**

**Currie Dixon, MLA**

Copperbelt North

Chair

**Kate White, MLA**

Takhini-Kopper King

Vice-Chair

**Scott Kent,  
MLA**

Copperbelt South

**Hon. Richard Mostyn,  
MLA**

Whitehorse West

**Hon. Jeanie McLean,  
MLA**

Mountainview

Allison Lloyd  
Clerk to the Committee

Volume 31





# Yukon Legislative Assembly

## Standing Committee on Public Accounts

35<sup>th</sup> Yukon Legislative Assembly

April 26, 2022

Hon. Jeremy Harper, MLA  
Speaker  
Yukon Legislative Assembly

Dear Sir:

On behalf of the members of the Standing Committee on Public Accounts, appointed by order of the 35<sup>th</sup> Yukon Legislative Assembly, I have the honour to present the committee's Second Report.

Sincerely,

Currie Dixon  
Chair



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## Preface

### The Standing Committee on Public Accounts

The basic purpose of the Standing Committee on Public Accounts is to ensure economy, efficiency and effectiveness in public spending. The committee's authority is derived from Standing Order 45(3) of the *Standing Orders of the Yukon Legislative Assembly*, which says

At the commencement of the first Session of each Legislature a Standing Committee on Public Accounts shall be appointed and the Public Accounts and all Reports of the Auditor General shall stand referred automatically and permanently to the said Committee as they become available.

On May 17, 2021, the Yukon Legislative Assembly adopted the following motion:

THAT Currie Dixon, Scott Kent, the Hon. Richard Mostyn, the Hon. Jeanie McLean, and Kate White be appointed to the Standing Committee on Public Accounts established pursuant to Standing Order 45(3);

THAT the committee have the power to call for persons, papers, and records and to sit during intersessional periods; and

THAT the Clerk of the Legislative Assembly be responsible for providing the necessary support services to the committee. (Motion No. 11)

The committee first met on June 1, 2021. At that meeting, the committee elected Currie Dixon as Chair and Kate White as Vice-Chair.

### This report

Presenting a report to the Legislative Assembly is the way a committee makes public its findings and recommendations on a particular topic. The subject of this report is the *Yukon Public Accounts 2020-21*.

The *Yukon Public Accounts 2020-21* were tabled in the Legislative Assembly on October 28, 2021, by the Premier, the Hon. Sandy Silver.

The Public Accounts Committee held meetings on November 5 and 19, and December 7, 2021, and January 5, 12 and 31, and February 9, 2022, to consider the Public Accounts. At these meetings, the committee discussed its examination of the Public Accounts and drafted public hearing questions, which were distributed amongst the committee members. The Hon. John Streicker substituted for committee member Hon. Jeanie McLean at the meeting on December 7, 2021 and the Hon. Ranj Pillai substituted for Hon. Ms. McLean at the meetings on January 5, and 12, 2022.

The committee held a public hearing on the Public Accounts on Wednesday, February 9, 2022. Witnesses appeared, from the Department of Finance and the Office of the Auditor General of Canada. Due to COVID-19 safety protocols, the officials from the Office of the Auditor General appeared by videoconference. The Chair, Currie Dixon, was unable to attend the hearing, so the Vice Chair, Kate White, presided and Stacey Hassard served as a substitute committee member. The transcript of the hearing is appended to this report.

On February 17, 2022, the Department of Finance provided written responses to questions from the committee that were not asked at the hearing. The Office of the Auditor General also provided written responses to committee questions on February 23, 2022. The written submissions are appended to this report

The committee held meetings on April 22 and 26, 2022, to prepare this report on the *Yukon Public Accounts 2019-20*.

The committee would like to thank the officials from the Office of the Auditor General of Canada, Sophie Miller, Assistant Auditor General, David Irving, Principal, and Michelle Spence, Director, for their assistance with the committee's examination of the Public Accounts. The committee would also like to thank the officials from the Department of Finance, Scott Thompson, Deputy Minister, and Ralph D'Alessandro, Comptroller, who appeared as witnesses at the public hearing.

The Auditor General's report, transcripts of the public hearing, committee meeting minutes, documents submitted to the committee, and this report may be found on the committee's web page at: <https://yukonassembly.ca/committees/pac>



# Yukon Legislative Assembly

## Standing Committee on Public Accounts

35<sup>th</sup> Yukon Legislative Assembly

### Second Report

***Yukon Public Accounts 2020-21***

**April 2022**

### Introduction

1. The Standing Committee on Public Accounts of the Yukon Legislative Assembly has a mandate to examine the Public Accounts of the Government of Yukon and report its findings and recommendations to the Legislative Assembly.
2. In her opening remarks at the public hearing on February 9, 2022, Sophie Miller, Assistant Auditor General, noted the importance of the committee's role in the oversight of government finances:

The Committee's review of the Yukon Public Accounts is an important step in ensuring accountability for how public funds are spent and how government finances are reported.<sup>1</sup>

### About the Public Accounts

3. The Public Accounts are the annual financial statements of the Government of Yukon and provide a comprehensive view of the government's financial position at fiscal year-end. They also contain discussion and analysis of the government's financial position and reports of the financial transactions of all government departments, as well as entities controlled by the government including Yukon University, Yukon Housing Corporation, Yukon Hospital Corporation, Yukon Development Corporation, and Yukon Liquor Corporation.
4. The Public Accounts are produced in three parts:
  - **Part One** contains the financial statement discussion and analysis. As an overview of the whole Public Accounts, it explains some of the more important numbers and provides comparison and graphs.

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<sup>1</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-1.

- **Part Two** is the audited consolidated financial statements and the independent auditor's report from the Office of the Auditor General of Canada. Included in the consolidated statements are the financial accounts of Yukon University, Yukon Housing Corporation, and Yukon Hospital Corporation. Also included is a recognition of the equity position held in the Yukon Development Corporation and Yukon Liquor Corporation.
- **Part Three** is divided into three sections:
  - Section I is non-consolidated financial statements for the 18 departments of the Government of Yukon. The territorial corporations are not included in the non-consolidated statements.
  - Section II contains supplementary financial information to compare year to year and how the results differ from the budget.
  - Section III contains the individual audited statements for Yukon University, Yukon Development Corporation, Yukon Hospital Corporation, Yukon Housing Corporation, Yukon Liquor Corporation, and the Yukon Workers' Compensation Fund. The Office of the Auditor General's auditor's reports are included with each respective entity's financial statements.

## **Financial Performance and Financial Position**

5. The *Yukon Public Accounts 2020-21* outline the government's financial performance during the 2020-21 fiscal year and its financial position as at March 31, 2021.
6. Some financial highlights include:
  - The government reported a surplus of \$42.4 million for the fiscal year, compared to an estimated surplus of \$19.6 million in the budget. The surplus is \$45 million higher than the \$2.6 million deficit in 2019-20.
  - Revenues were \$1.653 billion, which is \$80.8 million, or 5.1%, higher than the initially budgeted amounts.
  - Expenses were \$1.611 billion, which is \$58 million, or 3.7%, higher than budgeted.
  - The net financial assets at the end of the year is \$182.7 million. This is the difference between total financial assets and total financial liabilities.

## **Unqualified "Clean" Audit Opinion**

7. The Government of Yukon's consolidated financial statements for the 2020-21 fiscal year were audited by the Auditor General of Canada and received an unqualified, or "clean", audit opinion.
8. The auditor's report provides an opinion about whether the government's consolidated financial statements give a fair representation of the government's transactions according to Canadian public sector accounting standards. The audit does not provide an opinion on the status of the government's finances and an

unqualified opinion does not necessarily indicate that the government is in good economic health.

9. Ms. Miller stated during the hearing:

We have issued an unmodified audit opinion on the consolidated financial statements. They conform in all material respects with the Canadian public sector accounting standards, which means that the information in the statements is reliable.<sup>2</sup>

10. **The committee notes that the *Yukon Public Accounts 2020-21* received a clean audit opinion from the Auditor General and commends the Government of Yukon for this.**

## **COVID-19 Pandemic**

11. The committee would like to recognize that the Department of Finance and the Office of the Auditor General completed the *Yukon Public Accounts 2020-21* under challenging circumstances due to the ongoing COVID-19 pandemic.

12. Mr. Thompson, Deputy Minister of the Department of Finance, observed that preparing the Public Accounts was difficult this year:

I would like to specifically recognize the Office of the Comptroller and their staff for the enormous amount of work that they have to do each year in supporting and coordinating financial reporting across the government to prepare the Public Accounts.

Like many business organizations and governments, this group has had to overcome challenges caused by the COVID-19 pandemic over the last two years. However, these difficulties were also amplified by the departure of several long-time key staff over the last year.

Madam Vice-Chair, with every challenge comes an opportunity, and I am pleased to say that this team has used this occasion to respond to that challenge. The addition of new staff to this area has allowed us to evaluate our long-standing processes, find deficiencies in how we do our business, and also to train the next generation of government accountants.<sup>3</sup>

13. Speaking on behalf of the Office of the Auditor General, Ms. Miller noted that

As a result of the ongoing COVID-19 pandemic, our auditors conducted this audit entirely remotely. We maintain good communication with the government, departments, and territorial corporations.

I would like to thank the Deputy Minister of Finance, the comptroller, their staff, and the staff of the departments and territorial corporations who were involved in preparing the government's financial statements. We appreciate

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<sup>2</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-1

<sup>3</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-2

the effort, cooperation, and help of all involved, especially given the pressures created by the pandemic.<sup>4</sup>

14. **The committee appreciates the efforts of both the Department of Finance and the Office of the Auditor General to adapt to the obstacles presented by the COVID-19 pandemic.**

## **Previous Committee Recommendations**

15. Following its examination of the 2018-19 Public Accounts, the Standing Committee on Public Accounts of the 34<sup>th</sup> Legislative Assembly made three recommendations in its May 2020 report (Fifth Report):

**2020 Recommendation No. 1:** THAT the Department of Finance expand the “Financial Statement Discussion and Analysis” section of the Yukon Public Accounts and include further explanation such as a discussion on key risks and government measures to mitigate identified risks.

**2020 Recommendation No. 2:** THAT the Department of Finance digitize the Yukon Public Accounts, and THAT the Department of Finance provide the Standing Committee on Public Accounts with a timeline for implementation and anticipated costs.

**2020 Recommendation No. 3:** THAT the Department of Finance continue discussions with the consolidated entities and with the Office of the Auditor General of Canada to identify and address issues necessary to facilitate earlier tabling of the Yukon Public Accounts.

16. In 2021, the Standing Committee on Public Accounts of the 34<sup>th</sup> Legislative Assembly noted that the Department of Finance had made progress on all three previous recommendations. In its March 2021 report (Seventh Report), the committee made four recommendations:

**2021 Recommendation No. 1:** THAT the Department of Finance continue to digitize the Yukon Public Accounts, and THAT the Department of Finance provide the Standing Committee on Public Accounts with an updated timeline for implementation and anticipated costs.

**2021 Recommendation No. 2:** THAT the Department of Finance continue discussions with the consolidated entities and with the Office of the Auditor General of Canada to identify and address issues necessary to facilitate earlier tabling of the Yukon Public Accounts and update the committee with a timeline.

**2021 Recommendation No. 3:** THAT the Department of Finance include more cross-jurisdictional comparisons for certain measures where appropriate, and explain the importance of such comparisons, in the “Financial Statement Discussion and Analysis” section in future publications of the Public Accounts.

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<sup>4</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-2

**2021 Recommendation No. 4:** THAT the Department of Finance prepare and execute a plan to comply with the implementation and disclosure requirements of the new accounting standard PS 3280 Asset Retirement Obligations.

17. The Department of Finance noted the ongoing progress the department is making on addressing these recommendations at the public hearing on February 9, 2022.

## **Technological Improvements**

18. The committee recommended in 2020 and again in 2021 that the Department of Finance work on digitizing the Public Accounts.

19. Mr. Thompson provided the committee with an update on the progress the Department of Finance has made:

...the Department of Finance is focused on enhancing the accessibility of the Public Accounts over the years on the government's website in a user-friendly PDF format, which we now have. We will continue to make additional progress on this recommendation by reviewing how other jurisdictions post their Public Accounts material and what we think would be most helpful to other users.<sup>5</sup>

20. The committee would like to see the Department of Finance proceed with its modernization of the Public Accounts.

- 21. Recommendation No. 1:** THAT the Department of Finance continue to make further technological improvements to the Yukon Public Accounts.

## **Timeliness**

22. The Public Accounts for each financial year are required to be tabled or distributed to Members of the Legislative Assembly, on or before October 31, pursuant to section 8 of the *Financial Administration Act*. The *Yukon Public Accounts 2020-21* were tabled in the Legislative Assembly by the Premier, the Hon. Sandy Silver, on October 28, 2021.

23. While the minimum statutory requirement has been consistently met, an earlier release of the Public Accounts would be an improvement to government transparency and accountability. In 2020 and again in 2021, the committee recommended that the Department of Finance work towards tabling the Yukon Public Accounts earlier in the year.

24. David Irving, Principal, Office of the Auditor General of Canada, highlighted the desirability of the Public Accounts being released sooner:

... as this Committee noted in prior year recommendations, the key area of possible improvement that we have been discussing with the Department of Finance is working toward identifying and addressing the issues necessary to allow an earlier tabling of the Yukon Public Accounts.<sup>6</sup>

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<sup>5</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-4

<sup>6</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-11

25. Regarding this recommendation from the committee, Mr. Thompson stated:

... significant staffing turnover of critical staff in the Yukon government and at several of the corporate entities involved caused the 2020-21 process to be exceedingly lengthy and caused less advancement than anticipated on this recommendation.

Once staff are fully trained and at full capacity, we will continue our work with the corporations and the Office of the Auditor General in identifying the key pinch points that need to be dealt with to facilitate that earlier timing of the tabling of the Yukon Public Accounts. The immediate goal will be to build more flex time into the schedule, which should allow us to get closer to the historical norm of tabling in mid-October. Making it possible to table even earlier than that will necessitate substantial work with the consolidated entities to adjust their schedules.<sup>7</sup>

26. Mr. Thompson also noted that “certainly COVID-19 did have an impact on the pace of progress”.<sup>8</sup>

27. The committee recognizes the progress made towards addressing the committee’s recommendation and understands the impact that the COVID-19 pandemic and staffing issues have had on the Department of Finance’s ability to accelerate the publishing of the Public Accounts.

