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# **Standing Committee on Government Operations and Estimates**

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**EVIDENCE**

**Thursday, October 5, 2006**

**Chair**

**The Honourable Diane Marleau**

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## Standing Committee on Government Operations and Estimates

Thursday, October 5, 2006

• (1105)

[English]

**The Chair (Hon. Diane Marleau (Sudbury, Lib.)):** Good morning, everyone.

To our guests, I'm sorry. We have a couple of motions to deal with, but it should be very quick.

Madam Thibault.

[Translation]

**Ms. Louise Thibault (Rimouski-Neigette—Témiscouata—Les Basques, BQ):** Thank you very much, Madam Chair.

I believe you have all received a copy of my motion, which reads as follows:

Pursuant to Standing Order 108(3)(c), that the Committee devote the next two meetings to a review of the detailed budget cuts announced by the Treasury Board on September 25, 2006.

Madam Chair, this is really just a detail, but to improve the quality of the French version, I would like to replace the word “coupures” with the word “compressions”. It in no way changes the meaning of the motion.

I will be very brief, but I would like to explain my rationale in tabling this motion.

We all know that in the last fiscal year, the Government posted surpluses of more than \$13 billion. We also know that for the last ten years, the Government has considerably increased its operating expenditures. Now the Conservative Government is making draconian budget cuts based on ideology by attacking groups and programs that provide a counterweight to the Government's position. The examples that come to mind are the Court Challenges Program and advisory and advocacy groups that focus on the Department of Revenue.

Very often, the cuts involved affect projects and programs that, however small, are very important to civil society and, I would venture to say, to the health of our democracy. In my opinion, that is very much part of our mandate in this Committee, and I'm sure colleagues will recognize that. Indeed, the Government has a duty to explain why it decided not to invest \$25 million in the textile and clothing industry, which is currently facing major problems as a result of globalization.

The same question arises with respect to the \$20 million that were not invested in fisheries and oceans. Across this vast country, we are all affected. Some \$14 million has not been allocated to the Food Inspection Agency, even though the agricultural industry overall is

greatly concerned by such issues as the new disease affecting potatoes, the avian flu crisis, and mad cow disease. I could add to this already long list a \$50 million reduction in programming aimed at Aboriginal Canadians.

I should also like to point out, as regards the agencies and departments that it is our role to critique, that Public Works and Government Services Canada has decided to apply spending reductions of \$45 million, primarily to the Real Property Program. My position is that we should invite the Minister and Deputy Minister to explain how it has come to this. As for cuts in additional funding for real property management renewal, there we're talking about \$5 million, as well as a \$40 million reduction in the revolving fund surplus.

I hope my colleagues will agree that it is critical that we review these issues. For Treasury Board, we're talking about a \$9 million cut in funding for the School of the Public Service, an \$83 million cut for the Human Resources Management Agency, and \$18.5 million worth of cuts to government-wide initiatives. We know that governments have often boasted about being able to save money through such initiatives. I'd like to know how we managed to save \$18.5 million.

Madam Chair, I hope all colleagues will agree to carefully study these budget cuts. In closing, I would just like to suggest that we do this in two ways. First of all, I am suggesting that we review the overall situation. To that end, we could select a number of witnesses and hear from them. The idea is to determine how and why all these budget cuts were made.

Also, in order to study this in greater detail, I would suggest that we invite senior officials, including the ministers responsible, respectively, for Public Works and the Treasury Board Secretariat, so that they can explain how they arrived at budget cuts of the magnitude I have just mentioned.

Thank you, Madam Chair.

**The Chair:** Thank you, Ms. Thibault.

[English]

I believe Mr. Kramp has a comment.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Thank you, Madam Chair.

In response to the motion presented by Madam Thibault, we, as a government, welcome this intervention. And we think it should be a necessary means by which to further explain how and why the decisions have been made in government and to listen to deputations that have been affected, positively or negatively. We think that is the duty and responsibility of the committee. So we welcome this motion.

Might I suggest just a small amendment to the motion? This would be to assist our chair and our clerk in facilitating the proper arrangement of witnesses and other considerations.

In the motion, where it says, “during the next”, I would just delete “during the next” and in place of that put “for”. This way it doesn't totally hog-tie us to the next two meetings, when the chair might have witnesses already scheduled. I'm suggesting that we recognize the urgency for the opposition members of dealing with this. And we're suggesting that at the first steering committee meeting we'll be able to work out an acceptable arrangement whereby witnesses and scheduling of this would be available for everybody to examine with the proper diligence.

