



**PROVINCE OF NEWFOUNDLAND AND LABRADOR
HOUSE OF ASSEMBLY**

Second Session
Fiftieth General Assembly

**Proceedings of the Standing Committee on
Public Accounts**

July 5, 2023 - Issue 4

Public Accounts Consolidated Summary Financial Statements and Related Matters in the
Annual Report of the Office of the Auditor General

Published under the authority of the Speaker of the House of Assembly
Honourable Derek Bennett, MHA

PUBLIC ACCOUNTS COMMITTEE

Public Accounts Consolidated Summary Financial Statements and Related Matters in the Annual Report of the Office of the Auditor General

Chair: Helen Conway Ottenheimer, MHA

Vice-Chair: Sherry Gambin-Walsh, MHA

Members: Scott Reid, MHA (via video conference)
Pleaman Forsey, MHA
Brian Warr, MHA
Jordan Brown, MHA

Clerk of the Committee: Bobbi Russell

Appearing:

Office of the Auditor General

Denise Hanrahan, Auditor General
Sandra Russell, Deputy Auditor General
Brian O'Neill, Assistant Auditor General, Financial Audit

Office of the Comptroller General

Julie Moore, Comptroller General
Peter Andrews, Manager of Public Accounts and Banking
Lisa Warren, Director of Government Accounting

House of Assembly Service

Evan Beazley, Committee Clerk
Kim Hawley George, Law Clerk/Clerk Assistant (A)
Mark Jerrett, Policy, Planning and Research Analyst

The Committee met at 10:15 a.m. in the House of Assembly Chamber.

CHAIR (Conway Ottenheimer): Good morning, everyone. I'm very pleased to call this meeting to order. I am the Chair of the Public Accounts Committee, Helen Conway Ottenheimer, MHA for the District of Harbour Main.

Welcome, everyone, to the Public Accounts Committee hearing on the Public Accounts consolidated summary financial statements for the year ended March 31, 2022, and related matters contained in the *Annual Report of the Office of the Auditor General* dated February 2023. Thank you to the witnesses for your appearance today, as well as the Auditor General and officials from that office.

The Standing Committee on Public Accounts is dedicated to improving public administration in partnership with the Auditor General. The Committee examines the administration of government policy, not the merits of it, and strives to achieve consensus in its decisions, whenever possible. Members take a non-partisan approach to their work on the Public Accounts Committee.

So I have a couple of housekeeping remarks first of all before we get into the hearing. I would like to remind participants that this is a public meeting and their testimony will be part of the public record. Live audio will be streamed on the House of Assembly website and an archived version will be available following the meeting. *Hansard* will also be available on the website once it is finalized. For the purposes of the audio recording and *Hansard*, when called upon to speak, I'll remind participants to raise their hand for their microphone to be activated. The red tally light on the desk next to the mic will turn red when it's on. I had a little bit of difficulty earlier but it's working perfectly now I'm advised. You need to also identify yourself each time that you speak, please.

Witnesses appearing before the Standing Committee of the House of Assembly are entitled to the same rights granted to Members of the House of Assembly respecting parliamentary privilege. Witnesses may speak freely and what you say in this parliamentary proceeding may not be used against you in civil proceedings.

So I'm first going to start with introductions and then we will proceed with the swearing or affirming of witnesses. I am, as indicated, the Chair of the Public Accounts Committee, Helen Conway Ottenheimer, MHA for the District of Harbour Main.

S. GAMBIN-WALSH: MHA Sherry Gambin-Walsh, Vice-Chair of Public Accounts.

J. BROWN: Jordan Brown, MHA for Labrador West.

B. WARR: Brian Warr, MHA, Baie Verte - Green Bay.

P. FORSEY: Pleaman Forsey, MHA, Exploits.

S. REID: Scott Reid, coming in to you from Stephenville, MHA for St. George's - Humber.

CHAIR: As well, over on the other side ...

D. HANRAHAN: Denise Hanrahan, Auditor General.

S. RUSSELL: Sandra Russell, Deputy Auditor General.

B. O'NEILL: Brian O'Neill, Assistant Auditor General.

J. MOORE: Julie Moore, Comptroller General.

L. WARREN: Lisa Warren, Director of Government Accounting.

P. ANDREWS: Peter Andrews, Manager of Public Accounts and Banking Services.

CHAIR: Thank you, everyone.

I welcome you all and thank you for your introductions. I would now ask that the Clerk administer the oaths to the witnesses, please.

Swearing of Witnesses

Ms. Julie Moore.
Ms. Lisa Warren
Mr. Peter Andrews

CHAIR: Thank you.

Now, at this point in time, I will ask the Comptroller General to please make, if you wish, an opening statement.

J. MOORE: Thank you very much.

I'd like to thank the Public Accounts Committee for asking us here today to discuss a topic near and dear to our hearts, the Public Accounts. This opening statement is just to provide a little bit of background on the work we do at the Office of the Comptroller General and to tell you the environment we work in, as well as some background on the Public Accounts. Apologies if you know all this already.

The Office of the Comptroller General is the branch of the Treasury Board Secretariat responsible for, along with the Department of Finance, administering the *Financial Administration Act* to ensure adequate controls over all government revenues, expenditures, assets and liabilities; as well as entity internal audits under the *Transparency and Accountability Act*, developing significant and appropriate government-wide financial accounting policies and procedures; providing transaction processing services for payments made to government and revenues received by government, which are authorized and approved and in keeping with the appropriation voted by the House of Assembly; internal audit services to departments and entities; and administering

and processing and compliance of payroll, leave, time and attendance transactions for some 30,000 government employees, teachers and pensioners. To complete these activities, we are also responsible for several of government's largest financial and payroll processing systems.

The Office of the Comptroller General also supports government's Audit Committee in its work related to internal audit, Public Accounts and fraud management policy and awareness. Similarly, when asked, we provide advice on financial and internal audit matters to the House of Assembly Audit Committee. The Comptroller General provides support to departmental comptrollers and, in partnership with the Department of Finance, helps to build financial capacity and professional development for the accounting profession in government.

We proudly oversee the chartered professional accountancy office in government for young accounting students to achieve their professional designations.

In terms of the Public Accounts, the Office of the Comptroller General maintains the books of the province, prepares the provincial financial statements and related reports which form the Public Accounts and complete financial reporting and analysis of government-wide revenues and expenditures.