28. **Recommendation No. 2:** THAT the Department of Finance continue to address issues necessary to facilitate earlier tabling of the Yukon Public Accounts.

## **Cross-jurisdictional Comparisons**

29. The Public Accounts includes information in the Financial Statement Discussion and Analysis section that helps place the Government of Yukon’s financial position in context with other governments in Canada.

30. In 2021 the committee recommended that more cross-jurisdictional comparisons be included in the Public Accounts.

31. Mr. Thompson provided the committee with an update at the public hearing:

We have made progress on this front in the last few years, and we now include cross-jurisdictional comparisons for three key measures that you will see in the FSD&A. This has been the format now for the 2019-20 and the 2020-21 Public Accounts. Further analysis of appropriate measures that can be used for cross-jurisdictional comparisons is being undertaken, although no measures have been selected to date for addition in the next version of the Public Accounts. Some measures have proven to be unsuitable due to the Yukon’s distinctive nature compared to other jurisdictions in Canada. Other measures — like a more complete comparison of employment rates, for example — are

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<sup>7</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-4

<sup>8</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-4



included in other documents, like the fiscal and economic outlook every year. We don't really want to bulk up the FSD&A section of the Public Accounts with unhelpful comparisons, but I am certain that there are some additional ones that we can include — for instance, a comparison of primary revenue sources, either for all provinces and territories, or perhaps a simple, relevant comparison would be to just the other territories in that measure.<sup>9</sup>

32. The committee believes comparisons with other jurisdictions are useful tools and would like to see additional comparisons used in the Public Accounts.
33. **Recommendation No. 3** – THAT the Department of Finance include more cross-jurisdictional comparisons for certain measures where appropriate, and explain the importance of such comparisons, in the “Financial Statement Discussion and Analysis” section in future publications of the Public Accounts.

## **New Accounting Standards**

34. As noted by Karen Hogan, Auditor General of Canada, at the February 9, 2021 hearing of the Standing Committee on Public Accounts, “Accounting and auditing standards are always evolving.”<sup>10</sup>
35. With future accounting standards expected to have an impact on the government's financial statements, the committee recommended in 2021 that the Department of Finance prepare and execute a plan to comply with the new standard known as “PS 3280 Asset Retirement Obligations”.
36. Regarding this recommendation from the committee, Mr. Thompson stated:
- ... Finance is partnered with the finance departments of Yukon Housing, Yukon Hospital, and Yukon University and have engaged KPMG to provide professional advice, guidance, and support for the development of appropriate policies, processes, valuations, and implementation of PS 3280. Given that all four entities are consolidated 100 percent in the Public Accounts, it is prudent that we all adopt the same fundamental policies, processes, and reporting formats.
- The project is progressing toward completion on time for implementation on April 1, 2022, and for full reporting in the 2022-23 Public Accounts.<sup>11</sup>
37. The Office of the Auditor General's February 23, 2022 written response notes the importance of the department addressing the new standard:
- We would emphasize that the complexities and details that are needed to establish a good estimate for Asset Retirement Obligations should not be underestimated.

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<sup>9</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 pages 4-4 – 4-5

<sup>10</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2021 page 6-16

<sup>11</sup> Yukon Legislative Assembly, Standing Committee on Public Accounts, Public Proceedings: Evidence, February 9, 2022 page 4-5

The government's successful implementation involves the departments and the other territorial organizations that are adopting the standard working in collaboration with each another. Good planning, execution, monitoring, and communication are key.

In terms of complexity, Asset Retirement Obligations is another area of measurement uncertainty. The government will need to identify in-scope items, identify and select reasonable inputs and valuation methods, and implement the results in the financial statements and related disclosures.

These all need to be considered and documented in order to support the Asset Retirement Obligation on adoption, effective 1 April 2022.<sup>12</sup>

38. The Department of Finance will need to adapt its practices in order to continue to follow Canadian public sector accounting standards.
39. **Recommendation No. 4:** THAT the Department of Finance complete its plan to comply with the implementation and disclosure requirements of the new accounting standard PS 3280 Asset Retirement Obligations for the 2022-23 Public Accounts.

## Conclusion

40. The committee commends both the Department of Finance and the Office of the Auditor General of Canada on successfully completing the *Yukon Public Accounts 2020-21* while facing the workplace challenges presented by the ongoing COVID-19 pandemic.
41. Despite obstacles presented by the COVID-19 pandemic, progress has been made on all four of the recommendations contained in March 2021 report of the Standing Committee on Public Accounts of the 34<sup>th</sup> Legislative Assembly.
42. In this report, the committee makes 4 recommendations:

**Recommendation No. 1:** THAT the Department of Finance continue to make further technological improvements to the Yukon Public Accounts.

**Recommendation No. 2:** THAT the Department of Finance continue to address issues necessary to facilitate earlier tabling of the Yukon Public Accounts.

**Recommendation No. 3** – THAT the Department of Finance include more cross-jurisdictional comparisons for certain measures where appropriate, and explain the importance of such comparisons, in the "Financial Statement Discussion and Analysis" section in future publications of the Public Accounts.

**Recommendation No. 4:** THAT the Department of Finance complete its plan to comply with the implementation and disclosure requirements of the new accounting standard PS 3280 Asset Retirement Obligations for the 2022-23 Public Accounts.

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<sup>12</sup> Office of the Auditor General of Canada, February 23, 2022, written response to the Standing Committee on Public Accounts page 2

43. The committee would like to thank the Office of the Auditor General of Canada for its thorough audit, and congratulate the Government of Yukon for receiving its 13<sup>th</sup> consecutive unmodified audit opinion, which attests that it properly reported its overall financial performance for 2020-2021 to the Legislative Assembly and to Yukoners.
44. The committee would also like to thank the witnesses who appeared before the committee at the public hearing.

## **Summary of Public Accounts Committee Recommendations**

**Recommendation No. 1:** THAT the Department of Finance continue to make further technological improvements to the Yukon Public Accounts.

**Recommendation No. 2:** THAT the Department of Finance continue to address issues necessary to facilitate earlier tabling of the Yukon Public Accounts.

**Recommendation No. 3** – THAT the Department of Finance include more cross-jurisdictional comparisons for certain measures where appropriate, and explain the importance of such comparisons, in the “Financial Statement Discussion and Analysis” section in future publications of the Public Accounts.

**Recommendation No. 4:** THAT the Department of Finance complete its plan to comply with the implementation and disclosure requirements of the new accounting standard PS 3280 Asset Retirement Obligations for the 2022-23 Public Accounts.

## **Appendices**

Transcript of public hearing February 9, 2022

Department of Finance written responses to committee questions, February 17, 2022

Office of the Auditor General of Canada written responses to committee questions,  
February 23, 2022





# Yukon Legislative Assembly

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Issue 4

35<sup>th</sup> Legislature

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## **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

### **Public Proceedings: Evidence**

**Wednesday, February 9, 2022 — 1:00 p.m.**

Chair: Currie Dixon

## **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

<b>Vice-Chair:</b>	Kate White
<b>Members:</b>	Stacey Hassard (substituting for Currie Dixon, Chair) Hon. Jeanie McLean Scott Kent Hon. Richard Mostyn
<b>Clerk:</b>	Dan Cable, Clerk
<b>Witnesses:</b>	<b>Office of the Auditor General of Canada</b> Sophie Miller, Assistant Auditor General David Irving, Principal Michelle Spence, Director  <b>Department of Finance</b> Scott Thompson, Deputy Minister Ralph D'Alessandro, Comptroller



**EVIDENCE****Whitehorse, Yukon****Wednesday, February 9, 2022 — 1:00 p.m.**

**Vice-Chair (Ms. White):** I will now call to order this hearing of the Standing Committee on Public Accounts of the Yukon Legislative Assembly. The Public Accounts Committee is established by Standing Order 45(3) of the Standing Orders of the Yukon Legislative Assembly.

This standing order says: “At the commencement of the first Session of each Legislature a Standing Committee on Public Accounts shall be appointed and the Public Accounts and all Reports of the Auditor General shall stand referred automatically and permanently to the said Committee as they become available.” On May 17, 2021, the Yukon Legislative Assembly adopted Motion No. 11, which established the current Public Accounts Committee. In addition to appointing members to the Committee, the motion stipulated that the Committee shall — and I quote: “... have the power to call for persons, papers, and records and to sit during intersessional periods...”

Today, pursuant to Standing Order 45(3) and Motion No. 11, we will be discussing the Yukon Public Accounts 2020-21. The Public Accounts Committee is an all-party committee with a mandate to ensure economy, efficiency, and effectiveness in public spending — in other words, accountability for the use of public funds. Our task is not to challenge the government policy but to examine its implementation. As part of its responsibility to scrutinize public spending, the Committee believes that it is important to keep departments accountable for commitments made in response to recommendations from the Auditor General.

I would like to thank the witnesses from the Department of Finance for appearing. They are Scott Thompson, deputy minister, and Ralph D'Alessandro, comptroller. Also present via Zoom are officials from the Office of the Auditor General of Canada, and they are Sophie Miller, David Irving, and Michelle Spence.

I will now introduce the members of the Public Accounts Committee. My name is Kate White. I am the Committee's Vice-Chair and the Member for Takhini-Kopper King. To my left is Stacey Hassard, Member of the Legislative Assembly for Pelly-Nisutlin, who is substituting for Currie Dixon. To his left is the Hon. Jeanie McLean, Member for Mountainview. To her left is Scott Kent, Member for Copperbelt South. Finally, behind me is Hon. Richard Mostyn, Member for Whitehorse West.

To begin the proceedings, Sophie Miller will make an opening statement on behalf of the Office of the Auditor General, followed by Scott Thompson, who will make an opening statement on behalf of the Department of Finance. Committee members will then ask questions that the Committee has devised collectively. The questions that each member will ask are not their personal questions on a particular subject but those of the entire Committee.

After today's hearing, the Committee will prepare a report of its proceedings, including any recommendations that the

Committee wishes to make. This report will be tabled in the Legislative Assembly.

Before we start the hearing, I would ask that questions and answers be kept brief and to the point so that we may deal with as many issues as possible in the time allotted for this hearing. I would also ask that Committee members and witnesses in person or on Zoom wait until they are recognized by the Chair before speaking.

We will now proceed with Sophie Miller's opening statement.

**Ms. Miller:** Madam Vice-Chair, and thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Yukon for the 2021 fiscal year. I am accompanied by David Irving, who is the principal responsible for the audit, and Michelle Spence, who was a director.

Since I am in Ottawa, I want to acknowledge that I am on traditional unceded territory of the Algonquin Anishinabe people. As this is a virtual hearing and other participants may be in different locations, I would like to respectfully acknowledge all Yukon First Nations and acknowledge that the Committee meets on the traditional territories of the Kwanlin Dün First Nation and the Ta'an Kwäch'än Council.

As the Government of Yukon's auditor, our primary responsibility is to audit the government's consolidated financial statements and express an opinion on them. As legislative auditors, we also report on the government's compliance with specified authorities.

The consolidated financial statements of the Yukon Public Accounts are a key accountability document that can help Legislative Assembly members understand the results of the government's financial transactions. Therefore, our audit supports the Legislative Assembly's oversight of the government, promotes transparency, and encourages good financial management.

The Committee's review of the Yukon Public Accounts is an important step in ensuring accountability for how public funds are spent and how government finances are reported. I am pleased that the Committee is holding this hearing to examine the government's financial results. The government carries out its accounting and financial reporting responsibilities through its Office of the Comptroller in the Department of Finance. The Deputy Minister of Finance and the comptroller will answer questions about the preparation of the financial statements. We will focus on our audits.

Our independent auditor's report is on pages 33 to 36 in part 2 of the Yukon Public Accounts. We have issued an unmodified audit opinion on the consolidated financial statements. They conform in all material respects with the Canadian public sector accounting standards, which means that the information in the statements is reliable. The consolidated financial statements, which include the accounts of the government and its controlled entities, show that the government had net financial assets of \$183 million as of March 31, 2021. In other words, its financial assets are enough to cover its liabilities with \$183 million left over. It is a key financial indicator.

The government makes estimates and assumptions that affect the amounts reported in the financial statements. The government's significant areas of measurement uncertainty are disclosed in the notes to the financial statements. These areas are inherently imprecise.

As a result, it's possible that, in the future, an amount appearing in these financial statements could significantly change. As a result of the ongoing COVID-19 pandemic, our auditors conducted this audit entirely remotely. We maintain good communication with the government, departments, and territorial corporations.

I would like to thank the Deputy Minister of Finance, the comptroller, their staff, and the staff of the departments and territorial corporations who were involved in preparing the government's financial statements. We appreciate the effort, cooperation, and help of all involved, especially given the pressures created by the pandemic.

Madam Vice-Chair, this concludes my opening remarks, and we would be pleased to answer the Committee's questions.

**Vice-Chair:** Thank you, Ms. Miller. Mr. Thompson?

**Mr. Thompson:** As it was said, my name is Scott Thompson. I am the Deputy Minister of the Department of Finance. I am accompanied today by Ralph D'Alessandro, who is the comptroller for the Government of Yukon. I will try to keep this brief.

We are pleased, once again, to appear as witnesses before the Standing Committee on Public Accounts, and as always, we thank the Committee for providing the department with the opportunity to speak about the 2020-21 Public Accounts. As with all years, there is a lot of hard work that goes into reconciling the government's year-end statements. This work is critical to ensuring that we remain accountable to Yukoners and serves as evidence to support decision-making for subsequent budget cycles.

It is a task that is taken very seriously by everyone who has a role in this effort, and I appreciate the privilege in getting to serve the public in this capacity. I would like to specifically recognize the Office of the Comptroller and their staff for the enormous amount of work that they have to do each year in supporting and coordinating financial reporting across the government to prepare the Public Accounts.

Like many business organizations and governments, this group has had to overcome challenges caused by the COVID-19 pandemic over the last two years. However, these difficulties were also amplified by the departure of several long-time key staff over the last year.