**The Chair:** I'd like to know if there's consent for this amendment.

[Translation]

**Ms. Louise Thibault:** I am making this proposal with a very open mind. I also agree that, for the sake of our Chair and our Clerk, the witness appearances be spread out over two meetings. However, I would hope that the meetings could occur in a relatively short span of time. Thank you.

[English]

**The Chair:** I'll call the question.

(Amendment agreed to)

(Motion as amended agreed to)

**The Chair:** I have received as well a notice of motion from Mr. Kramp. I just received it this morning. For us to discuss this we need unanimous consent. I don't know if you're willing.

It will go on to the next meeting then. I'm sure Mr. Kramp was expecting that.

**Some hon. members:** Oh, oh!

• (1110)

**Mr. Omar Alghabra (Mississauga—Erindale, Lib.):** I'm sure he was.

**Mr. Daryl Kramp:** I would suggest that it's a reasonable assumption.

**The Chair:** Thank you, Mr. Kramp.

Now we're going to go on to our invited guests. From the accounting board of the Canadian Institute of Chartered Accountants, we have Mr. Ronald Salole and Martha Denning, please.

We will give you approximately ten to fifteen minutes for your presentation, between the two of you, and then we'll open up for questions from the different sides.

Thank you.

**Mr. Ronald Salole (Vice-President, Standards, Canadian Institute of Chartered Accountants):** Madam Chair and members of the committee, on behalf of Canada's chartered accountants, I want to thank you very much for the opportunity to speak to you today on the accrual basis of financial reporting.

My name is Ron Salole. I'm the vice-president of standards at the CICA. My colleague, Martha Denning, is a principal with the Public Sector Accounting Board.

I've spent 30 years in standards, 25 with the CICA and five with the New Zealand Institute. Martha has been a principal for 15 years. So between the two of us we've got 45 years of experience in standard setting. My comments will come from that perspective.

Let me tell you just a bit about the CICA and the boards, and then I'll deal with the accrual basis of accounting. The CICA, together with the CA provincial institutes and the order, represent approximately 71,000 CAs and 9,500 students in Canada and Bermuda.

It conducts research into current business issues and supports the setting of accounting, auditing, and assurance standards for business, not-for-profit organizations, and for government. It issues guidance on controlling governance, publishes professional literature, develops continuing education programs, and represents the CA profession nationally and internationally.

Our mission is to provide relevant, reliable information and decisions in a global context. We have strong business skills. We act with integrity and objectivity. Our commitment to excellence in the public interest is enforced through rigorous self-government and public oversight.

The CICA's standards group comprises the following entities, activities, and people. It has three boards, oversight councils, members, and staff. Canadian standards for financial accounting and reporting and for assurance and related services are set by three boards: the Accounting Standards Board for commercial organizations, companies, public and private companies, and not-for-profit organizations; the Public Sector Accounting Board that Martha is involved in that sets standards for the public sector; and the Auditing and Assurance Standards Board that sets auditing and assurance standards.

Each board is supported by its own professional and administrative staff and each is accountable to an independent oversight council that represents the public interest.

Madam Chair, with your indulgence, what I thought I might do for five minutes—I don't know that I'm going to need more than that—is to focus on some myths about accounting and the accrual basis of accounting and try to dispel them. Then I will deal very briefly with budgeting and try to draw some comparisons. I will then talk about another issue that I think you are going to be concerned with, and that is change management.

The accrual basis of accounting, financial reporting itself—or accounting, if you like—is a practical occupation. One of the best accounting minds in Canada, Ross Skinner, is the second candidate in an accounting hall of fame—yes, we do have a hall of fame, even in accounting. He said this about accounting:

Accounting is a practical occupation. It has little point unless it serves a purpose. Some people — a small minority — find some satisfaction in the symmetry of a balanced set of accounts. But for most people the value in accounting lies in the information it conveys.

It's very practical. That is one of the things I'm going to say about it. It's practical. It's there to serve a purpose. It's not an objective.

The principal thing it does is try to tell people what happened, the way it happened. It is not trying to tell people what they would have liked to have happened, what they wished happened. It is trying to tell people what actually happened, warts and all. It's trying to say that if this transaction occurred, if this event occurred, let's report it, warts and all. It's reporting and it is historical. It is not looking forward necessarily. It's telling it the way it is—not the way people want it to be or the way people like it to be, but the way it is.

The accrual basis of accounting is the best way we've developed, internationally, globally, to be able to do that. It portrays a picture and says here are the transactions and events that occurred in this particular period. Here's the balance sheet, the statement of the financial position. It tells you what its assets and its liabilities are, and it tells you what the changes in those assets and liabilities are. We focus on setting standards for that, because we can come up with some rigid, well-based, well-grounded principles, and we reason from them.

