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STANDING COMMITTEE ON PUBLIC ACCOUNTS

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Friday, November 24, 2023 — 1:00 p.m.

Chair: Currie Dixon

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chair: Currie Dixon

Vice-Chair: Kate White

Members: Hon. Jeanie McLean
Hon. Richard Mostyn
Scott Kent

Clerk: Allison Lloyd, Clerk of Committees

Witnesses: **Office of the Auditor General of Canada**
Normand Lanthier, Acting Assistant Auditor General
David Irving, Principal

Department of Finance
Jessica Schultz, Deputy Minister
Ralph D'Alessandro, Comptroller

EVIDENCE**Whitehorse, Yukon****Friday, November 24, 2023 — 1:00 p.m.**

Chair (Mr. Dixon): I will now call this hearing to order.

Of course, this is 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 “... have the power to call for persons, papers, and records and to sit during intersessional periods...” The Public Accounts Committee has a mandate to ensure economy, efficiency, and effectiveness in public spending — in other words, accountability for the use of public funds.

Today, pursuant to Standing Order 45(3) and Motion No. 11, we will be discussing the Yukon Public Accounts 2022-23.

I would like to thank the witnesses from the Department of Finance for appearing. They are: Jessica Schultz, deputy minister, and Ralph D’Alessandro, comptroller. Also present are officials from the Office of the Auditor General of Canada. They are: Normand Lanthier, Acting Assistant Auditor General, and David Irving, principal.

I will now introduce the members of the Public Accounts Committee: I am Currie Dixon, the Chair of the Committee and the Member of the Legislative Assembly for Copperbelt North; to my left is Kate White, who is the Committee’s Vice-Chair and the Member for Takhini-Kopper King; to her left is the Hon. Jeanie McLean, Member for Mountainview; to her left is Scott Kent, Member for Copperbelt South; and finally, behind me is the Hon. Richard Mostyn, Member for Whitehorse West.

To begin today’s proceedings, Normand Lanthier will make an opening statement on behalf of the Office of the Auditor General. Jessica Schultz will then be invited to 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 just their personal questions on a particular subject but those of the entire Committee. When Committee members were preparing the questions for today’s hearing, the Public Accounts had not yet been released. After the Committee has had a chance to fully consider the contents of the 2022-23 Public Accounts, which were released and tabled on November 22, as well as subsequent reports, the Committee will hold another hearing to ask additional questions.

The Committee will then 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 like to remind Committee members and witnesses both to wait until they are recognized by the Chair before speaking. This will allow Hansard to accurately reflect who is speaking.

We will now proceed with the opening statement from the Office of the Auditor General.

Mr. Lanthier: Mr. Chair, thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Yukon for the 2022-23 fiscal year. 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’an Council. I am accompanied today by David Irving, who was the principal responsible for the audit.

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 in the Yukon Public Accounts is a key government 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.

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 financial statements. We will focus on the results of our audit work.

First, I would like to draw the Committee’s attention to an important and recurring issue that we have raised with management since 2021. This is the government’s lack of timeliness in preparing the consolidated financial statements and providing key supporting documents to the audit team.

In 2021-22, the financial statements were tabled on October 27, 2022. As the Committee is aware, this year, the government did not meet the statutory deadline.

This was mainly because of staff turnover and significant difficulties in implementing new accounting standards. The timely availability of the Yukon Public Accounts is key to ensuring that your Committee and the Legislative Assembly have the information that they need to hold the government to account for its use of public funds. Overall, the government needs to ensure that sufficient resources with the necessary skills are available to improve its financial reporting controls so that it can meet the government’s statutory reporting deadline in the future.

Turning now to our independent auditor’s report — which you will find in part 2 of the Yukon Public Accounts, pages 31 to 34 — we have issued an unmodified audit opinion on the

consolidated financial statements. That means that the financial statements were prepared in accordance with the generally accepted accounting principles for the public sector and you can rely on the information provided. However, we have issued a modified opinion on the compliance with specified authorities. That is because the government missed the statutory deadline for tabling the Yukon Public Accounts.

We also want to highlight for the Committee that we will be issuing a management letter with recommendations for addressing weaknesses that we have observed related to the preparation of the financial statements and notes.

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 consolidated financial statements. We appreciate the effort, cooperation, and help of all involved.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer the Committee's questions.

Ms. Schultz: Good afternoon, Mr. Chair. My name is Jessica Schultz. I am the Deputy Minister of Finance. With me today is Ralph D'Alessandro, comptroller for the Government of Yukon. We are pleased to appear today as witnesses before the Standing Committee on Public Accounts and we thank the Committee for providing the opportunity to speak about the Yukon Public Accounts for the year ended March 31, 2023.

The Public Accounts provide accountability for Yukoners for spending decisions made during the budget cycle. They allow Yukoners to compare the estimates from budgets with the actual amount spent over the course of the fiscal year. These numbers also help to guide future decision-making within government. So, we are pleased that the Auditor General of Canada has provided an unqualified opinion that the — quote: "... consolidated financial statements present fairly, in all material respects, the consolidated financial position of the [Government of Yukon] as at March 31, 2023, and the consolidated results of its operations, its consolidated remeasurement gains and losses, consolidated changes in its net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards." In other words, there is no material issue with the financial information for this Public Accounts and Yukoners can rely on the accuracy and completeness.

I would like to address the main issue with the Yukon Public Accounts for 2022-23 — namely, not tabling the documents by the October 31 deadline. The deadline is legislated by subsection 8, clause 2 of the *Financial Administration Act*, and the department is committed to delivering the Public Accounts to Yukoners by that date.

This year, the Department of Finance was not able to table the Public Accounts until November 22 due to the fact that the government adopted five new public accounting standards and it ended up taking more time to implement than initially anticipated. The standard that was the main reason for the delay was PS 3280, Asset Retirement Obligations, for which the department has been preparing for over the past few years and has done significant work revising policies, procedures, and databases. So, while the department expected that it would take

time to finalize the changes and that there would be some need for adjustments when the Public Accounts were reviewed by the Office of the Auditor General, the department had not expected the delays to the tabling deadlines.

Another contributing factor were the four other standards that also had to be adopted in the 2022-23 fiscal year. They had a less significant financial impact but had more complex and stringent disclosure requirements. All of the changes contributed to the delays. I will defer further details to responses on the topic.

I want to acknowledge the huge effort put forward by the staff of the offices of the comptroller and the Auditor General of Canada in preparing the Yukon Public Accounts for 2022-23. This was an enormous task and they approached the work with diligence, professionalism, and care. The Office of the Comptroller, the Office of the Auditor General, and many others put a great deal of work into compiling, reviewing, reconciling, and auditing the government's year-end statements every year. It takes a lot of effort to coordinate financial reporting between various departments and public corporations.

I would like to express my gratitude to everyone involved for the long, long hours and dedication put into producing the Public Accounts.

Mr. Chair, I would now like to briefly speak to progress on the recommendations from the Committee following the hearing last December. They will be covered in greater depth through the responses to the Committee's questions, but I can provide a brief overview.

The Department of Finance is always striving to improve our processes for creating and presenting the Public Accounts. The department has considered the recommendations from the Committee and has made some modest progress in several areas. The Committee's first recommendation was for further technological improvements to the Public Accounts. The department is investigating new software in an effort to automate some of the work on compiling the non-consolidated and consolidated financial statements.

The Committee also recommended that the Public Accounts should be tabled earlier in the calendar year. Clearly, that did not happen for 2022-23; however, the department is taking steps to bring the process back on schedule and has hired new accounting staff who will assist with this work. The department is committed to finding options for how to present the Public Accounts earlier in future years.

The third recommendation was to include more cross-jurisdictional comparisons where appropriate, recognizing that the Yukon has a unique position that can make comparisons to other jurisdictions difficult. Economic research in the Department of Finance is assisting with research for useful comparisons to help identify potential metrics that would provide valuable data for Yukoners.

Additionally, the Committee recommended that the Department of Finance complete its plan to comply with the implementation and disclosure requirements for new accounting standard PS 3280, Asset Retirement Obligations, for the 2022-23 Public Accounts. The department has adopted

this new accounting standard; however, some initial difficulties with the scale of work led to the delays in tabling this year and it will add to the annual workload going forward. The department will continue to work with the Office of the Auditor General to ensure that processes going forward continue to comply with PS 3280.

I will cover the Committee's fifth and sixth recommendations together, namely, that the department report back on the analysis of implementation of the accounting standard change related to the solid-waste landfill closure and post-closure liabilities for landfill sites and that the Department of Finance provide an analysis of the year-over-year balance of the carbon price rebate program revolving fund.

The department submitted both reports to the Committee when the Public Accounts were tabled on November 22 and welcomes any questions that the Committee may have on the contents of either report.

The Committee's final recommendation was that the Government of Yukon conduct an analysis of the capital expenditure variances at the mid-point in the fiscal year. The department's position on this recommendation is that the work is done and information is found in the reports that are included in the first supplementary estimates every fall. We can address how information is used when responding to the Committee's questions as part of today's proceedings.