Madam Vice-Chair, with every challenge comes an opportunity, and I am pleased to say that this team has used this occasion to respond to that challenge. The addition of new staff to this area has allowed us to evaluate our long-standing processes, find deficiencies in how we do our business, and also to train the next generation of government accountants.

I also feel the need to recognize the efforts of departments and corporations who work diligently to track and transmit the data and information so that it can be reflected in the documents you have here before you. I want you to also know that we take the word "public" in Public Accounts very seriously. These

documents that you have are the same documents that can be accessed by any member of the public from our website.

Each year, we strive to make incremental improvements in how we collect, prepare, and present the information so that it becomes accessible to more and more people. This year has been no different; while the challenges did slow the progress on some of the enhancements and recommendations, the department continues to make incremental progress on the recommendations put to us two years ago.

As we discuss the Public Accounts for this year, I look forward to providing an update on the progress and to continue with some of the important discussions from last year.

Madam Vice-Chair, before I conclude my remarks, I would also like to express one more message of appreciation, and that is for the Office of the Auditor General. Despite not being able to travel to the territory for the critical audit process, now for a second year, they have continued to offer professional solutions and support throughout the development of our documents. The department and the broader government continue to recognize and appreciate the positive relationship we enjoy with the Auditor General's office.

As I conclude my remarks, I welcome and invite any questions from members of the Committee on previous recommendations or the Public Accounts that were tabled in October 2021. Again, thank you for the opportunity to speak about this important work we do each year, and thank you in advance for the questions.

**Vice-Chair:** Thank you, Mr. Thompson. Just a reminder to Committee members — I encourage you to edit, as required — any questions we don't ask today in the hearing, we will submit to our witnesses to get a response in writing and make sure those are available.

Mr. Hassard?

**Mr. Hassard:** Thank you, Madam Vice-Chair. My first questions are for the Office of the Auditor General, and I thank them for being here remotely. I would like to thank the officials from the Department of Finance as well.

The first question for the Auditor General is: Can you explain the role of the Office of the Auditor General in the preparation of the Public Accounts?

**Ms. Miller:** Madam Vice-Chair, I will take that question.

The Auditor General of Canada is the auditor of the Government of the Yukon, pursuant to subsection 34(1) of the *Yukon Act*, and is the auditor of the government to carry out our financial audit, in order to express an initial audit opinion on the consolidated financial statements. Those statements are prepared by the Office of the Comptroller and included in the Public Accounts. Our office audits financial statements and issues an opinion on them.

**Mr. Hassard:** It says that you provided an unqualified opinion, so can you explain what that means and why it is important, and could you also describe scenarios where you would likely qualify an opinion?

**Ms. Miller:** Madam Vice-Chair, I will take that one as well, if that's okay.

So, the objective of our audit is to express an opinion on whether the financial statements are free from material misstatement and we do that by comparing them to accounting standards that have been issued by an independent standard-setting body. So, those standards are the Canadian public sector accounting standards and when the financial statements conform with those standards is when we would issue an unmodified opinion. This is important because it gives the users of the statements confidence that they can rely on the information contained within the financial statements.

I can provide a couple of examples where we may decide to issue a modified opinion. So, first, for example, if we find errors in the financial statements or inaccuracies in the notes of the financial statements, where we felt that they were so important that they should be corrected but ultimately they would not be adjusted in the financial statements by the government, that is a situation where we would issue a modified.

A second example is when, for example, there might be situations that might limit our auditors' ability to verify the accuracy of the amounts and disclosures being included in the financial statements, and that would be called "scope of limitation" and we may then modify our audit opinion of this limitation if it is significant and important for the financial statements.

**Mr. Hassard:** Can you explain what "materiality" is and how it is used in your audit?

**Ms. Miller:** I will go with this one as well.

So, we apply the concept of materiality when we are planning, performing, and reporting on the work. Materiality represents our judgment on the degree of the significance of a misstatement, or misstatements, that could influence the decision of a knowledgeable user who is relying on the financial statements. So, in other words, it is an amount that would influence a user. Materiality is important as it drives our testing and the samples that we select during our audit. We also use materiality when we assess the impact of misstatements on our audit opinion. When we determine materiality, we consider both quantitative and qualitative factors in our consideration.

It is important also to note that, even when there are small misstatements, we may feel that they materially affect the financial statements because of their qualitative considerations.

Finally, I would like to mention that materiality is set in the outset at the beginning of the audit and it is also raised throughout and at the end of our audit.

**Mr. Hassard:** So, in your audit, what areas of the Public Accounts did you identify as that with the greatest risk of material misstatement and can you explain the rationale behind that assessment?

**Mr. Irving:** We identified measurement uncertainty regarding government estimates as the greatest risk of material misstatement of the Public Accounts. Now, the government makes estimates and assumptions that affect the amounts that are recorded in the consolidated financial statements. The key management estimates are disclosed in note 2(g) on page 43 and these include post-employment and retirement benefits, environmental liabilities, amortization of tangible capital

assets, corporate and personal income tax revenue, and contingencies. By their nature, these estimates are subject to measurement uncertainty. What that means is that changes to these estimates and assumptions in the future could significantly impact the financial statement.

Now, in our audit, we reviewed and challenged these government estimates and assumptions and we considered whether the amounts included in the financial statements were accurate, complete, and properly supported. On the basis of our audit work, we found these estimates to be reasonable.

**Mr. Hassard:** What impact did the COVID-19 pandemic have on the audit?

**Mr. Irving:** As we noted in our opening statement that our auditors worked remotely as a result of the pandemic to complete the audit virtually. We updated our audit risk assessment, and we evaluated the risk of fraud, liquidity issues, potential impairment of assets, and the completeness of financial statement disclosures. As the pandemic evolved, we continued to assess the impacts on the audit and adjusted our response. We assessed and reviewed areas that are more sensitive to accounting estimates and market fluctuation. Overall, we adapted our approach and maintained good communication with the Office of the Comptroller, different departments, and the territorial corporations. We worked together to successfully complete the Public Accounts audit virtually. We also found that overall the pandemic did not have a significant impact on the consolidated financial statements.

**Mr. Hassard:** So, is the financial statement discussion and analysis audited by the Office of the Auditor General?

**Ms. Spence:** The financial statement discussion and analysis is contained in part 1 of the Public Accounts, and it is what we refer to as "other information". Our opinion on the financial statements does not cover other information, and we do not express any form of assurance conclusion on it.

In connection with our audit, our responsibility as it pertains to the financial statement discussion and analysis is to read it and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In doing so, if we were to conclude that there is material misstatement, we would be required to report that fact.

In our independent auditor's report, which is included in the Public Accounts, we expressed that we have nothing to report in this regard.

**Hon. Ms. McLean:** Thank you, Madam Vice-Chair, and I would also like to take an opportunity to welcome the witnesses to the hearing today. I have a series of four questions with a few in between that are directed to the Department of Finance.

With the Office of the Comptroller general being responsible for the Public Accounts and the Office of the Auditor General being responsible for the audit opinion, what work is done in collaboration between the offices during the audit? How did the COVID-19 pandemic affect the audit and how this work was coordinated?

**Mr. D'Alessandro:** Thank you, Madam Vice-Chair. The comptroller is the main liaison with the Office of the

Auditor General, and so my position coordinates that the audit requirements, data collection, inquiry follow-up — and I have the fun of clarifying YG's interpretation of the public sector accounting standards, our FAA, FAM and GAM, and any other regulations that we follow through the financial reporting process.

The 2020 and the 2021 audits were both done virtually, due to the pandemic. This resulted, on our end, in a significant increase in the time required to provide samples and schedules. Some of the schedules are fairly standard and repetitive, but other schedules — and especially the samples — are unique to each year, so it's more difficult to provide them when dealing remotely with the person, as opposed to seeing what both of you are looking at, at the same time.

**Hon. Ms. McLean:** The next question: What materiality level does the Department of Finance use in preparing the government's financial statements? In other words, what is your margin of error?

**Mr. D'Alessandro:** We begin with a zero margin of error target for submissions of the departments' schedules and general ledger account reconciliations. Prior to closing the GL — or "the books", as we call them — all errors that are identified are corrected, regardless of what value they are, but once the GL is closed and statement preparation is begun, all these corrections now need to be tracked manually in the various statements and schedules, so only errors that are greater of \$250,000 are considered at this point.

Once we start consolidation with the other corporations' information, tracking of the corrections becomes even more complex, so only errors in excess of \$500,000 are considered. Errors identified but not corrected in the current year's statements are corrected in the following year. In this manner, items that could have a significant impact on the statements are included, and those less significant are postponed in order to expedite completion of the Public Accounts. It also ensures that anything material to the audit has been resolved.

**Hon. Ms. McLean:** Please explain the significance of achieving a double A rating with Standard & Poor's for the government; and further, please elaborate on the S&P rating to help Yukoners understand what this means.

**Mr. Thompson:** Thank you very much for the question. Last July, Standard & Poor's global rating affirmed the Yukon's strong financial position with a double A stable credit rating for the 12<sup>th</sup> year in a row. Essentially, it's an endorsement of a relatively strong fiscal position and provides a way of benchmarking our rating against others'.

At the time of tabling the Public Accounts, there was only one jurisdiction in Canada with a higher credit rating than our double A rating, so that is a further reflection of confidence.

The rating is further confirmation that sound and stable financial management in the past has provided the scope to respond effectively and proactively to the pandemic crisis. S&P Global Ratings provide a forward-looking opinion on Yukon's credit worthiness. A couple of quotes from the S&P report — one is that Yukon will continue to benefit from a very manageable debt burden over the next few years, and over the next two years, Yukon will maintain a relatively stable fiscal

performance. For Yukoners, this means that they can remain assured that the government continues to focus on strong and consistent financial management practices that enhance our long-term financial sustainability.

**Hon. Ms. McLean:** Thank you for that answer. During last year's audit, there were recommendations that were provided. Can you please provide us an update on our four recommendations that we made to you last year?

**Mr. Thompson:** I will go over these four recommendations in turn and I will try to do this as quickly as possible but remind the members what the recommendations were. As was referenced in both the opening comments and in Mr. D'Alessandro's answer to some of the first questions, certainly COVID-19 did have an impact on the pace of progress of some of these and I will reference those as well.

Recommendation 1 was that the Department of Finance continues to digitize the Yukon Public Accounts and that the Department of Finance provides the Standing Committee on Public Accounts with an updated timeline for implementation and anticipated costs. The answer is that the Department of Finance is focused on enhancing the accessibility of the Public Accounts over the years on the government's website in a user-friendly PDF format, which we now have. We will continue to make additional progress on this recommendation by reviewing how other jurisdictions post their Public Accounts material and what we think would be most helpful to other users.

If there are more specific suggestions from the Committee in this regard, we would be pleased to follow up on them and propose further enhancements to the information, content, and format.

Recommendation 2 was that the Department of Finance continues discussions with the consolidated entities, and with the Office of the Auditor General of Canada, to identify and address issues necessary to facilitate earlier tabling of the Public Accounts and update the Committee with a timeline. As we said earlier, significant staffing turnover of critical staff in the Yukon government and at several of the corporate entities involved caused the 2020-21 process to be exceedingly lengthy and caused less advancement than anticipated on this recommendation.

Once staff are fully trained and at full capacity, we will continue our work with the corporations and the Office of the Auditor General in identifying the key pinch points that need to be dealt with to facilitate that earlier timing of the tabling of the Yukon Public Accounts. The immediate goal will be to build more flex time into the schedule, which should allow us to get closer to the historical norm of tabling in mid-October. Making it possible to table even earlier than that will necessitate substantial work with the consolidated entities to adjust their schedules.

Recommendation 3 was that the Department of Finance include more cross-jurisdictional comparisons for certain measures where appropriate and explain the importance of such comparisons in the financial statement discussion and analysis section in future publications of the Public Accounts.

We have made progress on this front in the last few years, and we now include cross-jurisdictional comparisons for three

key measures that you will see in the FSD&A. This has been the format now for the 2019-20 and the 2020-21 Public Accounts. Further analysis of appropriate measures that can be used for cross-jurisdictional comparisons is being undertaken, although no measures have been selected to date for addition in the next version of the Public Accounts. Some measures have proven to be unsuitable due to the Yukon's distinctive nature compared to other jurisdictions in Canada. Other measures — like a more complete comparison of employment rates, for example — are included in other documents, like the fiscal and economic outlook every year. We don't really want to bulk up the FSD&A section of the Public Accounts with unhelpful comparisons, but I am certain that there are some additional ones that we can include — for instance, a comparison of primary revenue sources, either for all provinces and territories, or perhaps a simple, relevant comparison would be to just the other territories in that measure.

Finally, recommendation 4 is that the Department of Finance prepare and execute a plan to comply with the implementation and disclosure requirements of the new accounting standard, PS 3280, which is also known as “asset retirement obligations”, or “ARO”. In this regard, Finance is partnered with the finance departments of Yukon Housing, Yukon Hospital, and Yukon University and have engaged KPMG to provide professional advice, guidance, and support for the development of appropriate policies, processes, valuations, and implementation of PS 3280. Given that all four entities are consolidated 100 percent in the Public Accounts, it is prudent that we all adopt the same fundamental policies, processes, and reporting formats.

The project is progressing toward completion on time for implementation on April 1, 2022, and for full reporting in the 2022-23 Public Accounts. There are questions on that matter later on that we can go into further detail on.

**Vice-Chair:** Thank you, Mr. Thompson. We are moving on to MLA Kent.

**Mr. Kent:** Thank you very much, Madam Vice-Chair, and I thank the witnesses who are appearing in the Chamber today, as well as those virtually.

I have some questions with respect to part 1 of the Public Accounts, on the financial statement discussion and analysis. So, we'll just start off with a few general ones. Part 1 of the Public Accounts is the financial statement discussion and analysis. Can you tell us what information is contained in this section, and what parts of this section have changed from previous years, if any?

**Mr. Thompson:** The financial statement discussion and analysis — we call that “FSD&A”, to try to speed this up a little bit — is the more user-friendly portion of the Public Accounts document, and it helps Yukoners understand the often technical financial presentations by providing a plain-language executive summary.

