



Prince Edward Island

Île-du-Prince-Édouard

Office of the
Auditor General

PO Box 2000, Charlottetown PE
Canada C1A 7N8

Bureau du
vérificateur général

C.P. 2000, Charlottetown PE
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The Honourable Speaker and
Members of the Legislative Assembly
Province of Prince Edward Island

In accordance with the requirements of the *Audit Act*, I have the honour of
presenting my 2022 Annual Report to the Legislative Assembly.

Respectfully submitted,

Darren Noonan, CPA, CA
Auditor General

Charlottetown
Prince Edward Island
March 2, 2022

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Introduction

Report Overview

The *Audit Act* requires the Auditor General to report annually to the Legislative Assembly.

This 2022 Annual Report provides findings, recommendations, and information in accordance with Section 16 of the *Audit Act*. It also includes information pertaining to special examinations completed by our Office during the year.

Following is a brief overview of my 2022 Annual Report:

Chapter 1: Office of the Auditor General

This chapter includes information on the mandate and responsibilities of the Auditor General. Summary information is also presented on our assurance engagements, Office resources, professional standards and professional affiliations.

Chapter 2: Public Accounts Committee

The Public Accounts Committee (the Committee) plays an important role in holding government accountable for the management of public resources. A primary focus of the Committee is the review of the Auditor General's Annual Report and other reports to the Legislative Assembly, and following up with Crown corporations, agencies, funds and departments on recommendations included in the report. This chapter includes summary information on the Committee and its interactions with our Office.

Chapter 3: Report in Accordance with Climate Leadership Act

The Auditor General reports annually to the Legislative Assembly the amount of the levy collected under this Act, and the amounts returned to consumers, businesses and municipalities.

Chapter 4: Report in Accordance with Government Advertising Standards Act

The Auditor General reports annually to the Legislative Assembly about those matters the Auditor General considers appropriate relating to his or her powers and duties under this Act.

Chapter 5: Update on COVID-19 Special Examination

This chapter provides an update on the status of our Office's COVID-19 special examination.

Chapter 6: Introduction to Financial Audits

This chapter provides introductory comments to summarize standards and Office responsibilities related to financial audits.

Chapter 7: Audit of the Consolidated Financial Statements

Each year, we audit the Province's consolidated financial statements. This chapter provides summary comments, findings, and recommendations from our March 31, 2021 audit.

Chapter 8: Issues Noted in Other Financial Audits

This chapter provides a summary of issues communicated to management as a result of financial audits of government organizations, government business enterprises, and trust funds.

Chapter 9: Appropriations and Special Warrants

This chapter provides summary information on appropriations and special warrants for the year ended March 31, 2021.

Chapter 10: Indicators of Financial Condition

This chapter provides summary financial information on the Province's operating results and financial position from 2017 to 2021. Information is also provided on a number of financial indicators, based primarily on the Province's audited consolidated financial statements.

implement our recommendations, which are important for improving the efficiency and effectiveness of government.

Lastly, I would like to thank the staff of the Office of the Auditor General of Prince Edward Island for their hard work to meet our reporting deadlines.

Summary Comments

The Office of the Auditor General of Prince Edward Island has a long history of serving Islanders. We conduct independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. We promote accountability and best practices in government operations.

The Office serves Members of the Legislative Assembly with integrity and independence, which is the foundation of our work. We strive to make a positive difference for Islanders. I would like to thank the departments and government organizations that assisted us in completing our audits this year. We continue to encourage senior government officials to

Introduction

Aperçu du Rapport

L'*Audit Act* (loi sur la vérification des comptes publics) stipule que le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans.

Le présent rapport de 2022 fournit conclusions, recommandations et renseignements conformément à l'article 16 de l'*Audit Act*. Il inclut aussi de l'information concernant les enquêtes spéciales ainsi que les recommandations effectuées par notre Bureau au cours de l'année.

Voici un aperçu du contenu du rapport annuel de 2022.

Chapitre 1 : Bureau du vérificateur général

Ce chapitre comprend des renseignements sur le mandat et les responsabilités du vérificateur général. De l'information sommaire est également fournie sur les missions de certification, les normes et affiliations professionnelles et les ressources du Bureau.

Chapitre 2 : Comité des comptes publics

Le Comité des comptes publics (le Comité) joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. L'une des tâches principales du Comité est d'examiner le rapport annuel et autres rapports du vérificateur général pour l'Assemblée législative et de faire le suivi avec les sociétés de la Couronne, les organismes, les fonds et les ministères sur les recommandations incluses dans le rapport. Des renseignements

sommaires sur le Comité et ses interactions avec le Bureau sont fournis dans ce chapitre.

Chapitre 3 : Rapport conformément à la Climate Leadership Act (loi sur le leadership climatique)

Le vérificateur général présente un rapport annuellement à l'Assemblée législative concernant le montant de prélèvement recueilli en vertu de cette loi et le montant retourné aux consommateurs, aux entreprises et aux municipalités.

Chapitre 4 : Rapport conformément à la Government Advertising Standards Act (loi sur les normes de publicité gouvernementale)

Le vérificateur général présente un rapport annuellement à l'Assemblée législative concernant les questions que le vérificateur général considère comme appropriées relativement à ses pouvoirs et tâches en vertu de la loi.

Chapitre 5 : Mise à jour sur l'examen spécial lié à la COVID-19

Ce chapitre fait le point sur le statut de l'examen spécial lié à la COVID-19 réalisé par notre Bureau.

Chapitre 6 : Introduction aux vérifications financières

Ce chapitre contient les commentaires d'introduction qui résument les normes et les responsabilités du Bureau liées aux vérifications financières.

Chapitre 7 : Vérification des états financiers consolidés

Chaque année, le Bureau vérifie les états financiers consolidés de la province. Ce chapitre présente les commentaires, conclusions et recommandations sommaires découlant de la vérification allant jusqu'au 31 mars 2021.

Chapitre 8 : Questions soulevées dans le cadre d'autres vérifications financières

Ce chapitre présente un résumé des questions portées à l'attention des hauts dirigeants à la suite de vérifications financières auprès d'organisations gouvernementales, d'entreprises publiques et de fonds de fiducie.

Chapitre 9 : Compte de crédits et mandats spéciaux

Ce chapitre fournit de l'information sommaire sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2021.

Chapitre 10 : Indicateurs de l'état des finances

Ce chapitre fournit de l'information financière sommaire sur les résultats d'exploitation et la situation financière de la province entre 2017 et 2021. Il fournit également de l'information sur un certain nombre d'indicateurs financiers, tirée principalement des états financiers consolidés vérifiés de la province.

Commentaires Sommaires

Le Bureau du vérificateur général de l'Île-du-Prince-Édouard est au service des Insulaires depuis longtemps. Il s'occupe d'effectuer des vérifications et des études indépendantes qui permettent de donner de l'information, une assurance et des avis objectifs à l'Assemblée législative. Le Bureau promeut ainsi la

responsabilisation et les pratiques exemplaires en ce qui concerne les activités du gouvernement.

Le Bureau sert les membres de l'Assemblée législative en faisant preuve d'intégrité et d'indépendance – la nature même de notre travail. Nous visons à générer des retombées positives pour les Insulaires.

Je souhaite remercier les ministères et les organisations gouvernementales qui nous ont aidés à effectuer nos vérifications cette année. Nous continuons d'encourager les hauts dirigeants à mettre en œuvre nos recommandations afin d'améliorer l'efficacité du gouvernement.

Pour conclure, j'aimerais remercier le personnel du Bureau du vérificateur général pour son travail acharné afin de respecter nos échéances de rapport.

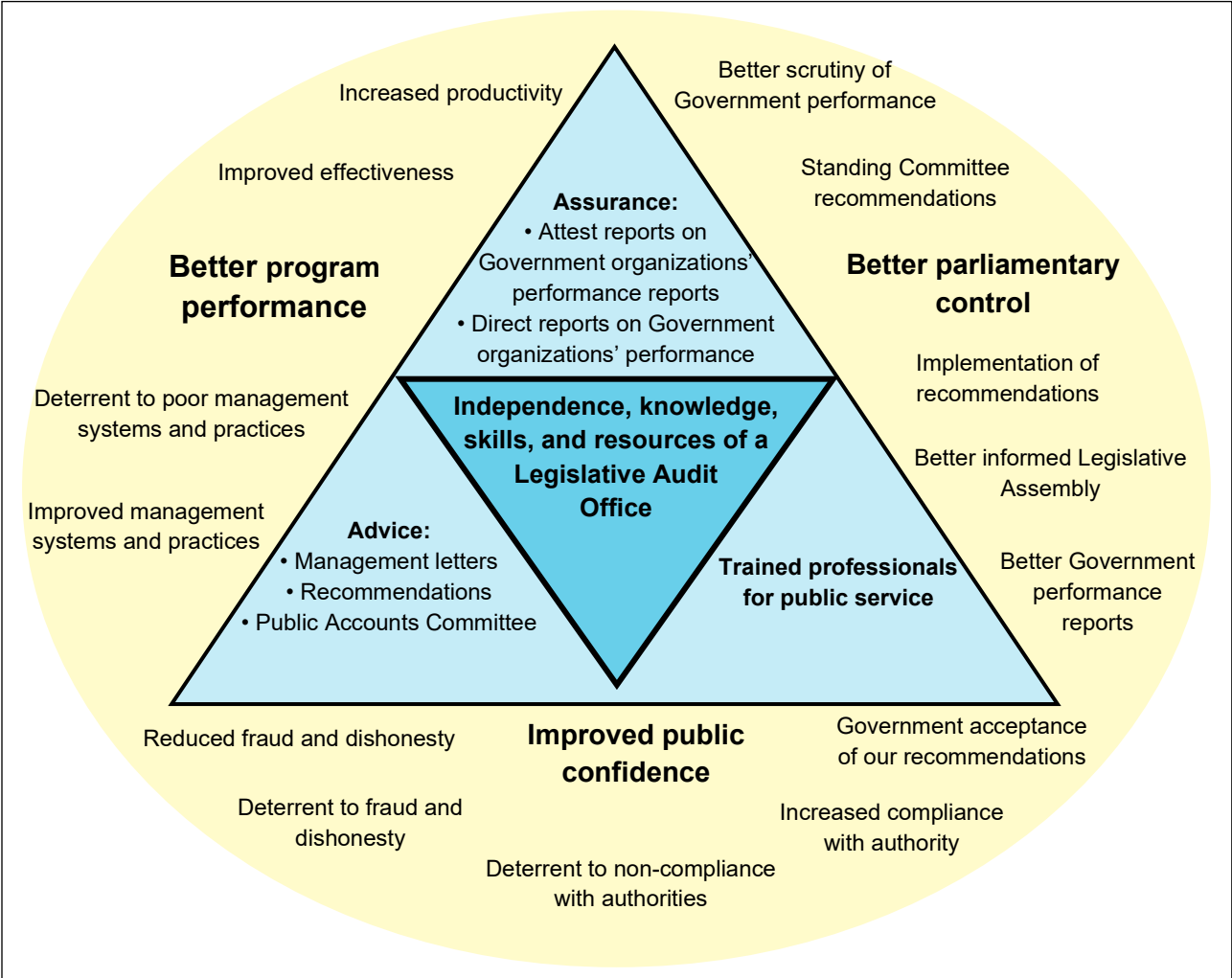
1. Office of the Auditor General

Auditor General's Mandate

- 1.1 The Auditor General is an independent officer of the Legislative Assembly appointed under the authority of the *Audit Act*. The *Audit Act* establishes the framework for an independent audit office. This independence enables the Office of the Auditor General (the Office) to offer impartial opinions, observations, and recommendations on government operations and management practices.
- 1.2 The key components of the Office's independence are:
- the authority of the Auditor General to select audits and examinations;
 - the right of access to records, information, and individuals necessary to conduct audits and examinations;
 - the power to request and receive required information and explanations;
 - the requirement to report at least annually to the Legislative Assembly; and
 - a Legislative Management Committee that reviews the Office's budget.
- 1.3 The *Audit Act* provides the Office with the authority to conduct audits and examinations of provincial departments, Crown corporations, agencies, and funds. Financial audits include the Province's consolidated financial statements, as well as various other financial statement audits. Special audits and examinations conducted by our Office include performance audits, which may sometimes be referred to as value-for-money audits.
- 1.4 In accordance with the *Audit Act*, the Auditor General reports at least annually to the Legislative Assembly. The annual report
- provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year;
 - calls attention to anything that the Auditor General considers necessary to be brought to the attention of the Legislative Assembly; and
 - includes other specific reporting requirements pursuant to the *Audit Act*, *Climate Leadership Act* and *Government Advertising Standards Act*.
- 1.5 By exercising these responsibilities, the Auditor General assists the Legislative Assembly in its responsibility to hold Government accountable for its management of public resources.

1.6 **Exhibit 1.1** provides a summary of the value and benefits provided by a Legislative Audit Office to the Legislative Assembly and the public.

**EXHIBIT 1.1
THE VALUE AND BENEFITS OF A LEGISLATIVE AUDIT OFFICE**

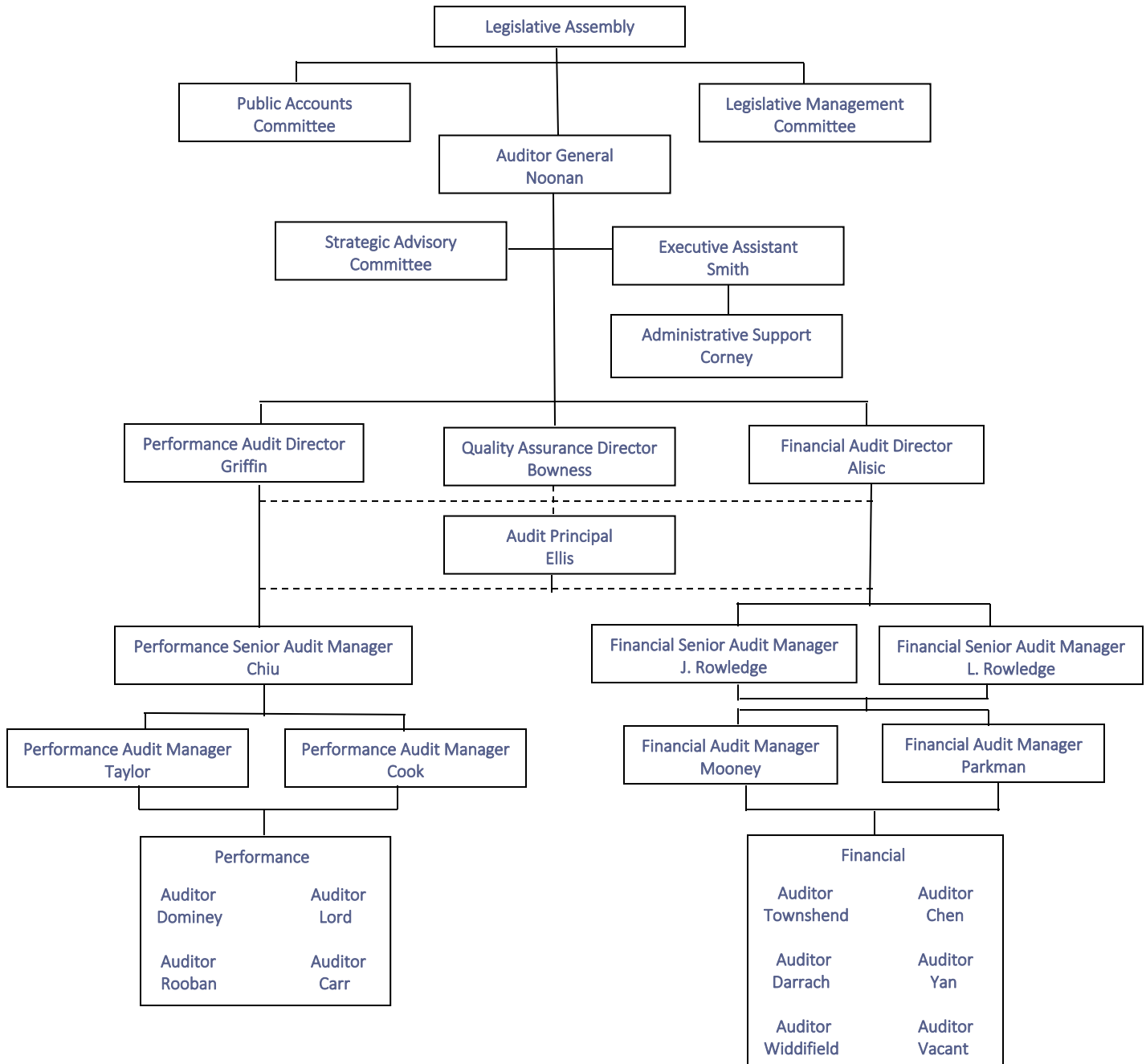


Light yellow: Value and benefits of a Legislative Audit Office
 Light blue: Key services and products of a Legislative Audit Office
 Adapted from a Canadian Legislative Auditors Working Group