The Government Accounting Division is one of our four divisions. In relation to the preparation of the Public Accounts, we have a total of five full-time professional staff, of which two are here today. Plus, we utilize junior technicians as well as accounting students to help us in that work.

Public Accounts are prepared in relation to the financial position of the province as at the year-end, which is March 31, and then the Public Accounts are required to be tabled by November 1, annually. However, in practice, the preparation for Public

Accounts starts right after tabling – we really do get down to work. We work with the Auditor General’s office to ensure our schedules of activities dovetail with their work plan.

There are a number of steps required to compile the Public Accounts in terms of gathering all the information required from departments and entities, but also in terms of applying correct accounting standards. Government follows public sector accounting standards; these are authoritative standards for financial accounting and reporting developed through an organized standards-setting process and issued by a recognized standard-setting body.

Accounting standards specify how transactions and other events are to be recognized, measured, presented and disclosed in public sector entities financial statements. The objective of such standards is to meet the needs of users of the financial statements by providing the information needed for accountability and decision-making.

While we have a significant standards-setting process, professional judgment is required as there are many situations which require interpretation of those standards. Professional judgment involves accumulated knowledge and experience gained through a relevant accounting or audit training and by making use of ethical standards. This allows us to make informed decisions about the courses of action that are appropriate in specific circumstances.

As a note, like lawyers or carpenters, not all accountants will agree on a course of action. Our knowledge and experience help guide us in making decisions on often very complex cases through thorough analysis. At the Office of the Comptroller General, we spend a significant amount of time researching, analyzing and discussing an item before we make a judgment on the appropriateness of an accounting treatment

and required presentation and disclosures. We strive to ensure our statements fairly represent government’s underlying transactions.

Generally, we discuss and share our analysis with the Office of the Auditor General, who is in a unique position to have an in-depth understanding of government’s financial statements. The Comptroller General’s office is a professional accounting organization. We are committed to ensuring we meet our accounting standard requirements to allow for a clean, unqualified audit opinion on the financial statements of the province. A clean opinion on our statements means they are free from material misstatement.

The Auditor General has identified that our Public Accounts have had a clean opinion for the last 28 years, a record of which we are really proud. While the clean opinion, as we call it, is the gold standard, the audit of the Public Accounts may identify items of concern related to internal control, accounting practices or compliance. These may not be sufficient to cause a change in the audit opinion but are items we work on improving over time, based on priorities and resources available.

The Auditor General’s team will identify these management letter items for follow-up when they feel certain areas of accounting need further review. The Office of the Comptroller General will assess such items as required and either implement or provide additional information as needed for further discussion with the Auditor General in an effort to resolve any outstanding items.

The Office of the Comptroller General is a strong supporter of the role and mandate of the Auditor General in her work on the Public Accounts, performance audits and other activities. We have enormous respect for her professional team and do our best to meet their needs as they work through the audit of the Public Accounts.

As well, while many departments and entities may not report directly to the Comptroller General on all areas of their mandate, we do our best to promote good internal control, complete and accurate accounting and an environment of continuous improvement in government. We strive to provide awareness and advice in that regard.

In terms of the current year, we are working through the implementation of five new and significant accounting standards as part of this year's Public Accounts. We have three further to implement next year. This is a significant element in the preparation of this year's Public Accounts.

So that's the end. Thank you very much for inviting us to attend and we're ready to take any of your questions.

CHAIR: I think we're going to start with MHA Scott Reid from St. George's - Humber, who is present with us virtually.

S. REID: Hi. Everyone can hear me?

So I have some questions related, I guess, to the overall stability of the provincial fiscal situation in relation to the deficit, the net debt to GDP ratio and dependence on oil revenue.

I just wanted to ask in terms of the net debt, it's \$16.37 billion. So I'm just wondering in terms of concerns about the future stability in terms of increased interest rates, do you anticipate any issues arising from increased interest rates or does the term of the borrowing mitigate that in some way? I'm just wondering about the nature of that issue and with interest rates increasing.

P. ANDREWS: I don't expect, at this point – there would probably be a little bit more detailed information from Treasury Management on it, but the interest rates, due to the term of the current debt that we have outstanding, may not have an immediate impact on what we have. But,

obviously, as we do have to refinance some of that, there could be an impact to the interest rate.

S. REID: In terms of the dependence on oil revenue, I notice that's been up and down over the years. In terms of the percentage of the provincial revenue that's oil royalty generated, I'm just wondering is there any concern about the stability of that and how could that be mitigated or what actions have been taken to mitigate that?

L. WARREN: I think from our perspective we've seen essentially a stabilizing of the amount of oil revenue that's there. I think the province has tried to expand its other source revenue. We're starting to see that adjust slightly for the future.

So, I mean, we do mention it in our management discussion and analysis. We provide the history of this in the past and, I guess, we look to government to see if there are policy changes they would like to implement around use of that as a continued support to the province and the amount of that in the future.

S. REID: I'm just wondering about natural resource revenue. In terms of other sourced revenue, in comparison to, how much of that is also resource-based revenue, royalties from mining, for example, things like that.

L. WARREN: We really don't, I guess, break out the other types of natural resource revenues. There is, I guess, the Mining and Mineral Rights Tax, so that's \$194 million for 2022. A significant portion of that increase there is related to iron ore price increases.

S. REID: Yeah, I guess the sort of point I'm getting at is the volatility of natural resource revenue and the future of the oil industry. I'm just wondering, in terms of the future stability of our finances, what sort of impacts could that have and what actions have been taken to mitigate any of those possibilities?

J. MOORE: I guess from the general perspective I think government has tried to look at building other areas – which I've sort of said before – to increase the revenue. From our perspective, we provide a backward-looking statement. In terms of what we see, there is a concern around natural resource-type of revenue. But we do know that there has been a stabilizing of some of that over the last few years.

It continues to be a significant piece of our financial statements as we go forward.

S. REID: Yeah. I was just interested in that there has been a fair bit of academic literature in relation to how countries manage oil revenue and how that impacts their financial stability in the long run. I was just asked a few questions related to that.

Back to debt expenses, our debt expense is about 11 per cent of total revenue. How does that compare to other provinces of Canada. Is that a sustainable rate?

J. MOORE: I don't have figures in front of me on cross-Canada, but I know our debt position is a concern and a worry for us. I know our per-capita net debt has been slowly increasing. Maybe a little less so this year, but it continues to be a concern and something that I think government is trying its best to address. But at the end of the day, you know, our report provides the existing deposition as it is and I think we still need to have concern around that.