The FSD&A includes highlights, an assessment of overall fiscal health, indicators of financial and economic conditions, details of the financial statements in plain language, and risks and mitigations. This section provides information on the number of indicators and what attributes of YG's fiscal health

they illustrate. A brief explanation is provided to give the reader the context to assess the information.

In addition to the explanations, the FSD&A also has many charts to show a graphical description of the measure being discussed. Indicators are regularly shown over a 10-year time horizon to provide trends and historical perspective, and as mentioned earlier, some interjurisdictional comparisons are also shown.

The main changes this year were improvements to the style, colour, and formatting of graphs that we thought would improve legibility and readability; the addition of both real and nominal GDP figures in the charts that they reference; along with the additional of a new section on the carbon price rebate.

Other content updates focused on sequence location of items as suggested by the Office of the Auditor General staff and expanding the content found in the risks and mitigation section.

**Mr. Kent:** For those Yukoners who want to get a sense of the Yukon's financial position from this section, where would you direct them to or what would you primarily direct them to in this section?

**Mr. Thompson:** The remainder of the document — I think that it's important to admit — is rather daunting in terms of the length of it, the thickness, and all of the numbers; it is a bit of a chore to go through. This section has kind of always been my favourite section — the FSD&A — because that is where we try to take the responsibility of explaining those hundreds of pages of numbers to the public and to members of the Legislature and to other audiences for Public Accounts.

When I look at what areas may be most helpful, I think that looking at some of the overall trends of the financial indicators, like the surplus deficit or net debt, and being able to use the graphical format and plain language to display that — I think that is what makes the most impact on making this a digestible document for your average Yukoner. We attempt to use plain language as much as possible to explain the charts and graphs, and the intent here is to provide the information that most people are interested in without having to know where in the technical documentation it is presented.

As mentioned earlier, it is always a challenge to determine which items we kind of elevate to being profiled in the FSD&A, but it is primarily our responsibility at the Department of Finance to do that. The Auditor General's office does help point us to other areas in the country that may be doing different things and that we could use to move the yardsticks even further.

**Mr. Kent:** I think that the witness touched on this a little bit, but perhaps if there are some other aspects that he wants to add — I am just curious how they decide on what indicators to include in the FSD&A.

**Mr. Thompson:** We did touch on this in the previous question a little bit, but we are constantly scanning other jurisdictions. Every jurisdiction does one of these, so we are always interested in seeing what innovations are made by other jurisdictions, how they take on the challenge of explaining very heavy financial content to your average reader, and so we look to other jurisdictions. In the past couple of years, we have used

the Province of Saskatchewan as a bit of a role model on this. They also have the advantage of being one of the first Public Accounts to be published in the country, so we are able to see what they are doing in advance of ours being finalized. It was also recommended by the Office of the Auditor General of Canada as a model worth looking at.

The other indicators were already in the existing FSD&A, so we like to keep those in for consistency because it would be frustrating for somebody to read the FSD&A, understand it, be intrigued by it, and then go next year and find out that we have dropped that chart or graph, so we try to maintain that.

The other new indicators are really based on the accessibility of the data, the consistency of the scope of that data, the relevance of the topic, and the priority of the topics, but certainly, we are always looking for additional ways of enhancing that section.

**Mr. Kent:** I have a couple of questions now with respect to the section on the surplus and deficit. It is on page 4 of the Public Accounts document.

There is a quote in there that says: “Compared to 2019-20, the current year increase in surplus is largely due to significantly increased revenues in the form of transfers from the Government of Canada (many of which were COVID-19 related)...” Are the witnesses able to tell us what the total amount of COVID-19-specific support that the Government of Yukon would have received in that fiscal year, and how much of that was time-limited?

**Mr. Thompson:** So, in 2020-21, COVID-19-related funding increased by approximately \$74.6 million. All of the funding was provided by Canada in a time-limited form, although some was allowed to be carried over from fiscal year to fiscal year, so it was carried over into 2021-22 — the year that we are in. An example of this was the “safe return to class” funding provided to the Department of Education. That carry-over is why the increase in revenue was \$69.9 million for 2021-22, and that \$69 million can be broken down into a number of programs that were introduced by the federal government through which to provide us funding for our efforts in responding to the COVID pandemic — so, things like the Essential Workers Income Support program, the regional relief and recovery program, Safe Restart Agreement, one for sport organizations, safe return to class, as I mentioned, the workforce development agreement, and two phases of a remote air services agreement, as well as a couple of smaller items, add up to the almost \$70 million.

**Mr. Kent:** Can the witnesses tell us what part of the transfer amount received by Yukon was not COVID-related?

**Mr. Thompson:** We may get into this in further detail later on. The total transfers from Canada recorded as revenue totaled \$1.396 billion. Actual revenue reported, as related to funding for COVID-19, was \$70.3 million, and so, the gap is what was not COVID-related — that is \$1.326 billion. Of that amount, a little bit over a billion was for the territorial funding formula, the TFF; \$47 million for the CHT, the Canada Health Transfer; \$17 million for the Canada Social Transfer; \$15 million for the carbon amounts received from Canada; \$413,000 for the cannabis transfer; and then, as you would

expect, there are multiple service agreements across many departments in the Yukon government, with the Government of Canada, that added up to another \$192 million.

**Mr. Kent:** The next question is with respect to the accumulated surplus, which is further down on page 4. I am curious if the witnesses can explain the increase of \$40.2 million from the previous year’s accumulated surplus. Of course, in there it does say that the increase is due to the current year’s annual surplus of \$42.4 million, offset by losses of \$2.2 million related to other comprehensive loss of government business enterprises. If the witnesses could pay particular attention to that \$2.2 million, that would be helpful, I think.

**Mr. D’Alessandro:** As you just read, the increase of \$40.2 million for the prior year’s accumulated surplus is due to the current year’s surplus of \$42.4 million from operations, offset by other comprehensive losses of government business enterprises of \$2.2 million. That other comprehensive loss of government business enterprises is allocated between the Yukon Development Corporation, which had a \$2.1 million remeasurement of a defined pension plan, and the Yukon Liquor Corporation had a \$102,000 actuarial loss on their accrued benefit obligations. Those comprehensive losses of government business enterprises are listed on note 11(a) of the consolidated financial statements, on pages 51 and 52, and you can find the details in the corporations’ respective audited statements in part 3, section 3.

**Mr. Kent:** Moving on then to page 5 and the net financial assets, there’s a quote in there that says: “The year-over-year increase is primarily a result of the increase in cash and cash equivalents and due from Government of Canada outstripping the increase in liabilities, and represents the first increase after five years of declines.”

Do the witnesses of the Department of Finance view this as the beginning of a trend, or do they feel that this is an outlier year?

**Mr. D’Alessandro:** The 2021 increase in net financial assets does not match the five-year trend that preceded it, but that does not of itself create a new trend, so the result could be considered an outlier until it is proven otherwise by subsequent results.

Estimations of future net financial asset positions is difficult, due to the fact that it is calculated using values from our statement of financial position, but the government’s main estimates are focused on values from the statement of operations and accumulated surplus. While surplus is a positive influence on net financial assets, it’s not a guarantee of an increase, due to the number of other factors influencing the numbers from the financial position accounts that are involved.

So, we have no way of speculating.

**Mr. Kent:** My final question in this section is with respect to the net financial assets to GDP, which is described on page 7 — if the witnesses can tell us, or explain to us, the importance of that indicator.

**Mr. D’Alessandro:** Net financial assets show how much the government has in financial assets to finance their future transactions. It’s calculated by subtracting the liabilities from the financial assets as per the financial position. Only the

Yukon and Nunavut have net financial asset positions. All of the other jurisdictions have net financial debt positions, hence why we are positive and all of the other jurisdictions are negative. The percentage of net financial assets to GDP indicates the size of the government's financial assets, or the debt in the other jurisdictions, benchmarked against the Yukon's overall economic performance. The graph on page 7 shows a trend toward a lower ratio, which means that the government is moving toward placing less demands on the territory's economy. This means that the government has assets to finance future transactions and is able to do so without putting undue pressure on the economy.

**Hon. Mr. Mostyn:** Thank you very much, Madam Vice-Chair, and I would like to join my colleagues in welcoming our guests to the Chamber this afternoon for this hearing.

This afternoon, my first questions are going to pertain to liquidity ratio, which is, as I understand it, how much we have compared to how much we owe. The section on liquidity ratio on page 8 says that, after several years of the liquidity ratio declining and in 2020 falling below 1.00 to 0.81, it is now up to 1.08. What are the implications or concerns of the liquidity ratio dropping below 1.00 in 2020? The second part of the questions is: What does this ratio mean to the government on a go-forward basis?

**Mr. D'Alessandro:** The liquidity ratio is a throwback to my days in private industry where forecasting cash flows was a paramount concern. The ratio compares the current financial assets available on short-term notice to pay amounts due, namely cash and cash equivalents, temporary investments due from the Government of Canada, and account receivables are compared to the total debt as defined in note 17 to the consolidated financial statements. That total debt value is calculated using the Yukon borrowing limit regulations and includes all entities of the government.

The ratio indicates how many times the government could pay off all of its borrowings without having to liquidate its long-term financial assets. The aim is to have a high ratio but, at the same time, not impede other economic opportunities. A ratio below one implies that, if the government needed to pay out all of its borrowings — and I mean borrowings, not debt — it could not do so without selling its long-term financial assets, many of which are held to pay future liabilities that are not part of the borrowings calculation, i.e., they are not debt. Portfolio investments are held for future retirement liabilities. Those are liabilities but not yet actual payables.

On a go-forward basis, this ratio provides the government with an indication of how sustainable their borrowing level is.

**Vice-Chair:** Thank you, Mr. D'Alessandro, and I can say personally that I finally understand this section.

**Hon. Mr. Mostyn:** I too appreciate that explanation. Thank you, sir.

My next question has to do with flexibility — own-source revenue to the territory's gross domestic product. There is a section on flexibility on page 9. The note reads: "This ratio is relatively constant over time indicating that the Government has not changed its demands on the economy. This ratio is also relatively low compared to other Canadian jurisdictions and

indicates that the Government has some flexibility in increasing taxes and other fees without causing a severe impact on the economy."

Is the department planning any new revenue sources at this time? — first question. And since the release of the Yukon Financial Advisory Panel report in 2017, has there also been a comprehensive review of the Yukon's user fees?

**Mr. Thompson:** No, the department is not planning any new revenue sources at this time is the short and simple answer to the first question.

The second question about a review of user fees — the department created a compendium of all the user fees, following YFAP — so, user fees and fines across government — and in doing so, it determined that because many of them are linked to legislation or regulations, the first step would be to create a tool to allow departments to do their own analysis on whether there is a reason to or room to move the fees upwards, or downwards, conceivably. We did that and we have provided that to the departments. It also allows them to assess the purpose behind the fee or the fine before determining if any changes would be recommended. So, the tool is now available to departments and is just one part of our principled approach to enhancing the efficiency and effectiveness of government operations, which will be detailed in the Department of Finance's upcoming evaluation framework. This framework is expected to be rolled out in phases over the course of the 2022-23 fiscal year.

I should say that, while there were no new revenue sources or are no new revenue sources being identified, there are some fees that have increased, as I think you're aware of. These would include campground fees, and also, the continuing care fees increased on January 1, 2021.

**Hon. Mr. Mostyn:** Thank you very much for that answer.

I'm now going to turn to vulnerability. There is a section on vulnerability on page 9. Where are we vulnerable in revenue?

**Mr. Thompson:** The chart on page 9 indicates, if you have it in front of you, a relatively stable range but a high one, so 80 percent to 85 percent of the total revenue for the Yukon comes from the Government of Canada. Traditionally, an entity — a corporation — that relies on a single client or customer for over 80 percent of its revenue is considered to be vulnerable to that client and to any sudden changes that may be caused.

The fluctuation over the 10-year span displayed on page 9 is driven as much, or more, by the fluctuation in non-federal revenues, rather than federal revenues. So, if you think about how a ratio is created, the total revenue would be the denominator, and the federal revenue would be the numerator. As corporate tax rates were reduced and small business taxes were eliminated in the Yukon, that means that the percentage of revenue from federal sources is going to go up, because the total pie goes down in the denominator.

Prior to the addition of this section on page 9, this vulnerability was not explicitly reported, but there has always been a breakdown of the sources of revenue, which provides

the data used for this trend analysis. You can see that in the pie chart on page 15.

A final note of interest is that Standard & Poor's credit rating agency, in their assessment of the Government of Yukon, actually considered the stability of a high percentage of revenue coming from a senior government, like Canada, as an enviable position, rather than a vulnerability, so it shows up in a vulnerability section because of the sheer amount, but you have to consider the source as well for that high share of revenue. You can't just look at the percentage ratio as an indicator of vulnerability; you have to look at the source, and in this case, the Government of Canada is a stable and highly rated government entity to have as that 84-percent revenue.

**Hon. Mr. Mostyn:** I am going to round out this first round of questioning on my behalf with a follow-up to that question. Under transfers from the federal government to total revenue, what is the transfer amount forecast for 2022-23? Second of all, what can we learn when comparing this transfer amount to previous years? There is actually a third part to this question: Is it a stable, predictable increase?

**Mr. Thompson:** For 2022-23, the total federal transfers from TFF, CHT, and CST that I mentioned earlier are now forecast to be \$1.24 billion. The TFF grant accounts for almost 95 percent of this amount, at \$1.17 billion. For context, the TFF recorded in these 2020-21 Public Accounts was just below \$1.055 billion — so \$1.17 billion going into this year and \$1.055 billion in the year of the Public Accounts.

The TFF amount for 2022-23 was confirmed by Finance Canada, as every year, in December 2021, so it is not subject to change. The CHT and CST payments are based on provisional estimates, so they gave us what they see as being our amounts due this fiscal year. They are typically, over the year, subject to some minor adjustments.

That means that total federal transfers are expected to grow by 5.2 percent in 2022-23 compared to the previous fiscal year. This is slightly higher than the historical average growth. Annual transfer growth has been accelerating slightly in recent years, mainly because the Yukon's population, as a share of Canada's, has been increasing, which positively impacts the TFF, the CHT, and the CST. Federal transfers to the Yukon are exceptionally stable and predictable. This is mainly because of the design of the TFF, and that is built around being stable and predictable. TFF payments are calculated using a two-year lag — so there are no immediate shocks — that makes them predictable and a three-year moving average, which smooths out any drastic changes and therefore makes them stable.