- 1.7 The *Audit Act* was amended in July 2020, which expanded the authority of the Auditor General in conducting audits and examinations, and in reporting to the Legislative Assembly. As a result of these amendments, the Auditor General may now conduct work within organizations outside of government that have received government funding, and the Office may report to the Legislative Assembly more than once per year.
- 1.8 The Office staff complement consists of three audit directors, one audit principal, seventeen professional auditors and two administrative staff.
- 1.9 All audit staff in the Office have a professional accounting designation or are working towards their professional accounting designation, and continue to meet the annual professional development requirements of the Chartered Professional Accountants of Prince Edward Island (CPA PEI). We strive to provide staff with relevant and timely professional development opportunities and training. Individual staff members attend various professional courses, conferences, webinars, and meetings. Staff also participate in various committees of the Canadian Council of Legislative Auditors (CCOLA).
- 1.10 In 2020, the Office established a Strategic Advisory Committee. The Strategic Advisory Committee assists with updating the Office's Strategic Plan, choosing potential topic areas for future performance audits, and serves as a special committee to challenge our report findings before reports are finalized. During the year, the Strategic Advisory Committee met on four separate occasions.
- 1.11 During the year, responsibility for administrative oversight of the Office of the Auditor General changed to the Legislative Management Committee. On an annual basis, the Committee will review the budget estimates submitted by our Office.

1.12 Exhibit 1.2 provides the organization chart for our Office.

**EXHIBIT 1.2
OFFICE OF THE AUDITOR GENERAL
ORGANIZATION CHART**



Audits and Other Assurance Engagements

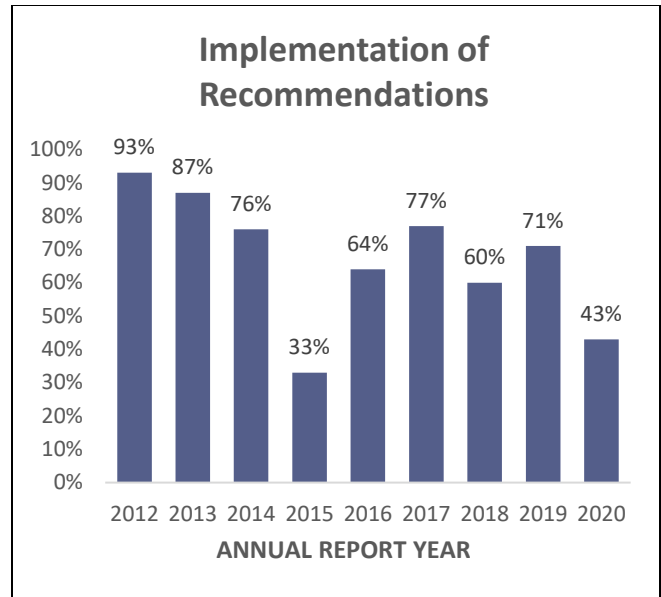
1.13 Each year, we conduct a variety of audits and examinations, some of which are mandated by legislation, while others are selected at the discretion of the Auditor General.

1.14 The Office annually completes approximately 12 financial audits, including the consolidated financial statements of the Province. On an annual basis, the Office completes a number of performance audits and examinations. Various factors are considered in establishing priorities for performance audits and examinations. In addition, follow-up work is completed on previous audit recommendations. Work plans of the Office can also be impacted by requests from the Legislative Assembly and/or Executive Council.

Performance Indicators

1.15 In the summer of 2021, our senior management team met to discuss some strategic objectives for the Office. We identified three performance targets for the Office to track our performance going forward. These performance targets are:

- 1) Meet the statutory reporting deadlines for financial audits completed by our Office. For 2020/2021, our Office performed financial audits for 12 entities, and the statutory reporting deadlines have been achieved by 58% of these entities.
- 2) Increase in the percentage of previous years performance audit recommendations that have been implemented.



These rates are based on the information in our annual report at the time our follow-up work was completed. We will follow up on outstanding 2019 and 2020 recommendations again next year.

3) Increase the number of reports issued during the year. Our Office had intended to release seven reports in 2021/2022; four reports were released and are listed below:

- Executive Council – Phase I COVID-19;
- Finance – Property Tax Arrears;
- Follow-up on Previous Audits; and
- Annual Report.

1.16 During the 2022/2023 fiscal year, our Office anticipates reporting on the following audits/studies:

- Annual Report;
- Environment, Energy and Climate Action – Forestry Management;
- Environment, Energy and Climate Action – Performance Goals versus Results;
- Executive Council – COVID-19 Phase II and Phase III;
- Finance – Future Sustainability;
- Follow-up on Previous Audits;

- Health PEI – Wait Times; and
- Treasury Board Secretariat – Government Performance Reporting.

Professional Standards

1.17 The Accounting Standards Board and the Auditing and Assurance Standards Board establish the accounting and assurance standards which apply to public sector entities and our work. In conducting our work, we rely on these standards as well as guidance provided by the Chartered Professional Accountants of Canada (CPA Canada) and other authoritative sources.

1.18 For financial audits, the Office is subject to a periodic practice inspection administered by CPA PEI, which is the regulatory body that provides oversight of the public accounting profession in the province. A practice inspection is designed to protect the public interest by ensuring Office practices meet professional standards. A practice inspection was completed by CPA PEI in 2021. The inspection confirmed that the Office was meeting professional standards.

1.19 The Office also participates in the CCOLA peer review process for financial statement audits and performance audits and examinations. This peer review process provides additional assurance that the Office is conducting audits in compliance with the applicable standards of CPA Canada. The peer review process also exposes our Office to practices and methodologies of other offices, which assists in improving our professional practices. A peer review was completed in 2021 on one of our performance audit files by a professional staff member of the Office of the Auditor General of

Canada. The inspection confirmed that the Office was meeting professional standards.

1.20 In addition, the Office complies with the Canadian Standard on Quality Control 1 of CPA Canada. This standard requires that internal quality assurance systems be established and maintained. Our quality assurance system is designed to provide us with reasonable assurance that:

- the Office and staff comply with professional standards, regulatory and legal requirements, and internal policies; and
- the reports issued are appropriate in the circumstances.

Professional Affiliations

1.21 The Office maintains an affiliation with a number of professional organizations to share information, experience, knowledge, and methodology, with a view to contribute to the ongoing development of legislative audit practices and standards. We strive to remain current in audit practices and new developments within the profession.

1.22 Key affiliations include:

- **Canadian Council of Legislative Auditors (CCOLA)** - The Auditor General is a member of CCOLA. CCOLA brings together legislative auditors of the federal government, the provinces, and the territories. Office staff also serve on various CCOLA committees. CCOLA provides an opportunity for professional development and practice improvement through information exchange, peer reviews, discussion, and sharing of audit methodologies and practices.

- **Canadian Audit and Accountability Foundation (CAAF)** - The Office has been a member and supporter of CAAF since its inception in 1980. CAAF is an organization dedicated to promoting and strengthening public sector performance audit, oversight, and accountability in Canada and abroad through research, education, and knowledge sharing.
- **Chartered Professional Accountants of Canada and Chartered Professional Accountants of Prince Edward Island** - The Office maintains an important professional relationship with these organizations. We provide input into the development of accounting and assurance standards, and receive information on various topics relevant to the profession.

2. Public Accounts Committee

Review of Auditor General's Reports

- 2.1 The Standing Committee on Public Accounts (the Committee) is charged with matters concerning the Public Accounts of the Province, the Annual Report and other reports of the Auditor General, and fiscal management. The Committee is dedicated to improving public administration in partnership with the Auditor General. Through its work and reporting to the Legislative Assembly, the Committee contributes to improvements in operations, transparency, and accountability in the Province's public sector.
- 2.2 The Auditor General's Annual Report and other reports to the Legislative Assembly are referred to the Committee for review and consideration. The Committee may request the Auditor General and other witnesses to appear and answer questions on matters raised in the reports. The Auditor General met with the Committee on six occasions in 2021 to complete the review of the 2021 Annual Report, the COVID-19 Phase I Report, and discuss various other matters.
- 2.3 During the year, the Committee has been very active in following up with Crown corporations, agencies, funds and departments on their progress with the implementation of the recommendations of the Auditor General. This is a critical component of making positive improvements to government operations.

- 2.4 The working relationship between the Public Accounts Committee and the Office of the Auditor General has been very positive over the last couple of years. We would like to thank the Committee for their interest and commitment to their work.

Committee Reports

- 2.5 The Committee reported to the Legislative Assembly on March 25, 2021 and October 21, 2021, to provide updates on its activities. The Committee made the following recommendations to the Legislative Assembly during the year:
- The Committee recommends the Liquor Control Commission and Government continue the necessary work toward fully modernizing the *Liquor Control Act*.
 - The Committee recommends that Government conduct further review of best practices in procurement, with the aim of improving our provincial procurement system; legislating procurement of services, not just goods, warrants particular consideration.
 - The Committee endorses the recommendations of the Auditor General in both his 2021 annual report to the Legislative Assembly and his report on Phase I of the COVID-19 financial support programs audit, and encourages all audited entities to implement the Auditor General's recommendations in a timely manner.

- The Committee is disappointed in the response rate among boards of directors to the Auditor General's Crown Corporations Governance Survey, and recommends that boards of directors participate more fully in any future opportunities to assess and improve corporate governance.
- The Committee recommends that government consider legislative changes to allow Crown corporations to submit provisional annual reports with draft financial statements, rather than requiring submission be delayed until audited financial statements are finalized.
- The Committee reminds Government that revenue returned to consumers, businesses and municipalities under the *Climate Leadership Act* should not exceed revenue collected, and that the Act specifies the forms in which revenue may be returned.
- The Committee recommends that detailed budgetary information on Government Business Enterprises be provided in the Estimates of Revenue and Expenditure in order to improve the accountability and transparency of these Crown corporations.
- The Committee recommends that Government follow the *Financial Administration Act* and ensure special warrants are issued before unbudgeted expenditures are incurred.
- The Committee recommends that the Department of Social Development and Housing clearly indicate and make public the criteria on which it bases its recommendations on social assistance rates and financial resources exemptions, as part of its annual review submission to Executive Council.
- The Committee recommends that Government consider amending the *Housing Corporation Act* to establish a multi-member board of directors.
- The Committee recommends that the Department of Social Development and Housing review and strengthen its assessment processes across the programs.
- The Committee recommends that if the Auditor General needs additional resources to complete the original, full-audit plan for Phases II and III of the COVID-19 Financial Support Programs Audit, he consider requesting it according to the terms of the *Audit Act*.

3. Report in Accordance with *Climate Leadership Act*

- 3.1 The *Climate Leadership Act* (the Act) became official on April 1, 2019. The purpose of the Act is to charge a levy on carbon for purchasers and consumers of fuel, in an effort to reduce greenhouse gas emissions in the Province to less than 1.2 megatonnes of carbon dioxide equivalent per year by 2030. In return, the incremental revenue from the carbon levy may be used only to provide rebates, credits, rate reductions or fee reductions to Islanders. The Minister of Finance is responsible for the administration of the Act.
- 3.2 The Act stipulates that there will be a levy on fuel at rates as listed in the Act. The levy shall be collected by registered agents and remitted to the Government on a regular basis. There are special rules around items such as mixtures and blends of fuels and rebranded fuel. The Act does provide certain exemptions and provides details on offences and penalties that may be issued.
- 3.3 In accordance with Section 2(3) of the Act, the Auditor General is responsible for reporting annually to the Legislative Assembly on the amount of the levy collected under the Act, and the amounts returned to consumers, businesses and municipalities. This report is compiled based on the information prepared by the Province and it is consistent with the audited consolidated financial statements of the Province of Prince Edward Island for the period ended March 31, 2021. We performed a few additional procedures to verify the accuracy of this report, but less than would be

required to provide an audit opinion. Accordingly, we are not providing an audit opinion in regards to this report, as no such requirement is stipulated in the Act. This report is prepared solely in accordance with the requirements of the Act and should not be used for any other purpose. Refer to **Appendix A** for our Engagement Report.

- 3.4 We report that for the period of April 1, 2020 to March 31, 2021, a total of \$17,751,000 was collected by the Province as carbon levy revenue under the Act. This balance was returned to Islanders through the following initiatives: reduction in gasoline tax rates, Active Transportation Fund projects, reductions in motor vehicle registration costs for electric and hybrid vehicles, and a reduction in transit fees. These initiatives totaled approximately \$17,894,000 over this period and are broken down as follows:

Reduction in gasoline tax	\$ 12,817,000
Active Transportation Fund projects	4,971,000
Registration of motor vehicles*	60,000
Transit fees (10% subsidy)	<u>46,000</u>
	<u>\$ 17,894,000</u>

*Subsidies were provided at 50% of registration fees for non-plug-in hybrid vehicles and 100% of registration fees for electric or plug-in hybrid electric vehicles.

- 3.5 The total amount returned to Islanders during the period of April 1, 2020 to March 31, 2021 was \$143,000 higher than the carbon levies collected, which constitutes a slight net loss for the Province.

3.6 The carbon pricing plan between the Province and the Federal Government expired on March 31, 2021, with no new approved plan currently in place. As a result, the carbon levy rates have remained the same for the 2021-22 fiscal period. Future agreements on carbon pricing have the potential to significantly impact the levies collected and resulting disbursements to Islanders.



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Report on a Supplementary Matter Arising from an Audit Engagement

To the Members of the Legislative Assembly of the Province of Prince Edward Island

In accordance with Section 2(3) of the *Climate Leadership Act*, we have been engaged to report on the amount of carbon levy collected and the amounts returned to consumers, businesses and municipalities for the period of April 1, 2020 to March 31, 2021 ("reporting responsibility"). This reporting responsibility relates to our audit of the financial statements of Public Accounts of the Province of Prince Edward Island for the year ended March 31, 2021 on which we issued our audit report dated October 25, 2021. Management prepared the supplementary matter necessary to carry out our reporting responsibility.

This report has been prepared in accordance with Canadian Standard on Related Services (CSRS) 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*. Our responsibility is to report on the supplementary matter. This standard requires us to comply with ethical requirements and to plan and perform procedures to address our reporting responsibility. The procedures were selected based on our professional judgment to enable us to form a basis for this report. The procedures vary in nature from, and are less in extent than for, those required when providing an audit opinion or a review conclusion. Users are cautioned that the procedures performed may not be suitable for their purposes.

Accordingly, we do not express an audit opinion or a review conclusion on the supplementary matter.

In response to our reporting responsibility, we have reported on the amount of carbon levy collected and returned to consumers, businesses and municipalities for the year ended March 31, 2021.