S. REID: Also, the AG's report talks about demographic factors and cost of living but in terms of coming from a rural district one of the issues that I wanted to highlight or question you about was the demographic issues for the whole province but especially in rural areas the aging population and the decline in population or the stabilization at low levels of population in rural areas. In terms of service delivery and cost of service delivery and those issues, do you see that as an issue in terms of our financial stability and how do you see those issues evolving

over time? What actions would you suggest to mitigate those factors?

J. MOORE: We do note in our risks market and demographic factors as a concern. We do identify and I do think we note in some of our – we try to provide balance in our financial statement discussion and analysis document. But, no doubt, the aging demographics and certainly, you know, the location of those demographics is a worry.

We do note that the population increase achievable through migration and some of those are partially offset by our older population over time. So I think the thought is that there would be a continued trend and a worry about demographics over time and I think government has tried to address some of that and we sort of spell that out in our analysis.

S. REID: Okay, thank you very much for your answers. I certainly appreciate the work that you do for the province and the value of the information that you and the people who work in your office provide.

Thank you very much.

J. BROWN: Thank you.

I just have a few questions. First, I want to start off, I notice in the report from the AG's office recently, it talked about the Comptroller's access to getting and compelling submissions from different departments and stuff in government. I was just wondering out of your office, is there any work being done right now to actually help you compel departments and other government agencies to provide information to your office so you can do the work in the Public Accounts?

J. MOORE: Thank you very much for that question.

We are aware of a couple of instances where we have some folks that don't believe they should either be in the entity itself or

feel they should provide that information. In a couple of cases, we are reassessing. We have got some new information and we are reassessing whether those entities should be in government's reporting entity included and we may very well have an adjustment in the case of those entities.

We do have one entity that has been a problem for a while and we are working with the department first to find out their intent around their legislation for that entity. Then once we receive some confirmation from them on that, we'll then proceed to figure what is it we would intend to do around gathering the financial information.

We don't believe any of these entities are material on the financial statements, so they just don't have the volume that would impact our statements but we agree with the Auditor General that there is a concern here around the need for this information. I'm not sure if it's all cases, but in one case we still receive the financial information because government has a committee and we can receive their financial statements via that committee. So we actually report on the actual results of that body anyway. But we do have a work plan, I guess is the long and short. We have a work plan to try and get ourselves into a position on those entities noted.

J. BROWN: Excellent, thank you.

Under Loans, Advances and Mortgages Receivable, is there any review or anything to identify the accounts that are no longer reasonable for recovery or anything like that? Is there any work ongoing with that and, if so, what's the timeline on that?

J. MOORE: We do have a project that is on the go right now. We've asked our Professional Services and Internal Audit group to help us take a look at what's outstanding there. We agree with the Auditor General fully on that, that there have been a number of accounts that have been outstanding for a period of time with

departments and they have been fully written off from the perspective of they've got 100 per cent allowance against that debt. So, in other words, it looks like they aren't collectable. We're doing the piece of work to make sure they aren't collectable and our intent then would be to help the departments provide a submission for writeoff consideration in the future. So we have an active project and we're hoping to complete that this year, if we can.

J. BROWN: Excellent, thank you so much.

Moving on there to another question, the release date of the consolidated summary, it continues to be – I know it says in the legislation you have until November of this year, but it doesn't really follow along with other jurisdictions, most notably the Prairies, the provinces have released theirs almost in June, July every year and other provinces even sooner than that.

What is the big hold up from your perspective that we're one of the last provinces to report and by the time we report, we're almost into the next fiscal year?

J. MOORE: I mean, each province has their own approach and how they do things and their own legislation, which guides how they do and what they do and why they do it. We have some legislation that dictates to us that we have a certain accounting type that requires a write back for a period in April. That does, no doubt, push us a month forward.

That said, I think it just takes time for us to gather that information from the departments and entities and to put it together and then we start immediately to work on the audit-related issues, et cetera.

So, I think, every year we look and we try to make things concise and tightened and try to get them out the door as quick as we can, as where we're to. Like everybody, we would like to see our Public Accounts

processes as early as possible. But, no doubt, we do have some requirements and a large footprint that we're trying to consolidate.

We do have a project this year for us to take a look at ways of making this a little more consolidated, but I will say, there's a policy decision here as well required for government in terms of changing legislation, how we issue main supply, our Estimates process and our financial systems that would all be required in order to make that adjustment. I don't see that being taken place this fiscal year for sure.

J. BROWN: Absolutely.

Any other suggestion would you make as the one on the inside, I guess, to say other than legislation changes, everything that – what other changes do you think would need to be made to bring us on par with the rest of the country because we're clearly the outlier right now.

J. MOORE: I think that we can look at some of the things the Auditor General has said, which is use of Estimates and things like that in our submissions. We would want to be very careful in that, as we know we have had ongoing discussions around Estimates with the Auditor General, et cetera. So that would be one area we could look at and we could look at our IT systems, et cetera, to see if that might help us.

But, ultimately, we have to ensure that our entities are onboard with us in getting that information in as quickly as possible and as accurately as possible. We strive to do that all the time.

J. BROWN: Excellent. Thank you so much.

Just another question there. Based on the, again, I'd say 2015-16, the government switched to a zero-based budgeting system. Has that caused any issues with the Public Accounts or reporting the consolidated summary or has that caused any issues

based on getting these projections and stuff out the door on time that we'd like to see a bit faster?

J. MOORE: I don't think so. I'm just looking to my team and we don't think that has caused us any concerns or issues, no.

J. BROWN: Excellent. Thank you so much.

Moving on to fraud investigations and that. We have seen that there has been an uptick in reporting and everything like that. I know it is like a double-edged sword. Is it because we're reporting more fraud or is it an increase in fraud?

From your take on that, is there a balance there that just more people are reporting it now or we're catching it more or is it more that more people are committing fraud within the public service, especially due to the charge cards.

J. MOORE: Thank you.

It is a great question because it is something that we were talking about earlier this year. Our fraud numbers are about the same as last year, so there actually hasn't been that much change. We're committed with our fraud program to try and reduce to zero – we have a zero tolerance for fraud in any form knowing that these are taxpayer funds we're all stewarding.