We also feel that there is little risk that Canada would ever terminate the TFF program. Canada is committed to provide the necessary funds for the Yukon to provide public services that are comparable to the provinces, at a comparable level of taxation. That's how the whole TFF formula is created. Given the higher cost of providing services to the public in the north, really, only a program like the TFF would be able to satisfy those requirements.

**Vice-Chair:** The witness already referenced this in response to a question from MLA Kent, but I'll just ask if there is any additional information. If you have any additional

information you would like to share about the chart on the bottom of page 10, which lists Yukon and Nunavut as the only places with a positive net debt/GDP ratio — again, you have mentioned stuff already, but if you have additional information —

**Mr. Thompson:** I'll just repeat the high points. Mr. D'Alessandro already covered it, but the positive ratios that are shown on page 10 are really an outcome of the net financial asset position that Mr. D'Alessandro covered quite effectively earlier and mentioned the two jurisdictions that are in the position to be able to use that net asset position to respond to unforeseen events or economic downturns.

So, without the cushion, then, we might be faced with other choices, but with it, it gives us a little more flexibility.

**Vice-Chair:** Thank you for that answer. What factors contribute to Yukon having a positive net debt/GDP ratio, and what has Yukon's net debt/GDP ratio been in previous years?

**Mr. Thompson:** Net financial assets indicate the government's financial assets exceeded its financial liabilities at the date of the financial statements. Financial assets do not include the value of the tangible capital assets owned by government or its supply inventories. That category only includes assets that are, or can be, converted to cash relatively easily.

Factors contributing to our net financial asset position include increases in the balance of cash, cash equivalents, and other financial assets; decreases in the balance of accounts payable due to the Government of Canada and other liabilities; and non-financial assets, such as tangible capital assets. Supply inventories and prepaid expenses are not financial assets; hence, spending financial assets, or incurring liabilities to increase non-financial assets, would decrease the net financial assets.

As illustrated in the graph on page 5, the Yukon has been in a net financial asset position for over a decade, and it was confirmed to be so as far back as 2006.

**Vice-Chair:** Thank you for that answer. There is discussion about the carbon price rebate program, and it is described on page 13. As you have noticed, the Committee has chosen to mention page numbers, in case anyone is trying to follow along at home, and our hope is being able to help them do that.

When we compare — and I am quoting — the “Carbon amounts received from the Government of Canada” with the “Rebates distributed to eligible groups”, there are some notable discrepancies between what various groups pay versus what they receive. Can the department explain the closing liability of \$6,919,000?

**Mr. Thompson:** We thought this was an important new area to include in the FSD&A (a) because it's new and (b) because it may be a subject of some confusion and the opportunity to clarify what the situation is with the carbon rebates. The government is legislated to rebate all of the funds received for carbon price rebate from the Government of Canada to the eligible recipient groups. Hence, any funds received but not disbursed by March 31 of that year are reported as a liability. That liability is primarily the result of lower



uptake than expected for the business rebate program, which is claims-driven, despite several outreach efforts to raise awareness, including advertisements and direct contact with some organizations to try to generate the claims.

A particular hindrance has been that the largest tax software providers are only now beginning to include the rebate in their tax preparation applications, and so we believe that this will significantly increase uptake going forward. I think I will have a chance to expand on that in subsequent questions.

**Vice-Chair:** Thank you for that answer, and indeed you shall. Based on the graph on page 13 — and you have just explained it or touched on it — it appears right now that businesses pay significantly more than they receive and individuals pay less than they receive. Can you expand on that, please?

**Mr. Thompson:** First, let me begin with some important features of the rebate program. The share of the carbon levy proceeds that are allocated to each eligible group is calculated so that each group should receive more in rebates than they are expected to pay in carbon levies. Annual surpluses and deficits can arise for several reasons, but in each case, the balance is offset in future years. Over the long term, the program is revenue neutral, and each eligible group should receive more in rebates than they pay in carbon levies.

The surplus for businesses is the result of lower uptake than expected for the business rebate program. Only a small proportion of eligible businesses claimed the rebate for 2020-21, and this is despite several outreach efforts to raise awareness, that I mentioned earlier, around advertisements and direct contact.

As I mentioned earlier, a significant cause of this lower uptake is that it is dependent on tax returns, and many people use tax software now and the tax software providers are only now beginning to include the rebate in their tax preparation applications. We believe that this will significantly increase uptake going forward and we have been in touch with several of those tax preparation software providers so that they can make sure that is accounted for and accommodated. It is also worth noting that, as you probably know, tax returns for businesses can be revised back for past years, and so they will be able to access the rebate retroactively, if they haven't yet applied for it.

Another factor contributing to the surplus in the business rebate account is the fact that large mining facilities have not yet entered the federal output-based pricing system, or the OBPS, as we expected they would. When a facility enters the OBPS, it is expected to pay only 20 percent of the carbon levy that it would otherwise have to pay. The exact percentage depends on the facility's production efficiency. Because these large mines did not enter the OBPS, they are contributing significantly more carbon levies to the business rebate account than we expected when the rebate was calculated, which contributes to the surplus.

This surplus, you should be aware, has been carried forward to increase the business rebate amounts in future years. Provided that uptake continues — increases and continues — which is expected, the balance in the account should become

smaller and will eventually become negligible. This means that businesses will receive more in rebates than they are expected to pay; it may just take another year or two.

Finally, let me explain the deficit and the rebate account for individuals, since that is also listed here. The annual carbon rebates are calculated one year in advance, based on forecasts of the expected carbon levies that will be collected by Canada over the following year. For 2020-21, the rebate amount for individuals was calculated late in 2019, and, of course, that was before we knew of, or had experienced, the beginning of the COVID-19 pandemic. These rebates could not have been predicted for the decline in fuel consumption and carbon levies caused by the reduction in travel during the pandemic. The result is that individuals received more in carbon rebates in 2020-21 than Canada collected in carbon levies, leading to a deficit in the rebate account for individuals.

This deficit, as well, like the surplus, is carried forward when calculating the rebate amounts in future years, which is the mechanism for balancing the account in the long term and ensuring that all the rebate programs remain revenue neutral.

**Vice-Chair:** Thank you for that answer, and again, I have just learned something new about the carbon rebate.

The next questions are around the RCMP collective agreement. It is listed under "Emerging Issues", on page 27. Is the department aware of any changes to Yukon government's cost with regard to RCMP services as a result of the new RCMP collective agreement?

**Mr. Thompson:** Yes, indeed, it will have an impact on our budgets. I think it's fair to say that we are right in the process now of determining the impact on the 2022-23 fiscal year, as well as whether any of the costs that are being allocated against this collective agreement can be retroactively accrued to the year that is just ending.

The Department of Finance is working diligently with the Department of Justice to determine the funding impact of the increased cost associated with the collective agreement, and I think it's fair to say that policing jurisdictions across the country are waiting for numbers and statements of intent from Canada and the RCMP to determine the retroactive pay related to the collective agreement changes.

**Vice-Chair:** We are moving on to MLA Hassard.

**Mr. Hassard:** I have a few questions in regard to consolidated entities included in the Public Accounts. Why did revenues — which is on page 38 — come in significantly higher than forecasted in the budget of 2020-21?

**Mr. D'Alessandro:** To clarify, the budget values on page 28 are from the original 2020-21 main estimates, as assented on March 19, 2020, in this room. The largest contributors to the revenues being \$80.8 million higher than the 2020-21 main estimates are as follows: There was \$87.8 million more in other grants from the Government of Canada, which includes that \$69.9 million in COVID revenue we discussed earlier; \$13.1 million more in land sales, which were offset by \$23.9 million less in funding and service agreements with other parties; and then there's a net \$3.8 million from across all the other revenue sources, to make the numbers balance.

**Mr. Hassard:** I am just following up on that. Why is there such a large increase in Health and Social Services spending from 2020 to 2021?

**Mr. D'Alessandro:** Much of the increase was necessitated by the government's response to the COVID pandemic needs, which was largely led by the Department of Health and Social Services and accounts for approximately \$40 million in spending. Fortunately, the majority of the increased costs had recoveries from Canada associated with them. Both those recoveries and the increased spending were reflected in the supplementary estimates during the year but not in the statements because we used the mains.

**Mr. Hassard:** So then what were the main factors that accounted for the increase in surplus to over \$42 million from the projected amount in the budget of 2021 from just under \$20 million?

**Mr. D'Alessandro:** The increase in the surplus of \$22.8 million over the original surplus estimated in the 2020-21 main estimates was due to the revenues being higher by the \$80.8 million and expenses being higher by \$59 million, and then there were unbudgeted recoveries of prior year expenses for \$1 million. The increase in revenues of \$80 million was itemized earlier as the \$87.8 million, the \$13.1 million, the \$23.9 million drop and then the \$3.8 million to make it balance.

But on the expense side, given that the COVID revenues of \$69.9 million were also recoveries for COVID-related expenditures, the increase in expenses should have exceeded the value that came through at \$59 million that should have been at least \$10 million higher. This tells us that there were lapses in the department's normal spending. These lapses were largely due to supply-chain issues, restrictions in travel, as well as contractor self-isolation requirements.

**Mr. Hassard:** So can you also explain the consolidated statement of cash flow on page 40 and provide reasons for the big change in cash provided by operating transactions from the 2020 Public Accounts?

**Mr. D'Alessandro:** The consolidated statement of cash flows uses the indirect method of explaining the changes in the cash position. It starts with the surplus or the deficit for the year and adds back or removes all the non-cash items that are included in the surplus or deficit. This then shows the cash provided for, or used up, by operating transactions. The statement of cash flow then goes on to show all of the capital transactions, investing transactions, and financing transitions for the year. Anything that decreases the cash will show as a negative, and anything that increases cash shows as a positive in these areas.

The increase of cash provided by operating transactions — the first subtotal that you're looking at — mainly relates to the following variants from last year: There is a \$45-million increase in the surplus year over year in that first line; there's a \$4.9-million increase in the add back of additional amortization from the second line; there is a \$67.8-million increase in non-cash assets and liabilities, the second to the last line before that subtotal. That \$67.8-million increase in non-cash assets and liabilities relates to the change from the prior year balance to the current year balance of the following items: Due from

Government of Canada; Accounts receivable; Due to Government of Canada; Accounts payable and accrued liabilities; Environmental liabilities; Unearned revenues; Post-employment benefits and compensated absences; Inventories for resale; Inventories of supplies; and Pre-paid expenses. Those are all from off the statement of financial position on page 37, if I have the right number.

**Mr. Hassard:** Moving on to the officials from the Auditor General's office, note 2, "Significant Accounting Policies", from pages 41 through 47, describes the method of consolidation. How is it decided which entities are consolidated in the Public Accounts and which methods are used?

**Ms. Spence:** In terms of the first part of the question — How is it decided which entities are consolidated? — the government reporting entity comprises government components and the organizations that are controlled by the government. So, control is the key concept, and Canadian public sector accounting standards provide guidance on what to consider in determining whether control exists.

The premise of including the government components and controlled organizations is that the government's financial statements should provide an accounting of the full nature and extent of the financial affairs and resources that the government controls. This is what the Public Accounts does.

In terms of the second part of the question — How is it decided which method is used? — the method depends on the classification of each organization. There are three types of government organizations, two of these being government not-for-profit organizations and other government organizations that are consolidated on a line-by-line, or full, consolidation basis. Government business enterprises are included in the Public Accounts using modified equity accounting. These are methods set out in Canadian public sector accounting standards.

Government business enterprises are picked up differently from the other types of organizations because they differ in the relationship to the government; they have different characteristics. These organizations have autonomy and are financially self-sustaining in the normal course of — using the modified equity methods with those of the other types of organizations.

**Vice-Chair:** Go ahead, Ms. Miller, if you would like to add as well.

**Ms. Miller:** I just wanted to make sure that you were able to hear this last part or if you needed anything further — just to confirm.

**Vice-Chair:** Thank you, Ms. Spence cut out, so if you could just reconfirm for us what we missed.

**Ms. Miller:** Okay, perfect. So, maybe quickly, basically government business enterprises — what we will get in terms of consolidation is usually meeting specific characteristics and basically it's similar to a business, right? When we are looking at these types of organizations, we look to see if they have autonomy and that they are self-sustaining in the normal course of operations, right? So, it is not just a one-time thing; it is actually, you know, in terms of normal operations. In many situations, we use modified equity methods and this is to avoid

co-mingling within their budgets and actual results with that organization. So, that is what is considered when you look at consolidation of that third type that Michelle was explaining.

**Vice-Chair:** Thank you to both of the witnesses, and again, thanks to everyone who is being patient with both our virtual and in-person hearing.

**Mr. Hassard:** So, following up on that, what improvements have been made to the presentation of Public Accounts and what are some continuing areas for possible improvement?

**Mr. Irving:** As you know, the Department of Finance is responsible for the Public Accounts. However, from my perspective, there are three improvements that I wish to note: on page 13, the addition of the description in the chart explaining the changes to the carbon price rebate program — I thought that this was a key improvement; on page 14, additional information explaining the impact that COVID had on government revenues and describing the multiple relief programs; and then on pages 26-27, this year had additional explanations on the new accounting standards and discussion of other emerging issues.

With regard to the possible improvements, as this Committee noted in prior year recommendations, the key area of possible improvement that we have been discussing with the Department of Finance is working toward identifying and addressing the issues necessary to allow an earlier tabling of the Yukon Public Accounts.

**Vice-Chair:** We agree; well done to the Department of Finance.

**Mr. Hassard:** Moving back to the Department of Finance, can you explain the fluctuation in cash and cash equivalents — note 3 — and temporary investments — note 4? What do these fluctuations signify?