This report is intended solely for use by the Members of the Legislative Assembly of the Province of Prince Edward Island and should not be used by other parties.

Darren Noonan, CPA, CA
Auditor General

Elvis Alisic, CPA, CA
Audit Director

Charlottetown, Prince Edward Island
January 19, 2022

4. Report in Accordance with *Government Advertising Standards Act*

- 4.1 The *Government Advertising Standards Act* (the Act) sets out standards that all government advertising must meet. When requested under the Act, the Auditor General is responsible for examining certain government advertisements to determine whether the legislated standards have been met, and that advertisements are not partisan in nature.
- 4.2 Under Section 5(1), a head of a government office may request the Auditor General to examine a specific advertising item not yet made public, to determine whether the item will meet the standards set out in the Act.
- 4.3 A Member of the Legislative Assembly may also make a written complaint to the Auditor General under Section 6(1), that the specified advertisement identified in the complaint does not meet the standards set out in the Act.
- 4.4 In accordance with Section 9(1) of the Act, the Auditor General is required to report annually to the Legislative Assembly about any matter that the Auditor General considers appropriate to report under this Act.
- 4.5 One request was received by our Office during the year, dated June 21, 2021, under Section 5(1) of the Act. The proposed advertising item, as initially presented, was determined to not be in compliance with the standards established in the *Government Advertising Standards Act*.
- 4.6 The necessary changes were made to the proposed advertising item, and on June 23, 2021, our Office was able to confirm that the proposed advertising item, as amended, was in compliance with the standards established in the *Government Advertising Standards Act*.

5. Update on Covid-19 Special Examination

- 5.1 On April 10, 2020, the Honorable Dennis King requested the Auditor General, under Section 14(d) of the *Audit Act*, to undertake a special assignment to examine Government's COVID-19 pandemic response. In particular, the Auditor General was requested to complete a financial examination of the Provincial Government's COVID-19 programming and supports, and the special warrants associated with COVID-19 for the period commencing March 13, 2020.
- obtained appropriate authorizations for financial support programs initiated in response to COVID-19; and
 - maintained appropriate oversight and controls over disbursements made under these programs.
- 5.2 In the request from Executive Council, we were asked to report back by August 1, 2021. As we obtained a better understanding of the various funding periods of the COVID-19 programs, we presented a three phased approach to reporting to Executive Council. The phases consist of the following:
- **Phase I:** Included programs paid using the Emergency Contingency Fund with application deadlines up to and including August 31, 2020. Our Office issued a report on Phase I on July 28, 2021. We will complete follow-up on our Phase I recommendations in the summer of 2022.
 - **Phase II:** Includes loan programs, as well as the remaining programs funded through the Emergency Contingency Fund, with application deadlines between August 31, 2020 and March 31, 2021.
 - **Phase III:** Includes programs established using the COVID-19 Response and Recovery Contingency Fund of \$65 million.
- 5.3 The objectives of each phase of our audit is to determine whether the Province of PEI:
- 5.4 Our Office is currently working on the examinations for Phase II and Phase III, and we will be reporting on these two phases in 2022.

6. Introduction to Financial Audits

- 6.1 Government is responsible for the management and control of public resources. Financial statements provide information to describe changes in a government's financial position, and its revenues and expenses for a fiscal period. Information contained in the annual financial statements is used by Members of the Legislative Assembly and the public to hold government accountable for its use and control of public resources.
- 6.2 Management is responsible for the preparation and fair presentation of financial statements, with oversight from those charged with governance. Management is also responsible to establish internal controls necessary to enable the preparation and fair presentation of financial statements. Users of financial statements need to know that the information in the financial statements is reliable, in order to make economic decisions based on what is prepared and presented by management.
- 6.3 The work of an independent auditor provides assurance that the financial statements are fairly presented. Using Canadian Auditing Standards, the auditor:
- identifies and assesses the risks of material misstatement;
 - obtains an understanding of internal controls;
 - examines evidence supporting the amounts and disclosures in the financial statements;
 - objectively assesses the accounting principles used, the estimates made, and other management assertions reflected in the financial statements; and
 - evaluates the overall presentation, structure and content of the financial statements.
- 6.4 Canadian Auditing Standards require the auditor to obtain a high level of assurance to determine whether the financial information is free from material misstatement. The auditor obtains sufficient appropriate audit evidence to express an opinion in an independent auditor's report.
- 6.5 The *Audit Act* requires the Auditor General to perform the annual financial audit of the Province's consolidated financial statements. We also perform the annual financial statement audits for the following entities:
- Health PEI
 - PEI Advisory Council on the Status of Women
 - PEI Agricultural Insurance Corporation
 - PEI Crown Building Corporation
 - PEI Lotteries Commission
 - PEI Public Sector Pension Plan
 - PEI Self-Insurance and Risk Management Fund
 - PEI Teachers' Pension Plan
 - Pension Plan for Members of the Legislative Assembly
 - Public Trustee
 - Supreme Court of PEI Trust Accounts
- 6.6 The *Audit Act* requires the Auditor General to bring to the attention of the Legislative Assembly any matter identified during an audit which in his/her opinion should be brought to its attention.

6.7 The Office has reporting responsibilities under the *Climate Leadership Act* and the *Government Advertising Standards Act*. These responsibilities were reported in Chapters 3 and 4.

6.8 During the year, the COVID-19 pandemic continued to affect the operations of our Office as well as the provincial organizations we audit. Some staff continued to work from home and challenges were encountered in the audit process, for example, in communicating with organizations and obtaining documents for audit. Additional audit procedures were also required to assess the impact of the pandemic on the financial statements of these organizations.

6.9 In the chapters that follow, we provide summary financial highlights and comments on indicators of financial condition for the Province. We also report on observations and recommendations resulting from our audits of:

- the Province's consolidated financial statements;
- the financial statements of government organizations, government business enterprises and trust funds; and
- the processing and recording of appropriations and special warrants.

7. Audit of the Consolidated Financial Statements – Highlights

What we did

- We completed our audit of the Province’s consolidated financial statements for the year ended March 31, 2021 and issued a clean, or unqualified, audit opinion on October 25, 2021.
- We provided information on significant observations and recommendations arising from our audit work.
- We provided a summary of amounts due to the Province that had been cancelled or written off under Section 26 of the *Financial Administration Act*.
- We reported surpluses and deficits of the Province’s agencies, boards, and Crown corporations for the year ended March 31, 2021.

Why it’s important

The consolidated financial statements consolidate the accounts of the Operating Fund with those of the agencies, boards, and Crown corporations owned or controlled by Government. These consolidated financial statements provide the most complete information about the financial position and operating results of the Province. The reported issues and recommendations identify opportunities to strengthen internal controls and improve management and accounting processes.

What we found

- The 2020-21 consolidated financial statements fairly present the Province’s financial results.
- Improvements to processes are required for: management of pandemic inventory, social programs payments, timely collection of federal receivables, and correspondence with the Canada Revenue Agency.
- The Treasury Board Policy and Procedures Manual, an important resource that assists government employees in administration and decision-making, is not up to date.
- Phase II Environmental Site Assessment should be completed at the former Queens County Highway Depot site due to potential contamination.
- A few transactions were not recorded in accordance with the Canadian Public Sector Accounting Standards.
- Additional improvements to the presentation of the consolidated financial statements, notes and schedules are recommended.
- The Province’s budget presentation is not comparable to the consolidated financial statements.
- Detailed budget information for government business enterprises, which would enhance accountability and transparency, is not presented.

7. Audit of the Consolidated Financial Statements

BACKGROUND

- 7.1 The *Financial Administration Act* requires the Comptroller to annually prepare the Province's Public Accounts. Volume I of the Public Accounts contains the Province's audited consolidated financial statements. All information and decisions related to these statements are the responsibility of Government. The Public Accounts also include Volume II, which contains the unaudited Operating Fund financial statements and details of revenues and expenses of the Operating Fund, and Volume III (Part A and B), which includes the audited financial statements of agencies, boards, Crown corporations, and funds.
- 7.2 The *Financial Administration Act* requires the Minister of Finance to annually table the Public Accounts in the Legislative Assembly. The Public Accounts for the fiscal year ended March 31, 2021 were tabled on October 29, 2021.

OBJECTIVES AND SCOPE

- 7.3 The *Audit Act* requires the Auditor General to annually audit the Province's consolidated financial statements and provide an independent auditor's report stating whether the statements are fairly presented.
- 7.4 Under Section 17 of the *Audit Act*, the Auditor General is not required to audit or report on the accounts of any agency of Government

where another auditor has been designated to audit its accounts. As part of the audit of the consolidated financial statements, the Auditor General reviews, as necessary, audit work performed by the external auditors of those government entities.

- 7.5 In the following sections, we provide information on our independent audit opinion on the Province's consolidated financial statements for the fiscal year ended March 31, 2021. We also include observations and recommendations arising from our work and provide information to address other reporting requirements under the *Audit Act*.

AUDIT OPINION

- 7.6 Our audit was conducted in accordance with Canadian Auditing Standards. On October 25, 2021, the Auditor General issued a clean, or unqualified, audit opinion on the Province's consolidated financial statements. The independent audit opinion stated that the Province's consolidated financial statements for the year ended March 31, 2021 were fairly presented in accordance with Canadian Public Sector Accounting Standards.

OBSERVATIONS AND RECOMMENDATIONS

- 7.7 The consolidated financial statements are the responsibility of Government and are prepared by the Comptroller. Our audit involves performing procedures to obtain

sufficient and appropriate audit evidence to provide a basis for the audit opinion.

- 7.8 As part of the audit process, we evaluate the financial statements and the information supporting the amounts and note disclosures. We identify any audit adjustments required and provide those adjustments to management. We request that all adjustments be posted to the financial statements. We also identify issues requiring improvements in the areas of internal controls and financial reporting. The following paragraphs provide details on some of the more significant observations and recommendations resulting from our audit.

Pandemic Inventory

- 7.9 During our inventory count of pandemic inventory in March 2021, we identified a lack of safeguards at the facility used to store personal protective equipment related to the COVID-19 pandemic. Specifically, we noted a lack of security clearance requirements at access points of the facility and a lack of security monitoring after-hours. This is concerning as, without adequate safeguards in place, inventory is susceptible to theft or tampering.
- 7.10 In addition, during the year-end inventory count, a number of variances between the pandemic inventory quantities tracked and actual inventory quantities on hand were identified. This indicated that inventory was not accurately tracked, which prompted recounts of some inventory items. Facility staff were using a manual spreadsheet to track pandemic inventory which contributed to the variances noted, as manual tracking is more susceptible to human error. We also identified

errors in the Province's inventory count figures during our test counts. These errors resulted from the absence of basic inventory count controls. For example, we noted that only single counts were performed, counted inventory was not tagged, and inventory was not segregated in a way that facilitated an organized count.

- 7.11 Given the significance of this pandemic inventory to the Province's COVID-19 response, and its use as an essential safety resource for the public, additional measures should be taken to ensure proper tracking and safeguarding of pandemic inventory.

Recommendation

7.12 The Province should ensure that adequate tracking procedures, inventory count controls, security clearance requirements and monitoring are in place for all pandemic inventory.

Treasury Board Policy and Procedures Manual

- 7.13 During our audit, we noted that some sections of the Treasury Board Policy and Procedures Manual (the Manual) were not up to date. For example, Section 14 of the Manual (*Purchasing*) had not been updated for the new *Procurement of Goods Act* that came into effect on November 15, 2020. Instead, it still references the *Public Purchasing Act*, which was repealed. Also, the account code structure under Subsection 6.05 has not been updated for new accounts added since October 2018.
- 7.14 As per Subsection 1.01, the Manual has been compiled to provide a current source of reference for employees of Government

departments, Crown corporations and reporting entities. The Manual is intended to assist management in administration and in decision-making, as well as to provide a basis for consistent application of policy and procedures throughout Government. Subsection 1.01 also states that it is the responsibility of every reporting entity to be aware of the contents of the Manual. The Manual is clearly a vital resource for government employees, therefore, it is imperative that it remains up to date and aligns with current Acts and regulations.

Recommendation

7.15 The Treasury Board Secretariat needs to review and update the Treasury Board Policy and Procedures Manual regularly to ensure it aligns with current Acts and regulations.

Social Programs Overpayments

7.16 Social programs accounts receivable in the March 31, 2021 consolidated financial statements includes \$7.7 million for accumulated social programs overpayments, which have been set up as doubtful through a provision. This balance continues to grow each year and no write-offs have occurred since 2016. The majority of this balance relates to adjustments, errors, and misrepresentation associated with client income levels and living arrangements. Considering that overpayments of almost \$1.3 million have occurred in the last two years alone, the Province should evaluate its processes and controls around the verification of client income levels and living arrangements to correct the cause of these overpayments.

Recommendation

7.17 The Province should improve processes and controls around social programs payments, specifically those related to the verification of client income levels and living arrangements.

Environmental Site Assessment

7.18 During the planning phase of our audit, we learned that the Department of Transportation, Infrastructure and Energy was planning to complete a Phase II Environmental Site Assessment for the former Queens County Highway Depot site (the Depot).

7.19 The purpose of a Phase II Environmental Site Assessment is to evaluate the presence, or absence, of petroleum products or hazardous substances in the subsurface of a site. The Department noted that the results of the assessment will likely identify areas of concern. This is a reasonable expectation given the history and use of the Depot.

7.20 In December 2021, we followed up on the status of the Phase II Environmental Site Assessment and we were advised that it has not yet commenced due to the present use of this site for COVID-19 testing. Due to the apparent likelihood that this assessment could identify contamination in need of remediation, this assessment should be completed and evaluated in a timely manner.

Recommendation

7.21 The Province should complete a Phase II Environmental Site Assessment of the former Queens County Highway Depot location in order to determine the environmental risk associated with potential contamination at this site.

Federal Receivable Collection

7.22 We identified a significant amount of aged accounts receivable due from the Government of Canada as at March 31, 2021. These receivables have been outstanding for longer than a year, and in one instance since the 2018 fiscal period. Most of the aged receivables identified related to federal claims that had not been submitted. The issue around the timeliness of claims submissions relates mainly to federal contribution agreements for Youth Justice Services, Official Languages in Education and the Low Carbon Economy Fund. Delays in claim submissions impact the Province's cash flow and interest costs.

Recommendation

7.23 Claims to the Government of Canada should be submitted on a timely basis and collection should be regularly monitored.

Department Transfers

7.24 Through Order-In-Council EC2021-65, Executive Council transferred responsibility for the Energy and Minerals Division (the Division) from the Department of Transportation, Infrastructure and Energy to the Department of Environment, Water and Climate Change. Executive Council also changed the names of these departments accordingly. This transfer was effective February 4, 2021. However, the consolidated financial statements reported the Division's transactions and balances at year-end under its previous department. This presentation does not reflect the fact that the Minister of Environment, Energy and Climate Action was responsible for the control and supervision of the Division since February 4,

2021, in accordance with the Executive Council order. We were advised that, for financial reporting purposes, this transfer would be effective April 1, 2021. This contradicts the Order-In-Council which noted that the transfer was effective February 4, 2021. The Province's accounting and reporting should be aligned with orders from Executive Council.

7.25 On February 21, 2020, Executive Council transferred responsibility for the administration of the *Advisory Council on the Status of Women Act* from the Minister of Finance to the Minister of Environment, Water and Climate Change, and then subsequently on February 4, 2021, to the Minister of Education and Lifelong Learning. However, expenditures of the Prince Edward Island Advisory Council on the Status of Women (Advisory Council) were reported under the Department of Finance in the March 31, 2021 consolidated financial statements. The Comptroller's Office agreed that the Advisory Council expenditures should not have been reported with the Department of Finance, but no reclassification was made in the consolidated financial statements.