We do think that over time we will see improvement on our use of reporting and we're happy that reports are coming in and the whistleblower act and those types of things help provide security to folks who want to report.

We think that we've tackled some of the issues. We think the credit card fraud, we were very strong in coming out, the Comptroller's office was and we think we've reduced that, at least to a much lower level, but fraud is something that we know will be with us, as it is with any other organization,

despite our discomfort and inability to fully stop it at 100 per cent.

J. BROWN: Thank you so much.

With that, from your perspective, are there any other mitigations or recommendations or thoughts that could be done, especially around using charge cards in government? I know it's a lot more – my past in work, it's a lot better than when you had to go around with a PO book and write out everything and all that stuff, but it is more efficient that way.

But is there anything that you think we should recommend or introduce when it comes to these kind of cards and issuing these cards and what kind of limitations or restrictions could be put on them to help probably reduce fraud?

J. MOORE: So we have implemented, actually, I'm glad you said that. We've implemented a number of significant changes. We've worked with our departmental controllers and with the Public Procurement Agency as well. We think the cards are still going to be needed in the future, but one of the things, for instance, we did this year was reinstitute a list or a report to all the controllers to ensure that all existing people who have those cards, who haven't used them, can we cancel those cards? Do we need to really have them there and that they are doing regular reconciliations on those cards so that we know that they're being properly paid and received and they're for proper goods and services.

We've reinstated or, I guess, recomunicated with them to ensure that they are talking to people in their departments about just what they're holding in their hand when they have those cards and the proper ethics and awareness around use of those cards for government purchases only.

J. BROWN: Thank you so much for your time.

B. WARR: Hi, again, and good afternoon and welcome.

I'm just going to continue on with my colleague's questions with regard to fraudulent issues. But first of all, again, I want to thank you for being here today, and I certainly want to congratulate you as well on your 28 years of having a clean opinion in your financial audits. So congratulations on that.

With regard to issues in departments of possible fraud within departments, you mentioned in your last statement that you strive for zero tolerance here. We realize that deputy ministers are the head of expenditures in the departments in government. Can you tell me if there's a consistent policy to deal with such issues and, if not, why?

J. MOORE: So we definitely have a consistent policy. It's called our Fraud Management Policy. We rolled it out a number of years ago and we have a whole program built around that that takes into account prevention and detection, awareness and training, a risk assessment process, as well as reporting and investigating instances of fraud.

So just to walk through just a little bit, in terms of the policy, we're very clear. Departments and Comptrollers and people in departments are aware that we have a zero tolerance. In other words, we must investigate every instance. Every instance has to be reported to the Comptroller and to the Auditor General. As well, frauds are also reported to our Audit Committee, as well as to Cabinet through the Minister of Finance based on the Auditor General's reporting. Everybody is watching and looking and making sure that we're doing all our due diligence around when we see an incident.

The second thing is we have awareness and training. We do have a training course. Every new employee in government must take that course. We promote, at all

opportunities, awareness around fraud in government. We have an annual risk assessment survey that my Internal Audit team does with every department. They must fill out a series of questions, which probably annoy them all to no end. But they fill out a series of questions on internal controls and any areas of weakness that they may find.

Then we promptly will deal with them in terms of how are you going to address some of those areas and we have some follow-ups for instance, this year, planned as well with those departments that have high-risk items. Generally, by the way, some of the high-risk items tend to be things where they have cash balances.

We also have a formal reporting process, as we said, and we have an investigation process that we provide to departments so that they can thoroughly investigate. I know I personally take a look at all of those investigations and make sure internal control is improved. So if there was an area where we saw a fraud occur, I will go through that, along with the director of Internal Audit, to have a look to see have we improved the internal controls so that this doesn't happen again wherever we can.

Then we also do broader training in terms of overall – we just did one on our finance professionals' development day, not only in government, but all across the entities on how you take care and ensure you are properly implementing that Fraud Management Policy.

B. WARR: Thank you for that.

Something that has obviously been a huge cost to taxpayers in the province is, in my opinion and a question that I've been wanting to ask for a long time, and that is the abuse of sick leave within government. I'm wondering if you share the same concern and are there actions that we can provide or ways to mitigate the abuse of sick leave and, if you can, can you tell us

what it's costing the taxpayers of this province? I.e. sick leave and overtime in lieu of. Would you have a figure you can put to that?

L. WARREN: Well, the sick leave expense was \$33 million in 2022. That was a decrease from \$54 million on the prior year.

B. WARR: Are we saying \$33 million in sick leave?

L. WARREN: Expense, yeah.

B. WARR: Expense? Okay. I would've thought it was so much higher.

J. MOORE: That's our Public Accounts figure from last year. That would have been what the departments and all the entities would have told us. In terms of actions we can take, we do in our payroll division make sure that departments are aware that they're properly recording and reporting sick leave. The abuse of that, I think, is something that all departments and deputies need to manage in terms of their own lines of business and what that's for.

I guess in terms of overall approach around that, it would be a government policy decision. But we'll certainly take it back with us and raise as an issue that you're raising.

B. WARR: Okay, thank you.

Again, I think my colleague had mentioned earlier on in his remarks about the long-standing receivables to government. I guess my question is, what is the plan to write off? Specifically, we all hear reports continuously in the media about last night a driver was pulled over who owes \$22,000 in outstanding fines and the vehicles were impounded (inaudible) the dollars. What's the plan to mitigate or write that off, for instance, that particular one that I addressed?

J. MOORE: I think the ones that were noted by the Auditor General, although I could be

wrong, but I think the majority of those were longer, probably larger debts that have been outstanding for a period of time, loans and those types of things.

B. WARR: Okay.

J. MOORE: I guess the taxes or the fines receivable that you're talking about, would be managed by the Department of Justice. I would suggest that they would go through the full collection, aging collections process before they would be written off. So in the collections process you send out letters, then you look to either taking assets or trying to get a hold of other types of ways of collecting that revenue. Then they would make that presentation to government for write-off purposes. They would not, I don't think, be able to write those off without having gone through an extensive process and we haven't seen them do that. I will say the sheer volume of them does mean that there is a number outstanding.

B. WARR: Okay, thank you.

With regard to our financial position with bond-rating agencies, what's the magnitude of the financial impact maybe on an upgrade or a downgrade? I don't know if it's a fair question, but what's the financial impact that an upgrade, for instance, can have to the province?