• (1115)

On one side, research shows that financial reports prepared on the accrual basis of accounting historically also happen to be the best predictors of what is likely to happen in the future. That's why the stock markets use historical financial statements that look at what happened in the past in order to come up with their judgments on what is likely to happen in the future. That's a research finding, and it may or may not necessarily happen.

However, there are some limitations on financial reporting that proceeds on the accrual basis of accounting. You have to understand those limitations.

It is one-dimensional. If, for example, you are an engineer and you're going to build an outhouse in the back of your garden, you'll still need three-dimensional drawings in order to do it. Sophisticated models being built today using computer activity use three-dimensional models. Financial reports of the government are in one dimension and one dimension only. They give you a picture; they do not have depth. For management purposes, people need additional pieces of information. A key piece of information for any organization, whether in the private sector or in the public sector, is cash management—being able to predict what their debts are going to be and how they're going to pay them and manage them. You cannot overlay your cash management, though, on an accrual basis of accounting. That has its own purpose. Its purpose is to provide you with that picture and tell you what happened, tell you what transactions and events occurred. Cash management has a different set of skill sets, and it has another objective.

Budgets tend to be the most important documents a government prepares, because they look into the future and say what we plan to happen—I was going to say what we hope is going to happen. But it is a futuristic look at what's going to happen.

From my perspective as a standards setter, I say that accountability can only happen if you compare a budget with what actually happened a year later. The only way you can have accountability and the only way you can have comparability is if both of the measures you have can be compared like to like. If they are on different measurements, you aren't comparing apples with apples anymore. Accountability can only be achieved if the budgets and financial statements have been prepared on the same basis, and accrual accounting is the best way you can tell what actually happened and the way it actually happened.

The difficulty with budgets, if they're not prepared on an accrual basis—or even what is contained in them or not contained in them—is that we haven't got standards for what the transactions or events that you're going to be including in that budget ought to be. That's because it is future-oriented financial information. It is what the government wants to be able to do, expects to be able to do, but it hasn't happened. Until it happens, the standards saying how you're going to report are not there, but being prepared and developed on an accrual basis of accounting is definitely possible, and a number of jurisdictions have already done that.

One of the things we in standards setting have to deal with—and whether we deal with it very well is sometimes debatable—is this whole issue of change management. Generally speaking, people don't like change. They don't even like new standards. We hear an awful lot, and I'm always bombarded by people who come to complain about standard overload, because we've issued a new standard.

• (1120)

The new standards we issue are not there to make anybody's life difficult. It's more that some economic event, some commercial event, or some complex types of transactions have occurred in the marketplace. Some people say they don't know how to account for this, and they ask what the best way is to account for this. We are developing new standards all the time to try to deal with those complex problems.

I think what we have is very small in comparison to what the Government of Canada will have if it moves estimates from a cash basis to an accrual basis. It's not unmanageable; it is manageable. I think at the end of the day, if it does move, it will make for better decisions, because everything will be done on a similar basis.

With that, Madam Chair, I will stop.

I would be more than happy to answer any questions from the committee.

**The Chair:** Thank you.

Madam Denning, do you want to say a few words?

**Ms. Martha Denning (Principal, Public Sector Accounting, Canadian Institute of Chartered Accountants):** I came with Mr. Salole because he may have to leave and I'm his backup. Should there be anything he wishes me to answer, I will. If he has to leave, I'll continue to respond for as long as you wish.

**The Chair:** Thank you.

We'll go to Mr. Alghabra for eight minutes.

**Mr. Omar Alhabra:** Thank you, Madam Chair.

Good morning to both of you, and thank you for coming.

I found your presentation very interesting.

There's one thing I'd like you to elaborate on. There will probably be more than one thing, but I'll start off with this question.

You were talking about the difficulties when it comes to budgets because budgets are projections of the future. Can you elaborate on how to account for certain things that haven't happened yet when you're not sure of the category or how to account for those events?

My understanding is that every private business prepares a budget or projection for the next fiscal year on the number of sales and the types of financial events that happen, yet they're still able to use accrual accounting. Can you elaborate on the challenges you were referring to?

**Mr. Ronald Salole:** Absolutely. It's a good question.

Budgets are future-oriented information and therefore the basis on which they're prepared is built on what we call assumptions. Depending on those assumptions, you can have some very significant results.

I know you have a CMA, and therefore you know that one of the things management uses is the cost analysis—the differences between budget and actual, on a daily basis, to be able to say this didn't go the way we planned, we have to correct it, or we made more or less. It's part of the management tools.

But I'm not a hundred percent sure that I would say budgets have the same elevation in business that they do in government. If you look at government, you tend to see that the single financial document that is focused upon by the media, by government itself, or by declarations, happens to focus on the budget. Public accounts don't get the same level of scrutiny or the same level of interest from everybody else.