**Mr. D'Alessandro:** It may be helpful to keep in mind that the statement of financial position is at a point in time, namely March 31, so it can be influenced by the timing of completing or reporting a transaction. For example, a service is provided by a contractor, but the invoice does not get paid. Therefore, cash is not disbursed and the payable was recorded on March 31. There is no impact on the revenue and expenses that we are going to report, but the balance of individual assets and liabilities on the statement of financial position are affected. When the cash increases from last year, it means that we have generated more cash than we have disbursed. When cash is decreased, it signifies that we spent more cash than we generated — for example, the reasons for decreasing in cash and cash equivalents are paying down your liabilities, paying for expenditures during the year, and investments into other assets.

Some examples for increasing your cash are collecting on your receivables, receiving grants as cash as opposed to promises, and the sale of assets and receiving cash. Temporary investments, on the other hand, are short-term investments that mature within a year. At maturity, these are either converted to cash or are reinvested into a different or same type of investment. Therefore, cash and cash equivalents for the government are the most liquid assets and the most integral to

its financial transactions, which is why we have the statement of cash flow on page 40 that illustrates all of that movement. All of the influences on cash and cash equivalents, including temporary investments, are listed there showing the year over year movement from the \$68.6 million of the prior year to the \$91.0-million subtotal for these types of transactions.

**Mr. Hassard:** Even though you have touched on this to a certain degree, if you can maybe expand — on page 47, there is a list of temporary investments. Why did these amounts change from year to year in the categories listed here?

**Mr. D'Alessandro:** Temporary investments are short-term investments that mature within a year. At maturity, these are either converted to cash or reinvested into a different or same investment instrument. At their maturity, the investments can be reinvested in a different type of financial instrument, thus causing the changes in the classifications from year to year. Therefore, in 2021, \$800,000 that was invested in a short-term investment fund that didn't match the existing types already listed, was classified as "Other" in that note 4 on page 47, and other items fell off because we didn't reinvest in those types.

**Mr. Hassard:** I have a couple of questions in regard to tangible capital assets. The first one is for the Department of Finance. How were the estimated useful life of tangible capital assets determined?

**Mr. D'Alessandro:** At the beginning of the millennium, the Public Sector Accounting Board introduced a new public sector accounting standard called PS 3150, tangible capital assets, which took effect on April 1, 2004. This was the first time that public sector entities, including governments, were required to capitalize assets that have useful lives extending beyond one fiscal year and are intended to be used continually toward providing services.

Prior to this, the cost of procuring or developing a capital asset was treated as an expense in the year it was incurred. On implementation of the new standard, the government used industry standard to determine the useful life of tangible capital assets by category. These estimates were revised in 2014, 10 years after the implementation, to reflect the government's experience with tracking its own assets.

Revisions included additions to asset categories and providing ranges for estimated useful lives, therefore allowing departments to select a useful life based on their expectations and experience with that type of asset within the range for the category.

In estimating the useful life of tangible capital assets, a variety of factors should be taken into consideration. Those factors include: the condition of existing comparable assets; the expected wear and tear from use and passage of time; the expected future usage; the effects of technological advances; and any anticipated repair and maintenance strategies.

**Mr. Hassard:** My final question is for the Office of the Auditor General. How do you audit the accuracy of the estimated useful life, and what is the consequence of inaccuracies?

**Mr. Irving:** The government amortizes its tangible capital assets on a straight line basis in accordance with its own accounting policy. This is disclosed in note 2(c) on page 45.

Now, we audit management estimated useful lives by comparing past experience considering: How long have similar assets been used? What is the historical trend? — and by comparing similar assets and estimates in other organizations. For example, evidence of significantly valued fully amortized assets that are still being used would suggest that the estimated useful lives are not accurate and may need revisions in the future.

The next question is on the consequences of inaccuracies. If the useful lives are not accurate, then the actual amortization expense in the Public Accounts would be incorrect; it should be either greater or lower, and I will explain that a little further.

In the example that I had before where the assets last longer than their original useful lives, they would have a much higher amortization expense in the early years of operations. This higher expense would reduce surplus. However, as these assets continue to be used and exceed their useful lives, they would have no amortization after. As a result, with no amortization expense when they are still being used and being fully amortized, you would have a higher surplus.

**Hon. Ms. McLean:** I am going to move on to environmental liabilities. The first set of questions will be for the Office of the Auditor General.

In note 13 on pages 55 to 57 on environmental liabilities, what does “environmental liabilities” mean and what do they represent?

**Mr. Irving:** Environmental liabilities are estimated costs related to the remediation or the risk management of contaminated sites which an entity is obligated, or will likely be obligated, to incur the costs. For the government, the environmental liabilities recorded in these financial statements include amounts for estimated costs related to the remediation of environmentally contaminated sites to the present and future costs, landfill sites, and for the type 2 mine site. The total amount in the government’s financial statements, on March 31, related to these environmental liabilities is \$43 million.

**Hon. Ms. McLean:** How do environmental liabilities impact the surplus or deficit?

**Mr. Irving:** The accounting policy for environmental liabilities is disclosed in note 2(f) on page 46. As these liabilities are accrued, a corresponding expense is also recorded and this is based on management’s best estimates, when the contamination occurs, when the government becomes aware of the contamination, and when the government is obligated to incur such costs. So, fundamentally, as these environmental liabilities are recorded, there is also an expense recorded at the same time, and this decreases the annual surplus.

**Hon. Ms. McLean:** Going back to pages 55 to 57, speaking to environmental liabilities that the Government of Yukon has on its books, can the witness speak to how this amount is audited and whether these liabilities are correctly recorded?

**Ms. Spence:** Thank you, Madam Vice-Chair.

Environmental liabilities valuation is an area of significant judgment and estimation uncertainty. In the measurement uncertainty note to the financial statements, the high degree of measurement uncertainty with respect to environmental liability is specifically disclosed. Some of the other contributing factors of uncertainty are whether, to what extent there is contamination, who is responsible, and the timing and cost of remediation. In conducting our audit, we considered and assessed each of these factors to the extent necessary to support our conclusion. We concluded that the financial statements, which include environmental liabilities, are presented fairly in all material respects, in accordance with Canadian public sector accounting standards.

On a more granular level, some examples of procedures we employed included interviews of government employees and officials to understand their processes for estimating environmental liabilities. We performed tests of specific input, such as detailed third-party site assessment, timelines of remediation, and discount rates. We also developed independent expectations based on historical experience, as well as present and known future plans.

**Hon. Ms. McLean:** Thank you for that answer. I will now move on to the Department of Finance. How are environmental liabilities calculated, and further, when are these liabilities initially recorded, and how are these liabilities de-recognized?

**Mr. Thompson:** The environmental liabilities are calculated by the Site Assessment and Remediation Unit in the Department of Environment, or SARU. As sites potentially requiring remediation are identified, the unit applies a three-phased approach to assessing the environment liability for each site. The sites are prioritized based on the severity of contamination and the urgency of remediation.

Rather than go through each phase, I will just say that it culminates with a full assessment of the site and the development of a preliminary plan for remediation. The unit uses a cost matrix system to value the environmental liability for the site at each phase.

Environmental liabilities are recorded in the financial statements when the value of the liability can be determined with reasonable accuracy and the responsibility for performing the remediation lies clearly with government. Since the values are based on estimates and due to the phased approach to assessments, the liability for a site can change over time. When the unit engages in the remediation work for a site, the cost of the remediation work is charged against the liability, rather than expensed.

On completion of the remediation, there may be an excess liability that will need to be cleared or excess costs that need to be expensed. Most sites will also require a period of monitoring to ensure the contamination has been successfully contained and remediated.

This cost is included in the disposition of the liability.

To provide more clarity around the timing of impact, booking an environmental liability incurs an expense, but does not create an appropriation for the value. The Site Assessment and Remediation Unit each year must request spending

authority for its remediation work, which is included in the department's appropriation.

**Hon. Ms. McLean:** I'm going to go into a couple of different sections. The first one is contaminated sites. Recognizing previous performance, how confident is the department in management's best estimates for the calculation of this recorded environmental liability?

**Mr. Thompson:** Finance is well-accustomed to dealing with subject matter experts from other departments and accepts their work, while also reserving the right to a healthy scrutiny and skepticism. This is most easily appeased where there is consistency and logic displayed in the work that is done. The Site Assessment and Remediation Unit has done that very well, in our opinion and estimation, and we are satisfied with their work.

The key tool in the calculation of the environmental estimates is a cost matrix tool developed by a third party. At the request of Finance and the Office of the Auditor General, SARU undertook a review of the cost matrix. The work on that review has taken longer than expected because COVID impacted the pool of consultants available, but a new matrix will be in place in time to review the estimates that are used for this year's 2021-22 environmental liabilities prior to finalizing the Public Accounts.

**Hon. Ms. McLean:** Have negotiations commenced with the Government of Canada and the previous owner of the Wellgreen site to establish final levels of responsibility and liability?

**Mr. Thompson:** While not involved in those directly, I understand that the Department of Environment has reached out to the previous owners and to the Government of Canada to discuss the level of responsibility and liability that each should bear. Negotiations with both parties are ongoing, and any developments regarding responsibility or liability are to be communicated with our department immediately.

**Hon. Ms. McLean:** Moving on to landfill sites, can the department explain their net-present-value calculation for the determination of landfill liabilities?

**Mr. D'Alessandro:** The Department of Community Services retains the services of Morrison Hershfield during 2019-20 to complete the determination of the landfill liabilities, and they do so every few years. The net-present-value calculations are done as part of that report, which is shared with the Office of the Auditor General of Canada. At the time of the last report, questions were asked about the discount rate used, and we confirmed with Morrison Hershfield that they had used the rate obtained for that purpose from CIBC.

It is interesting to note that the liabilities are included in the environmental liabilities that the Department of Environment oversees, although the landfills are controlled by the Department of Community Services.

When the Department of Environment received the report, they recommended a \$526,000 increase to landfill liabilities in 2019-20, but that ended up being increased to the full \$2.5 million during the review with the Office of the Auditor General of Canada, which effectively recognized the full

increase that the report made to the net-present-value calculation.

**Hon. Ms. McLean:** Recognizing that there are 28 sites, how comfortable is the department with the NPV of total expenditures for closure and post-closure care of \$14,057,000 and a liability in the amount of \$11,854,000?

**Mr. D'Alessandro:** The department is comfortable with the net present value of \$14,057,000 for the 28 sites included in that determination. On the other hand, we feel that the \$11,854,000 currently booked as a liability is generous, but it is somewhat of a moot point. That is due to the fact that landfills will fall under the new public sector accounting standard 3280, asset retirement obligations, as of April 1, 2022. Currently, landfills fall under the old public sector accounting standard 3270, landfill closure and post-closure costs.

At a high level, the difference between these two standards is that the PSAS 3270 recognized the liability and related expense in annual increments, as you filled the landfill. PSAS 3280, asset retirement obligations, recognizes the total liability immediately on opening a landfill, but it also recognizes an asset retirement obligation asset at the same value. It's this asset being amortized over the life of the landfill that creates the expense of the landfill. Therefore, on April 1, 2022, the liability will be \$14,057,000 or whatever is the best estimate based on the next report that Community Services receives.

**Hon. Ms. McLean:** I guess that explains a bit of the next one, but can the department — and I know you have started that — explain why there has been no change to the estimate from 2020? Does this mean that no work has been done to strengthen these estimates?

**Mr. D'Alessandro:** The reason that no change in the landfill liability was made from the 2020 value is that the existing value, in our opinion, is overstated. During the review of the liability with staff from the Office of the Auditor General of Canada for the 2021 year, it was noted that no increase had been booked, as would normally happen, based on increasing the volume in each of the landfills.

On closer scrutiny of the data, it was discovered that, on an individual landfill basis, a number of the landfills had booked liabilities in excess of the value calculated in the most recent report from Morrison Hershfield, and several of those landfills were actually ones that had stopped accepting new fillings. The adjustment that was booked in 2019-20 had only included those values that had gone up and had ignored any adjustments downward. The downward adjustments related to lower estimated costs due to the advances in closure techniques, especially the post-closure monitoring, and this reduced the expected cash flow on some of these landfills.

It was agreed, during the year-end review with the Office of the Auditor General, that no further liability should be booked in 2021.

**Hon. Ms. McLean:** Moving on to type 2 sites, why has the estimate for the amount of financial obligations related to the estimate required under the devolution transfer agreement fallen from 2020 to 2021?

**Mr. Thompson:** The \$54,710.25 that makes up the difference between those two numbers is because, in 2021, that

amount was paid for Ketza independent assessor work and those costs were applied to the liability for the type 2 sites.

**Hon. Ms. McLean:** The Barrick Gold Corporation abandoned the Ketza River mine site on April 10, 2015. Some of the work done here was permitted under the Government of Canada, prior to devolution. Therefore, they are responsible for the remediation of those aspects. Did the Government of Yukon permit any work after devolution, and, if yes, what is the value of that responsibility?

**Mr. Thompson:** The Department of Environment as well as the Department of Energy, Mines and Resources have been working on this file for a number of years. EMR did permit work following devolution; however, this work was limited to exploration activities and is expected to comprise only a very small portion of overall remediation costs. There is currently work ongoing to retain an independent third-party assessor to determine the remediation costs and how they should be allocated between the two governments. This is based on the framework prescribed in the devolution transfer agreement for addressing type 2 sites, as well as through negotiations between Canada, Yukon, and First Nation governments. As far as detail of how much was spent by the department, I am afraid that I am not going to have that number with me today, but I can follow up.

**Hon. Ms. McLean:** Can the department explain the main reasons for the decreases from estimated liability compared to the prior year?

**Mr. Thompson:** I mentioned the \$54,000 difference before, but if the question relates to environmental liabilities as a whole, then our response regarding the type 2 sites is still relevant, as is the fact that landfill liabilities did not change. The final reason for the \$886,000 decrease is that, because of COVID causing a shortage of contractors, more work was done on remediation work than on assessment work, and this resulted in fewer additions to the liabilities than liabilities discharged.

**Vice-Chair:** We are going to move on to MLA Kent. Just a reminder to everyone that we have 15 minutes left in today's public hearing and we are doing a great job, but if there are any questions that you feel can be dropped and submitted in writing, please go ahead.

**Mr. Kent:** My first question is with respect to the pensions. I am curious if the officials can provide an update on the pension liabilities at both Yukon University and the Yukon Hospital Corporation.