Recommendations

7.26 The Comptroller's Office should review its accounting and reporting practices around the timing of department transfers to ensure they are aligned with orders from Executive Council.

7.27 The Comptroller's Office should ensure that all consolidated agencies, boards and Crown corporations are included with the appropriate departments in the consolidated financial statements.

Corporate Income Tax Revenues

7.28 The Comptroller's Office relies on monthly tax assessment data provided by the Canada Revenue Agency (CRA) to estimate personal and corporate income tax revenues. This data is provided monthly, usually near the end of each month. For example, tax assessment data related to tax filings up to September 30, 2021 was received on October 22, 2021 and included many tax filings related to the 2021 fiscal year. As a result, these assessments can significantly impact income tax revenue estimates, especially corporate income tax revenues, which are more volatile than personal income tax revenues.

7.29 The Tax Collection Agreement between the Province and the Government of Canada allows for sharing of information as the Federal Government is acting as an agent on behalf of the Province when collecting taxes. We suggested to the Comptroller's Office to contact the CRA prior to October 22, 2021 to inquire about whether significant changes to tax data were expected in order to be able to issue our audit opinion sooner. This suggestion was not pursued on the basis that the CRA would not provide the requested information.

7.30 The Comptroller's Office also did not have a detailed breakdown of corporate income tax filers to date which would have enabled it to more accurately project corporate income tax revenues based on historical filings. As a result, we waited to receive the September 2021 tax assessment data until October 22, 2021. This data resulted in an increase to corporate income tax revenues of \$20 million, which brought the Province's deficit from \$25.6 million to \$5.6 million. The

Comptroller's Office needs to obtain more timely data in order to estimate tax revenues accurately, especially when the audit of the consolidated financial statements is nearing completion.

Recommendation

7.31 The Comptroller's Office should obtain necessary information from the Canada Revenue Agency, as needed, to accurately estimate corporate income tax revenues.

Canada Games Funding

7.32 The 2023 Canada Winter Games Hosting/Funding Agreement (the Agreement) was signed by the Minister of Health and Wellness, on behalf of the Province, with significant expenditures scheduled to begin in fiscal year 2021. As the Minister of Health and Wellness was a signatory on the Agreement, and is noted as the Province's representative, our expectation is that the budget and related financial expenditures would be recorded under the Department of Health and Wellness. However, we noted that \$8.6 million of expenditures related to this Agreement were recorded within the Department of Finance, under General Government, for the 2021 fiscal year. As the Minister of Health and Wellness is responsible for delivering the terms of the Agreement on behalf of the Province, the budget and expenditures should be presented under the Department of Health and Wellness in the consolidated financial statements.

Recommendation

7.33 Budget and related expenditures for the 2023 Canada Winter Games Hosting/Funding Agreement should be presented under the Department of Health and Wellness in accordance with the signed Agreement.

Public Sector Accounting Standards

7.34 During our audit of the consolidated financial statements for the year ended March 31, 2021, we noted that some financial statement transactions were not recorded in accordance with Canadian Public Sector Accounting Standards (PSAS). These transactions were discussed with the Comptroller's Office and recommendations for correction were provided to the Comptroller. In some cases, corrections were made. The uncorrected transactions did not affect our audit opinion on the consolidated financial statements, as the cumulative effect was not considered material.

Accrual Basis of Accounting

7.35 PSAS requires items recognized in government financial statements to be accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effects of transactions in the period in which they occur, regardless of whether there has been a receipt or payment of cash. Accruals for amounts owing under the Municipal Capital Expenditures Grant (MCEG) Program, and a holdback owing at year end related to the Rural Broadband Expansion Project, were not accrued by the Province. We recommended audit adjustments to record these accruals and the Comptroller's Office agreed with these adjustments. The MCEG program accrual was recorded, however the

accrual for the Rural Broadband Expansion Project was not recorded.

Future Accounting Standards

7.36 The Canadian Public Sector Accounting Board has issued new or amended standards for the public sector effective April 1, 2022. These standards relate to financial statement presentation, foreign currency translation, portfolio investments, asset retirement obligations and financial instruments. The new standard related to asset retirement obligations has the potential to significantly impact the future financial results of the Province by increasing the Province's net debt. We encourage the Comptroller's Office to be proactive in preparing for these changes.

Recommendations

7.37 The Comptroller's Office should ensure that transactions are recorded in accordance with Canadian Public Sector Accounting Standards in the preparation of the consolidated financial statements.

7.38 The Comptroller's Office should be proactive in preparing for the upcoming changes to accounting standards, with an effective date of April 1, 2022.

Financial Statement Notes and Schedules

7.39 The consolidated financial statements contain a number of note disclosures and schedules which are an integral part of the consolidated financial statements. These notes and schedules provide information to clarify and explain items in the consolidated financial statements. For this information to be useful it

must be complete, accurate, clear, and understandable for users.

Contractual Obligations and Tangible Capital Assets

7.40 There were issues raised during our audit, consistent with prior year recommendations, that have not been addressed, including:

- A schedule of contractual obligations provided for audit was incomplete and contained errors resulting in recommended changes of approximately \$93 million to the schedule.
- The cost of roads and bridges in the tangible capital assets schedule included significant assets totaling \$634.1 million, which are fully amortized. These assets should be reviewed to determine if they have been replaced and should be removed from the tangible capital assets schedule.

7.41 These issues were brought to the attention of the Comptroller's Office. Recommended changes were made to the contractual obligations schedule. No changes were made to the tangible capital assets schedule. Improvements are recommended, and repetitive issues should be addressed.

Recommendation

7.42 The Comptroller's Office should review the note disclosures and schedules in the consolidated financial statements to ensure the information included is complete, accurate and clearly presented.

Budget Presentation

7.43 Canadian Public Sector Accounting Standards require original budget information to be presented in the Province's consolidated financial statements. The standards also require that budgeted information be presented on the same basis that actual results are presented. This provides more accountability by Government, as it allows users to compare the actual results to the planned results for the fiscal year. Information on detailed budgets for capital expenditures and those of government business enterprises also helps to hold Government accountable for their planned spending.

Operating Budget

7.44 For several years, we noted the Province's operating budget document, the Estimates of Revenue and Expenditure is not presented on the same basis as its consolidated financial statements. A separate reconciliation was necessary in the schedules to the consolidated financial statements. The original budgeted revenues and expenses were increased by \$18.2 million to present them on a comparative basis with the actual financial results.

Capital Budget

7.45 The Province's capital budget document does not present the budgeted capital expenditures for a number of consolidated entities. These entities incurred capital expenditures of approximately \$13 million without an authorized capital budget. As a result, the capital additions presented in the

consolidated financial statements are not fully comparable to the Province's capital budget.

Recommendation

7.46 Budget amounts should be presented on the same basis as the consolidated financial statements.

Government Business Enterprises

7.47 Government business enterprises are government organizations that have the power to contract in their own name. They carry on business by selling goods and services to individuals outside of the government reporting entity enabling them to maintain their operations and meet their liabilities without government support. A complete list of government business enterprises is included in Volume I of the Province's consolidated financial statements.

7.48 Consistent with prior periods, the operating budgets for government business enterprises are presented on a net basis in the Estimates of Revenue and Expenditure, and the details of each entity's revenues and expenses are not disclosed to the Legislature, nor are they publicly available. This is significant because government business enterprises generated revenues of \$207.5 million and incurred expenses of \$144.3 million for the year ended March 31, 2021. Government business enterprises also controlled \$711.6 million in total assets at year end. In addition to this, the capital budget of the Province provides no information on expected capital spending by government business enterprises. These entities spent \$13.2 million for capital expenditures during the 2021 fiscal period.

7.49 Detailed budget information of government business enterprises would enhance accountability and transparency. It would also assist Members of the Legislative Assembly and the public to assess and debate the budgets of these entities. We were advised that Government was working towards a goal of improving the operating budget presentation for the 2022-23 fiscal period.

7.50 We have communicated our findings and recommendations to the Minister of Finance, Provincial Comptroller and the Treasury Board Secretariat.

OTHER REPORTING

Amounts Cancelled and Written Off

7.51 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, obligations, debts, or moneys due to the Province that have been cancelled under Section 26 of the *Financial Administration Act*. For the year ended March 31, 2021, the amounts cancelled under Section 26(1) are detailed in **Exhibit 7.1**. Also included are amounts written off under Section 26.1(1).

EXHIBIT 7.1
AMOUNTS CANCELLED
AND WRITTEN OFF
YEAR ENDED MARCH 31, 2021

	Cancellations Section 26(1)	Write-offs Section 26.1(1)
Department of Education and Lifelong Learning	\$ -	\$213,250
<i>Real Property Tax Act</i>	428,386	-
Slemon Park Corporation	53,665	-
Tourism PEI	36,745	-
Total	\$518,796	\$213,250

Source: Orders-In-Council April 1, 2020 - March 31, 2021.

Surplus (Deficit) Agencies, Boards, and Crown Corporations

7.52 Consistent with our prior reports, we will continue to include information on surpluses/deficits of the Province's agencies, boards and Crown corporations. **Exhibit 7.2** includes the surplus or deficit of each entity for the year ended March 31, 2021.

EXHIBIT 7.2
SURPLUS (DEFICIT)
AGENCIES, BOARDS, AND CROWN CORPORATIONS
YEAR ENDED MARCH 31, 2021

	Annual Surplus (Deficit) \$
Charlottetown Area Development Corporation*	962,362
Finance PEI	(1,542,499)
French Language School Board	15,377
Health PEI	(9,818,544)
Innovation PEI	72,601
Island Investment Development Inc.	18,529,025
Island Waste Management Corporation	(417,131)
PEI Advisory Council on the Status of Women**	2,118
PEI Agricultural Insurance Corporation	(9,366,786)
PEI Cannabis Management Corporation	564,792
PEI Crown Building Corporation	-
PEI Energy Corporation	8,934,391
PEI Grain Elevators Corporation (July 31, 2020)	(341,127)
PEI Housing Corporation	6,256,300
PEI Human Rights Commission	(21,273)
PEI Liquor Control Commission	23,414,429
PEI Lotteries Commission	11,011,841
PEI Marine Science Organization	78,766
PEI Museum and Heritage Foundation	120,447
PEI Regulatory and Appeals Commission	(63,298)
PEI Self-Insurance and Risk Management Fund	3,040,249
PEI Student Financial Assistance Corporation	400,000
Public Schools Branch	13,329
Summerside Regional Development Corporation	(38,943)
Tourism PEI	-

Source: The Province's Volume III (Part A and B) Public Accounts March 31, 2021.

*Includes the provincial portion only

**Based on draft financial statements

8. Issues Noted in Other Financial Audits – Highlights

What we did

- We provided summary comments on significant issues noted in the management letters arising from our financial statement audits.
- We reviewed management letters issued by external auditors of government entities for significant issues to report.
- Due to a common compliance issue noted regarding the late filing of annual reports, we extended our work to report on the timeliness of annual report filings for all provincial entities and departments.

Why it's important

Our management letters are provided to management, and those charged with governance, to assist them in fulfilling their responsibilities. The reported issues and recommendations identify opportunities to strengthen internal controls and improve management and accounting processes.

What we found

- Accounting concerns were identified that related to how certain transactions were recorded, the application of accounting standards, and the accuracy of information provided for audit.
- Notable compliance issues were identified in relation to physician payments, capital expenditure policies, write-off of pension overpayments, grant funding agreements, and management of surplus funds.
- Reportable internal controls issues consisted of a lack of formal policies and procedures, lack of investment guidelines and slow collection of federal receivables due to a lack of timely reporting.
- 21 out of 26 reporting entities did not meet the *Financial Administration Act* annual reporting deadline for their most recent fiscal year.
- As of January 31, 2022, no government departments have published an annual report for the most recent fiscal year.

8. Issues Noted in Other Financial Audits

BACKGROUND

- 8.1 Our Office conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. A significant portion of our work relates to financial audits.
- 8.2 It is important to note that an audit is not designed to express an opinion on the adequacy or effectiveness of the system of internal controls established by management. It cannot be relied upon to detect all internal control weaknesses, defalcations, irregularities, and/or other areas which may be of interest to management.
- 8.3 Our financial audits are conducted in accordance with Canadian Auditing Standards and include such tests and other procedures we consider necessary in the circumstances. These standards require the auditor to communicate to management, and those charged with governance, any significant issues or matters identified during an audit.
- 8.4 At the completion of an audit, any issues identified as significant are communicated through a management letter. A management letter provides recommendations for improvements in various areas, such as the entity's system of internal controls, proper accounting for transactions, adequate disclosures, compliance with policies and agreements, or any other matter the auditor concludes should be brought to the attention of management and those charged with

governance. Our audits may also identify matters of a less significant nature, which are verbally communicated to management.

- 8.5 Prior to finalizing a management letter, we communicate our findings and recommendations to management for feedback. We also request a written response to our management letters. A copy of each management letter is provided to the Secretary to Treasury Board and to the Office of the Comptroller.

SCOPE

- 8.6 In this chapter, we provide summary comments on significant issues noted in the management letters arising from the financial statement audits conducted by our Office. Management letters related to the financial statement audits of entities included in the Province's consolidated financial statements that are audited by external auditors have been reviewed and are discussed separately below. This chapter does not include findings and recommendations related to our audit of the Province's consolidated financial statements, which were discussed in Chapter 7.

SUMMARY OBSERVATIONS

- 8.7 We issued management letters for all financial statement audits that we conducted. The main issues identified and detailed in our management letters can be categorized into three areas: accounting

concerns, compliance issues, and internal control weaknesses. The following is a description of each category of issues identified in the financial statement audits. In some cases, the issues have been noted for several years in our management letters.

Accounting Concerns

- 8.8 Financial statements are prepared in accordance with accounting standards. An objective of these standards is to enable users of the financial statements to understand the information and for the information to be fairly presented. The majority of accounting concerns identified related to how certain transactions were recorded, the application of accounting standards, and the accuracy of information provided for audit.
- 8.9 As part of our audit of the Public Trustee, we noted accounting concerns related to the accuracy of year-end information provided for audit and the application of accounting policies, which contributed to many audit adjustments. The financial statements of the Prince Edward Island Agricultural Insurance Corporation required a significant audit adjustment to correct errors identified in the calculation of the AgriStability accrual. During our audit of the Prince Edward Island Supreme Court Trust Accounts we identified \$1.2 million in funds held by the Supreme Court, related to trust activities, that were not reported in their financial statements. This resulted in a significant restatement of trust balances and the associated interest earned.

Compliance Issues

- 8.10 Governments have objectives and establish regulations, policies, and procedures to clearly communicate expectations. We noted several compliance issues during our financial statement audits. These issues related to compliance with legislation, Treasury Board policies, agreements, and specific entity policies. A common compliance issue identified was the late filing of annual reports by provincial entities, and we have reported on this issue in a separate section below.
- 8.11 Our audit of Health PEI identified that some payments to physicians were not in compliance with either the Master Agreement or Treasury Board policy, resulting in overpayments to physicians. Reasonable attempts to recover these overpayments were not made. These payments included:
- premiums for emergency services that were paid in error for non-emergency situations;
 - physician incentive payments that should have ceased upon approval of the new Master Agreement; and
 - daily stipends related to COVID-19 base financial support paid for dates extending beyond the program end date approved by Treasury Board.
- 8.12 Similar to the prior year, the Prince Edward Island Grain Elevators Corporation (the Corporation) did not comply with Treasury Board policies. During the reporting period, the Corporation acquired a new grain truck and disposed of an existing grain truck. The Corporation did not submit a vehicle fleet

plan or involve the Department of Transportation and Infrastructure, in the vehicle acquisition and disposal, as is required by Treasury Board policy. The Corporation also did not follow Treasury Board policies for capital projects management. Specifically, the tendering and project approval process for a large capital expansion project was not in accordance with Treasury Board policy.