The reverse is true in commerce. The budgets are used as a management tool to be able to manage the company on a day-to-day basis, but they don't publish them. They don't have to account for differences, look at variances, or look at variance analysis. The accountability is a little different.

In developing our standards for the public sector, we've said accountability is much more important in the public sector. The best way to get accountability in the public sector is to take the budget and say you're going to be accountable by explaining what the differences are and what actually happened. It's a year later, but it is still going to be a good accountability report.

• (1125)

**Mr. Omar Alhabra:** I only want to correct one thing. I don't have a CMA.

**Mr. Ronald Salole:** Your question implied that you probably did. I'm very impressed.

**Mr. Omar Alhabra:** Flattery will get you everywhere, but thank you.

The federal government budget is on an accrual basis. Is that right?

**Mr. Ronald Salole:** Yes.

**Mr. Omar Alhabra:** I guess the challenge is the comparison or the evaluation at the end of the year on how well we've done compared to the budget.

If we use the cash system, don't we eventually reconcile back to accrual in order to be able to evaluate whether what we projected or what we assumed would happen has happened?

**Mr. Ronald Salole:** You're right. At the present time, the government prepares its budget on the accrual basis, so that accountability is available.

We ought to applaud the government on moving to the accrual basis for both accounting and budgeting. This is one of the very few jurisdictions in the world that prepares what we call whole-of-government financial statements that consolidate all of the funds and activities of the government into one set of financial statements. They are prepared on an accrual basis both for public accounts and budget purposes.

If they had not done that, they would need to reconcile. They would have to reconcile a cash budget back to accrual accounting. It's not that difficult to do, but it allows some flexibility in how you do it—shall we put it that way?

**Mr. Omar Alhabra:** What we're examining right now is to increase transparency and accountability. We're not debating whether the budget should be in accrual or not, because it's already in accrual. In fact, we're examining why the departmental accounting system is not in accrual.

You talked a lot about budgeting. Can you elaborate on the departmental? Do you think that would be the natural next step for the government to adopt, or do you see reasons for maintaining the cash system at the department level and the accrual system at the budget level?

**Mr. Ronald Salole:** I tend to agree with the Auditor General of Canada Sheila Fraser's reports on a number of issues that have dealt with this particular issue. In one of her chapters she has the leasing issue, and she sort of indicated that in fact better decisions could have been made if it was on an accrual basis.

Yes, at the end of the day, the best way to get transparency, the best way to get accountability, with the least amount of adjustments and reconciliations, is by cutting that down to a minimum to have everything on the same basis, so that you are comparing apples with apples.

I'm not saying it is necessarily easy. I'm not necessarily saying you don't have to change management, because people are used to doing the things they're doing now, based on a system, and they don't necessarily want to change.

At the end of the day, if the change is made, it will make it a lot easier because it will all be the same. But it's a decision that the government is going to have to make, and one of the things on which I agree with the Auditor General is that the decision keeps being postponed and postponed. Either you decide to make it or not, but some clarity on what it is you need to do needs to come to some sort of end at the end of the day.

**The Chair:** Thank you.

Madam Thibault.

[Translation]

**Ms. Louise Thibault:** As my colleagues already know, I know little about accounting. I am learning, though.

Mr. Salole, you just said that you agree with the Auditor General that this has gone on long enough and that the Government should at least make a decision. You talked about creating a culture. In theory, we are currently in the middle of a culture that focusses on change, but I see that as utopic. Introducing a major change such as that will represent a major challenge for the federal public service.

I realize that it's complicated for a large corporation to make changes, but here, we're talking about the Government. So, could you tell me what the advantages are for the federal government? How can we tackle this head on?

• (1130)

[English]

**Mr. Ronald Salole:** Thank you.

There are always pros and cons on any issue, and clearly there are some cons on this particular issue. I haven't studied it in-depth and I don't know that I'm going to be able to identify every one, but I would imagine that the single biggest disadvantage, the biggest difficult hurdle that will have to be overcome, would be the way in which decisions are made.

You can't just change the system completely and expect people to continue to be able to make decisions with different data sets without knowing what the implications of these data sets are. So I don't think this is something that isn't going to have its own challenges in being able to explain that the decision, based on a new set of data sets, would have to take into account the implications and the consequences of that information.

I happen to think personally—but I haven't done the research—that you might make better decisions once you've understood the data. But I think the disadvantage, Madame Thibault, is that people are going to have to understand what that data is, and that may be quite an obstacle.