**Mr. Thompson:** These two entities have defined benefit pension plans. As that name implies, it provides members with a pension based on a formula used to determine a member's benefit. The formula relates to years of service and salary, and it doesn't depend on the investment returns of the plan fund. In order to ensure that a pension plan can fulfill its obligation to members, defined benefit pension plans are subject to two tests on a periodic basis.

The first and most important test is the going-concern test, because that looks at whether a pension plan's current assets, expected investment returns on those assets, and future contributions are enough to fund the plan's obligations in perpetuity. As indicated in the Public Accounts, both the

university and the hospital had surpluses of over \$16 million and \$45 million on a going-concern basis, and that is more than \$61 million that the plans need to fulfill the obligations to their plan members.

The second test is a solvency test, and that is tougher. A solvency deficit is an estimate of how much a pension plan's liabilities exceed assets in the event that the plan was terminated immediately, usually caused by the employer ceasing to operate. Solvency deficits must be eliminated through extra funding. Many provinces provide exemption from solvency-testing pension plans of hospitals and post-secondary institutions. The plans in the Yukon fall under federal legislation, and that federal legislation does not allow for a similar exemption.

One can see, as indicated in the notes of the Public Accounts, that the university and hospital had deficits of over \$21 million and \$43 million on that solvency basis. Canada has recognized the impact of record-low interest rates of recent years on solvency liabilities by instituting various reform measures over the last decade or more. More recently, in November of 2020, the federal government launched a consultation process regarding possible future reform to the solvency test. We are following that closely, and there have been no final announcements yet related to that consultation at this time.

**Mr. Kent:** The next question is with respect to note 15 on page 58. I am curious if the department or the officials can explain the freeze of resignation retirement severance accruals for employees classified as deputy ministers and managers, as well as the resulting gain to the plan that is referenced there.

**Mr. Thompson:** These changes arose due to amendments to section (m), the conditions of employment for managers, legal officers, and deputy ministers around severance benefits, which took effect on January 1, 2020. As a result of these changes, eligible employees will receive severance payouts based on service accrued prior and up to December 31, 2019, on resignation or retirement. However, new employees hired on or after January 1, 2020, are not entitled to that severance pay.

Post-employment benefits and compensated absences liability is recorded based on an actuarial valuation performed following rules set by public sector accounting standards 3250 and 3255, issued by the Public Sector Accounting Board, and that amendment resulted in an actuarial gain to the plan for \$5.435 million, and that was recognized in the financial statements for the fiscal year ending March 31, 2020.

In other words, freezing of the severance accruals reduced the estimate of the government's obligation to payout those benefits to the employees.

**Mr. Kent:** So, in the interest of time, perhaps I could get the witnesses to provide responses in writing to questions 53 to 56, with respect to borrowings, as well as question 57, which is the expenses by object. With that, I will again thank the officials for appearing and turn the floor over to my colleague, the Member for Whitehorse West.

**Vice-Chair:** Thank you, MLA Kent, and moving on to MLA Mostyn.

**Hon. Mr. Mostyn:** Thank you, Madam Vice-Chair, and thank you very much to my esteemed colleague on the far side of the bench. To the officials, we are now on question 58 — congratulations. It is now 2:50 in the afternoon. One of my final questions will be about overexpenditure. Note 25, overexpenditure, is on page 72. What oversight does the Department of Finance play with respect to monitoring departmental financial reports to ensure compliance to the *Financial Administration Act*?

**Mr. Thompson:** First, I just want to note that the amounts shown under note 25 on page 72 are for legislated grant amounts and not for departments being over-vote in their expenses versus their voted appropriations. Legislated grants are often difficult to predict, and since the departments are obligated to pay these amounts, it can lead to some surprises late in the year.

But in terms of your question, the Department of Finance continues to support all departments by increasing the financial awareness across the organization. We also provide oversight and encourage the oversight of the departments, and in doing so, they have enhanced their financial administration over program areas by implementing more frequent financial reporting and forecasting and creating budget subcommittees. The Management Board Secretariat within the Department of Finance holds regular meetings with departments, especially those departments that may be at higher risk due to spending driven by legislation, to mitigate potential risks of overexpenditure.

**Hon. Mr. Mostyn:** I think that question 59 was answered, but I will just go quickly — what corrective measures were taken following the contraventions of the FAA identified in this section?

**Mr. Thompson:** Yes, I think it was. The greater awareness of expending in the grant allotment has been caused by the discussions when we go over that amount for grants. Nobody wants to do that, so it just causes us to huddle with the departments and make sure that, between them and MBS, we can review and make recommendations for funding pressures to include in supplementary estimates if departments feel that they may go over their grant amounts during the year — so, closer monitoring, forecasting, and action.

**Hon. Mr. Mostyn:** I am going to go on to contingencies. On note 28 on contingencies, which is on pages 73 and 74, at the time of the 2020-21 audit, the Yukon government did not accept responsibility for the Wolverine mine. Recently, efforts to sell the mine were exhausted. What impact do Finance officials expect there to be on the financial statements from the Wolverine mine?

**Mr. Thompson:** The \$10.5-million security that was held for that operation has been used already to cover the ongoing care and maintenance of the site. That was not used toward closure and remediation. So, we at the Department of Finance continue to work with the other departments that are affected, and with the Office of the Auditor General, to determine the responsibility of liabilities. We will reflect those accordingly during the upcoming year-end review.

**Hon. Mr. Mostyn:** Subsequent events — note 29 on page 75 is regarding subsequent events. Can Finance officials provide a forecast of the implications of the COVID-19 pandemic and what financial modelling has been done?

**Mr. Thompson:** We do try to do economic modelling at regular intervals during the year and particularly when we're doing the fiscal and economic updates or outlooks.

Note 29 says that it's really not possible to reliably estimate the length and severity of the pandemic and its economic impacts, but in that latest fall economic outlook, we did make a couple of observations. Real GDP remains below the pre-pandemic trajectory, but is expected to return to trend this year, 2022. Almost every industry has gained jobs since pandemic job losses peaked in May 2020, and most have either recovered or are well on their way to recovery.

Job gains have been especially pronounced in goods-producing sectors, such as mining and construction. Employment in transportation and warehousing and food and accommodation remains well below pre-pandemic levels, as these tourism-reliant industries continue to be held back by pandemic restrictions. Tourism visitation and spending are expected to return to pre-pandemic levels by 2023.

As usual, the government will be tabling a fiscal and economic outlook with the budget upcoming, and this will provide Members of the Legislative Assembly an updated view of some of the matters that I just discussed.

**Hon. Mr. Mostyn:** I think, at this stage, Madam Vice-Chair, given the time and the next question, I'll cede the floor to you, if I may.

**Vice-Chair:** Thank you for that. I will actually submit the remaining not very many questions to both the Office of the Auditor General and to the Department of Finance and congratulate both organizations on the herculean effort to get through our two-hour Public Accounts Committee today.

I did just offer to the Office of the Auditor General a brief closing statement. Mr. Thompson, do you have a couple of brief words for us?

**Mr. Thompson:** No. As always, Madam Vice-Chair, I thank you for running the session here efficiently, and I thank members for their interest and attention and the questions they asked and commit to following up on any of those that weren't covered.

**Vice-Chair:** Thank you, Mr. Thompson. Ms. Miller, do you have a brief closing statement?

**Ms. Miller:** Yes, again, thank you — thanking all members of the Committee for taking the time. This is an important exercise that you're doing, and we're happy to answer any of the questions that weren't answered today and look forward to meeting with you again in the future, for the next Public Accounts.

**Vice-Chair:** Thank you. So, before I adjourn this hearing, I would like to make a few remarks on behalf of the Standing Committee on Public Accounts.

First, I would like to thank Hansard — especially for the microphone activation today in challenging times — and, of course, their recording of these proceedings for future readers. I would like to thank the witnesses who appeared before the

Public Accounts Committee this afternoon. I would also like to thank the officials from the Office of the Auditor General of Canada and the Committee Clerk, of course, for their ongoing help.

The purpose of the Public Accounts Committee is to help ensure accountability for the use of public funds and public hearings are an important part of this work. The Committee's report on this hearing will be tabled in the Legislative Assembly and we invite those who appeared before the Committee and other Yukoners with an interest to read the report and communicate to the Committee their reaction to it.

I would also like to add that this afternoon's hearing does not necessarily signal the end of the Committee's consideration of the Public Accounts. As previously noted, we will be submitting written questions with the expectation of response. The Committee may follow up again with the department and this could include a follow-up public hearing at some point in the future.

With that, I would like to thank all of those who participated in and helped to organize this hearing. I now declare this hearing adjourned.

*The Committee adjourned at 3:00 p.m.*



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## Outstanding Questions and Responses for the Committee

*\*Below are the questions which were skipped or which were not answered before time expired during the legislative hearing on February 9, 2022. The Department of Finance was asked to submit answers to the following questions in writing.*

### **Borrowings**

**53. Note 17 is Borrowings. On page 66 it talks about the government's borrowing limit. Could you explain the nature of the outstanding loans?**

The amounts reported on page 66 are presented as confirmation of compliance with the Yukon Borrowing Limits Regulations pursuant to subsection 23(2) of the Yukon Act and Order in Council (P.C. 2020-0663). The amounts include specific types of borrowing as laid out in the regulation that are outstanding at March 31<sup>st</sup> for any of the reporting entities controlled by the Government of Yukon. Namely, Yukon Development Corporation, Yukon Hospital Corporation, Yukon Housing Corporation, Yukon Liquor Corporation, Yukon University and the Government of Yukon.

The total debt of \$235,230,000 at March 31, 2021 is made up of:

- \$100 million of bonds issued for Yukon Development Corporation,
- \$68.6 million of other long-term debt for Yukon Development Corporation; made up of loans from chartered banks and First Nation governments and partnerships,
- \$26.3 million of bank loans for Yukon Hospital Corporation, these are outlined on page 65 and are loans with a chartered bank,
- \$1.1 million of mortgages for Yukon Housing Corporation, which are mortgages payable to chartered banks and Canada Mortgage and Housing Corporation,
- Almost \$1 million of loans payable for Yukon University/College, which are non-interest bearing loans repayable on demand within 90 days,
- \$624 thousand of loans payable for Yukon Housing Corporation, which are loans payable to chartered banks and Canada Mortgage and Housing Corporation,
- \$1.3 million of interest payable on all debt that had accrued up to March 31, 2021,

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- \$33.3 million of credit facilities used, relating to a line of credit used by Yukon Development Corporation, and
- \$3.1 million relating to capital lease obligations, which are itemized in Note 18 on page 67.

This last item is the only item on the list that has been incurred by the Government of Yukon rather than by one of the corporations.

**54. *Can the Department explain the increase year-over-year Total Debt as indicated in the table on page 65?***

The table on page 65 relates to the Yukon Hospital Corporation's loans with a chartered bank. Since questions 53 and 55 deal with the Borrowing and Total Debt items on page 66, we will provide this answer based on page 65.

The principal amounts of the Yukon Hospital Corporation's loans are being paid down from year to year and there has been an overall decrease of \$3.5 million from \$29.8 million in 2020 to \$26.3 million in 2021. The loans are scheduled to be paid out; the first in late 2026 and the remaining two in 2028. These loans are included in the amount of borrowing reported on page 66.

**55. *Please walk the committee through the total debt listed on page 66 (note 17)***

The total debt listed on page 66, Note 17, is calculated in compliance with the Yukon Borrowing Limits Regulations as described in answer 53. As answer 53 enumerated the composition of the total debt reported, this answer will focus on the change in total debt.

Total debt has increased by \$6.8 million from \$228.4 million in 2020 to \$235.2 million in 2021. This is mainly due to:

- A \$2.3 million increase in long-term debt for the Yukon Development Corporation;
- A \$3.5 million decrease in balance of bank loans for the Yukon Hospital Corporation;
- A \$373 thousand decrease in balance of mortgages for the Yukon Housing

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Corporation;

- A \$95 thousand decrease in balance of loans payable for Yukon Housing Corporation; and
- A \$9.5 million increase for credit facilities used by the Yukon Development Corporation;
- And finally, a \$1 million decrease in capital lease obligations.

It is also worth pointing out that the total debt of \$235.2 million, as calculated by the Yukon Borrowing Limits Regulations, is not the value of borrowings reported in the Audited Consolidated Statement of Financial Position on page 37.

Rather, the value reported is the \$27.352 million, as calculated on page 64 of the same Note 17. This value is the true value of debt held by the four entities that are 100 per cent consolidated as per Note 2 (a) Significant Accounting Standards on page 41.

#### ***Borrowings***

**56. *Can the witness confirm the principal amount on the YDC bond listed on page 66 is the same as last year? What is the plan to pay this principal down?***

Yes. The amount has not changed from last year and is not expected to change at least until the maturity of the bonds in 2040. It has been the same amount reflected in the Public Accounts since the bond was issued over ten years ago.

Upon maturity, the bond is expected to be retired with funds from a new bond issuance; thus re-issuing the debt.

Bonds were issued by the Yukon Development Corporation as a debt security to allow for expected spending and to meet existing obligations of its wholly-owned subsidiary, the Yukon Energy Corporation (YEC). YEC is required to maintain a 60 to 40 debt to equity ratio by the regulatory rules it operates under, hence the strategy to re-issue.

For financial statements, the Yukon government uses Public Sector Accounting Standards, whereas the Yukon Development Corporation uses International Financial Reporting Standards to prepare their statements.

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The bonds are carried at cost in the Public Accounts, but under the Yukon Development Corporation's financial statements (page 318), the bond is carried on the books at fair value thus recognizing a gain or loss on the bonds each year depending on changes to the rates.

Since the intent is to carry the bonds to maturity and then to reissue them, the amount that will need to be raised to cover the old bonds will be \$100 million.

#### ***Expenses by object***

##### ***57. Can the Department explain the increase of expense from 2020 (645,876) to 2021 (692,196) in the Personnel line under Expenses by object on page 70?***

There are many influences on personnel costs in any fiscal year, but for 2020-21, the main drivers of these increases were:

- \$16.3M for increased personnel expenses related to the pandemic;
- \$8.5M for employee future benefits and WCB;
- \$10M related to collective agreement and manager increases;
- \$9.3M related to increases at Yukon Hospital Corporation;
- \$4.1M for the impact of the Commission scolaire francophone du Yukon settlement; and
- An offsetting decrease of \$1.5M at Yukon University.