P. ANDREWS: The impact that can have on that is obviously if we've got an upgrade on it, it's positive in the bond-rating market, so then when we do future borrowings on the market you can get more beneficial rates and lower interest rates. As that bond rating slips, then you get into higher risk bonds when we're borrowing money, which could lead to higher interest rates. So the cost, it would mostly be around debt expenses.

B. WARR: Thank you, Chair.

P. FORSEY: Thank you for being here, of course, and we appreciate the time you're giving us this morning.

I do have a couple of questions, just start from the beginning. When will government conclude its release on its rate mitigation plan?

J. MOORE: I don't have a figure for that. I don't have a timeline. I know that they're actively working through. There is a committee and we have provided some input in certain accounting areas, but I don't have a timeline for that yet. I think it is very active.

P. FORSEY: Okay.

Offshore royalties and decommissioning, are we on target for those recoveries with regards to the decommissioning costs?

P. ANDREWS: As far as I understand with it, the decommissioning of some of those wells is still a fairly significant number of years out, so it's a very complex calculation as to how some of that can be recovered from those royalties that are paid. So I think, as far as I understand, we are on target with it but we haven't reached the point yet of getting close enough to decommissioning dates and knowing what those decommissioning dates are to calculate the impact on it.

P. FORSEY: Okay.

With new energy developments, of course, are we balanced with regard to revenue expectations and the royalties?

J. MOORE: Are you meaning in the offshore or are you meaning wind hydrogen?

P. FORSEY: Wind basically right now, seeing we're moving in that direction.

J. MOORE: I think government is still at a very early stage around it. As far as I know, we haven't been engaged yet to look at the actual accounts around it but I think government is proceeding down a path. So we are preparing that we will be called in to

have some discussions around what that revenue would look like, what that would mean to our financial statements, how we would account for that, those types of things. It wouldn't be us, as such, establishing a revenue regime. I guess IET probably would be the department responsible for helping with that, and Finance, of course.

P. FORSEY: Okay.

So that would be the same, I guess, for remuneration fees and that sort of stuff for decommissioning with regard to those projects, right?

J. MOORE: Yeah, I would think.

P. FORSEY: All right.

Government assets, do we have a regular updated review of public assets?

J. MOORE: Do you mean in terms of – like we have an accounting system that we use to track government assets and we our track government assets as well as those of the entities in our Public Accounts, I should say. Our asset system requires update monthly by each department and we would do it annually for each entity. So we do have regular tracking in that sense and then we track when an asset goes into service and when it comes out of service and we would reflect that in our Public Accounts.

P. FORSEY: Okay.

The P3s, there have been some issues with P3s, I do believe, but with regard to payments to P3s, are we paying on P3s before the projects are completed?

P. ANDREWS: Typically, the way the agreements are worded is that we wouldn't make any payment to the public proponent until the time at which the asset itself goes in service. So in a couple instances that we have now with long-term care facilities, it is not until the facility is ready to be used that

we would make a payment on it. At that point, we'd typically – based on the agreements we have right now – would make a lump sum payment to start the project and then the monthly or quarterly payments for operating and capital will continue from there. So we don't normally make any payments on it until they are in service and start being used.

P. FORSEY: Okay.

Loans and mortgages, what steps are being taken with regard to delinquent accounts?

J. MOORE: So departments would be in charge of their own loans and receivables and managing their processes. Government does have a centralized provincial collector for smaller debts, I would think, but bigger debts would normally be managed by the departments. The Comptroller's office provides support and assistance as needed to departments to help them, but there is a write-off process in government they would have to follow in order to come in and ask for a writeoff of a loan or a debt.

I will say that we do watch that number regularly in our Public Accounts and make sure allowances are properly recorded against that for any uncollectable or amounts in jeopardy.

P. FORSEY: Okay.

With regard to fraudulent activity, are there steps being taken? You know we've had examples in the past of fraudulent examples. Are these being enhanced with regard to the steps being taken with regard to fraudulent activity?

J. MOORE: So we have instituted a fraud program government wide, and we are regularly watching all of those frauds as they come in, if they come in, and trying to ensure that they don't happen again. We intervene and try to make sure with the department that they don't happen again.

Every one of those is investigated and reported properly.

It is a good question because I think the focus that this kind of a Committee raises certainly helps us with awareness in government broadly to have that kind of discussion and indicate that we have no tolerance for fraud at all in government.

P. FORSEY: All right, that will conclude my questioning.

S. GAMBIN-WALSH: I have three questions.

I'm going to start out, as per the AG's report, regarding the High Sheriff's office. It said the financial statements for 2019-2021 year not available until potentially the fall of 2023, and those statements for '21-'22, it's questionable when they are available. So what are you doing or what is the department doing to assist the High Sheriff's office in getting that information to government?

J. MOORE: Thank you very much for that question. We did assign our Internal Audit team to go in and work with the High Sheriff. They did have some turnover and issues similar in their office that caused a delay. It's a significant delay and appropriately raised by the Auditor General for sure.

So '17-'18 statements have been provided and I think they've been audited now. The '18-'19 statements were also submitted and I suspect they're audited as well. The '19-'20, our understanding is they are going to be submitted in the fall and so it will take a little bit of time for those to get audited. They won't stop; they'll continue on. But I will say to get 2020-2021 and '21-'22 will take a little bit of time.

For sure this issue isn't going to go away until we get through the completion of those statements. So it does take time to gather them up but they are addressing them, they

are working through and our team is doing our best to help them where we can.

S. GAMBIN-WALSH: Are we putting anything in place to prevent this into the future?

J. MOORE: I guess that would be really a question for the department but we will take it back and ask if they've got any plans for how to prevent in the future. I suspect the department is very concerned with this as well and would be addressing as well.

S. GAMBIN-WALSH: Right, okay. Thank you.

My next question is, what action is being taken to address the concerns raised in the audit management letters?

J. MOORE: Good question.

We noted all of these issues and, as I've said, these are not sufficient enough in and of themselves to qualify the statements but they are a big worry and concern to us because we would like to ensure that our statements are clean and everything inside of them is properly working. We recognize the Auditor General's role in helping us improve and be a better organization administratively.

We do have a full work plan around all of these items. I think my estimate was of the – I think it's 15 or 16 – items that were raised, we anticipate 10 to 11 of them would be fully completed by year-end. Most of the others would be in some form or other in progress.