[Translation]

**Ms. Louise Thibault:** Do you know what the implications are? In the course of your career, you have surely dealt with businesses or organizations that have made this type of change.

Mr. Alghabra, I realize that we have completed half the work, but in order to get through the second half, resulting in full implementation, will it be possible, in spite of the problems associated with this, to avoid running into major issues?

You talked earlier about determination and understanding. And you have just pointed out that making decisions with this information will be a whole different ball game. But in some cases, even when there isn't a lack of good will, implementation can be seriously compromised. In addition, if there is the possibility of a mutiny — something we really can't imagine happening within the federal government, now can we? — the consequences could be extremely serious.

I'd like to know whether, to your knowledge, in Government organizations that have implemented these kinds of measures in the past, the process was a success. So, in spite of the fact that it was a lengthy and challenging process, did people say, once it was all over, that they had made the right decision?

[English]

**Mr. Ronald Salole:** In the private sector this problem doesn't exist. They don't focus on estimates on a cash basis. But I do want to caution you, going back to something I said earlier, that financial reporting on an accrual basis of accounting by itself probably doesn't give you enough information. You'd need to have good cash management practices in an enterprise. But that's private sector.

In the public sector, have any jurisdictions been able to do this? A few. I don't want to portray a picture of it being simple to do, but New Zealand, about 20 years ago, was a jurisdiction that was near bankruptcy. They went through a whole reform program, and this was part of that reform program.

It's amazing what you find when you look at history and you research what actually happened. You find that when you're really down to having to survive, you come up with new mechanisms that help you with that survival. And it's easier to do it then; otherwise, you're not going to be able to survive.

Given the lack of crisis that, say, New Zealand had about 20 or 25 years ago, the energy won't be there to say, yes, now we're going to try to survive. New Zealand didn't find it difficult. They found it extremely useful. They became very successful. They made some very significant decisions on what the future was going to be.

So that's a good example of a jurisdiction that has applied it successfully. Australia is the other country that has applied it successfully, and with good results.

That said, I know that a number of jurisdictions in particularly the European Union, such as the United Kingdom and France, are insistent that for estimates, the cash basis is the only basis on which they can do it. Then they go through the reconciliations to be able to provide transparency and accountability. But I don't think it is as good as the New Zealand and Australian models.

Within Canada itself, British Columbia as a province has gone completely to the accrual basis for everything. My understanding is that at the moment, the Province of Manitoba is contemplating it. I don't know that they've made a decision, but they are certainly considering it.

• (1135)

[Translation]

**Ms. Louise Thibault:** Thank you.

[English]

**The Chair:** What about Ontario? Is Ontario there yet?

I'm sorry, I'm just piggybacking on Madam Thibault's question.

**Ms. Martha Denning:** I would say that Ontario isn't there yet. They're facing some difficulty in terms of bringing a whole bunch of new organizations into the reporting entity right now. That's the biggest issue they're dealing with. It's a new standard we issued, and they're fighting to deal with it. So I don't think they're there.

**The Chair:** It just dawned on me when Mr. Salole mentioned British Columbia. I thought maybe Ontario was there too.

**Ms. Martha Denning:** B.C. has pushed it down into the departmental. It's become more part of the culture. I think you're dealing, in a lot of other governments, with the whole inertia of the way things are now. Lacking a crisis or a wholesale reform of how government manages, the impetus just hasn't been there.

**The Chair:** Thank you.

Mr. Kramp, please. Sorry for taking away your time.

**Mr. Daryl Kramp:** Madam Chair, that's quite comfortable. What goes around comes around; it will all balance out in the end. Thank you.

Welcome to our guests. I'll tell you, I'm pleased. I won't say I dreaded today, but I will tell you that I expected almost a textbook approach—accounting 101, etc.—and I'm actually very refreshed that you've brought some reality and some real-life application to this. Thank you very kindly for that. I'll just follow up on it.

I sensed that this could almost be simplified in a way into desirability—do we want to go there? The second portion would be the obstacles to making that happen.

Dealing with the first part, the position of desirability, I'm actually just going to quote a comment you just made, which I actually take great solace in, because I've personally listened to the Auditor General at great length—I certainly wouldn't say ad nauseam, but at great length—on this issue.

You said that accrual accounting really is “the best predictor of what will happen in the future”. In other words, with accurate information you are much more capable of making intelligent decisions. And for us, as a government making decisions, the more accurate our decisions are, the better our public is served.

So I think the desirability of accrual accounting is real, and I thank you for highlighting and accenting and cementing that process even more.

As well, you mentioned that the budget is the most important element worthy of government focus. I think most of us around this table are in concurrence and recognize that. So once again, thank you for that.