8.13 The Prince Edward Public Sector Pension Plan and the Prince Edward Island Teachers' Pension Plan have implemented a new policy that addresses collection and write-offs of pension overpayments. This policy is not consistent with the requirements of Section 26 of the *Financial Administration Act*, which requires authorization from the Lieutenant Governor in Council and public disclosure for certain write-offs. Management has informed us that the *Financial Administration Act* is not applicable for the pension plans. We have a difference in opinion with management. As a result, we have suggested that they seek legal clarification as to whether the pension plans are required to follow the *Financial Administration Act* regarding the write-off of pension overpayments.

8.14 The Prince Edward Island Lotteries Commission provides grants of approximately \$3 million to the harness racing industry. These grants are provided on an annual basis without signed agreements in place. Signed funding agreements are important as they outline the agreed upon terms for all parties and can also offer protection if either party fails to meet the terms of the agreement. In addition, Treasury Board policy was not followed as many of these grants were over

the threshold requiring Treasury Board approval, which was not obtained.

8.15 The Prince Edward Island Lotteries Commission did not comply with its bylaws regarding the management of surplus funds. Its bylaws require surplus funds to be paid to the Province or invested. As at March 31, 2021, the Commission held \$24.9 million in its bank account, most of which would be considered surplus funds. These funds were not paid to the Province or invested during the 2021 fiscal period.

8.16 Similarly, the Prince Edward Island Agricultural Insurance Corporation (the Corporation) did not comply with its policy regarding the management of surplus funds. The policy requires that an investment strategy be made for any surplus funds. As at March 31, 2021, the Corporation had a bank balance of \$16.4 million and none of it was invested. Both scenarios represent lost income to the Province.

Internal Control Weaknesses

8.17 Internal controls help to ensure transactions are appropriately recorded and authorized. They also help to ensure business processes are operating as intended. Weaknesses in internal controls can expose an entity to business and financial risks. Internal control issues identified included non-existent or ineffective internal review processes, lack of timely reporting, limited tracking of inventory and asset disposals, and the need to update existing policies and procedures.

8.18 An internal control issue that continues for the pension plans of the Public Sector,

Teachers, and Members of the Legislative Assembly is the absence of a formal policy and procedures manual. These plans, which are the responsibility of the Province, have several complex calculations with many variable inputs that should be documented within this manual. A formal manual promotes consistency in operations and transactions by clearly defining and communicating expectations. It also serves as a reference for new and existing staff.

- 8.19 Internal control issues were also identified relating to the timeliness of reporting. The Prince Edward Island Housing Corporation is required to submit audited financial reports to the Canadian Mortgage and Housing Corporation (CMHC) in order to receive funding in a timely manner. As at March 31, 2021, the Corporation was behind on the submission of these reports resulting in approximately \$11.6 million being withheld by CMHC related to old years.
- 8.20 The Supreme Court of Prince Edward Island lacks internal policies and procedures that would provide guidance regarding funds paid into court and held in trust. Funds held in trust earn interest through bank accounts and investment with the Province. There are no specific policies in place for how to invest these funds, which would set clear expectations on how to maximize earnings. Also, since interest earned is not accrued to the individual trust accounts, the beneficiaries of this interest should be clarified.

Annual Reporting

- 8.21 During our audits, we identified a common issue among provincial entities related to the timeliness of annual report publishing. As a result, we expanded our review of annual reporting compliance to all reporting entities of the Province. Annual reports serve as accountability documents to permit stakeholders to assess the performance of departments and reporting entities, and the results achieved for money spent. The *Financial Administration Act* requires that annual reports of reporting entities be made public within six months of the financial year-end. Reporting entities are identified in the *Financial Administration Act* under schedules B, C and D.
- 8.22 Based on our review, 21 of 26 reporting entities did not meet their most recent annual reporting deadline. Also, as of January 31, 2022, 14 reporting entities have yet to publish an annual report for their most recent fiscal year. Some reporting entities and trust funds that are required to file annual reports are even further behind in their reporting. The following entities and funds have not published annual reports beyond the 2019 fiscal year: the Public Sector Pension Plan, the Teachers' Pension Plan, and the Prince Edward Island Grain Elevators Corporation.
- 8.23 The Government departments are not reporting entities, as defined in the *Financial Administration Act*; however, they are subject to Treasury Board policies that have similar reporting requirements. As of January 31, 2022, no government departments have published an annual report for the most

recent fiscal year. A review of historical annual reports indicates that timely reporting has been an issue for the past number of years. For example, the Department of Health and Wellness has not issued an annual report since 2015, and the Department of Transportation and Infrastructure has not published an annual report since 2018.

External Audits

8.24 We reviewed all management letters issued to externally audited government entities during the reporting period, and discussed certain items with the external auditors to obtain further clarification. No reportable issues were found during this review.

Follow-up

8.25 As part of our financial audits, we follow up on the issues included in our previous management letters to determine if those issues have been addressed. We acknowledge that management is working to address the noted issues and some progress is being made. However, sufficient work was not completed at the time of our audits to warrant removal of certain issues from our management letters. We encourage auditees to implement our recommendations.

9. Appropriations and Special Warrants – Highlights

What we did

- We examined the process around current and capital appropriations, special warrants, transfers and sequestrations.
- We provided a comparison of current and capital appropriations to actual expenditures for the fiscal year ended March 31, 2021.
- We provided additional information regarding appropriation and sequestration for the COVID-19 Response and Recovery Contingency Fund.
- We listed in detail the appropriations made by special warrants and the purpose of such appropriations, as required by the *Audit Act*.

Why it's important

Government's annual spending authority is approved by Members of the Legislative Assembly through an appropriation act. Our work provides assurance that special warrants, transfers, and sequestrations comply with applicable legislation and Treasury Board Policy.

What we found

- Special warrants for the March 31, 2021 fiscal year provided an additional \$60.4 million in authorized spending for current expenditures and an additional \$7.0 million for capital expenditures for a total of \$67.4 million. Most of the additional authorized spending related to a special warrant of \$50.0 million issued in May 2020 for the COVID-19 Emergency Contingency Fund.
- The *Appropriation Act (Current Expenditures) 2020* authorized \$65.0 million in current expenditures related to the COVID-19 Response and Recovery Contingency Fund, which was distributed amongst various departments and entities. As not all funding was utilized, \$20.5 million of this appropriation was sequestered.
- Consistent with prior years, expenditures were incurred for the year ended March 31, 2021 without special warrants being authorized, as required by the *Financial Administration Act*.

9. Appropriations and Special Warrants

BACKGROUND

- 9.1 The *Appropriation Act (Current Expenditures) 2020* authorized \$2.279 billion in current expenditures for the fiscal year ended March 31, 2021. The *Appropriation Act (Capital Expenditures) 2020* and the *Appropriation Act (Capital Expenditures) 2020 (No.2)* authorized capital spending of \$210.6 million for the fiscal year ended March 31, 2021.
- 9.2 Authorization for a department/entity to exceed the initial amount set by an appropriation requires the issuance of a special warrant or the transfer of a previously appropriated amount.
- 9.3 Special warrants are used when the Legislative Assembly is not in session and funds are needed for operations in addition to amounts that were included in the *Appropriation Act*. Unlike appropriation acts, which require the approval of the Legislative Assembly, special warrants must be approved by the Lieutenant Governor in Council through an Order-In-Council.
- 9.4 We examined the processes for recording current and capital appropriations for the fiscal year ended March 31, 2021. We also examined the approvals, processing, and recording of special warrants, appropriation transfers, and sequestrations made during the fiscal year. This chapter provides comments and recommendations resulting from our audit work. In addition to the information provided in this chapter, readers should also consider the Province's

consolidated financial statements and our independent auditor's report on those consolidated financial statements. For definitions of some of the more commonly used terminology, please refer to the Glossary at the back of this chapter.

OBSERVATIONS AND RECOMMENDATION

Special Warrants

- 9.5 **Appendix A** of this chapter provides a comparison of current and capital appropriations to actual expenditures for the fiscal year ended March 31, 2021.
- 9.6 For the fiscal year ended March 31, 2021, special warrants in the amount of \$60.4 million were issued for current expenditures, and special warrants in the amount of \$7.0 million were issued for capital expenditures. **Exhibit 9.1** provides a summary of these special warrants. The *Audit Act* requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. This information is included in **Appendix B** of this chapter.

**EXHIBIT 9.1
SUMMARY OF SPECIAL WARRANTS
MARCH 31, 2021**

Department/Entity	Special Warrants
Current:	
Employee Benefits	\$ 5,411,300
Fisheries and Communities	1,000,000
General Government	50,000,000
Health and Wellness	2,469,600
Island Regulatory and Appeals Commission	300,000
Tourism PEI	1,250,000
Total Current	60,430,900
Capital:	
Economic Growth, Tourism and Culture	455,800
Education and Lifelong Learning	6,500,000
Total Capital	6,955,800
Total Special Warrants	\$67,386,700

Source: Orders-In-Council

9.7 Special warrants were partially offset by \$5.9 million in additional revenue and \$20.5 million in sequestrations. \$20.5 million in sequestrations is net of \$65.0 million authorized as part of the *Appropriation Act (Current Expenditures) 2020*. \$65.0 million was appropriated amongst various departments/entities for the COVID-19 Response and Recovery Contingency Fund. The full amount of \$65.0 million was subsequently transferred to sequestration accounts of each department/entity and funds were requested as needed through the COVID-19 Contingency Triage Committee,

which provided recommendations to Treasury Board. The Committee is comprised of the Clerk of Executive Council, the Chief of Staff and the Deputy Minister of Finance.

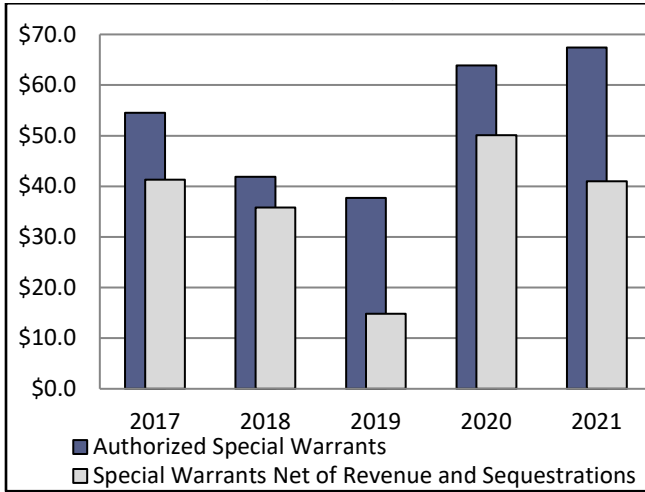
Exhibit 9.2 summarizes the sequestered COVID-19 Response and Recovery Contingency.

**EXHIBIT 9.2
SUMMARY OF SEQUESTERED COVID-19
RESPONSE AND RECOVERY
CONTINGENCY FUND**

Department/Entity	Sequestered	Transferred In	Sequestrations
Agriculture and Land	\$ 2,000,000	\$ 1,389,000	\$ 611,000
Economic Growth, Tourism and Culture	10,000,000	8,910,000	1,090,000
Education and Lifelong Learning	8,000,000	8,000,000	-
Employment Development Agency	2,000,000	-	2,000,000
Environment, Water and Climate Change	1,000,000	-	1,000,000
Fisheries and Communities	4,000,000	4,000,000	-
Health and Wellness	6,000,000	6,000,000	-
Health PEI	15,000,000	3,677,200	11,322,800
Innovation PEI	3,000,000	3,000,000	-
Justice and Public Safety	2,000,000	1,174,400	825,600
Social Development and Housing	5,000,000	1,374,000	3,626,000
Tourism PEI	5,000,000	5,000,000	-
Transportation, Infrastructure and Energy	2,000,000	2,000,000	-
Total	\$65,000,000	\$44,524,600	\$20,475,400

9.8 Total authorized special warrants, and special warrants net of revenue and sequestrations, for each of the last five years are presented in **Exhibit 9.3**.

**EXHIBIT 9.3
SPECIAL WARRANTS
YEAR ENDED MARCH 31
(\$ Millions)**



	2017	2018	2019	2020	2021
Authorized Special Warrants	\$54.5	\$41.9	\$37.7	\$63.9	\$67.4
Revenue and Sequestrations	(13.2)	(6.1)	(22.9)	(13.8)	(26.4)
Special Warrants Net of Revenue and Sequestrations	\$41.3	\$35.8	\$14.8	\$50.1	\$41.0

Source: Orders-In-Council

9.9 In June 2021, an additional special warrant of \$6.8 million was approved for the 2019/20 fiscal year. This was subsequent to the date of our 2021 Annual Report. This special warrant is included in **Appendix C**. Total special warrants for the year ended March 31, 2020, as presented in **Exhibit 9.3**, reflect this additional special warrant.

Delay in Issuing Special Warrants

9.10 The *Financial Administration Act* prohibits expenditures from being incurred unless provided for by an appropriation. When it is expected that an appropriation will be exceeded, a special warrant should be obtained prior to the expenditure being incurred.

9.11 Consistent with prior years, our audit identified instances where special warrants were not authorized prior to the expenditure being incurred. There were four late special warrants required to cover overspending for the March 31, 2021 fiscal year. Two of the late special warrants totalled \$7.9 million and were authorized by Orders-In-Council on August 10, 2021, more than four months after year-end.

Recommendation

9.12 In accordance with the *Financial Administration Act*, special warrants should be obtained prior to expenditures being incurred, when the authorized appropriation will be exceeded.