Thank you for this opportunity to speak about the important work that the Department of Finance does annually to prepare for the Public Accounts and thank you in advance for your questions.

Chair: Thank you very much, Ms. Schultz, for those opening remarks. We will now proceed with questions from the Committee. I would once again note that the questions coming from Committee members are not from them as individuals but on behalf of the entire Committee.

Ms. White: The first questions are for the officials from the Office of the Auditor General of Canada. Can you please explain the role of the Office of the Auditor General in the preparation of the Public Accounts?

Mr. Lanthier: Our office is appointed auditor of the government pursuant to subsection 34(1) of the *Yukon Act*. We audit the government's consolidated financial statements. These include the Government of Yukon as well as its controlled entities. As indicated in the management responsibility for financial reporting statements preceding the financial statements in the Public Accounts, the preparation of the consolidated financial statements of the Government of Yukon is the responsibility of the Department of Finance.

Our responsibility is to perform an annual audit on these financial statements in order to express an opinion as to whether they are presented fairly in all material respects in accordance with the Canadian Public Sector Accounting Standards and to ensure that the transactions that came to our notice are in all material respects in accordance with the specified authorities, such as the Yukon *Financial Administration Act* and the *Yukon Act*.

Ms. White: In your audit, what areas of the Public Accounts did you identify as having the greatest risk of a material misstatement, and can you explain the rationale behind that assessment?

Mr. Lanthier: Thank you for the question. Before answering which area has the greater risk of material misstatement, I am just going to spend two seconds explaining the concept of "materiality" and how we define it.

We apply this concept of materiality in all phases of our audit, so from planning to execution to reporting.

As indicated in our auditor's report, misstatements can arise from both fraud and error, and they are considered material if, individually or in aggregate, they could reasonably be expected to influence the decision of a user taken on the basis of these consolidated financial statements. Since our audit is risk based, it means that we focus our effort where the risk of material misstatement is higher.

Moving to the areas that we have identified, we had four areas for this year's audit. The first one is assets retirement obligation. Adopting and implementing new accounting standards is typically challenging and this elevates the risk of misstatements. Because they are new, there isn't direct history or experience with these standards to draw on. The asset retirement standard is quite complex and it requires a lot of assumptions that are inherently uncertain and subject to change, such as inflation and discount rates. It also requires inputs on historical data which could be difficult to obtain or substantiate.

The second and third areas are the environmental liabilities and other areas of measurement uncertainty, which would include post-employment, retirement benefit liabilities, amortization of tangible capital asset income tax revenue, et cetera.

In addition to the asset retirement obligation, the environmental liability and the other areas of measurement uncertainty typically have greater risk of material misstatement because of the degree of judgment and estimates. These are areas where the actual results may not be known for quite some time, and it could be significantly different from what was initially estimated.

The last area is an area of management override of controls. This is an automatic risk. So, for any audit that we do in Canada and even internationally, we have this automatic risk required by the standards. That's essentially the risk that management would override control. Even if the level of risk may differ from one organization to another, it's a risk that is present in all of our audits.

Ms. White: So, the Public Accounts Committee would like to express concern that the Public Accounts were not tabled in accordance with the *Financial Administration Act* this year. Can you please explain what the Office of the Auditor General's role in this has been?

Mr. Lanthier: Our responsibility is to audit the government's consolidated financial statements in order to ensure that our opinion regarding the consolidated financial statements is fairly presented and in accordance with the standards and that transactions comply with specified authorities.

As soon as we receive new sets of financial statements, we review them and ensure compliance with the standards and provide comments or questions to the government when we believe the information presented or disclosed is not in accordance with the standards.

This year, there were more exchanges with the government regarding the new versions of the financial statements, as well as comments and questions from our team mainly due to the adoption of the new standards but also due to some of the quality of the information that we received, which contributed to the statutory deadline not being met.

Ms. White: Mr. Chair, I will just ask a follow-up question to that.

So, with the greater back-and-forth that happened this year, was the Office of the Auditor General able to give recommendations or direction to help the process?

Mr. Lanthier: There are always recommendations that we share with the government in terms of how to address these immediate comments that would come up from our office in terms of respecting the standard for this year's audit. At the end of an audit, we also sit down with the government and will provide — similar to lessons learned and how we could be better going forward and avoiding these situations.

Ms. White: When did the Auditor General receive the complete consolidated financial statements from the Yukon government? When has the Auditor General received this material in previous years?

Mr. Lanthier: In a normal course of an audit, we will receive multiple versions of the financial statements that we audit and we provide comments back to the government. We also would like to specify that we do not wait to have the complete set of the financial statements to start our work, including review and providing comments. We perform our work at the same time as the government is addressing the previous comments for efficiency purposes. However, in order to issue our opinion on the financial statements, all deviations from the standards need to be addressed.

The version with no such deviation was received on November 1, 2023. When I compare this to our previous audits — we went back three years — the equivalent of the November 1 version of the financial statements would have been received in the first two weeks of October.

Ms. White: Once received, how long did your audit — I guess the completion of your audit work — take, and how does this compare to previous audits?

Mr. Lanthier: Once the final and complete set of the financial statements is received, there are additional audit procedures that are required to be completed, such as agreeing the figures with the underlying supporting documents and procedures to be completed up to the date of the financial statements that are signed, such as subsequent events and legal confirmation, and we have to complete our review.

When there are additional presentation and disclosure impacts on the financial statement due to the additional new standards — even if there were those additional presentation and disclosure impacts — I would say that our turnaround time was similar to our previous audits.

Hon. Mr. Mostyn: I appreciate the time. I have a follow-up, if I may. I want to take just one second to welcome Jessica Schultz, Ralph D'Alesandro, Normand Lanthier, and David Irving to the room this afternoon. I want to say that, in my previous role, I actually had a chance to work very closely with your group when I was working at workers' compensation doing audits on the annual report when I was responsible for compiling and drafting that report. So, I worked very closely with Lana Dar's team several years ago now — seven years at least. So, it is great to have you here and be talking about this. As a reporter, I go back on the Public Accounts to 1989. So, I have a really good grounding in this process and I really thank you for coming this afternoon.

We were asking just a moment ago about how long the audit took. In rough numbers, we are looking at quite a substantial increase in the amount of work that your auditors had to do on this report. I think that you budgeted about 10 percent more year over year to do this work and it actually took substantially more time than that; did it not? About 37 percent; is that correct?

Mr. Irving: I don't have the exact percent in front of me, but yes, it did take substantially longer, because the implementation of asset retirement obligation standards as well as the four new standards did result in additional time, as well as dealing with some of the financial statement disclosures. Yes, it did take longer than anticipated — correct.

Hon. Mr. Mostyn: Just for context, could you give some idea of what the challenges were that the new accounting standards posed to your team in conducting this audit this year?

Mr. Irving: Similar to other governments, there were challenges dealing with this.

I will be frank. We are aware that many Canadian public sector entities faced challenges adopting these new standards and implementing them. For the new ARO standard, it was particularly challenging. There are several assumptions and inputs required with the need to use historical information that is sometimes difficult to produce. From our perspective, we are not going to comment on governments that are not completed — that is not in the public realm — but the Government of Canada also implemented these new standards this year. Our financial commentary report — which is a public document tabled in Parliament and available on our website — highlights some of the key observations that we noted during the audit.

For the federal audit, for example, they noted weaknesses in the government's process for analyzing and determining the amount of their asset retirement obligations. For the federal government, the weaknesses included that some federal organizations use data of poor quality to estimate their asset retirement obligation costs, which means that the estimates may not be accurate and might require improvements.

Similarly, for the federal organizations, they began their financial analysis only recently or waited until late to complete them, despite the standards coming out five years earlier. This led to some weaknesses for them in estimating their asset retirement obligations, and they will need to gather and analyze more information to change and refine their methods in the future.

So, we have seen issues in the federal government — a lack of guidance in trying to create consistent models for all of the entities to account for removing the asbestos from the federal buildings. This resulted in some duplicate efforts and inefficient use of resources.

When we take a look at the Yukon government, similar to the federal government, there were issues implementing the new standards. When we take a look at this, they had worked with a contractor — an expert — to come up with their model and how to do things. Where the issue arose for us was in the key assumptions that were used. That is where we found some errors, particularly when we were taking a look at the square footage for buildings, which is directly used in the calculation of asset retirement obligations.

Hon. Mr. Mostyn: In terms of the audit — this new accounting standard that we are talking about this afternoon — you mentioned the federal government, but are we the first jurisdiction beyond the federal government to actually deal with this audit on this scale in terms of actually having your team work with a territorial government — you are responsible for all of the territories. We are the first territory to actually deal with this accounting standard with your team; is that correct?

Mr. Irving: What I can say is that from our perspective, you are the first territory to complete your Public Accounts, so we will not comment on the provinces. We also audit the Government of Canada, so we thought it was relevant to bring that up, but, yes, you are the first territory to be completed.