Then we come around to the second part of the equation—why haven't we done it? You mentioned a number of potential obstacles, the one, of course, being the intangible. You referred to it as change management, where people habitually, and just by nature of the beast, resent change.

I'm wondering, if I were just to ask you to, in your own mind, quantify.... We're going to discuss some real obstacles, but one real obstacle is just having an internal decision and an attitude to make that change. Do you think most of our problems of resistance to making this happen have been in an attitudinal direction, or have they been focused on the application of real problems?

• (1140)

**Mr. Ronald Salole:** I have to first of all qualify what I said by saying that I haven't studied this, so I don't talk from having

researched the area; therefore, I'm loath to make sweeping statements.

But I can understand a position that says, “I don't see the payback, economically,” or “If it's so long in the future, because I'm going to make better decisions, when I have some higher-priority spending decisions that I have to make.... Is it broken, what I'm doing now? If it's not broken, why should I fix it? Because it's going to cost me. It may not be significant, may not be material in terms of the total government budget, but prove to me that it is going to make better decisions.”

That is so long term and it depends on so many other things that I would say it's not just attitudinal. There is also that particular question, which I think probably needs to be answered.

But I qualify once again, Mr. Kramp, that I haven't studied it and I haven't researched it, so it's more of an impression than actual knowledge, and I may stand to be corrected.

**Mr. Daryl Kramp:** Okay. Thank you very kindly.

Dealing once again with not real but talk-around points, I'll call them, on this with respect to benefits versus the actual cost of implementation, I have not actually seen, or we have not been exposed to, with our witnesses yet the actual real cost to a government of going to accrual. Is it going to take one year? Is it going to take seven years?

We've had some indication of that, but I'd like to see some dollar figures attached to this at some particular point. Is the cost going to be \$250 million? There were figures bandied about, and yet there didn't appear to be anything near unanimity on this because there didn't seem to be a complete answer as to what extent we should go.

What I'm trying to suggest here is, shouldn't we have a clear focus before we are going to be able to actually cost it effectively? Right now, estimates are coming through based on many possibilities. I would much prefer to have a clear focus.

As an example, the research people here have come up with a great many obstacles, just with the treatment of tax revenue alone being a problem, whether it's underground market, whether that's factored in there, or whether it's the timing and the amount of taxation. Shouldn't we have a clear sense of direction on all of the obstacles and what we plan on doing with it, and then arrive at a cost factor? Would that be a reasonable way to approach this?

I don't know if I've confused the issue with you or not.

**Mr. Ronald Salole:** It's tough to argue with you, and it's part of my message as well. For anybody to make a good decision, one needs to have good quality information. That's why I think accrual accounting is good, because it gives you better-quality information. This decision itself I think needs to have that same high-quality information that will allow you to be able to make the decision. You need to have that information before you can make the decision.



Having said that, there are advantages, however, in being able to say you can understand the benefits. The benefits are more difficult to actually get a tangible handle on usually, but if there was some support for saying we can see that better-quality information will come out eventually, at least the direction is given. Then it's a question of saying, now we need a detailed plan that needs to be fully costed before we can make a final decision, but some encouragement one way or the other might help.

• (1145)

**Mr. Daryl Kramp:** If you had to just pick out three obstacles that you consider to be the most difficult to deal with and the most costly, what would those three obstacles be?

**Mr. Ronald Salole:** That are not attitudinal?

**Mr. Daryl Kramp:** That's correct, that are real, like dealing with assets, whether it's an environmental liability, or appreciation. Do you have a pecking order of something that just runs out and hits you right between the eyes, that, boy, we have difficulty dealing with that and we have to find a way to do it?

**Mr. Ronald Salole:** I'm going to ask Martha in a minute to see if she's got any bright ideas, because she's been into this a little bit—

**The Chair:** Owning versus leasing.

**Mr. Ronald Salole:** Owning versus leasing—that's one that I think would make better decision-making, but I would have thought that Defence might have some areas that may have some significant issues that have to be dealt with. The whole issue of what's inventory, what's assets, what's expendable, what's not expendable, I think would have its own set of problems.

One thing that intrigues me, though, is I don't know that I can put my head around why taxation revenue is an issue at all. From my perspective, taxation revenue used to be accounted on a cash basis for the longest time, and about three or four years ago, when the government moved to the accrual basis of accounting, they came up with some really good ways in which they could get an accrual basis of taxation revenue measured.

I think it's a problem that's been solved, so I'm not sure that I completely understand the issue.

**The Chair:** Thank you.

I'll go to Madame Nash.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thank you, Madam Chair.

Good morning, guests. Thank you for helping us navigate the rocky shoals of accrual accounting.