9.13 We have discussed our findings and recommendation with the Treasury Board Secretariat.

CURRENT APPROPRIATIONS

	APPROPRIATION ACT 2020	SPECIAL WARRANTS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2021	UNDER EXPENDITURES 2021
CURRENT						
AGRICULTURE AND LAND	\$ 39,465,500	\$ -	\$ (611,000)	\$ 38,854,500	\$ 35,555,984	\$ 3,298,516
AUDITOR GENERAL	2,431,300	-	-	2,431,300	2,194,391	236,909
ECONOMIC GROWTH, TOURISM AND CULTURE	49,445,900	-	(1,090,000)	48,355,900	40,127,441	8,228,459
EDUCATION AND LIFELONG LEARNING	409,335,400	-	-	409,335,400	408,997,839	337,561
EMPLOYEE BENEFITS	63,759,000	5,411,300	-	69,170,300	69,170,248	52
EMPLOYMENT DEVELOPMENT AGENCY	7,885,500	-	(2,000,000)	5,885,500	5,258,533	626,967
ENVIRONMENT, WATER AND CLIMATE CHANGE	34,425,300	-	(1,000,000)	33,425,300	32,949,972	475,328
EXECUTIVE COUNCIL	9,508,900	-	-	9,508,900	9,014,652	494,248
FINANCE	62,612,900	-	-	62,612,900	56,106,826	6,506,074
FISHERIES AND COMMUNITIES	44,397,300	1,000,000	-	45,397,300	44,762,363	634,937
GENERAL GOVERNMENT	53,187,600	50,000,000	-	103,187,600	82,949,435	20,238,165
HEALTH AND WELLNESS	46,477,500	2,469,600	-	48,947,100	48,947,061	39
HEALTH PEI	761,071,200	-	(11,322,800)	749,748,400	748,827,002	921,398
INNOVATION PEI	51,691,400	-	-	51,691,400	51,566,220	125,180
ISLAND REGULATORY AND APPEALS COMMISSION	1,400,300	300,000	-	1,700,300	1,700,300	-
JUSTICE AND PUBLIC SAFETY	64,961,400	-	(825,600)	64,135,800	63,363,293	772,507
LEGISLATIVE ASSEMBLY	7,667,800	-	-	7,667,800	7,029,350	638,450
PEI PUBLIC SERVICE COMMISSION	8,305,700	-	-	8,305,700	8,060,165	245,535
SOCIAL DEVELOPMENT AND HOUSING	168,372,800	-	(3,626,000)	164,746,800	162,755,468	1,991,332
TOURISM PEI	26,387,300	1,250,000	-	27,637,300	27,359,150	278,150
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	238,191,700	-	-	238,191,700	185,961,969	52,229,731
INTEREST CHARGES ON DEBT	<u>128,013,500</u>	<u>-</u>	<u>-</u>	<u>128,013,500</u>	<u>120,080,385</u>	<u>7,933,115</u>
TOTAL CURRENT	\$2,278,995,200	\$60,430,900	\$(20,475,400)	\$2,318,950,700	\$2,212,738,047	\$106,212,653

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2020 and approved special warrants for the 2020/21 fiscal year. This format differs from the Province's Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2020	SPECIAL WARRANTS	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2021	UNDER EXPENDITURES 2021
CAPITAL						
AGRICULTURE AND LAND	\$ 60,000	\$ -	\$ -	\$ 60,000	\$ 45,859	\$ 14,141
ECONOMIC GROWTH, TOURISM AND CULTURE	3,608,000	455,800	-	4,063,800	4,001,681	62,119
EDUCATION AND LIFELONG LEARNING	14,753,000	6,500,000	-	21,253,000	20,786,458	466,542
ENVIRONMENT, WATER AND CLIMATE CHANGE	1,140,000	-	-	1,140,000	944,512	195,488
FINANCE	12,935,100	-	-	12,935,100	11,681,680	1,253,420
FISHERIES AND COMMUNITIES	25,000	-	-	25,000	19,995	5,005
HEALTH AND WELLNESS	21,914,300	-	-	21,914,300	4,987,565	16,926,735
HEALTH PEI	16,389,900	-	-	16,389,900	10,923,936	5,465,964
JUSTICE AND PUBLIC SAFETY	9,467,300	-	-	9,467,300	4,289,576	5,177,724
SOCIAL DEVELOPMENT AND HOUSING	17,514,600	-	-	17,514,600	7,447,702	10,066,898
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	<u>112,837,000</u>	<u>-</u>	<u>-</u>	<u>112,837,000</u>	<u>109,852,433</u>	<u>2,984,567</u>
TOTAL CAPITAL	<u>\$ 210,644,200</u>	<u>\$ 6,955,800</u>	<u>\$ -</u>	<u>\$ 217,600,000</u>	<u>\$ 174,981,397</u>	<u>\$ 42,618,603</u>
GRAND TOTAL	<u>\$2,489,639,400</u>	<u>\$67,386,700</u>	<u>\$(20,475,400)</u>	<u>\$2,536,550,700</u>	<u>\$2,387,719,444</u>	<u>\$148,831,256</u>

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2020 and approved special warrants for the 2020/21 fiscal year. This format differs from the Province's Operating Fund financial statements.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2021 FISCAL YEAR

EMPLOYEE BENEFITS

EC2021-668 EMPLOYEE FUTURE BENEFITS

Accrued Vacation Leave	\$ 2,879,700
Workers Compensation Board – Civil Service	5,116,500

GOVERNMENT PENSION CONTRIBUTIONS

Public Sector Pension Plan	(1,277,500)
Teachers’ Pension Plan	<u>(1,307,400)</u>

Total Employee Benefits	<u>\$ 5,411,300</u>
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To fund expenditures related to increases in workers compensation and vacation leave costs.

FISHERIES AND COMMUNITIES

EC2021-94 MUNICIPAL AFFAIRS

Grants	<u>\$ 1,000,000</u>
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To fund COVID-19 program expenditures over and above their COVID-19 contingency.

GENERAL GOVERNMENT

EC2020-309 CONTINGENCY FUND AND SALARY NEGOTIATIONS

Grants and Salaries	<u>\$50,000,000</u>
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To fund expenses related to COVID-19 pandemic relief through the Emergency Contingency Fund.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2021 FISCAL YEAR

HEALTH AND WELLNESS

EC2021-669 SPORT, RECREATION AND PHYSICAL ACTIVITY

Grants – Bilateral Agreement on Sport \$ 2,469,600

To fund additional expenditures incurred because of additional federal funding received. The federal funding fully offsets the expenditures.

ISLAND REGULATORY AND APPEALS COMMISSION

EC2021-108 GENERAL

Grants \$ 300,000

To fund the operating deficit for the fiscal years March 31, 2020 and March 31, 2021.

TOURISM PEI

EC2021-624 ADVERTISING AND PUBLIC RELATIONS

Grants - Atlantic Canada Agreement on Tourism \$ 500,000

STRATEGY AND EVALUATION

Grants 750,000

Total Tourism PEI \$ 1,250,000

To fund additional expenditures to assist tourism operators and the industry during the COVID-19 pandemic. These expenditures were fully offset by revenue received from the Federal government.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES

\$60,430,900

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2021 FISCAL YEAR

ECONOMIC GROWTH, TOURISM AND CULTURE

EC2021-586 CAPITAL IMPROVEMENTS

Golf Courses	\$ 12,000
Provincial Parks	<u>443,800</u>
Total Department of Economic Growth, Tourism and Culture	<u>\$ 455,800</u>

To fund expenditures related to work completed on the Alpine and Nordic venues to be used in the 2023 Canada Winter Games and new golf equipment. These expenditures were partially offset by revenue of \$46,413.

EDUCATION AND LIFELONG LEARNING

EC2021-3 BUS REPLACEMENT

School Buses - Electric	\$ 3,998,000
CAPITAL IMPROVEMENTS	
School Construction and Renovations	<u>2,502,000</u>
Total Department of Education and Lifelong Learning	<u>\$ 6,500,000</u>

To fund the purchase of electric school buses and the renovation and addition to École-sur-Mer and Centre Belle-Alliance. These expenditures were partially offset by federal revenue of \$2,100,000.

TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES	<u>\$ 6,955,800</u>
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TOTAL SPECIAL WARRANTS ISSUED FOR THE 2021 FISCAL YEAR	<u>\$ 67,386,700</u>
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ORDER-IN-
COUNCIL

ADDITIONAL SPECIAL WARRANTS ISSUED FOR 2020 FISCAL YEAR*

TRANSPORTATION, INFRASTRUCTURE AND ENERGY – CAPITAL

EC2021-579 CAPITAL IMPROVEMENTS

Buildings	\$ 6,645,700
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CAPITAL IMPROVEMENTS

National and Collector Highways	110,600
Vehicle Purchases - Light Fleet	<u>37,600</u>

Total Department of Transportation, Infrastructure and Energy	<u>\$ 6,793,900</u>
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To fund year-end accounting adjustments primarily related to the capitalization of a long-term lease.

TOTAL SPECIAL WARRANTS SUBSEQUENTLY ISSUED
FOR 2020 FISCAL YEAR

\$ 6,793,900

*Issued subsequent to the Auditor General's 2021 Annual Report

GLOSSARY

Appropriation is the government authorized budget of each department/entity for the year. This is sometimes referred to as an appropriation vote for each department/entity.

Appropriation Act is the budget approval by the Legislative Assembly.

Appropriation transfers are transfers of appropriated funds either within a department/entity or from one department/entity to another.

Capital expenditures are incurred in the purchase and/or improvement of tangible capital assets owned by the Province and include land, buildings, roads, bridges, equipment, motor vehicles, and computer hardware and software.

Current expenditures are operating or non-capital expenditures of the Province that are consumed within the fiscal period. Examples of current expenditures are salaries and benefits, transfer payments, professional services, materials, supplies, and debt costs.

Order-In-Council is a public document issued by the Lieutenant Governor on the advice of the Executive Council directing that a certain action be undertaken under authority of legislation.

Sequestrations are transfers of appropriated funds into special accounts for the purpose of “freezing” funds. Treasury Board approval is required for transfers out of sequestration accounts.

Special warrants represent authorized spending above the original appropriation for a department/entity during the fiscal period.

Special warrants, net of revenue, are special warrants that generate revenues resulting directly from the additional spending.

10. Indicators of Financial Condition – Highlights

What we did

- We presented summary financial information and key financial indicators of the Province for the last five fiscal periods.
- We provided commentary on the Province's 2021 financial results in comparison to budgeted amounts and the results of prior periods.
- We reported on a number of selected indicators of financial condition to assess the Province's sustainability, flexibility and vulnerability.

Why it's important

The condition of the Province's finances is important. It affects all residents of the Province through the levels of taxation, government spending, services provided, and the provincial economy. This chapter presents information to assist legislators, the public, and other users to better understand the financial condition of the Province.

What we found

- The Province reported a deficit of \$5.6 million in 2020-21. This was a significant difference from the originally budgeted deficit of \$172.7 million, and subsequently projected deficit of \$120.0 million. The Province's economy performed well despite the measures in place due to the COVID-19 pandemic.
- As at March 31, 2021, the net debt of the Province reached its highest level ever at \$2.3 billion. This represents an increase of \$94.3 million during the year and \$175.8 million since 2019. The rise in net debt is largely due to investment in tangible capital assets.
- Net debt per capita increased for the second year in a row from \$13,668 per person at March 31, 2020 to \$13,993 per person at March 31, 2021.
- Government spending is growing at a rate faster than the growth in the economy. The ratio of expenses to gross domestic product was 31.6%, the highest amount noted over the last ten years. The COVID-19 pandemic was a key factor, as it contributed to GDP levelling off and increased government spending to provide supports to individuals and businesses.
- Federal revenues accounted for 40.9% of total revenues in 2021, the highest portion of total revenues over the last ten years. The increase in this ratio was mainly driven by federal COVID-19 support funding.

10. Indicators of Financial Condition

BACKGROUND

10.1 Several resources are used in assessing the financial condition of a province. The Public Sector Accounting Board's Statement of Recommended Practice suggests a number of indicators to assist in assessing a government's financial condition. These indicators help provide insight into a government's ability to maintain its programs and services, the flexibility it has to respond to economic changes, and its vulnerability to external sources of funding. We discuss a number of these indicators in this chapter.

10.2 Consolidated financial statements are helpful to provide an overview of the financial condition of a province at its year-end, compared to the budget and prior period. However, financial statements do not provide a complete perspective on how a province is performing in relation to the overall economic and fiscal environments. To assist users in understanding the financial condition of the Province, we provide information on a number of indicators of financial condition.

10.3 This current update provides financial information and indicators for the last five fiscal periods. The most recent estimates of nominal gross domestic product (GDP) and population were used in the determination of various indicators. Consistent with other jurisdictions, nominal GDP is presented on a calendar year basis. For definitions of some of the more commonly used terminology,

please refer to the Glossary at the back of this chapter.

SUMMARY FINANCIAL INFORMATION

Financial Highlights

10.4 **Exhibit 10.1** summarizes the Province's financial position and operating results for the last five years.

EXHIBIT 10.1
SUMMARY FINANCIAL INFORMATION
YEAR ENDED MARCH 31
(\$ Millions)

	2017	2018	2019	2020	2021
Financial Assets	\$ 1,096.2	\$ 1,114.6	\$ 1,119.1	\$ 1,365.1	\$1,687.4
Liabilities	<u>3,271.2</u>	<u>3,243.5</u>	<u>3,242.6</u>	<u>3,570.1</u>	<u>3,986.7</u>
Net Debt	(2,175.0)	(2,128.9)	(2,123.5)	(2,205.0)	(2,299.3)
Non-Financial Assets	<u>1,029.2</u>	<u>1,067.1</u>	<u>1,111.5</u>	<u>1,197.5</u>	<u>1,308.9</u>
Accumulated Deficit	<u>(\$1,145.8)</u>	<u>(\$1,061.8)</u>	<u>(\$1,012.0)</u>	<u>(\$1,007.5)</u>	<u>(\$990.4)</u>
Revenues	\$ 1,837.4	\$1,987.1	\$2,078.7	\$ 2,187.6	\$2,364.6
Expenses	<u>1,838.7</u>	<u>1,912.5</u>	<u>2,021.7</u>	<u>2,165.6</u>	<u>2,370.2</u>
Annual Surplus (Deficit)	\$ (1.3)	\$ 74.6	\$ 57.0	\$ 22.0	\$ (5.6)
Nominal Gross Domestic Product*	<u>\$ 6,376.0</u>	<u>\$ 6,790.0</u>	<u>\$ 6,983.0</u>	<u>\$ 7,444.0</u>	<u>\$7,508.0</u>

Source: Derived from the Province's 2020-21 Public Accounts Volume I with restatements as identified in the Province's consolidated financial statements.

*Statistics Canada, published November 9, 2021.

Net Debt

10.5 An important and widely accepted measure of the financial condition of government is net debt. Net debt is the difference between liabilities and financial assets. It provides a measure of the amount of future revenue

that will be required to pay for past operations.

10.6 Net debt increased during the year by \$94.3 million and was \$2.3 billion as at March 31, 2021. The increase in net debt was mainly due to an increase in the net investment in tangible capital assets of \$95.9 million and the annual deficit of \$5.6 million.

10.7 Net debt continues to rise and sits at its highest level ever. The recently tabled 2022-23 Estimates of Revenue and Expenditure are forecasting net debt to reach \$2.9 billion by March 31, 2025.

Financial Assets and Liabilities

10.8 Financial assets increased by \$322.3 million since March 31, 2020. The main reason for this increase was due to short-term investment holdings related to the Province's liquidity reserve increasing by \$250.8 million, from \$170.0 million to \$420.8 million as at March 31, 2021. The purpose of the additional liquidity reserves was to maximize interest-rate opportunities available to the Province.

10.9 **Exhibit 10.1** also shows that total liabilities have increased by \$416.6 million since March 31, 2020. The main reasons for the increase were short-term loans payable increasing by \$260.9 million and an increase in debentures of \$147.8 million. Increases in short-term loans payable were used to fund the liquidity reserve increase, and increases in debentures were used to fund the Province's operating and capital spending.

10.10 As at March 31, 2021, the Province had outstanding short-term loans payable, long-term loans payable, and debentures totalling \$3.5 billion. These borrowings are partially offset by sinking fund assets of \$315.5 million.

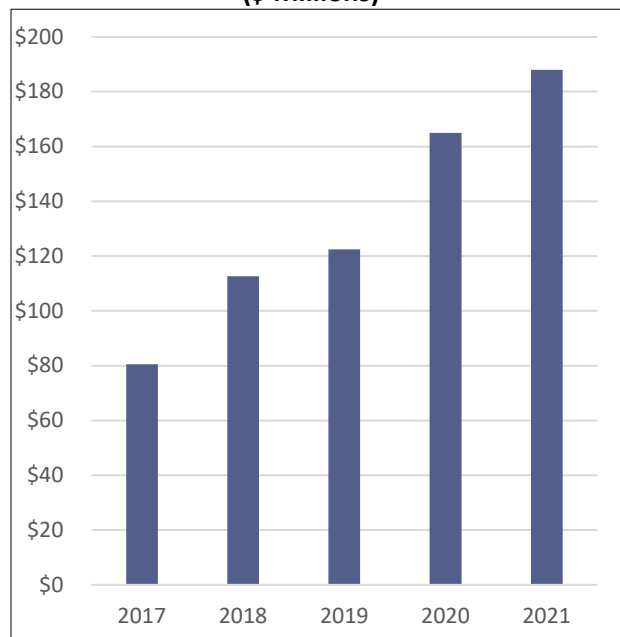
Non-Financial Assets

10.11 Non-Financial assets increased by \$111.4 million since March 31, 2020. Most of the increase relates to the acquisition of tangible capital assets necessary to maintain existing assets or invest in new infrastructure. Most of the remaining increase is attributed to the Province's investment in personal protective equipment inventory for the COVID-19 pandemic.