Hon. Ms. McLean: When were the complete and audited Public Accounts given to the Government of Yukon?

Mr. Lanthier: Thank you for the question. All of our audit procedures were completed on November 20, which is the date our opinion was signed. The Department of Finance tabled the Public Accounts on November 22. As mentioned earlier, we do not prepare the Public Accounts and we do not submit the documents to the government. We audit the consolidated financial statements, which are included in volume 2 of the Public Accounts.

Hon. Ms. McLean: The Yukon government has indicated that challenges in implementing new public sector accounting standards contributed in part to missing the legislated deadline for tabling. I know that there was a similar follow-up, but I think this is more specific. Are you aware of any other governments facing similar challenges?

Mr. Irving: As you mentioned, the follow-up question did cover a lot of this. From our perspective, we are not going to comment on things that are not publicly available yet. That was the reason for bringing up the federal government and some of the issues that they encountered.

We will be frank. When we took a look at the federal government, the lack of guidance on the approach on how to account for removing this —

Chair: Mr. Irving, could you please elevate your voice or lean into that mic a little bit? I would appreciate it.

Go ahead, Mr. Irving.

Mr. Irving: Certainly. As I was saying, we're not going to comment on jurisdictions that are not completed yet. We are going to stick to the ones that are in the public domain, so that

was the reason for bringing up the federal government when we were talking about the follow-up question.

If we just go back to the example of the federal government, just following up on some of the comments we made, they had a lack of guidance for the federal organizations as to what the approach should be for cleaning up the asbestos in the buildings. That resulted in duplicate efforts, inefficient use of time and resources, and inconsistencies in the key measurement assumptions that were applied across organizations. So, you can see that this is a challenging thing that was implemented.

As a result of the federal weaknesses that we encountered in the audit, we significantly increased our audit procedures to audit the asset retirement obligations to assess whether the obligations were complete and accurate. We were able to ultimately conclude that the government's final consolidated financial statements fairly presented the asset retirement obligations; however, it's highly likely that next year's audit of the federal government will continue to require a higher audit effort unless the federal government improves the process. That is available in that commentary document that was tabled in Parliament and on our website. I will say that, in addition to the issues that we just discussed as requirement obligations for the federal government, the Yukon government has their own issues implementing it — obviously not uncommon. In addition to all of this, the government did also implement four new standards this year related to the financial instruments.

If you were to take a look at page 25 the Public Accounts, part 1, you will see them listed on that page. I'm talking about the public sector 1201, Financial Presentation; public sector 2601, Foreign Currency; 3450, Financial Instruments; and 3041, Portfolio Investments. These standards required adjustments to the investment balances, especially the investments that were previously shown as temporary investments and required additional disclosures, so it was definitely challenging.

Hon. Ms. McLean: Is your office aware of other issues that contributed to the failure to meet the legislated deadline for tabling?

Mr. Irving: Yes, we are aware that the hiring and retention challenges are an issue in general, and this impacted the Department of Finance as it decreases efficiency in preparing the consolidated financial statements. This has especially impacted the process for preparing the required disclosures to ensure that these were in accordance with Canadian public sector accounting standards. As part of the audit, we noted deficiencies in these financial statement disclosures that had to be addressed before we could complete our audit.

In addition, the government also consolidates territorial corporations that also needed to adopt these new financial instrument standards and the new asset retirement obligation standard. For example, the Yukon Housing Corporation, similar to the Yukon government and similar to the federal government, also experienced significant difficulties implementing the new asset retirement obligation standard. As a result, the Yukon Housing audit was completed on

October 26, and this does affect the Yukon government's consolidation process.

Hon. Ms. McLean: I just have one follow-up for that.

Other than missing the legislative deadline, were there any other reasons for qualifying the delivery of the audit?

Mr. Lanthier: No other reason — the only reason we qualified is because the deadline was missed.

Hon. Ms. McLean: So, what lessons should be drawn from this?

Mr. Irving: Mr. Chair, simply put, these new standards have been available for at least five years, and the Yukon government did have a plan. They hired an expert to assist them in developing a model to calculate the asset retirement obligation. Now, we found that the government's overall methodology and model was reasonable and logically presented. However, we noted errors in the calculation, as key assumptions were not correct and were not properly supported. So, the lesson learned is for the government to go further and ensure that key positions and assumptions are properly documented and supported and that important disclosures required by the new standards are processed significantly earlier in their draft statements.

These were important issues — ensuring whether the figures used to calculate the ARO liability were complete and accurate, combined with updating the financial statement disclosures to comply with the standards. Now, we noted several issues with the support on the square footage of multiple buildings, which directly impacts the calculation of the cost to remediate the asbestos in Yukon government buildings.

Also, as these are consolidated financial statements, the Yukon government needs to work with their component auditors — the other territorial corporations — to ensure they are completed on time. In addition, staff vacancies and lack of continuity in the financial reporting process have contributed to issues with disclosure deficiencies, and we have raised this in the past two years.

So, from our perspective, it's essential that sufficient resources are committed to ensure that the financial reporting process is improved to avoid delays in finalizing future Yukon government Public Accounts. For example, there are new standards coming. Public sector 3400, Revenue, is effective April 1, 2023 for the upcoming year and will require some effort to implement. We say to you that, if you take a look at page 26 of the Public Accounts, in part 1, it clearly describes the new emerging issues, the new accounting standards that are coming into effect in the future.

Hon. Ms. McLean: Mr. Chair, I did have a couple of follow-ups, I think. Because we are moving on ask some specific questions of the department, I had a couple of other areas that I wanted to just cover with the Auditor General. I appreciate that we will have a chance after as well, but I wanted just to talk a little bit about some previous audits.

The Government of Yukon broke the *Financial Administration Act* in 2007 and 2008. It was noted in the Auditor General's report in 2008. Was the audit qualified that year?

Mr. Lanthier: Thank you for the question. I don't have this information right now, but I don't believe that they were modified at the time. But I think, focusing on this year's audit, we provided an opinion on two things: (1) Are the financial statements in compliance with the standards? — which they are; then (2) regarding the specified authorities, we felt that you didn't meet the deadline, which was October 31, and they were tabled after. So, for us, it is a clear non-compliance. It was already very public that it wasn't going to be met and we felt that it was significant for Yukoners to know, and that is why we qualified or modified our opinion on that specific point.

Hon. Ms. McLean: Thank you for that answer. I know that we've already indicated that we will have a subsequent hearing. There is a specific reason why I wanted to have that information, so maybe the auditors can bring that back at the next hearing.

A previous government presented incomplete Public Accounts to the Legislature in the fall of 2009. There were no financial statements from the Yukon Housing Corporation or a report of the Auditor General of Canada when it was tabled. It wasn't until the following June that audited statements and an opinion from the Auditor General were presented. Despite the fact that those accounts were more than half a year late and violated the *Financial Administration Act* because they missed the October 31 deadline, they were not qualified.

Can the witnesses explain why this year's statements were qualified for being late and the 2008-09 statements were not?

Mr. Irving: Thank you for the question, Mr. Chair. Strictly put, in the current year, it is very public that you're going to miss the deadline, and this is the third year that it has been extremely tight. Last year, the Public Accounts were tabled on October 27; the year before, it was on October 28, so this has been a recurring issue where it has been right up against the deadline.

In the current environment, the need for the financial reporting to be done sooner has been raised to much higher scrutiny. That is the whole reason why we are having the meeting today to talk about whether or not you have met the deadline, so this is definitely something that is much more of an important topic in the current environment.

Now, as you mentioned, going back to 2008-09, the auditor's report was not modified. It was late. I can tell you that we do not comment on unaudited statements that are published. We are not associated with them. We are only associated with the audited statements. Yes, they were several months late. At that point in time, we had serious discussions with the government about the need to improve this and had given them a warning that, had it occurred again, a modification would be used. In the current environment, the decision was made that we want to be open and up front — it's in the public. Yes, you missed the deadline and yes, we're going to modify, but that same decision — there are other factors that were considered back in 2008 on that.

Chair: We are now moving beyond the prepared questions that the Committee had, so I'm going to bring this back to the prepared questions that the Committee had arrived

at, and at the end of the prepared questions, we will have the opportunity for further follow-up questions.

Mr. Kent: As mentioned previously by my colleague the Member for Takhini-Kopper King — to lead off her questions, the Committee would like to express concern that the Public Accounts were not tabled in accordance with the *Financial Administration Act* this year. I have some questions that will be directed to the Department of Finance with respect to this.

The first one is: Can the department explain why this legislated deadline was not met? I know that the deputy minister mentioned in her opening remarks some of the reasons, but I'm just looking for her or Mr. D'Alessandro to possibly expand on that.

Ms. Schultz: Thank you, Mr. Chair, and thank you to the member for the question. The fact that the department did not meet the legislated deadline for tabling the Public Accounts is testimony to how challenging a year it has been for the department.