Those of us who are not accounting specialists don't come with predetermined positions one way or the other, except that we want to make the best decisions possible on behalf of the country. So we really value your expertise and guidance.

There were some background documents prepared for us on this. In looking at the big picture of the pros and cons, it seems there are many advantages. For example, the portfolio of property seems to be a very strong, favourable clarity in terms of budget versus the actual outcomes. So there is better information.

There is one argument by critics of this system, and I would like to get your view on this. I quote from our briefing documents. It says opponents of the adoption of accrual budgeting also note that accruals introduce

a great deal of technical complexity into budgeting, thus making it less transparent and less understandable. Accruals also offers new opportunities for manipulation that are of a different nature than in cash budgeting....

Finally, critics note that the benefits of accrual budgeting do not outweigh the implementation costs of training staff and upgrading systems.

Could we get your views on that?

• (1150)

**Mr. Ronald Salole:** I'm not going to disagree with any of that, but I'm going to go back to a couple of comments I made earlier, because I think the context has to be understood.

I firmly believe, and I think it is well and generally accepted, that the accrual basis of accounting for historical cost statements is the best way we can tell the story of what transactions and events happened with a particular organization—be it a company, a not-for-profit organization, a hospital, a church, or a government.

The accrual basis for accounting is the best way we can tell the story of what happened. The cash basis has been totally rejected as a basis to be able to do that. It cannot do that. It's incapable of doing that.

Once you've made that decision, and you've accepted that—and those are the only standards we have—then the second piece, to get transparency and accountability from a governance point of view, is you need to compare what actually happened versus what somebody said a year ago they wanted to happen. The only way you can get true comparability is if those two bases of measurement are the same. If they're not the same, then you can't get that measurement.

The cash basis of preparing your budgets opens up possibilities for manipulation that are very simple. You just forget that you've got a drawerful of invoices and you don't pay them. Then that's it, you've made your budget.

Are there complexities with accrual-based budgeting? Of course, there are. Are there possibilities that people can play games? Sure there are. Are they different? Sure they are. Are they more complex? It's difficult to be able to say whether they're really more complex. If the transaction or the event they're supposed to capture is complex, then I defy anybody to tell me how you can have a simple way to capture an event or a transaction that is really complex by a simple method. So, yes, sometimes the events and the transactions are complex and you have to be able to get a mechanism, a measure, a rule—because that's what it is, we're measuring things—that will cope with that complexity.

The way I come at it is to say that if you want transparency and accountability, you have to be able to compare like with like. Preparing budgets on an accrual basis is a little better than doing it on a cash basis and doing the reconciliation back to accrual.

That's the way I would answer that question.

**Ms. Peggy Nash:** But the clarity of that concept outweighs any potential problems. Perhaps if we're aware of it, we can put in checks and balances to monitor that.

You raised also the issue of military assets. Can you describe how you would approach the valuing of those assets? I appreciate some assets are different from other assets, especially as we are now in a situation of war. How do you value the equipment and weapons, etc., that are used in war? Is there a recommendation you would have or a preferred practice in terms of their valuation?

**Mr. Ronald Salole:** Once again, for the whole-of-government statements, the Government of Canada has taken some really bold steps and has been able to manage some of this with some difficulty. I tend to have agreed with all of the decisions they made and how they were going to handle military assets. The difficulty, as you quite rightly say, is that a lot of these don't have a very long life, and it's the difficulty of being able to say, "What am I going to do if they have a very short life?" But the way the financial statements have portrayed the assets of the military in the whole-of-government statements has been done very well.

The issue then comes down to how you are going to push that down to the departmental level. I think it was Madam Fraser who made the point that if you don't account for your stock of assets, then out of sight is out of mind. You get good accountability if you force some discipline in saying, "Here are my significant assets", because they cost an awful lot. On the cash basis you would just completely write it off, and you won't see it in anybody's set of records because it's been paid, whereas if you're doing the accrual basis, you need then to look after it, maintain it. It has some value.

It's sometimes difficult when talking about it not to oversimplify things and come up to a simplistic level, because there are some really big issues in here, some tough issues, and it's tough to be able to generalize. But I think it's been done fairly well in the whole-of-government statements, and I don't see why that can't be done for the departmental ones.

• (1155)

**The Chair:** Thank you very much.

Mr. Alghabra.

**Mr. Omar Alghabra:** Thank you, Madam Chair.

There was a question earlier about the benefits of moving to accrual accounting. One of the things you said is that most of the benefits mean to be intangible and the tangible ones may take a few years to be realized.

Would it be fair to categorize as benefits the enormous costs that we incur on a yearly basis to reconcile the books from cash to accrual at the end of the year?