Tangible Capital Assets

10.12 Tangible capital assets include land, buildings and improvements, leasehold improvements, roads and bridges, equipment, motor vehicles and other assets. The increase in tangible capital assets for the year ended March 31, 2021 was due to tangible capital asset additions of \$188.0 million, which was partially offset by a combined \$92.1 million of amortization of tangible capital assets and asset disposals. **Exhibit 10.2** shows the Province's total tangible capital asset additions from 2017 to 2021. Capital asset additions have continued to grow, and they are a key contributor to the increasing net debt levels.

**EXHIBIT 10.2
TOTAL TANGIBLE CAPITAL ASSET ADDITIONS
YEAR ENDED MARCH 31
(\$ Millions)**



	2017	2018	2019	2020	2021
Tangible Capital Asset Additions	\$80.5	\$112.6	\$122.4	\$165.0	\$188.0

Source: Derived from the Province's consolidated financial statements.

10.13 Although capital spending continues to increase, actual capital spending was still lower than the authorized capital budget of \$210.6 million, as noted in Chapter 9. This was due to delays in various capital projects including:

- The Department of Health and Wellness was underspent by nearly \$16.9 million due to delays related to the mental health and addictions capital project and the electronic medical records project;
- The Department of Social Development and Housing was underspent by \$10.1 million because of delays in the planning

and tendering of housing construction projects; and

- The Department of Justice and Public Safety was underspent by \$5.2 million due to delays in construction of the women's unit at the Provincial Correctional Centre.

The Province communicated that the reason for these delays was due to government resources being allocated towards the COVID-19 pandemic response.

Annual Surplus/Deficit

10.14 The annual surplus/deficit indicates the extent to which a government spends more or less than what is generated in revenue in a particular year. It indicates whether a government is living within its means.

10.15 For the year ended March 31, 2021, the Province had a deficit of \$5.6 million after three years of consecutive surpluses. This deficit was significantly less than the original budgeted deficit of \$172.7 million, and the subsequently forecasted deficit of \$120.0 million, based on preliminary results in the spring of 2021.

10.16 In response to the pandemic, the Province implemented a COVID-19 response that encompassed several provincial programs designed to complement or enhance benefits available under federal programs. The COVID-19 response began in March 2020 and continued throughout the 2020-2021 fiscal year. COVID-19 related expenses for 2020-21 totalled \$118.2 million, and were partially offset by federal revenue transfers of \$87.7 million. The Province is forecasting a deficit of \$26.5 million for 2021-22.

Revenues

10.17 Revenues increased by \$177.0 million from the prior period. The increase was due largely to additional federal revenues of \$120.0 million and higher tax revenues of \$77.6 million.

10.18 The increase in federal revenues was due largely to new federal funding for COVID-19 response and recovery along with higher equalization payments from the Federal Government. The increase in tax revenues was driven by higher personal and corporate income tax revenues. Personal income tax revenues increased due to pandemic-related support programs stabilizing personal tax bases. Corporate income tax revenues increased after significant loss carrybacks negatively impacted the 2020 fiscal year. These increases were partially offset by a decrease in sales tax revenue, which was impacted by a decline in economic activity resulting from the COVID-19 pandemic.

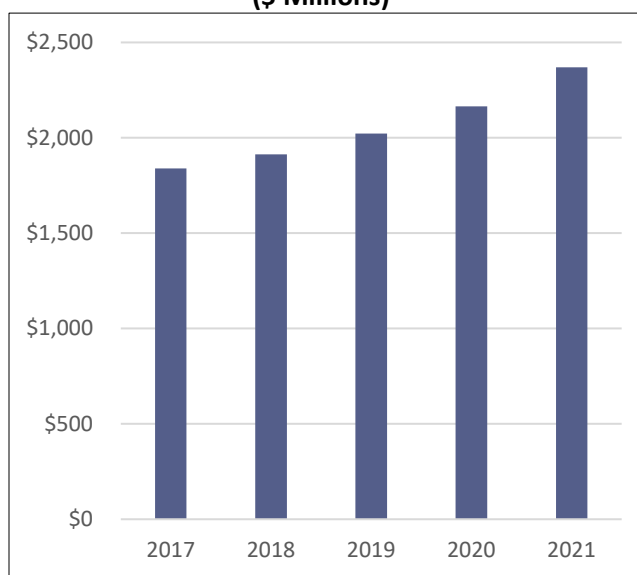
Expenses

10.19 Expenses increased by \$204.6 million from the prior year. The increase resulted partially from additional expenses in the Department of Finance, which was largely due to \$67.1 million incurred through the General Government contingency related to the COVID-19 response. There was also an additional \$51.1 million of expenditures incurred during the year related to government's COVID-19 Response and Recovery Contingency that was reflected amongst many departments and was another key driver of increased expenditures.

10.20 Expenses have risen by \$531.5 million since 2017 as more demands are being placed on government programs and services annually, especially during a pandemic.

Exhibit 10.3 shows the total expenses from 2017 to 2021.

EXHIBIT 10.3
TOTAL EXPENSES
YEAR ENDED MARCH 31
(\$ Millions)



	2017	2018	2019	2020	2021
Total Expenses	\$1,838.7	\$1,912.5	\$2,021.7	\$2,165.6	\$2,370.2

Source: Derived from the Province's consolidated financial statements.

Budget to Actual

10.21 **Exhibit 10.4** provides a summary breakdown of the change in the Province's annual deficit from the amount originally budgeted to the actual deficit realized.

EXHIBIT 10.4
CHANGE IN ANNUAL DEFICIT
BUDGET TO ACTUAL
YEAR ENDED MARCH 31, 2021
(\$ Millions)

	Revenues	Expenses	Deficit
2020-21 Budget	<u>\$2,311.1</u>	<u>\$2,483.8</u>	<u>\$(172.7)</u>
Increase (decrease) in:			
Revenues			
Tax revenue	76.6	-	76.6
Government of Canada transfers	(56.0)	-	(56.0)
Government Business Enterprises	24.0	-	24.0
Other provincial revenue	8.9	-	8.9
Expenses			
Economic Growth, Tourism & Culture	-	(7.6)	7.6
Finance	-	(22.9)	22.9
Health & Wellness	-	(10.1)	10.1
Transportation, Infrastructure & Energy	-	(52.5)	52.5
Other program expenses	-	(11.8)	11.8
Interest and Amortization	-	(8.7)	8.7
Total Change	<u>53.5</u>	<u>(113.6)</u>	<u>167.1</u>
2020-21 Actual	<u>\$2,364.6</u>	<u>\$2,370.2</u>	<u>\$(5.6)</u>

Source: Derived from the Province's consolidated financial statements 2020-21.

Budget to Actual Revenues

10.22 Overall, revenues were \$53.5 million higher than the amount originally budgeted. Higher tax revenues and net income from government business enterprises were the main reasons for this increase. These increases were partially offset by Government of Canada transfers that were lower than the amount originally budgeted.

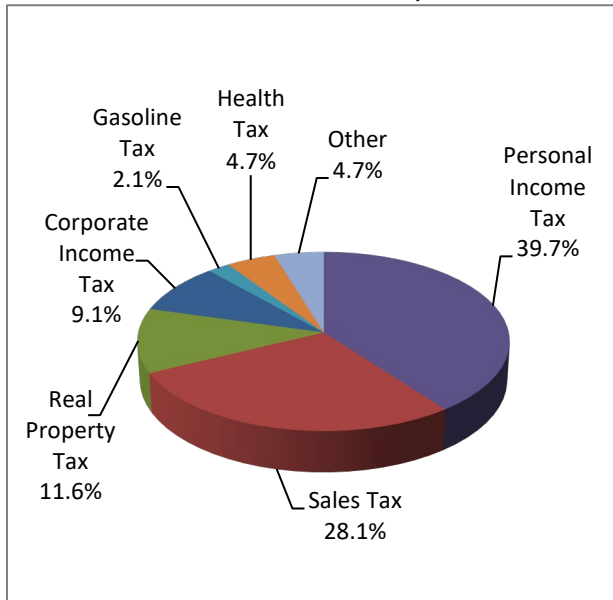
10.23 Tax revenues were \$76.6 million higher than the amount originally budgeted. The majority of the increase was attributable to higher than expected personal and corporate income tax revenues that were partially offset by lower than expected sales tax revenues.

10.24 Personal income tax revenues were \$51.9 million higher than budgeted. This was due largely to the unknown impact of the COVID-19 pandemic and actual results being better than anticipated. The personal tax base was supported by federal and provincial pandemic support programs. These programs also helped stabilize the provincial economy which contributed to corporate income tax revenues being \$16.8 million higher than budgeted.

10.25 In addition, corporate income tax estimates in the previous year were understated and subsequent data showed higher than projected numbers reflected in the 2021 fiscal period. Sales tax revenues were \$10.3 million lower than budgeted due to a decline in economic activity resulting from the COVID-19 pandemic.

10.26 Provincial tax revenues are the largest source of revenue for the Province and totalled \$1.1 billion for the year ended March 31, 2021. **Exhibit 10.5** shows the sources of provincial tax revenues for the year ended March 31, 2021.

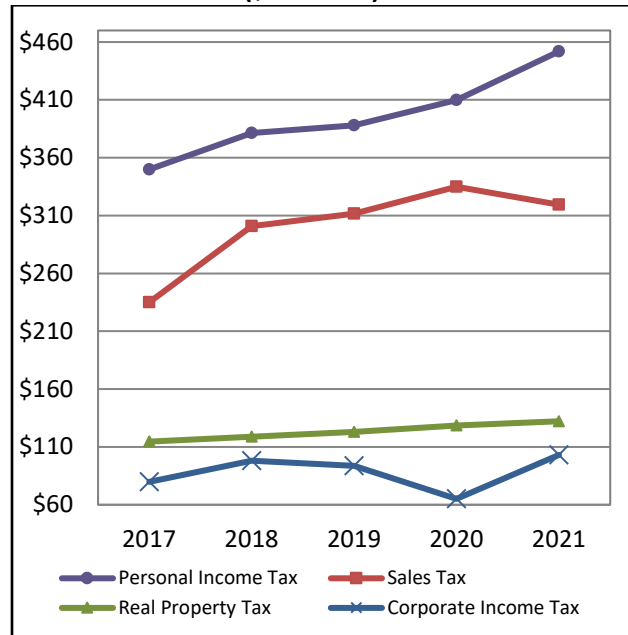
**EXHIBIT 10.5
PROVINCIAL TAX REVENUES
BY SOURCE
YEAR ENDED MARCH 31, 2021**



Source: Derived from the Province's consolidated financial statements 2020-21.

10.27 **Exhibit 10.6** shows the tax revenues for the four largest sources from 2017 to 2021. Personal income tax and real property tax revenues have continued their upward trend. Corporate income tax revenues are also back on an upward trend after experiencing a sharp decline in 2020, due to significant loss carrybacks filed during that period resulting from the accelerated investment incentive for companies in certain sectors. Sales tax revenues declined for the first time since 2017 due mainly to a decline in economic activity resulting from the COVID-19 pandemic.

**EXHIBIT 10.6
TAX REVENUES
YEAR ENDED MARCH 31
(\$ Millions)**



	2017	2018	2019	2020	2021
Personal Income Tax	\$349.9	\$381.4	\$388.1	\$409.9	\$451.9
Sales Tax	\$235.0	\$300.8	\$311.6	\$334.9	\$319.5
Real Property Tax	\$114.6	\$118.7	\$123.1	\$128.4	\$132.2
Corporate Income Tax	\$79.9	\$98.1	\$93.6	\$65.1	\$103.1

Source: Derived from the Province's consolidated financial statements.

10.28 Revenue from the Government of Canada totalled \$968.2 million for the year ended March 31, 2021. This represents a decrease of \$56.0 million from the amount budgeted. The following are the areas where significant variances from budget were identified:

- New Deals for Cities and Communities funding was under budget by \$19.2 million, mostly due to additional expected federal government funding

not being authorized until the 2021-22 fiscal year;

- Investing in Canada Plan funding was under budget by \$29.9 million and Capital Funding was under budget by \$12.6 million, mainly due to various delays in the progress of infrastructure projects, which had a direct impact on the amount of federal funding received; and
- Budget shortfalls were partially offset by \$12.9 million in additional COVID-19 response and recovery federal funding.

10.29 Net income from government business enterprises was \$24.0 million higher than the amount originally budgeted. This was mainly attributable to better than expected results for the PEI Liquor Control Commission and the PEI Lotteries Commission. Net income of the PEI Liquor Control Commission and PEI Lotteries Commission were \$11.1 million and \$10.3 million higher than budget, respectively. The main reason is that the budgets for these entities were prepared with the COVID-19 pandemic in mind, therefore significantly reducing the expected income from previous periods. However, the impact of the pandemic on the Province was not as severe as expected, and these entities were able to generate similar levels of income compared to previous years.

Budget to Actual Expenses

10.30 Expenses were \$113.6 million lower than budgeted in 2020-21. The following are areas where significant variances from budget were identified:

- Expenses were \$22.9 million lower than budgeted for the Department of Finance. This was mainly due to a number of COVID-19 programs not requiring the amount of funding that was initially expected; and
- Expenses were \$52.5 million lower than budgeted for the Department of Transportation, Infrastructure and Energy due to various delays in the progress of infrastructure projects. A large portion of delays were related to projects that are cost shared with the Federal Government.

FINANCIAL INDICATORS

10.31 Consistent with prior years, we continue to provide information on a number of selected indicators of financial condition. We provide indicators that help assess the Province's sustainability, flexibility, and vulnerability.

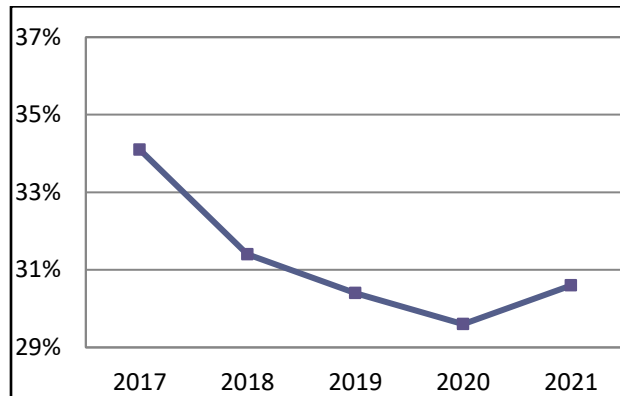
Sustainability

10.32 Sustainability is an important indicator to include in an assessment of financial condition because it shows the extent to which programs and services can be maintained and existing creditor, employee, and other obligations can be met, without increasing the debt or tax burden. Sustainability is a significant consideration because of its potential impact on current and future generations.

Net Debt to GDP

10.33 Net debt to GDP provides a measure of the financial demands placed on the economy by the Province's spending and taxation policies. An increasing ratio indicates net debt is growing at a rate faster than the growth in the economy. The Province's net debt to GDP ratio did rise in 2021 after declining from 2017 to 2020, as shown in **Exhibit 10.7**.

EXHIBIT 10.7
NET DEBT TO GDP
YEAR ENDED MARCH 31

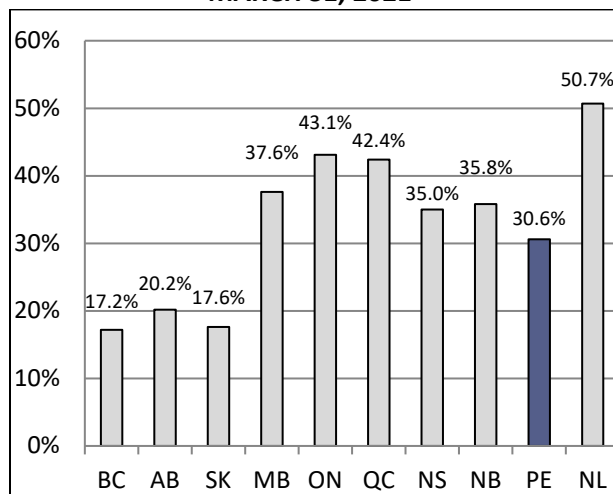


	2017	2018	2019	2020	2021
Net Debt to GDP	34.1%	31.4%	30.4%	29.6%	30.6%

Source: Derived from the Province's consolidated financial statements and GDP data from Statistics Canada, published November 9, 2021.