The audit of the 2022-23 financial statements proved significantly more challenging and complex than previous years, and this is the result of several factors. Those include: the adoption of the five new public sector accounting standards; the lack of complete documentation and historical records to support the estimates of the asset retirement obligations; migration of the tangible capital assets, referred to as TCAs; the data from a stand-alone asset data system to a module within the government's main financial system and then adding the asset retirement obligation assets into that module; incorporating revisions to the estimated useful life range of various TCA categories; the new requirement to report the portfolio investments using their fair market value led to new statements of remeasurement gains and losses; additional requirement for the disclosure of details around the financial instruments and analysis of risks related to the financial instruments; and post-year-end transactions and events that required additional analysis and modelling for assessing the appropriate accounting treatment in the 2022-23 financial statements, including one-time transactions, items like the ratification of the YEU collective agreement in June of this past year and additional work it took to calculate and record the retro pay to March 31, 2023; revenues related to the disaster financial assistance arrangements for the 2021 and 2022 floods; and the Minto mine abandonment and subsequent uncertainty on its operations.

Compounding the complexity of dealing with these issues was the number of new staff in critical positions across government and its entities, including the Office of the Comptroller, and many were experiencing their first year in government, let alone their first year in the Public Accounts process.

Mr. Kent: In public statements, the department has indicated that the legislated deadline was not met because of challenges with the new public accounting standards. Now, I know that the deputy touched on that in her opening remarks and in the answer to the previous question, but I am curious if there is any additional information that she would like to add to

describe those challenges and how they contributed to the failure to meet the deadline.

And just as a quick follow-up, when was the department first made aware that those accounting standard changes would be coming? How many years ago? And what preparation was done in that intervening time to prepare for this year's Public Accounts?

Mr. D'Alessandro: The Public Sector Accounting Board usually gives us at least five years to get standards into place, so we knew about ARO and these other standards back in 2018. They were originally — at least the ARO was originally intended to be implemented on April 1, 2021, but due to the COVID-19 outbreak, they postponed it by a year to April 1, 2022. So, we were given an extra year to make up for the fact that everybody was dealing with COVID for over a year.

Chair: For members, we're going to stick to our questions as prepared as best we can, and then we will follow up with questions at the end.

Mr. Kent: Thank you. So, just back to that question — is there any additional information that the witnesses want to provide with respect to how the new public accounting standards contributed to the delay?

Mr. D'Alessandro: Thank you, Mr. Chair, and thank you to the member for the question. I would like to begin by providing an overview of the five public sector accounting standards that came into effect on April 1, 2022 and, as such, were being adopted during the fiscal year 2022-23. They were PS 3280, Asset Retirement Obligation — or more commonly known as the ARO. PS 3280 applies to all tangible capital assets owned or controlled by the government. It requires that, where there is a legal obligation to perform retirement activities for a tangible capital asset, these retirement costs must be recognized at the time of acquiring the asset or as soon as the costs can be estimated.

Work was completed to revise relevant policies, to establish estimation and recording procedures, and to quantify the impact on financial position. A new liability for asset retirement obligations was added to the consolidated statement of financial position at an estimated value as of March 31, 2023 of \$69.4 million, while the related ARO assets added have a net book value of \$6.9 million.

There is now a new cash expense called "accretion" that records the annual change in the estimated value of the ARO liabilities. For 2022-23, that amount was \$1.9 million.

PS 3041, Portfolio Investments, replaced the existing PS 3040 with revised guidance on the accounting for and presentation and disclosure of portfolio investments. The impact of this standard will fluctuate annually, as the government now reports the value of the investments at their fair value, otherwise known as the market value. This annual restatement will cause a remeasurement gain or loss depending on the market trend, which is outside the government's control.

At March 31, 2023, the remeasurement gain was calculated to be \$599,000. This is a non-cash expense item, as the gain or loss will not be realized until the investments are sold.

PS 3450, Financial Instruments, is the standard that establishes new guidance on the recognition, measurement, presentation, and disclosure of financial instruments, specifically including derivatives. The impact of PS 3450 is predominantly visual, as it dictates how the financial instruments must be presented and what disclosure must be provided. One requirement was the addition of the new consolidated statement of remeasurement gain and losses, which is related to the implementation of PS 3041. There are also several new disclosure notes about risks related to financial instruments.

PS 2601, Foreign Currency Translation, replaces existing PS 2600 with revised guidance on the recognition, presentation, and disclosure of transactions that are denominated in a foreign currency. Due to the low volume of foreign currency transactions, the government had an insignificant impact resulting from the adoption of this new standard, which did not merit any new disclosures at this point. Volumes will be monitored to ensure that disclosure is properly followed up, if warranted.

PS 1201, Financial Statement Presentation, replaces the existing PS 1200, which revised general reporting principles and standards of presentation and disclosure in government financial statements. These changes are required to incorporate the changes stemming from the new PS 3450, PS 3041, and PS 2601. Similar to PS 3450, this standard mostly affected presentation and disclosure.

Most pronounced is the change to the presentation of accumulated surplus/deficit on the consolidated statement of financial position, which is now disaggregated between accumulated operating surplus and accumulated remeasurement gains and losses. These four standards — PS 3041, PS 3450, PS 2601, and PS 1201 — are often referred to as the “suite of financial standards”, as they were integrated with each other.

The department was proactive in preparing for PS 3280 by procuring the services of KPMG to not only assist the government’s department with the adoption of the new standard but also to assist the Yukon Hospital Corporation, the Yukon Housing Corporation, and Yukon University. The theory was that if all four entities that needed to be consolidated 100 percent use the same basis for their processes and policies, then there would be fewer complications when it came to consolidating the results. Well, that assumption worked well as far as consolidating the four entities; it worked less well for the individual entities as it related to their individual adoptions of the standard.

Yukon University, with virtually no tangible capital assets, had virtually no issues adopting PS 3280. Likewise, the Yukon Hospital Corporation, which has voluntarily reported asset retirement obligations for some time already, had nominal issues with their adoption of the full standard. On the other hand, both the government departments and the Yukon Housing Corporation encountered difficulties. These two entities own most of the buildings that are likely to have asset retirement obligations due to the presence of asbestos. They also share the same situation with the legacy of ownership of

buildings built by the federal government prior to the recognition of tangible capital assets. Essentially, all the construction documents for the buildings most likely to have asbestos have long gone past their retention deadlines and are no longer available.

We worked with the Department of Highways and Public Works to identify a source of the required information — the most critical being square footage and date of original build. We determined that the square footage from the condition assessments done by the Property Management division, which is responsible for maintaining these buildings, were a reasonably reliable source of that metric. Our expert advisors, KPMG, agreed with that determination; however, the OAG’s expert advice suggested a more direct approach to finding the square footage. After discussing options, the consensus was to have staff generate CAD drawings of the buildings as a means to calculate square footage, and the estimates were revised.

Yukon Housing Corporation, on the other hand, settled on using data from tax assessment reports for their square footages. The other critical piece of information was that the build dates for the majority of the building data available included acquisition dates rather than construction dates. Those were suitable for buildings built since devolution, as the construction date and the acquisition date were essentially the same. For buildings transferred to the Government of Yukon from the federal government, most were recorded with the date of devolution as their date of acquisition, which was not acceptable as a build date. The underlying problem is that there was no need to retain build dates for the building inventory at that time, as the focus was on remaining life of the building rather than its total life estimate.

Information critical to calculating the current balance of the asset retirement obligations was missing and assumptions had to be made. Some of these assumptions were revised when reviewed by the OAG.

On a related topic, the OAG has for several years asked the department to review the estimated useful life range set for each tangible capital asset category. During revisions to the government’s policy on the accounting for tangible capital assets to include asset retirement obligations, we took the opportunity to also review and update the estimated useful life ranges for each category of tangible capital assets.

Between the adoption of ARO and the implementation of the new fixed asset module within the main financial system, it was seen as an opportune time to take on this update. The result was a complexity of changes that proved challenging to handle and document to the required standards. Corrections were required to underlying key data that caused the ARO calculations to shift, causing further corrections and adjustments to the financial statements.

The time and effort required to process all of these changes and their impacts in a manual system of spreadsheets and statements were significant. This left less time for the other four standards with a financial impact of under \$1 million. These four standards proved to have disclosure and presentation issues as significant as all of the ARO issues combined.

The adoption of PS 3041, Portfolio Investments, proved to be rather straightforward, with a requirement to report portfolio investments at fair value rather than at cost.

PS 3450, Financial Instruments, which had no financial impact at all, provided a wealth of new required statements, disclosures, and analysis not only on the portfolio investments but also on every form of financial instrument that the government possessed. Everything from accounts and loans receivable, accounts and loans payable, and the portfolio investments to cash and cash equivalents — and due to and from the Government of Canada — had to be analyzed as to whether they should be reported at fair value or at cost and that decision supported. Those items identified as requiring to be reported at fair value had to then have a fair value estimated and the source and reasoning of that estimate supported and disclosed.