There are a few that will take time. As I just said, the Office of the High Sheriff will be one. Some of the accounting related to our government reporting entities would be another. Certainly, the modified equity or the use of a write-back period for our Public Accounts would be a third that will take us time to get through. But we do have a work plan and we're working through.

S. GAMBIN-WALSH: Okay, thank you.

My third thing, I just want to go back to the fraud and time theft. One thing that the pandemic has created is – and the cost of living – people are taking on second jobs and they're doing a lot of jobs at home on their own computers, just bringing in a little bit of extra income. That's going to be really difficult to detect the time theft component when you're out of government, when you're elsewhere working. But within government are there any new policies, procedures, anything going to be put in place or being discussed or in place to deal with time theft?

J. MOORE: I'm not aware of new policies around that other than we have work-from-home policy. That work-from-home policy speaks to performance management. That means that in order to be approved for work-from-home policy, you should have an appropriate key performance indicator and measure to ensure that staff are meeting their outputs and requirements. At the end of the day if they're not, then they are probably not a candidate for continued work from home or alternate work arrangements, let's say.

I think at the end of the day that's the way we will catch the majority of those types of situations. I know we did have one fraud case this year where there was somebody operating in a different job entirely while they were – I guess not pretending – conceivably working with government as well. That was caught. Where we do find these situations, we would consider that a fraud and we would fully investigate and address, either through the police or through HR-related protocols.

S. GAMBIN-WALSH: Okay, thank you very much.

CHAIR: First of all, going to the issue that the Auditor General raised with respect to the fiscal situation of the province and how that is of significant concern regarding the

deficit and the net debt. Taking off from that, when I look at the net borrowing, the fact that net borrowing has increased by \$1.1 billion, and as of March 31, 2022, both the net debt and the accumulated debt are more than what they were at the end of the previous fiscal year. So that increase of \$1.1 billion, and its impact – I guess, what I would ask you, does that \$1-billion figure concern you with respect to the sustainability or the vulnerability of our fiscal situation going forward? If it does concern you, are you confident that measures are being taken to address this increase?

J. MOORE: We did note in our management discussion and analysis document the trending and did discuss our concern around that trend. However, it is a government decision on whether to borrow or not and how to address. We do know that government has implemented a Future Fund now, as well, to offset some of the risk around some of the measures there.

I guess, in the future, we would want to keep an eye on that fund and see where that is heading and also on the trending related to our revenues and expenses over time.

CHAIR: Okay, thank you.

We've had a number of questions here by the Committee Members regarding the fraudulent activities with respect to the numerous incidents of potential fraudulent actions by recipients of government funding or government employees and the reporting of that. So you've indicated that there is a Fraud Management Policy and program in place and so that's very encouraging to see, which looks at, you indicated detection, prevention, awareness, training, investigation, reporting and I would agree these are all important measures, but I what I wonder about is the aspect of penalty and consequences.

When we look across the board throughout departments, do we see and are you

confident that there are consistent consequences, consistent penalties for those fraudulent or criminally minded bad actors? As we know, deterrence is very important in preventing future crime. So we need to know if there is any kind of effective, consistent policy to penalize and have consequences for fraudulent behaviour.

J. MOORE: That's a great question.

What I will say is you hit on an important point. There is some employee fraud but most of our fraud tends to be through our programs and services offered in one form or other. In terms of how we address, we do require that that investigation methodology be completed in each circumstance. That methodology does require answering the question of whether you have reviewed with HR in the case of an internal fraud or whether you have proceeded to report to the police.

We will look for that as part of our review and make sure that follow-up is completed in terms of what happens in those cases. So yes, it is consistent in that we do require it and we do look for that. What we've often found is that despite the fraud that's there, it's very small in terms of the actual dollar value of loss to government. I think our estimate this year was \$100,000, which is fairly reasonable – not that that's a good way to say fraud is reasonable but, to be fair, for an organization the size of government, we think we're doing a good job with the fraud policy, notwithstanding that you can't catch 100 per cent of fraud, even if you thought you could.

So, yes, we do think we have a consistent policy that we're doing and we think that it is making a difference.

CHAIR: Okay, thank you.

With respect to the rate mitigation plan and one of my colleagues, a Committee Member, raised a question regarding the

timeline and if you had any idea when that would be finalized. What I would ask about is we know that the Auditor General has raised concern about the implementation of this plan, that it may have a significant impact on the province in future years, do you share the Auditor General's concern? If so, what specific concerns do you have?

J. MOORE: I think rate mitigation is a material impact to our financial statements so in that sense, yes, we would want to ensure that we have good accounting around the measures that are going to be put in place and the proper reporting and disclosures so that the people of the province – the users of our statements – are well informed around all of the aspects of rate mitigation.

So we do want to make sure we're part of the discussion, once those decisions are made and we are involved in having an accounting discussion as well.

CHAIR: Okay. Thank you.

Also, with respect to the relationship between the Estimates process and government accounting, there are concerns that there is an outdated process in place. We're wondering, with respect to any kind of amendments to the act or do you agree with the suggestion that we need to modernize our accounting practices, we need to ensure timelier release? So could you please clarify what your position would be on that concern?

J. MOORE: I think we would argue that we do have a good, modern accounting practice; I think we do. Could we improve our processing of the Public Accounts? We think we probably could a little. We're aiming this year to shave some time through some efficiencies and working a little closer with the Auditor General on some of their processes as well. We definitely don't want the Auditor General to have to work harder because that helps us proceed with a quicker Public Accounts as well.

In terms of overall changing the legislation, et cetera, we do have a project, as I said, on the books to have a look and provide some information to government, but it is a complex and significant change and would take time to implement.

CHAIR: Okay. Thank you.

That concludes my questions as well.

Member Scott Reid, would you have any further questions for the Comptroller General or her officials?

S. REID: Yes, I do.

Just a couple questions related to – one related to the Pooled Pension Fund and the other one related to the Sinking Fund. I guess in some ways they are just general questions, follow-up on the management letter issues that were raised in the AG's report.

But in terms of general sort of information, I'm wondering in terms of the Pooled Pension Fund, how is that managed? Can you tell me a bit about the fund? How is it performing compared to other pension funds?

The issue there was identified that a terms of reference does not exist to guide an oversight committee. So I'm wondering what is the role of the oversight committee and the whole way the pension fund is managed? What is the role of the oversight committee? Why is a terms of reference important in that context and what sort of thing should a terms of reference outline?