10.34 **Exhibit 10.8** compares the Province's net debt to GDP with the other Canadian provinces. As at March 31, 2021, PEI's net debt to GDP ratio was lower than six other provinces and higher than British Columbia, Alberta, and Saskatchewan.

EXHIBIT 10.8
NET DEBT TO GDP CANADIAN PROVINCES
MARCH 31, 2021



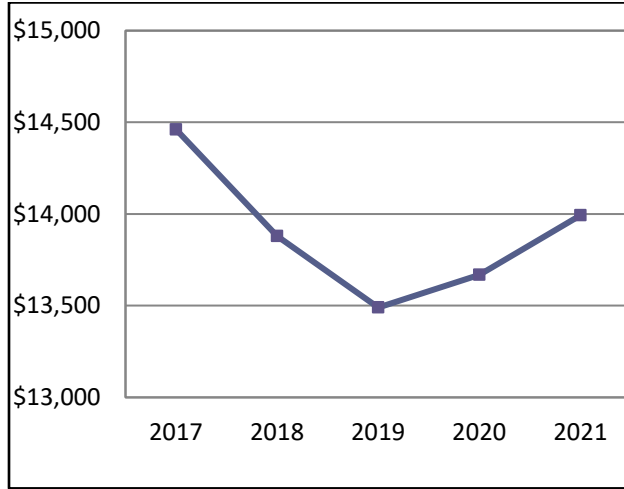
Source: Net debt derived from each province's consolidated financial statements as at March 31, 2021 and GDP data from Statistics Canada, published November 9, 2021.

Net Debt per Capita

10.35 Net debt per capita is the amount of net debt attributable to each resident of the Province. The Province's net debt per capita increased by \$325 from the previous year. This indicates that net debt is growing at a rate faster than the growth in population.

10.36 **Exhibit 10.9** shows that the Province's net debt per capita has increased in each of the last two years, which is a negative and concerning trend.

**EXHIBIT 10.9
NET DEBT PER CAPITA
YEAR ENDED MARCH 31**

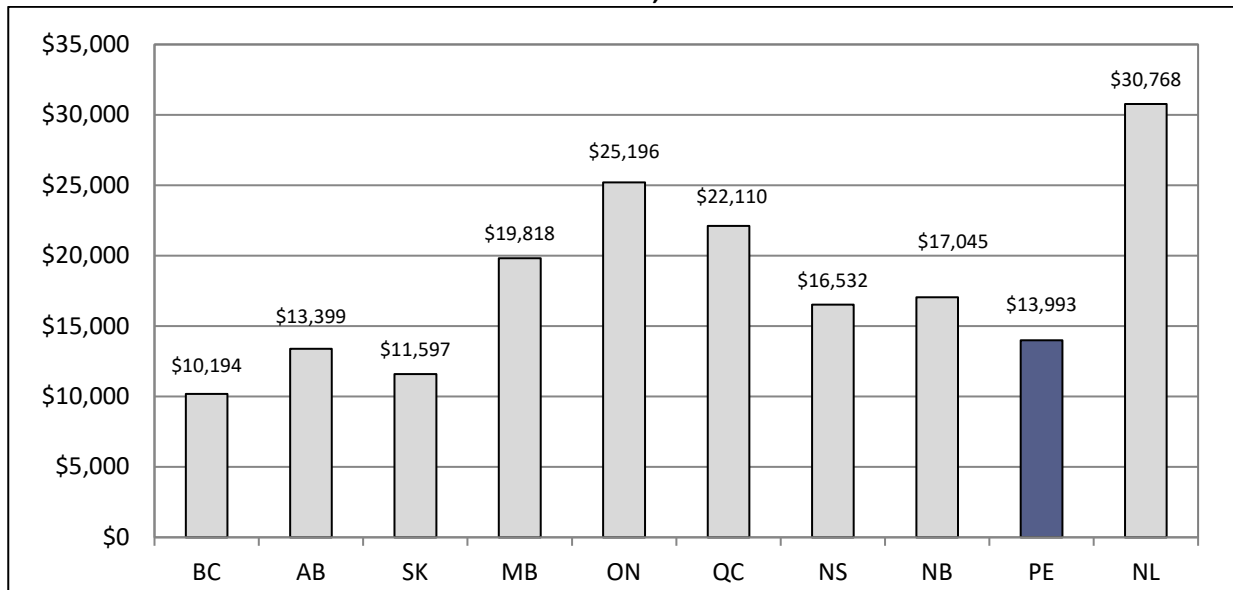


	2017	2018	2019	2020	2021
Net Debt per Capita	\$14,461	\$13,879	\$13,490	\$13,668	\$13,993

Source: Derived from the Province’s consolidated financial statements and population data from Statistics Canada, published September 29, 2021.

10.37 A comparison of PEI’s net debt per capita to the other Canadian provinces is provided in **Exhibit 10.10**. PEI’s net debt per capita ratio is more favorable than most provinces, other than British Columbia, Alberta, and Saskatchewan.

**EXHIBIT 10.10
NET DEBT PER CAPITA CANADIAN PROVINCES
MARCH 31, 2021**

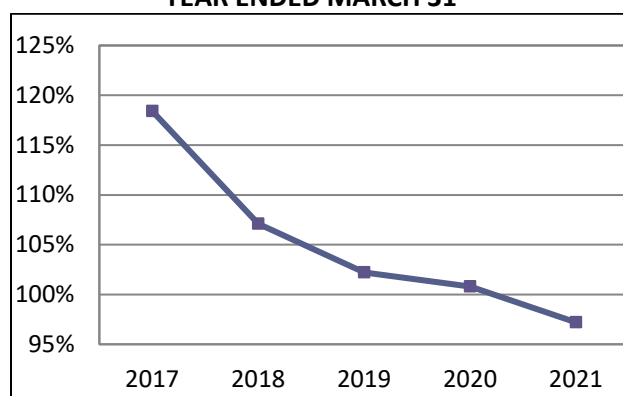


Source: Net debt derived from each province’s consolidated financial statements at March 31, 2021 and population data from Statistics Canada, published September 29, 2021.

Net Debt to Total Revenues

10.38 **Exhibit 10.11** depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue that will be required to pay for past transactions. The Province's ratio has decreased significantly from 2017 to 2021, which is a positive trend.

EXHIBIT 10.11
NET DEBT TO TOTAL REVENUES
YEAR ENDED MARCH 31



	2017	2018	2019	2020	2021
Net Debt to Total Revenues	118.4%	107.1%	102.2%	100.8%	97.2%

Source: Derived from the Province's consolidated financial statements.

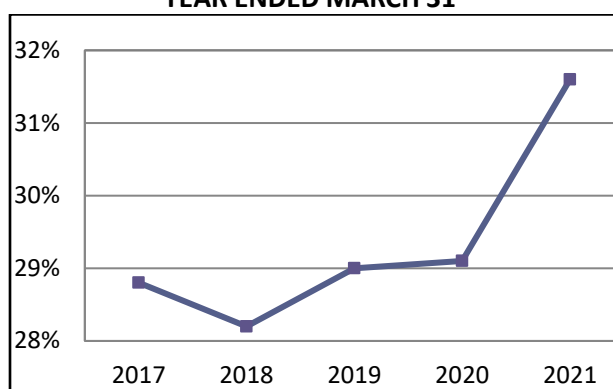
Expenses to GDP

10.39 During the 2021 fiscal year, government expenses increased by \$204.6 million from the prior period. Comparing expenses to GDP provides the trend of government spending over time, in relation to the growth in the economy. An increasing ratio indicates government spending is growing at a rate faster than the growth in the economy. Expenses as a percentage of GDP increased in 2021, after also increasing for the past few years. This ratio has climbed to

its highest level over the last ten years. The COVID-19 pandemic was the main reason for the rise in this ratio during 2021, as it contributed to GDP levelling off and increased government spending to provide supports to individuals and businesses.

Exhibit 10.12 shows the Province's expenses to GDP on a comparative basis.

EXHIBIT 10.12
EXPENSES TO GDP
YEAR ENDED MARCH 31



	2017	2018	2019	2020	2021
Expenses to GDP	28.8%	28.2%	29.0%	29.1%	31.6%

Source: Derived from the Province's consolidated financial statements and GDP data from Statistics Canada, published November 9, 2021.

Flexibility

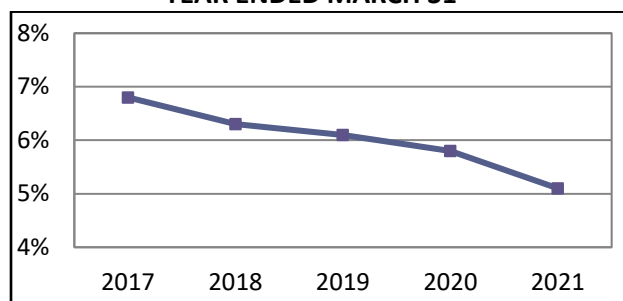
10.40 Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either incurring debt or raising additional revenue. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

10.41 Flexibility provides insight into the management of financial resources. A government that increases its current borrowings reduces its future flexibility to respond to adverse economic circumstances. Similarly, increasing taxation or fees reduces a government’s ability to do so in the future, as citizens and businesses approach a limit to the amount that they can, or are willing, to bear.

Interest Bite and Interest Charges

10.42 One measure of a government’s flexibility is the interest bite. This is the amount of annual interest charge as a percentage of total revenues and is shown in **Exhibit 10.13**. This indicator illustrates the extent to which past borrowing decisions constrain a government’s ability to provide programs and services in the future. The interest charges to total revenues ratio has continued to decline, which is a positive trend.

**EXHIBIT 10.13
INTEREST CHARGES TO TOTAL REVENUES
YEAR ENDED MARCH 31**



	2017	2018	2019	2020	2021
Interest Charges to Total Revenues	6.8%	6.3%	6.1%	5.8%	5.1%

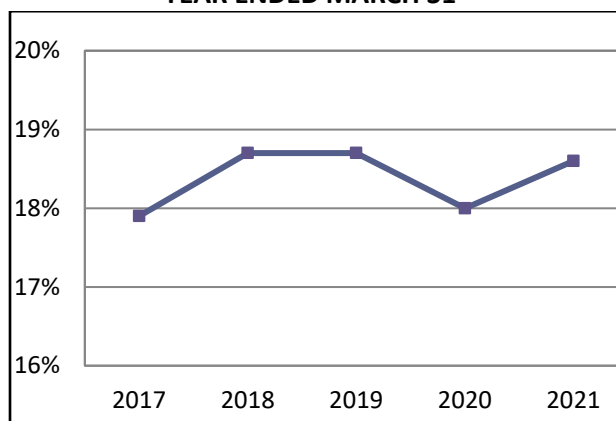
Source: Derived from the Province’s consolidated financial statements.

10.43 Interest charges totalled \$121.2 million during 2020-21. This means the first \$121.2 million of revenue must be used to pay interest charges and is not available for government programs and services.

Own Source Revenues to GDP

10.44 Own source revenues, as a percentage of GDP, indicates the extent to which a government is taking money out of the local economy through taxation, fees, and/or other charges. **Exhibit 10.14** indicates the percentage did increase during the year and is comparable to what it was in 2018 and 2019.

**EXHIBIT 10.14
OWN SOURCE REVENUES TO GDP
YEAR ENDED MARCH 31**



	2017	2018	2019	2020	2021
Own Source Revenues to GDP	17.9%	18.7%	18.7%	18.0%	18.6%

Source: Derived from the Province’s consolidated financial statements and GDP data from Statistics Canada, published November 9, 2021.

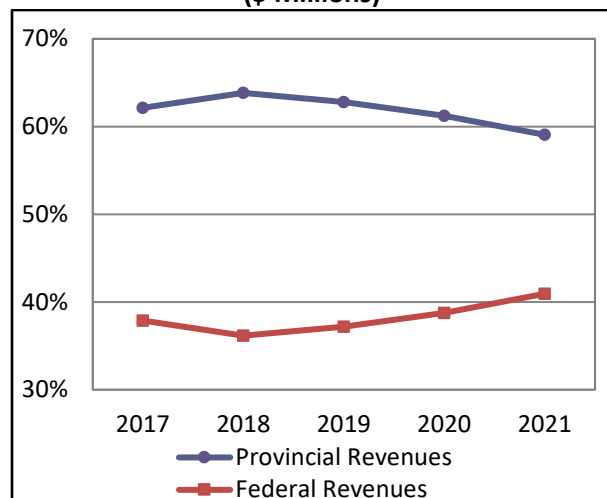
Vulnerability

10.45 Vulnerability is the degree to which a government depends on sources of funding outside its control or influence. It provides insight into the risks to the Province that could affect its ability to meet existing service commitments to the public and financial commitments to creditors, employees and others.

Provincial and Federal Revenues to Total Revenues

10.46 As indicated in **Exhibit 10.15**, federal revenues as a percentage of total revenues have increased over the past couple of years, while provincial revenues, i.e. own source revenues, have decreased. An increasing federal revenue ratio indicates more vulnerability, as the Province is increasingly dependent on this source of revenue. In 2020-21, the Federal Government provided 40.9 percent of the Province's total revenues. This is an increase from 38.8 percent in the prior year, and also the highest percentage noted over the last ten years. The increase in this ratio was mainly driven by federal COVID-19 support funding.

EXHIBIT 10.15
PROVINCIAL AND FEDERAL REVENUES
TO TOTAL REVENUES
YEAR ENDED MARCH 31
(\$ Millions)



	2017	2018	2019	2020	2021
Provincial Revenues	\$1,141.5	\$1,268.5	\$1,305.4	\$1,339.4	\$1,396.4
Federal Revenues	695.9	718.6	773.3	848.2	968.2
Total Revenues	\$1,837.4	\$1,987.1	\$2,078.7	\$2,187.6	\$2,364.6
Provincial Revenues as Percent of Total	62.1%	63.8%	62.8%	61.2%	59.1%
Federal Revenues as Percent of Total	37.9%	36.2%	37.2%	38.8%	40.9%

Source: Derived from the Province's consolidated financial statements.

GLOSSARY

Accumulated deficit is the sum of all surpluses, deficits, and other comprehensive gains (losses) incurred over the years.

Annual surplus or deficit is the difference between a government's revenues and expenses. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year.

Financial assets are cash and other assets which could provide resources to pay liabilities or finance future operations.

Government borrowings is the total amount of short-term loans payable, long-term loans payable, and debentures.

Gross domestic product (GDP) is a measure of the value of all goods and services produced in a jurisdiction in a given period. The Province's GDP is measured and reported by Statistics Canada.

Interest charged on borrowings is the amount required to service the debt, and must be taken from revenues before any expenditures can be made on government programs and services.

Net debt is the difference between the government's total liabilities and its financial assets.

Nominal gross domestic product is gross domestic product that has not been adjusted for inflation.

Non-financial assets are tangible capital assets such as buildings, roads, and equipment, as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired, and is reduced over a period of time through amortization. These assets do not normally provide resources to discharge liabilities.

Other comprehensive gain (loss) includes revenues, expenses, gains, and losses that have yet to be realized and are recognized in accumulated deficit, but excluded from annual surplus or deficit.

Total liabilities are the amounts owed by government. Government's liabilities include outstanding debentures and other amounts payable.