Fair value measurements are also categorized based on the nature of the inputs used into one of three levels of hierarchy. That hierarchy then dictates the level of disclosure required for the corresponding instruments in terms of disclosing credit risk, liquidity risk, interest rate risk, foreign exchange risk, and other price risk.

Please refer to pages 75 to 77 of the Yukon Public Accounts — note 28, Risk management of financial instruments — for a sample of the resulting disclosures.

In conclusion, the challenges that contributed to missing the legislated deadline fell into two groups: the ARO adoption and related issues with tangible capital asset data bases — being the more visible group — and the four financial instruments standards that were less visible but entailed as much work. Either could have been manageable, but together, they proved to be unmanageable.

Chair: Thank you, Mr. D'Alessandro. There is a lot of information and detail that I am sure the Committee will have to read and reflect on once the transcripts are available.

Mr. Kent: The Auditor General specifically noted that the Yukon Housing Corporation was a concern, so can the department provide some explanation of any additional challenges — I know that Mr. D'Alessandro mentioned some of them in his previous response — that the Housing Corporation has faced in this regard?

Mr. D'Alessandro: Thank you to the member for this question. The Yukon Housing Corporation may have more details that they could add to this, but the department observed the following: the challenges facing the Yukon Housing Corporation were similar to those that faced the government's non-consolidated departments in regard to the adoption of PS 3280, Asset Retirement Obligations. Housing used the same model that was developed with KPMG's assistance and we are working with the same historical data-retention issues. Their largest difficulty was finding a verifiable source for the square-footage values to use in their calculations.

In the end, square footage on tax assessment documentation was settled on as justifiable. They also had some final adjustments to their environmental liability estimates related to an underground fuel tank leak.

In general, the Housing Corporation's timing of providing final statements has been flagged as a risk for numerous years, mainly due to their deadline for presenting their audited statements, which is later than the Yukon government's deadline. Housing's delay this year was not the only factor in the overall lateness in the government's tabling, although it should be noted that the Government of Yukon is unable to finish its audit until each of the reporting entities that it consolidates have finished their individual audits.

Mr. Kent: Mr. Chair, pivoting away from the delays in the Public Accounts, with the Office of the Comptroller General being responsible for 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 actual audit?

Ms. Schultz: Thank you, Mr. Chair, and thank you to the member.

The Office of the Comptroller is responsible for the production of the Public Accounts, which is essentially the annual financial report of the government. It is required by legislation to include the annual report of the Auditor General of Canada. Therefore, the two offices work in close collaboration with each other to ensure that all requirements of the public sector accounting standards are met, as well as any requirement relating to the government's specified authorities.

To that end, staff meet on a regular basis beginning around this time of year to start planning and to schedule department-level process reviews. Meetings for the 2023-24 Public Accounts are already scheduled for this month. Through these meetings, potential issues are discussed, data collection is arranged, processes are reviewed, and timelines are established.

While the Office of the Auditor General has direct access to all departments, there can be times when the Department of Finance can be helpful with expediting responses and data submissions.

The Deputy Minister of Finance and the audit principal from the Office of the Auditor General of Canada established connections throughout the summer and had frequent meetings during the month of October to exchange information and monitor the progress of the preparation of the statements and the status of the audit. During the months of May through October, weekly meetings occur between the comptroller and the director of financial accounting, reporting, and compliance from the Department of Finance and the audit director and the audit lead from the Office of the Auditor General of Canada.

These meetings are where any issues, constraints, errors, or general information are shared, discussed, or resolved, with a focus on keeping the preparation of the statements and audit on time, while ensuring that the public sector accounting standards are being met. Topics can often be a little repetitious in nature as new information or updated data comes to light. There can also be the occasional topic that needs to be referred to the deputy minister and/or the audit principal for review and discussion. This process continues throughout the preparation of the non-consolidated and then the consolidated statements, notes, and schedules until the draft consolidated financial statements are ready to submit to Ottawa for their review.

At this point, the audit principal, director, and lead take on the role of liaison between the Auditor General's staff in Ottawa and the Department of Finance. This is also the point where the audit takes on a much more technical focus as it goes through the quality control process.

The Office of the Comptroller also facilitates the scheduling of the two presentations that the Office of the Auditor General does for Management Board, namely, the presentation of the audit plan and then the presentation of the audit results. Outside of the annual audit process, the Office of the Comptroller maintains contact with the Office of the Auditor General to keep them aware of any pertinent developments, such as a mine closure or major flood issues. Items that have an impact on subsequent audits are communicated as soon as they are known.

Chair: Ms. Schultz, upon reflection, I suppose I should offer an opportunity for the Office of the Auditor General to respond to that question as well. Do you have anything to add from the OAG?

Mr. Lanthier: Mr. Chair, I would say that Ms. Schultz did a very good summary. We are working very closely throughout the year. That's such a big audit. We work throughout the year, and as indicated, we have already started the planning for next year, even if we are discussing last year's results now.

Mr. Kent: This is my final question, and it is related to the Yukon's credit rating. There are a number of different parts, so I will go through them all, and if you need me to repeat, just let me know.

Can you please comment on the importance of the AA rating Yukon received from Standard & Poor's? How many consecutive years have we received that rating? What conditions would be required for an increase in the rating? Is that something that Yukon should be or is pursuing? What conditions would require that rating to be downgraded for the territory, and what exactly would that mean for the Yukon?

Ms. Schultz: For clarity, I will first start with an introduction to S&P Global Ratings' credit rating methodology for the Government of Yukon and then reply to each sub-question in sequence.

The credit profile is determined by the assessment of the Yukon's institutional framework and five other factors: the Yukon economy; the Yukon government's financial management; budgetary performance; liquidity; and debt burden. Each of these factors includes multiple criteria for evaluation. The timeliness of reporting and accountability are two criteria that will be assessed under financial management, and the credit rating agency will likely seek an explanation for delays in the tabling of the 2022-23 Public Accounts.

However, the possible impact of these delays on the government's credit rating should be considered with the understanding that, taken in isolation, the impact would likely be limited. Regarding the importance of the AA rating that the Yukon received from S&P Global Ratings, this rating is critical to obtaining preferential interest rates, should the Yukon government go to market to issue securities or negotiate substantial loans. The rating is an important way for the Yukon

to let investors, businesses, and the public know that it is financially strong and stable and a reliable place to do business and invest.

Now, I will address the second piece regarding how the consecutive years the Yukon government has received that rating — the Yukon government engaged with Standard & Poor's in 2010 and received an AA credit rating each year from Standard & Poor's rating services up into 2016 and then from S&P Global Ratings after it changed its name in 2016.

Third, regarding what conditions would be required for an increase in rating and if it is something Yukon should pursue, an increase in rating would be the result of material increases to Yukon's economic output that leads to expanded financial flexibility and operating balances that consistently exceed five percent of operating revenues. This would mean new revenues and less reliance on the territorial financing formula. An increased rating is not something to pursue as a distinctive objective but rather comes from improved economic conditions and financial performance, which are worth pursuing on their own merits.

Finally, regarding what conditions would require a downgrade in Yukon and what it would mean for the Yukon, a scenario where Yukon receives a downgraded rating includes weaker financial discipline leading to significantly deteriorated budgetary performance, a tax-supported debt burden exceeding 30 percent of consolidated operating revenues, or materially depleted free cash levels. A reduced credit rating may have some impact on investor decision-making, such as the level of investment.

Ms. White: Mr. Chair, just before we go into recommendations, may I ask follow-up questions to the department?

Chair: Sure. Do you want to save follow-up questions for the end?

Ms. White: Sure — it's just that they don't follow the recommendations.

Thank you for the indulgence, Mr. Chair.

Just knowing that Mr. D'Alessandro said that there was an indication in 2018 that these five new accounting standards were coming, when did implementation of those new standards begin with the Yukon government — when did that process start — and why was that decision made to start when the Yukon government started?

Mr. D'Alessandro: We actually started work on the PS 3280 before I was hired. It was actually the test on my hiring process. We engaged with KPMG in, I believe, May 2021 after having worked for about a year on our own and realizing that this was going to be monstrous and we needed somebody who could give us some good instruction. We ended up choosing KPMG and were blessed, I would say, to have been able to use Bailey Church, their principal accountant on this topic. This is who the Public Sector Accounting Board turned to whenever they wanted somebody to explain what was going on. We were able to utilize his expertise and the staff out of the Vancouver office to help direct what we were going through. They were able to tell us whether or not we were going in the right direction, whether or not our assumptions would be reasonable

or not, and for the main part, as Mr. Irving mentioned earlier, we got the model down pat; we just couldn't fill in all of the questions that we needed to do the calculations and got lost trying to find proxies.

Chair: Thank you, Mr. D'Alessandro. I know that members have several follow-up questions, so I am just going to ask the Committee if we can continue with the scripted questions, and then we will get to the follow-up questions after — so, for both the members who want to have all questions here.