J. MOORE: So I think in terms of – I don't have in front of me how the Pooled Pension Fund is doing in comparison to the other funds. I think the majority of our pension funds have done better in recent years, but I don't have it in front of me to give you specifics unfortunately.

In terms of oversight, there is I guess – I forget if it's a board of governance or a committee that's in charge. In terms of the terms of reference, that, in my view, would include roles and responsibilities around areas for each of the members who sit on that committee, how they manage and report on the fund and when and how that reporting should look and perform, is what I would think. As well as any of the, you know, if they have any provisions related to investments and their investment policy, those types of things. I would think all of that would be included in their terms of reference. It's sort of like a guidance document.

My understanding is that these have been developed. The concern that was raised by the Auditor General was heard loud and clear and that terms of reference has been developed. So I'm hopeful it's finalized by the time the next audit rolls around.

S. REID: Yeah, I guess I'm just interested as well in terms of how this fund is managed. Is there an outside group that is contracted to manage that fund or is it done internally? How is that fund managed? I'm just wondering about that and I'm wondering what is the role of the oversight committee in relation to the operation of that fund?

J. MOORE: I think this is the one that's managed internally here in government, so that committee would be in charge of ensuring that the fund is properly discharging its requirements in terms of reporting and taking in the investments it needs in order to maintain self-sufficiency over the long term.

S. REID: Okay.

In relation to the Sinking Fund, I'm just wondering if you can tell me a bit more about the Sinking Fund, how it operates and what the purpose of the Sinking Fund is. Also, what is the role of the oversight board in this case? Why is it significant that transparency on how it's operated, why is

that important? I'm also interested in how that Sinking Fund performed in relation to other funds.

J. MOORE: Maybe my officials can find how it's performing, but in terms of the overall – sinking funds are established when we issue debt. So the aim would be to retire the Sinking Fund when we have to pay that debt, when that debt comes due. Usually these are long-term purchases for government or debt for government that we manage in the long term, so the idea is that when the debt becomes – it's not an incredible debt for us over time, that we have the funds put aside in order to be able to pay that debt.

In terms of oversight, similar to how the Pooled Pension Fund would work, it would also be in charge of making sure that it has sufficient assets at the end of the day and that those assets are properly invested to make a good return and hopefully help out with the debt in the long term.

The two issues noted in the AG report were in relation to the accounting standard and the minutes. Our team is working with the Sinking Fund folks on establishing the accounting standard and making sure we're in the right place for that. I think we're in the middle of doing an assessment on that. In terms of the minutes, my understanding is they have implemented a requirement to have minutes in the future.

I don't know if my team has any update on performance. We don't have the results of the Sinking Fund over time with us here, but if it's something that you wanted we could dig out that and find that for you.

S. REID: Okay.

So in terms of how the fund is managed, this is a fund that is established to retire debt. Is the fund managed externally or internally by government? Is it managed internally by government or is it managed by

a separate management group that's contracted by government?

J. MOORE: The fund itself would be managed internally by government in the Treasury Management Division of Finance. But what I would say is they may very well, similar to other cases, use an external company to help with the overall oversight of their assets and putting those into the market as needed. So if those assets are put into an investment like a T-bill or into something else, you would see them potentially using a third party to help facilitate that. But overall management of the fund itself is managed internally.

S. REID: Has the way that that fund is managed changed in recent years? Is it moving from conservative to investments or to more, I guess, mixed sort of funds, or is there any sort of change in the way that this Sinking Fund is managed?

J. MOORE: I think you're talking about their investment strategy?

S. REID: Yes.

J. MOORE: So I don't really have the details on how they manage. Although I will say Treasury Management, one of the biggest pieces they do is to try and foresee in the future on how these funds are going to perform and to do their very best to achieve the best return they can for government and the people of the province. So I suspect they have a balanced approach to. There may be some riskier elements, but there probably are a lot of non-risky elements as well, too, to make sure that they're balanced in their approach and overall return for government.

S. REID: So I'm just curious how big is the Pooled Pension Fund and how much is the Sinking Fund? How much money are we talking about here?

L. WARREN: The Sinking Fund was \$1.4 billion at March 2022.

S. REID: And the Pooled Pension Fund? How much was that?

P. ANDREWS: The Pooled Pension Fund had just over \$220 million in fund assets at March 2022.

S. REID: Okay.

So that Pooled Pension Fund, that's the pension fund for government employees. It's just government employees or is there other – like, for example, the College of the North Atlantic, would they be included in that; would Memorial University be included? I know the Teachers' Union has their own separate fund. So the pensions for which groups are included in the Pooled Pension Fund?

P. ANDREWS: For the Pooled Pension Fund, it includes the Uniformed Services, the Members of the House of Assembly and Provincial Court judges. Those are the three that are included in the Pooled Pension Fund. Public Service Pension Plan is maintained at P10, as a separate entity. Teachers are done through teachers' corporation and MUN is also monitored and maintained separately.

S. REID: Okay.

Those two funds, especially the Sinking Fund, is a big amount of money so it's important that they be managed and have the appropriate oversight.

Again, thank you very much. I don't know if there's anything else about those two issues that's important that I haven't asked, that you think is important there.

J. MOORE: No, I think those are good questions.

S. REID: Okay, thank you very much again for your answers.

J. BROWN: Thank you again.

I just have one question and it's just related to debt stability. I know that you've raised it as a concern and the Auditor General has raised it as a concern there. We're talking about our GDP and it was 45 per cent or whatever. What would be a percentage that would be more comfortable from your perspective versus our debt versus or GDP? What would be the percentage that would be more comfortable from the Comptroller's office?

J. MOORE: I don't know that I have a view to it. I think that, as a whole, we'd like to see government have a little less debt and a little more assets. But I don't think I have a percentage that I have in my mind and I'm unsure where the other provinces – I'm not sure if my team knows anywhere where the provinces are either on that.

I think our debt to GDP is actually – I'm not sure if it's decreasing so we're probably in a slightly better position than we were in prior years. So that's a good news story for us and it heartens us to know that government is trying to implement things like the Future Fund, et cetera, to give us some stability there.

J. BROWN: Thank you.

Maintaining the track of where we're going there, roughly how much more revenue should we be taking in to probably keep on this track that we're going down? Because obviously our debt-to-revenue ratios are clearly off because we're not having surpluses; we're still having deficits. On a revenue side, where should we be going with that to keep this comfortable spot that we're kind of going down now, that you seem to be saying?