#### **Subsequent events**

##### ***62. Can you provide an update on these Subsequent Events since the tabling of the PublicAccounts?***

The impacts of COVID-19 continue to be felt here in the Yukon and globally. Some relevant events are:

- On August 25, 2021, the Yukon ended the state of emergency that was declared on March 27, 2020.
- On November 9, 2021, a new state of emergency was declared after a surge of COVID-19 cases and the arrival of the Omicron variant. Several orders and recommendations have been issued since then to manage the increase in cases. On February 3, 2022, the state of emergency was extended for another 90 days.

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- The government, with support from the Government of Canada, continues to deliver many of the programs implemented in 2020 and in 2021 to support individuals, businesses, and industries. These initiatives and programs continue to be modified to ensure they meet the needs of Yukoners.

#### **Part 3 – Non-Consolidated Financial Statements and Other Information**

##### ***63. How does this section aid Yukoners to get a sense of the Yukon's finances? Explain its contents and why they are included in the Public Accounts.***

Part 3 of the Public Accounts contains several elements intended to provide interested readers with more detailed information about the government's financial activities. Part 3 is broken down into three sections:

#### **Section I Non-Consolidated Financial Statements**

The non-consolidated financial statements provide information with respect to the government's departments and exclude the consolidation of the Yukon Hospital Corporation, Yukon University, Yukon Housing Corporation, Yukon Development Corporation and the Yukon Liquor Corporation. Essentially, this is where departmental managers can go to find their numbers and assess how they fared during the year.

These statements are aligned with the non-consolidated section of the government's Main Estimates and Supplementary Estimates; therefore, they tie easily to the amounts debated in the Legislative Assembly and the resulting appropriation bills.

#### **Section II Supplementary Financial Information**

The supplementary financial information are ten schedules providing details and comparative information on revenues and expenditures by department, the listing of recoveries of prior year expenses, details of restricted fund activity, inventories, legislated grants and other government transfers, and finally, a list of bad debt write-offs. A number of these schedules are required by the Financial Administration Act to be included in the Public Accounts.

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### **Section III Supplementary Financial Statements**

The supplementary financial statements provide copies of the most recently published audited statements for all five of the corporations included in the Yukon government reporting entity, as well as the statements for the Compensation Fund.

**65. *What has the government done to prepare for these accounting standards and what impacts are expected?***

The Yukon government's financial statements are prepared in accordance with the Public Sector Accounting Standards (PSAS) as set by the Public Sector Accounting Board of the Chartered Professional Accounts of Canada.

The Office of the Comptroller maintains awareness of these standards during their development, or updates, by reading and providing comments, as applicable, to drafts issued by the Board.

The Office of the Comptroller also participates in inter-jurisdictional meetings and working groups with peers across Canada to exchange information and best practices that support the implementation of new standards.

Once approved by the Board and an effective date is communicated, new standards are analyzed for impact and based on expected impacts, revisions are made to:

- the Financial Administration Manual;
- the Year-end instructions to departments and corporations; and / or
- the Public Accounts presentation and related notes.

As new standards are identified, they are added to the list of New Accounting Standards under the Emerging Issues section of Risks and Mitigations in the FSD&A.

On page 26 there are seven standards listed that are currently on our radar. A short description of the standard, the date it comes into effect and an assessment of the potential impact on the government is provided for each.

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**66. *What is the expected impact of adoption of the Asset Retirement Obligations standard on the government's financial statements? Are there expected impacts on the entities consolidated into the Public Accounts?***

- The Yukon government, together with the Yukon Hospital Corporation, Yukon Housing Corporation and Yukon University, have retained the services of KMPG to provide professional services in the areas of asset scoping, cost estimation, policy amendments, training, and implementation of the standard across all four entities.
- In addition, work is ongoing to assess the impact of the new standards on the financial statements for the year ending March 31, 2023.
- The impact of the standard on the Yukon government and its consolidated entities will be seen in several steps. There will be different levels of impact upon implementation, ongoing impacts, as well as on the retirement of assets.
- **On implementation:**
  - There will be increases to the Tangible Capital Assets (TCA) value, in Non-Financial Assets category, by the amount of the Asset Retirement Obligation (ARO).
  - There will be a new liability, the Asset Retirement Obligation Liability (AROL), which corresponds in value with the increase in the TCA value.
  - When these values are equal, there will not be an impact on Accumulated Surplus, but Non-Financial Assets will increase, while Liabilities increase and that will decrease Net Financial Assets.
  - In certain scenarios, the ARO asset will already be partially amortized based on the related TCA. In these cases, there will be an impact on Accumulated Surplus equal to the portion of the new ARO asset that is deemed to be already amortized as of April 1, 2022.

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- **On an ongoing basis:**
  - Increases in budgeted annual amortization amounts for the new ARO assets will impact the annual surplus as a non-cash item; and,
  - There will be a new budget item called the Accretion Expense. This item captures the increase in the AROL estimate due to the passage of time, and will impact the annual surplus and increase the AROL reported.
- **On retirement of the asset:**
  - The removal of the asset from the TCA list should have no effect as the asset should be fully amortized. If that is not the case, there may be a loss on disposal as per current standards;
  - Cash expenditures will be incurred to perform ARO activities; and
  - The AROL recorded will be used to offset expenditures resulting in no, or nominal, impact on the current fiscal year's surplus/deficit.

The actual estimates of the ARO values and their amortization timelines have yet to be calculated as estimation processes are still being decided. Once the estimates and amortization timelines are finalized we will be able to assess the impact on the 2022-23 fiscal year.

There is no Accretion Expense anticipated for the first year of implementation, but an estimation process will be in place in time for setting the 2023-24 budget.

Finally, a disclosure note in the 2021-22 Notes to the Financial Statements is planned and a more fulsome explanation of expected impacts will be included in the Financial Statement Discussion and Analysis.



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**COVID-19 Response**

**68. Can the Department of Finance speak to the overpayment of the 'Covid CERB Exemption'? (note 25)**

Legislated grants, by definition, are prescribed in legislation and are payable for any eligible claim. Close scrutiny is maintained on these types of grants as exemplified by Note 25 around over expenditures and by Schedule 8 in Part 3 Section II, page 194.

The rationale for the scrutiny is that, due to the claim-based and non-discretionary nature of these expenditures, they tend to be difficult to forecast and hence to budget for accurately.

In the case of the 'COVID CERB Exemption', the difficulty of forecasting social assistance payments was further compounded by the department's unfamiliarity with the grant, COVID-19, unexpected uptake by the public, and the implications to social assistance eligibility. Health and Social Services originally budgeted \$18.2 million for social assistance in Whitehorse and increased it in the Supplementary to \$19.7 million, which was short of the actual \$20.8 million.

The Department of Health and Social Services' finance branch has initiated work on improving forecasting by implementing monthly and quarterly reviews of actuals compared to budget and forecasts.

**69. Page 14 includes a section called "Impact of COVID-19". It states – "While the global pandemic had a very limited effect on the Government's Consolidated Financial Statements for 2019- 20, it had a significant and prolonged impact on both the revenue and expense pictures for the Government for 2020- 21."**

***What were the budgetary implications? What steps did the government take to be able to implement such a comprehensive set of supports for Yukoners?***

The Department of Finance, in partnership with the Department of Economic Development and the Executive Council Office, formed a short-term review process that utilized a basic evaluation framework to help determine where supports might be needed.

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The Department of Finance took the lead by utilizing an existing working group of Assistant Deputy Ministers (ADM). Members consisted of a representative from each department and corporation.

COVID-19 business support ideas and concepts were presented to this group for feedback. The ADM group then reviewed and made recommendations to deputies.

Concepts endorsed by this group resulted in a more formalized submission and criteria details, which were analyzed so final decisions were made which enabled departments to move quickly to administer the programs.

The budgetary impacts were notable.

In 2020-21, the actual gross spending for the notable categories of support were \$39.7 million in health care and public health spending, \$42.1 million in economic relief and recovery, \$3.1 million in education supports and \$6.4 million in pandemic management spending. These are all gross figures and were offset by \$70 million in recoveries resulting in a net impact of \$21.3 million.

#### ***Revenue/Expenses, Opinion***

#### ***70. How does a change in the population of the territory impact our annual transfer payment from the Government of Canada?***

The Territorial Formula Financing grant is calculated by subtracting the territory's fiscal capacity from its Gross Expenditure Base (GEB).

The GEB is an approximation of the Yukon's annual revenue requirement, which is the amount required to provide Yukoners with similar public services as residents in the rest of Canada. The GEB is adjusted annually to account for growth in population and provincial, territorial, and municipal government expenditures. So as the population increases, so does our Gross Expenditure Base.

To provide some additional context around our fiscal capacity, this is an estimate of Yukon's ability to generate its own source revenue. It is calculated as the total revenue that the Yukon could raise from its largest non-transfer revenue sources if

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each source were taxed at the national average tax rate for that source.

**71. The net financial assets reported as of March 31, 2021 is \$182.7 million. The year-over-year increase is primarily a result of the increase in cash and cash equivalents and due from Government of Canada outstripping the increase in liabilities, and represents the first increase after five years of declines. Please provide more detail as to why the Yukon is in this position? What factors have contributed to this net financial position?**

Net financial assets are calculated in the Statement of Financial Position as the total Financial assets less total Liabilities.

As of March 31, 2021, on page 37; the Consolidated Statement of Financial Position reports Financial assets for 2021 as \$749.7 million and Liabilities as \$597 million, which results in Net financial assets of \$182.7 million; an increase of \$10.8 million over the 2020 value of \$171.9 million.

Financial assets increased by \$82.2 million on the influence of increases in cash and cash equivalents (\$22.4 million), due from the Government of Canada (\$58.4 million), loans receivable (\$17.5 million) and investment in government business enterprises (\$7.8 million) offset by decreases in accounts receivable (\$11.3 million) and inventories for resale (\$13.8 million) plus the net of nominal movement increasing the total by \$1.2 million.

On the other hand, Liabilities increased by \$71.4 million. Including increases in due to the Government of Canada (\$12.5 million), accounts payable and accrued liabilities (\$36.8 million), unearned revenues (\$11.5 million), post-employment benefits and compensated absences (\$10 million) and retirement benefit liabilities (\$8.2 million) offset by decreases in borrowings (\$5.7 million), liabilities for leased tangible capital assets (\$1 million) and the net of the remaining liabilities (\$1 million).

Those are the components of Net financial assets from the top down, but there is also a bottom up way to calculate Net financial assets. This method takes the

Accumulated Surplus minus the Non-financial assets, which also equals Net financial

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assets.

For 2021, the Accumulated Surplus of \$1.893 billion minus Non-financial assets of \$1.710 billion is equal to Net financial assets of \$182.7 million.

This calculation is the basis for the Statement of Change in Net Financial Assets that is on page 39. Similar to how the Statement of Cash Flow, on page 40, begins with the Surplus/Deficit and then adjusts for non-cash items to reach the increase/decrease in the cash position; the Statement of Change in Net Financial Assets begins with the Surplus/Deficit and then adjusts for non-financial items to get to the net financial assets.

In this method, Net financial assets are calculated as last year's closing balance plus the surplus, then adjusting for the effect of change in tangible capital assets, the change in other non-financial assets and 'other comprehensive gain or loss of government business entities'.

Many accountants prefer this method because it is familiar in form to the Statement of Cash Flow and it has fewer parts to the calculation.

But as for what factors contribute to the net financial position, the name says it all; everything on the Statement of Financial Position contributes to the net financial position.



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

23 February 2022

Mr. Currie Dixon, M.L.A.  
Chair  
Standing Committee on Public Accounts  
Yukon Legislative Assembly  
2071 Second Avenue  
Box 2703  
Whitehorse, Yukon Y1A 2C6

Dear Mr. Dixon:

Thank you for having us appear before your committee on 9 February 2022 to discuss our audit of the consolidated financial statements of the Government of Yukon for the 2020–21 fiscal year.

During the hearing, we were asked to provide written responses to questions that committee members did not have the time to ask during the hearing. In the Appendix to this letter, you will find the answers to 2 outstanding questions that were addressed to us.

We hope this information is useful to the committee.

Yours sincerely,

Sophie Miller, CPA, CA  
Assistant Auditor General  
240 Sparks Street  
Ottawa, Ontario K1A 0G6

Attachment

c.c.: Ms. Allison Lloyd, Clerk to the Committee

## Appendix—Responses to unanswered questions

<b>Question 64: What future accounting standard or standards do you anticipate the government will need to prepare for in its financial statements? When are they effective?</b>
<p>Answer:</p> <p>The future accounting standards on the horizon are those that the Yukon Department of Finance listed and described in the Financial Statement Discussion and Analysis.</p> <p>Asset Retirement Obligations, Financial Instruments, Portfolio Investments, Foreign Currency Translation, and Financial Statement Presentation are standards that will become effective 1 April 2022. Revenue and Public Private Partnerships standards will become effective 1 April 2023, with earlier adoption permitted.</p> <p>All of these will require at least some degree of consideration and preparation.</p> <p>For the government, our understanding is that the Asset Retirement Obligations standard, which will be effective 1 April 2022, is likely to more significantly affect the financial statements both in terms of preparation and impact.</p> <p>(See page 26 of the Yukon Public Accounts 2020–21, under “Financial Statement Discussion and Analysis.”)</p>
<b>Question 67: What are your views on the implications of the Asset Retirement Obligations Standard, and are there any areas you wish to highlight?</b>
<p>Answer:</p> <p>We would emphasize that the complexities and details that are needed to establish a good estimate for Asset Retirement Obligations should not be underestimated.</p> <p>The government’s successful implementation involves the departments and the other territorial organizations that are adopting the standard working in collaboration with each another. Good planning, execution, monitoring, and communication are key.</p> <p>In terms of complexity, Asset Retirement Obligations is another area of measurement uncertainty. The government will need to identify in-scope items, identify and select reasonable inputs and valuation methods, and implement the results in the financial statements and related disclosures.</p> <p>These all need to be considered and documented in order to support the Asset Retirement Obligation on adoption, effective 1 April 2022.</p>