We'll turn to the prepared questions.

Hon. Mr. Mostyn: Mr. Chair, in its report on last year's Public Accounts, the Committee made seven recommendations to the Department of Finance. The first recommendation was that the Department of Finance continue to make further technological improvements to the Yukon Public Accounts.

What progress has been made on technological improvements?

Mr. D'Alessandro: Thank you, Mr. Chair and the member, for the question. Progress on this recommendation has been predominantly of a planning nature. The Department of Finance is investigating the implementation of software called Caseware as a means to automate much of the compilation and calculation of the various components of the financial statements at both the consolidated and non-consolidated level. Potential investments in software take time, as they must go through an approval process. Therefore, a decision on the viability of this software and possible initiation of its implementation will not occur for a few more months yet.

The Department of Finance is also investigating options to pursue an enterprise resource program, often referred to as ERPs, which would integrate all the sources of financial transactions within a single database. This would create efficiencies in enforcing spending authority, providing audit trails, and providing reporting. Not only would this assist with the year-end audit but also with budget setting, tracking expenditures, and performing variance analysis.

Hon. Mr. Mostyn: The Committee's second recommendation was that the Department of Finance continue to address issues necessary to facilitate earlier tabling of the Yukon Public Accounts. This Committee made the same recommendation in 2022, and the Standing Committee on Public Accounts at the 34th Legislative Assembly made a similar recommendation in 2021 and 2020.

What progress has been made on this process?

Ms. Schultz: Thank you, Mr. Chair. Efforts to address this recommendation have focused on recruitment and retention of qualified staff. Repeated attempts have finally begun to show results, with the hiring of a financial accountant in June 2022. In January of this year, we hired the new director of financial accounting, reporting, and compliance, and a new financial accountant joined the Office of the Comptroller at that same time. We were successful in hiring another financial accountant last month, and we have allocated an additional position to the unit, and the new hire will be arriving in January, bringing the financial accounting unit to a staffing complement of five.

All five of these staff either have or are in the process of obtaining their Chartered Professional Accountant designation. Attention will now turn to training new staff members on the Yukon government finances and the public sector accounting standards, which is anticipated to take a few accounting cycles to complete.

Along with learning about the Public Accounts and the *Financial Administration Act*, other Yukon legislation, and the *Financial Administration Manual*, the staff will require training on the government's financial systems, the structure of the general ledger, its control systems, T4A reporting, and numerous other financial accounting tasks. We are working on revising or creating documentation to map out processes, procedures, and instructions, both as a training tool and as a way to secure the institutional knowledge that the staff will develop over time.

We will then be prepared to begin discussions with entities — in particular, Yukon Housing and the Office of the Auditor General — to address the timing of the availability of audited statements at the entity level to facilitate the earlier completion of the consolidated statements audit.

There will be a need to deal with new accounting standards as well. There are two for 2023-24 and another large change in the whole financial framework which was just announced last month and will see changes to the structure of the actual financial statements.

Hon. Mr. Mostyn: Thank you very much for that answer. Recommendation 3 — the Committee's third recommendation 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.

What work has been done to include more cross-jurisdictional comparisons?

Ms. Schultz: Exploratory work to find appropriate and meaningful cross-jurisdictional comparisons has proven to be very difficult. The Yukon has unique characteristics that make finding other jurisdictions with those same characteristics rare.

To then identify and highlight meaningful comparisons between these jurisdictions proves even more challenging, so having stable data sources as well requires expertise. The comptroller's office continues to work with Economic Research in the Department of Finance to help identify potential metrics that would provide valuable data for Yukoners.

As Economic Research explores these data points, it is also exploring whether it can track this data over a continuous period to facilitate analysis of trends. Continuity and consistency of data has proven to be an issue when seeking information from numerous sources and sometimes even from a single source, as shown by the recent issues with the gross domestic product — also known as GDP — estimates used in several of our financial statement discussion and analysis charts in the Assessment of Fiscal Health section.

In November 2022, Statistics Canada updated GDP values for all Canadian jurisdictions for 2011 through to 2021, so several people who reviewed the draft financial statement discussion and analysis raised questions about the changes in the GDP charts. We have included a — quote — “Caution to the Reader” that explains that the GDP numbers are economic estimates and are subject to change from year to year, as data is updated.

Chair: We have two more questions which I will ask on behalf of the Committee, and then we will allow for follow-ups from members.

On recommendation 4, the fourth recommendation in the Committee’s report on last year’s Public Accounts was 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.

This Committee made the same recommendation in 2022, and the Standing Committee on Public Accounts of the 34th Legislative Assembly recommended that the department prepare and execute a plan to comply with the implementation and disclosure requirements of the new accounting standard in 2021.

Can you please comment on this recommendation and what progress the department has made?

Mr. D’Alessandro: Thank you, Mr. Chair, for the question. Staff from the Office of the Comptroller worked to implement and comply with the disclosure requirements of the new PS 3280, Asset Retirement Obligations. This work was reviewed by staff of the Office of the Auditor General of Canada and a third-party consultant who they engaged to review the technical aspects associated with the standards, including the calculation of the estimated liabilities. As a result of this process, some items related to the square footage of buildings and discount rates required adjustments to be made to the government’s formulas. Adjustments to these items resulted in revised estimates that were included in the statements.

Work will occur annually to maintain compliance with disclosure requirements and to maintain the accuracy of the estimated ARO reliabilities and related TCA components. Each year, there will be substantial work to verify the status of each ARO; review estimated amounts; select and defend the annual accretion rate and, if needed, the discount rate; and monitor purchases, contracts, agreements, and new or amended legislation to identify any potential new asset retirement obligation items.

Chair: Earlier, I misspoke. There are two more questions, starting now.

Recommendations 5 and 6 — the fifth recommendation was: “That the Department of Finance report back to the committee by October 31, 2023, with an analysis of the implementation of the change from PS 3270 to PS 3280 as it pertains to solid-waste landfill closure and post-closure liabilities for landfill sites.”

Recommendation 6 was: “That the Department of Finance report back to the committee by October 31, 2023, with an

analysis of the year-over-year balance of the Carbon Price Rebate Program Revolving Fund.”

On October 31, 2023, the Committee received a memo from the Deputy Minister of Finance indicating that the reports requested by the Committee would not be provided until after the distribution of the 2022-23 Public Accounts. On November 16 when the Committee prepared its hearing questions collectively, the Committee had not yet received either report.

What is the current status of the analysis requested by the Committee?

Mr. D’Alessandro: The requested analysis has been completed and written reports were made available at the same time as the Public Accounts were tabled. For those who may not have reviewed the reports on your website, I will go over them now.

First is: “That the Department of Finance report back to the committee by October 31, 2023, with an analysis of the implementation of the change from PS 3270 to PS 3280 as it pertains to solid-waste landfill closure and post-closure liabilities for landfill sites.” The Yukon government owns and operates 23 landfills. Landfills fall under the *Environment Act*’s *Yukon Solid Waste Regulations* and so are required to have closure plans that create a legal obligation to perform certain closure and post-closure activities. An external consultant is retained every three years to update the estimated cost of the closure and post-closure activities. The estimate is based on the net present value of the expected future cash flows to pay for the closure and post-closure activities.

Note 13(b), “Landfill sites” on page 54 and the table on page 55 of the 2021-22 Public Accounts indicated 28 landfills with liabilities of \$12,283,000. Of these landfills, only 23 qualified as AROs; the remaining five were dumps that were never operated as landfills and so do not fall under the *Environment Act*’s *Yukon Solid Waste Regulations*. Those five dumps and their related liability of \$2,043,000 have been reallocated to the contaminated sites liabilities under the existing PS 3260.

Prior to PS 3280, Asset Retirement Obligations, the Yukon government followed the guidance in PS 3270, solid-waste landfill closure and post-closure liabilities, to account for landfills. Based on the similarities between solid-waste landfill sites and other asset retirement obligations, the Public Sector Accounting Board repealed PS 3270 and included solid-waste landfills in the scope of PS 3280. Therefore, effective from April 1, 2022, the implementation date of PS 3280, solid-waste landfills will be accounted for based on the same guidance as the other asset retirement obligations.

Under PS 3270, the closure and post-closure estimated liability was recognized incrementally as each landfill site’s capacity was used. Full liability would not be recognized until the site reached the end of its life. As of March 31, 2022, a liability of \$10,240,000 was reported in the financial statements in the 2021-22 Public Accounts.

With the adoption of PS 3280, PS 3270 was repealed. As a result, the government’s existing environmental liabilities for the 23 landfills were zeroed and new ARO liabilities were determined based on the guidance in PS 3280. Under PS 3280,

the full liability was recognized upon implementation of the standard, which effectively accelerated the timing of the recognition of the full liability. For April 1, 2022, the ARO liability for landfills was estimated at \$16,279,000. This represented a net increase of \$6,039,000 in booked liability and had an equal negative effect on net financial debt.