J. MOORE: I mean, it really is a policy question for government to have a comfort level with. I guess from our perspective, you know, in the Comptroller's office less deficits mean less accumulated debt, means a better position for the province. We did a good job this year in coming in at a much

lower projected deficit than we projected. I guess as long as we can keep that sort of record going that would be beneficial for the province and the people of the province.

J. BROWN: Perfect, thank you so much.

CHAIR: Thank you.

I just have just a couple more questions. Going back to the question that was raised earlier about the government reporting entities and the Auditor General had indicated that the Office of the Comptroller General should conclude its review of entities to ensure accuracy and completeness and assess available options to compel the submission of information to government.

I believe that you had stated previously in your answer that there are entities that have, I guess, not been compliant. Could you just expand and clarify that a bit – I know that there are, I believe, three entities – who they are and what recommendations you may have to try to encourage or to see the co-operation, if you will, from these entities.

J. MOORE: The three entities the Auditor General noted were – I think it was two of the regional health authorities and foundations and the egg farmers – I forget what they call themselves, the egg farmers' foundation or entity. The egg farmer one is long standing for many years. In that particular case, we've gone back to the department – FFA – to seek whether or not they have any changes coming in their legislation, or if they intend to do anything with that entity before we go further and find out. We're finding that out first and then we will proceed to determine where our next steps are.

That particular entity, we received the statements anyway because government sits on an organization that receives the financial statements. They're publicly

released so we gain hold of those so we put those in anyway.

On the Eastern regional health foundations, we do have an assessment going on related to another recommendation that the Auditor General raised. We're hoping to complete that assessment; we've done a full reassessment. We have a process in government accounting where we take in and look at control and does government have control over those organizations. We do a full analysis on that to figure out if you're in with government or if you're out. If you're in, you have to give us your statements and we consolidate and put you in.

We had already done that for one of those entities and we thought they were in. We had the opinion that they were in. Now come into our hands have been changes to their bylaws and information related to how their managing that organization, which changes the overall look of control. We're reassessing to find out whether they belong in. I think we're close to finalizing that review and that will impact the other two in the recommendation as noted.

We think two recommendations will be fairly well completed by the time we get to finalizing those assessments.

CHAIR: Okay, thank you.

Another question was raised with respect to the High Sheriff's office. This was in relation to one of the management letter issues raised by the Auditor General and the financial statement audits for the Office of the High Sheriff. You addressed this already earlier, but I just want to clarify. There are, I believe, three years that are outstanding, remaining statement audits.

I'm just wondering is there any reason that you can account for these outstanding audits. The recommendation of the Auditor General was that the Department of Justice and Public Safety should assist the Office of

the High Sherriff. Do you have any comments on that? What would your recommendations or your suggestions be in terms of seeing this issue addressed?

J. MOORE: So as I indicated earlier, my understanding is they are working on these and anticipate the '19-'20 statements to be finished by the fall. Then I would guess the other three remaining statements would be a priority for them. I think it is a priority for Justice and I've indicated I will head back to Justice and reconfirm their status. I know my internal audit division has worked with the Office of the High Sherriff to provide assistance to help them try and get their reports completed.

This originally stemmed, I think, from a stretched resourcing issue. So my hope is that when I talk to Justice they will advise that that has been fully resolved, but it does take time to complete those reports and get them in and get them. So I would like to know that – my internal audit office did talk to them before we came here, actually a few weeks ago, before we knew we were coming here, to find out how they were progressing and they were continuing to progress. So we continue to monitor and watch them and we're hopeful that they will catch up in the near future, but I think it will take us into next year before they get them fully completed.

CHAIR: Thank you very much.

So I believe that concludes the questions from the Committee. I would ask if you or your officials have any closing remarks, I'd invite you now to do that.

J. MOORE: I just want to thank the Committee. I think it's important that we have a good discussion on the Public Accounts and, like I said, it's near and dear to our heart. We have a full agenda for the Public Accounts next year and we hope to have everything in good shape in preparation for the Auditor General coming in again. I know that they have a role to play

but we do consider them a big partner in the work we do and we trust their advice, too.

So we're hoping to have much of this management letter addressed by the time they come in or by the time our report – my officials will look at me and go yeah – by the time we have our audit completed anyway.

CHAIR: I think it's important to note, as the Chair and on behalf of the Public Accounts Committee, the fact that in 2022, first of all, the Auditor General provided a clean audit opinion on the Public Accounts and the consolidated summary financial statements have received unqualified audit opinion for the past 28 consecutive years, as has been noted previously by one of our Committee Members. That certainly is acknowledged and it's encouraging to see.

However, as the Auditor General has pointed out, there are issues that are still of concern and that require work. So that is I guess the purpose of this kind of public hearing, for us to review the reports of the legislative auditor and to ensure that public money is spent as the Legislature intends it to be so.

So I think that we take our role here as Committee Members very seriously. It's important because it does hold elected officials, such as Cabinet and the government to account, for how taxpayers' money is being spent and, again, how government finances are reported.

I just wanted to make that statement on behalf of the Committee. We do value, and it is important value in working together. I'd also like at this opportunity to invite the Auditor General and her officials, whether they have any comments or closing remarks at this time.

D. HANRAHAN: Thank you, Chair. I'll take my earpiece out to hear myself.

No real questions or anything like that. I just want to express our thanks to the Office of

the Comptroller General. We are very much in a partnership, I think it's fair to say, and certainly appreciate their efforts and would really like to thank the Public Accounts Committee. There is no question in my mind the engagement of the Public Accounts Committee with anything to do with my office does improve accountability in the public sector, and the partnership and support that my office feels with the PAC has been phenomenal from our perspective and we really appreciate the support.

CHAIR: Thank you.

I'd like to also thank the Auditor General, thank the Comptroller General, the director of Government Accounting with the Office of the Comptroller General and the manager of Public Accounts and Banking for being present as well. The Committee Members, of course, we are here to fulfill our role as Committee Members to ensure that government accounts for the public administration of its money and so I thank the Committee Members. I'd also like to thank and acknowledge the support team in the House of Assembly service because they work very, very hard to help us prepare for this hearing. So we thank them as well.

At that point in time, I'll conclude our hearing for today.

I'd like a motion to adjourn, please.

J. BROWN: So moved.

CHAIR: Okay, thank you.

On motion, the Committee adjourned.