At the same time, landfill ARO assets were recorded with a net book value of \$2,411,000. The balance of \$3,628,000 decreased accumulated surplus as the net landfill impact on the implementation of the new standard.

In the fiscal year ending March 31, 2023, an accretion expense of \$407,000 and an amortization expense of \$82,000 were recorded in the statement of financial operations. In addition, a reduction in estimate of the ARO liability of \$1,167,000 and the ARO assets of \$603,000 was recorded that reduced the ARO liability to a total of \$15,519,000 and the ARO net book value to \$1,726,000 as at March 31, 2023. A table was included in the report that showed the flow of these transactions related to the transition from PS 3270 to PS 3280 and the net impact on the financial results for 2022-23, namely, that the transition had a negative impact of \$5.3 million on net debt and a positive impact of \$1.7 million on net book value of tangible capital assets, which netted to a negative impact on accumulated surplus of \$3.6 million.

I was going to pause here and allow members to ask questions, but I think that the Chair would prefer that I continue.

Now, on to the second report — “That the Department of Finance report back to the committee by October 31, 2023, with an analysis of the year-over-year balance of the Carbon Price Rebate Program Revolving Fund.” The report is based on the chart that is included in the Public Accounts’ Financial Statement Discussion and Analysis section on page 13 of the *Yukon Public Accounts 2022-23*. I will pause for a second if anyone has their copy and wants to flip to that. The chart depicts the cash flow that has occurred since the inception of the carbon price rebate revolving fund.

Since the first receipt in 2019-20, \$64.3 million has been received from the Government of Canada, while during the same time frame, \$39.4 million has been distributed to the eligible groups, leaving \$24.9 million as the outstanding liability to be distributed. The undistributed portion represents 38.7 percent of the total received.

Closer review will reveal that there is a distinct separation between the categories of eligible groups that fall into a push or a pull payment method. In the push category, we find the allocations for individuals, municipal governments, and First Nations, which are distinguished by the fact that the Government of Yukon can push payments out to these groups either through direct payments through the government’s payables system or, through arrangements with the Canada Revenue Agency, the government can initiate the payment process to ensure that the funds are distributed in a timely manner. Looking at each of these groups, we find that First Nations have no balance owing, as 100 percent of the funds allocated to them have been distributed to them. Their payments are issued every March 31 by standard process.

Next are the municipalities, which have a balance of \$0.8 million, which is the amount received during that fiscal year on their behalf. It was paid out to them on April 3, the first business day of the following year. They always show a balance outstanding at the end of the year due to the fact that we always pay them at the beginning of April. So, they will always have a balance.

The final group in the push category is the individuals allocation, which has received \$28.9 million since inception, while the funds disbursed total \$26 million even, leaving an outstanding liability of \$2.9 million, or 10 percent of the total received for this allocation.

Again, the government can ensure payments through its annual process of estimating the following year’s amounts to be received plus the current outstanding balance to estimate the amount to be disbursed quarterly by CRA during the next benefit year that runs from July to June.

Since that estimate has to be provided well in advance to CRA to be incorporated into the following year’s payments, less than complete information is available, but based on the benefit year cycle, they are close. For example, on April 5, 2023, CRA issued \$1.6 million to individuals, reducing the outstanding balance by more than half, with the June payment still to go before the new estimated values kick in for the next benefit year’s payments.

In the pull category, we have the business and the recently added mining business allocations for which the Government of Yukon has received \$32.3 million since inception, while the funds disbursed to the groups totalled only \$11.1 million, leaving an outstanding balance of \$21.2 million, or 65.8 percent of the total received for these allocations.

The pull category is distinguished by the fact that the Government of Yukon cannot initiate payments, but rather, the eligible businesses must pull their payments by making claims through their corporate tax returns. The uptake of claims was initially impeded by the fact that the main tax software packages used by many businesses did not facilitate making the appropriate claim.

The Fiscal Policy unit in the Department of Finance has worked with the vendors of these tax software packages to ensure that the ability to claim the rebate is included in their software. Uptake has increased to the expected levels since this update to the software and as businesses took advantage of their ability to revise prior returns to claim rebates from those prior years. Based on data that Fiscal Policy can access in the CRA system, they estimated that, during the fiscal 2022-23, claims worth \$18.9 million had been submitted by businesses but had not been confirmed by CRA through the cash-flow process that we use to capture the carbon rebate revolving fund transactions.

Taking these claims into account, the outstanding balance for the business allocations on March 31, 2023 would drop to \$2.3 million, or 7.1 percent of the total received. The surplus in the business allocations represents the timing difference between when CRA pays the Government of Yukon the carbon proceeds and when the CRA charges the Government of Yukon for payments made on its behalf to businesses. There can be a significant lag of up to 16 months between when CRA rebates

a business and when CRA takes its reimbursement from the Government of Yukon.

In the 2022-23 Public Accounts and all future Public Accounts, we will note for public disclosure the fiscal policy's estimate of these entitlements that have not been confirmed by CRA. You will notice a footnote now at the bottom of that chart.

In conclusion, the outstanding balance of the carbon rebate revolving fund on March 31 must be taken in the context that it is based on the cash flow to date of varying systems with multiple timelines — for instance, the Government of Yukon's April to March fiscal year, the federal government's tax year of January to December, the CRA's July to June benefit year, and the variable year-end dates of each business entity. On that basis, the balance of the carbon rebate revolving fund can be seen to be reasonable and evidence that funds are being disbursed in compliance with the enabling act.

Chair: Thank you, Mr. D'Alessandro. A note for Committee members and listeners that those reports were submitted to the Committee on November 22 and are available on our website.

Recommendation 7: The final recommendation in the Committee's report on last year's Public Accounts was that the Department of Finance conduct an analysis of the capital expenditures variances at the mid-point in the fiscal year.

What progress has been made on this recommendation?

Ms. Schultz: The Department of Finance refers the Committee to the work and reporting provided with the *Supplementary Estimates No. 1* during the fall session, when this information is routinely used to inform the revised budget forecast. As per Yukon government's *Financial Administration Manual*, referred to as FAM, the Department of Finance periodically analyzes the operations and maintenance and capital expenditures. All departments are required to submit periodic formal variance reports to compare forecasted annual expenditures, recoveries, and revenues to those budgeted amounts.

There are two mid-point check-ins per year where the analysis of submissions is conducted. The outcome of the analysis results in potential supplementary estimates that are tabled in the Legislature. These adjustments in the capital budgets are also discussed in the interim fiscal and economic updates that are published in the Fall alongside the first supplementary estimates. The interim updates have a dedicated section providing an update to the five-year capital plan based on any adjustments brought forward through the supplementary estimates.

There are several factors that impact planned capital expenditures through the years, and these are carefully considered at variance exercises. The Department of Finance works closely with the Capital Planning office within the Department of Highways and Public Works. Ongoing global and national trends, including inflation and supply chain disruptions, can often result in shifting labour and construction material costs for important capital projects. The Government of Yukon monitors and manages these pressures to ensure responsible spending, while prioritizing the needs of Yukoners.

The smaller size and remoteness of the territory are a few other important factors that influence the capital planning process. For example, our smaller size means that we need to carefully consider the capacity and availability of the private sector and the construction industry when planning capital projects, which can be less of a concern in larger jurisdictions.

The remoteness of our communities is another important consideration for capital projects, since work in these communities creates additional complexities in planning. Construction companies will have more limited options for transporting materials and housing workers in remote areas during the construction of a project.

These two factors make it even more important to be flexible and to periodically adjust capital budgets throughout the year. For example, there may only be one road providing access to a capital project site, and if that road is not available, it can have a significant impact on the timelines for the project. Likewise, if there are fewer contractors available to work on projects in smaller communities and a particular contractor becomes unavailable to work on a project for some unforeseen reason, they can have a significant impact on the project, given the limited number of alternative contractors.

These are just a few examples of factors that require potential adjustments to the capital budgets at variance exercises and supplementary estimates.

Finally, I will refer the Committee to the annotated Standing Orders, dated May 5, 2021, which, on page 72, follows clause 45(3) with the following: "As the Public Accounts are automatically and permanently referred to this committee it may examine any expenditure included in the Public Accounts." The mention of "included" is to highlight the concept that the expenditure is in the Public Accounts, which only records the past year's transactions. Further down, it continues with: "The committee does not examine expenditures that have not yet been reported in the Public Accounts."

In conclusion, based on that and on the existing process that I just described, we feel that this work is already performed.

Chair: Thank you. That concludes the questions that were collectively determined by the Committee and submitted to witnesses in advance. I know that several members have follow-up questions now, so we will proceed with those.

I believe that the first one that I cut off was Mr. Mostyn, so please go ahead, Mr. Mostyn.

Hon. Mr. Mostyn: Thank you very much, Chair; I appreciate this. I just want to take one second to thank everybody for the discussion this afternoon. I found it very enlightening, so thank you for coming up and being here.

After the thorough description of the challenges that the imposition of the five new accounting systems posed for people this year, I can only imagine how much work went into this audit this year. It's incredible, and having gone through audits at the workers' compensation, trying to meet a deadline for an annual report with the audit committee and always going up against that deadline at the end and all of the to-and-fro between the audit team and the financial people trying to sort this thing out, I can only imagine how difficult it would have been this year, implementing these five accounting standards. I'm just

shocked that it was only three weeks late, given the amount of work that went into this year.

Given that — in 2008 and 2009 — I believe Mr. Irving volunteered that the government, after being nine months late, was given a warning. I was wondering why the OAG went with the conditional ruling this year, given that we were three weeks late. There is a discrepancy there and I'm just trying to figure out the process.

Mr. Lanthier: Thank you for the question. I think what is important here and what we're trying to reflect is that the timeliness of the Public Accounts is very important for your role and for what you're doing, as well as for Yukoners — so, for you to be able to ensure the accountability of what is spent as well as look at the finances of the government and how they are reported to help you have the right information to make timely decisions for what's coming up.

As mentioned earlier, our report focuses on two things. One of them is the authority, and it's clear that October 31 is the deadline and it's clear that it was missed, so we are just reporting the fact that it was missed. I don't have all the facts of 14 or 15 years ago and what the decision was at the time, but I can assure you that this decision was made with consultation with everyone in the office and we really feel comfortable that this was important. We considered that this was material for the users of the financial statements and it's something that we wanted to bring to their attention.

Ms. White: I'll get one in for sure and I might have to ask another one.

We talked a bit about the implementation of the five standards and how they started, and we talked about some of the challenges and complications of this year's audit. We also talked about the recommendations that are ongoing from the Office of the Auditor General and how there are those regular conversations.

Do you feel that there have been steps put in place or systems put in place to make the next ones easier? Have we learned from the struggles of this first one, knowing that we had these five to implement? We did it the first time.

As an example, Mr. D'Alessandro mentioned that initially it was thought that PS 3450 would be so much easier and it turned out that it wasn't easier at all. Have we learned from this go-round of the Public Accounts with those new standards? Do we anticipate that they will be smoother in the next go-round?

Ms. Schultz: I think that we spoke mostly around the staffing, because that has largely been one of the challenges that we have been faced with — the recruitment, retention, and attraction of staff who have their certifications or are working on them. Now that we have a full complement with the additional FTE that we have assigned from within our department to focus and support these changes moving forward, the mapping and documenting processes to retain that information in the department, and building that capacity and corporate knowledge in a way that it can be easily transferred, as we will naturally have a turnover of staff — I think that this is setting the foundation of a stable unit that can address the changes coming forward while dealing with a higher workload. We hope to make some progress on automating processes,

because that will really speed up time and make those staff members available to do auditing as well as to do less manual labour that takes time.

Chair: Mr. D'Alessandro, do you have something to add?

Mr. D'Alessandro: I would add the caveat that every new standard is different. You have to take into account what that standard is about. This year, with PS 3400 on revenue and then PS 3160 on public/private partnerships — those are going to be different types of issues that need to be reviewed. Ms. Schultz is dead-on that having more people who understand what that jargon means when they read it is going to be very helpful as opposed to having to explain it to everybody who is touching it every time they see it because they don't understand — what are these public sector accounting standards, anyway?

We have our *Financial Administration Manual*; we have our *Financial Administration Act* — I follow those. They don't understand sometimes that when we are actually doing the consolidated statements, we are moving out of that realm and into the public sector accounting realm and we are actually not reporting departments anymore; we are reporting functions and we are reporting to a different standard that we are held to by an external force. So, there is a level there that hasn't been dealt with as well as I would have liked to for the last four years, but we are making progress on it. We just have to be ready for the fact that it takes interpretation of that standard to understand what exactly the disclosure is going to be and what is coming.

I would haringer that the new PS 1202 that is scheduled for April 1, 2026 will be the next ARO, because that is another standard that is huge in its scope and that is where we will have to focus.

Chair: Just a note for everyone that we are slim on time, so if there are questions, please keep them fairly short.

Ms. White: Just around the automation, you mentioned Caseware as a software program. To the best of knowledge from both the Auditor General's Office and folks in the Yukon, do we know if this software is being utilized by other Canadian governments?

Mr. D'Alessandro: Caseware was actually developed by the old chartered accountants of yesteryear, who are now the new CPAs. So, it is an — I am going to say — industry-specific piece of software created by accountants for accountants. We are currently using it in the Management Board Secretariat to create the main estimates and the supplementary estimate books. The Housing Corporation and Liquor Corporation are both using it to create their financial statements, so we have incidents of it already in the government.

It is a fairly broadly used piece of software that was, as I say, developed by the old CICA, Canadian Institute of Chartered Accountants, from yesteryear. It isn't new; it has been around a long time. It is getting dusted and cleaned and brought into the cloud with everything else, so it is being kept current. It is a fairly reliable piece of software that has been around and people are maintaining it.

Mr. Irving: I am aware of another government that uses Caseware and other territorial corporations that use it, so we have seen it in other organizations.

Hon. Ms. McLean: Thank you very much and I want to just thank the witnesses. I have one question but maybe a follow up, depending on the answer.

We heard the Department of Finance talk today about the expertise that they had to bring on, particularly KPMG. Did the Auditor General's office have to bring in additional expertise to navigate the new standards when working with the Government of Yukon?

Mr. Irving: We are auditors, but when it comes to determining the cost that it requires to clean up asbestos, we did go and hire our own consultant to make sure that the cost that the government was using was reasonable. That is something that we did do during this audit.

Hon. Ms. McLean: I'm just curious about what that entailed. Were there changes brought as a result of that expertise? Were there any changes brought forward to Government of Yukon, and if so, when did that happen?

Mr. Irving: We consulted with our expert. We had spent a lot of the summer working with both organizations — Yukon government and Yukon Housing — on some of the issues that we discovered with the square footages, so that's something that we did. There were some recommendations that were brought to our attention. I don't think there was anything specific on the Yukon government itself, but on one of the territorial corporations, there was one observation brought forward, but our expert agreed with some of the assumptions that were used. We brought forward the issue with the discount rate because, with inflation going so high in the past year — and we saw the prime rate increase before year-end — that was one of the areas that we did discuss with them.

Chair: If there's none other from my colleagues, I'm going to just add in one final question for the auditors, if I could be so bold.

In their opening remarks, the auditors noted that they would be issuing a management letter with recommendations for addressing weaknesses. Can the auditors provide some information about what a management letter is and when we might expect to see that?

Mr. Lanthier: Yes, a management letter is common in our audits. We issue them all the time to different entities. Essentially, when we conduct our financial audit and we identify an opportunity to strengthen internal controls, streamline operations, or enhance financial reporting practices, we will issue a management letter that includes our observations, our recommendations, and a management response. So, we have issued a management letter in the past. We will issue one this year. It is not issued yet; it will be issued in the upcoming weeks. This year will focus mainly — there are different areas — on incomplete information, inaccuracy of some information, and timeliness of information.

Chair: Last chance for follow-up questions.

Okay, I believe that the Department of Finance has some closing remarks that they would like to present.

Ms. Schultz: The Department of Finance is always looking to refine our approach to the preparation of the Public Accounts and make it as efficient and transparent as possible to ensure that the information is of use to as many Yukoners as possible, as well as to those who access our documents outside the territory. The Committee offers an opportunity to facilitate that with its recommendations and through discussions like those we had today.

This Committee also allows us to highlight the collaboration between the Office of the Comptroller, departments, and public corporations to prepare the government's financial statements. It really is a government-wide project with a lot of moving parts, and I want to recognize all the experts we rely on to provide accurate reporting on their programs and organizations down to the smallest financial details.

I also want to give my thanks to the Office of the Auditor General of Canada once more. Their positive working relationship with the Department of Finance is critical in producing the Public Accounts. Also, thanks to the members of the Standing Committee on Public Accounts for your time. I would like to thank David. This is the first year I was able to work with him, but it is his last year doing the Yukon Public Accounts. It was a pleasure to work with you.

Chair: Did we know that? I don't think that I knew that this was David's last year with us. Anyway, thank you very much. I have some closing remarks as well. It's 2:59 p.m., so that is perfect.

Before I adjourn this hearing, I would like to make a few remarks on behalf of the Standing Committee on Public Accounts. First of all, I would like to thank the witnesses from the Department of Finance and from the Office of the Auditor General of Canada. The purpose of the Public Accounts Committee is to help ensure accountability for the use of public funds. Public hearings like this are an important part of this work.

This is only the start of the Committee's consideration of the Public Accounts for the 2022-23 fiscal year. We will hold another hearing to ask additional questions in the new year.

With that, I would again like to thank all of those who have participated in and have helped organize this hearing. A special thanks to Hansard, who we assured that this would be done quickly, but we tricked them.

I now declare this hearing adjourned.

The Committee adjourned at 3:00 p.m.