**Mr. Ronald Salole:** The saving on those costs?

**Mr. Omar Alghabra:** Yes.

**Mr. Ronald Salole:** Well, they would factor in on that side of the equation. I have to confess, I don't know what the cost of that is, but I would absolutely—

**Mr. Omar Alghabra:** Yes, regardless of what the cost is.

**Mr. Ronald Salole:** Whatever it is, it certainly has to go on that part of the equation. You're absolutely right.

**Mr. Omar Alghabra:** One of the obstacles—and again, it was brought up earlier today that a lot of people are facing it in moving to accrual accounting—is the cash management factor of it.

In your opinion, is that an insurmountable objection, or is that a challenge that can be managed by putting in place systems to ensure that we have a good handle on our cashflow?

**Mr. Ronald Salole:** Actually, I happen to believe it's an advantage. It really is. It's a good point, because the problem is that people want too much out of a set of financial statements. They want that to do the work of too many things. They want it to be both good for stewardship reporting, accountability, telling the picture, telling the story, and they also want to be able to use it for cashflow management and all those things, and I don't think it's very good at that.

If you were to focus your cash management and say, look, don't confuse that with reporting, but focus on cash management—how you're going to invest your surplus moneys, where you're going to put it, what debts you're going to pay, what liabilities you're going to pay, what assets you're going to liquidate, and so on and so forth—in a specialist, focused way, I think it's much better than trying to say, I'm going to mix it up with accounting and everything else.

So for me it's a plus. In private businesses you have the treasury function that deals with investments and how they invest and what they pay and all those functions, and they're not the same people who prepare financial statements, so I think it's a plus.

**Mr. Omar Alghabra:** Attached to that and the treasury function, or related to it, is the voting system in Parliament. Currently we vote on cash acquisition. The argument we received the other day is that if we move to accrual accounting, that will have a significant impact on how we vote in Parliament.

I don't know how familiar you are with our voting system. You're probably more familiar with it than I am. But can you please respond to that?

• (1200)

**Mr. Ronald Salole:** I'll try, because I'm not familiar—or as familiar as you, for sure—with it. You actually do it, so you must be comfortable with what you're doing.

The way I would respond is that one of the other things we're doing in the public sector accounting board is looking at how to better handle what we call results management, looking at outcomes. I think the Government of Canada has some really incredible, good stuff in that. We're looking at objectives and at outcomes.

To my way of thinking, if you are able to say, "Look, in order to achieve that outcome, here's the total picture on an accrual basis of what's actually going to be the cost, the deliverables, the outcome," as opposed to saying, "This is multi-year funding", or "This is going to be spread over two or three years", if you get the total picture you might be able to make better decisions. Then you would be able to say, "Here's what it's going to cost me to achieve that outcome; is it worth it?" You might be able to make better choices. But I don't speak from deep knowledge on this, I have to confess.

One of the points I want to make is that there is a big difference between funding and cash management, and accrual accounting and reporting on what actually happened. I can't emphasize more that those two shouldn't be mixed. You'll do both better if you can look at what the objective of each is going to be.

When you're doing your vote and getting the authority, which is very important—that's probably the most important job that parliamentarians have to do, giving the authority—you have to be able to try to make sure that it's value for money.

**Mr. Omar Alhabra:** I think it's very obvious from everything you're saying today, but I want to get it on record: you are in favour of moving completely to accrual accounting.

**Mr. Ronald Salole:** Yes.

**Mr. Omar Alhabra:** Thank you.

**The Chair:** Thank you.

Mr. Warkentin.

**Mr. Chris Warkentin (Peace River, CPC):** Thank you for coming today. I appreciate it.

With your involvement with the standards department, I'm sure that once the government continues to move in this direction—as many of us around the table hope—you'll probably be busy with a few things in trying to explain to our bureaucracy how to account for a number of things.

I'm going to ask questions specifically with regard to capital assets. Obviously we have our heritage sites. We also have our parks. There are a lot of things that we, as a government, as the Canadian people, have every intention of keeping forever, with no intent to divest at any time. Is it common practice for these to have current market value? If so, obviously there's cost involved in trying to track that from year to year: the current property values, comparisons, and those types of things. How do you account for that? Or maybe different jurisdictions account for that. It's going to become one of the issues we're going to have to deal with.

If we try to maintain a current market value, there's obviously a huge cost involved in that, but if we don't, then we have a liability option for these things, and then, on the books, it looks like a deep hole that we continue to waste our money in.

There's a real balancing act there. I'm just wondering if there's a way, maybe in the standards, to get away from the high cost of having this on the books, but still have it on the books, so that it gives us a clear picture of what the current situation is.

**Mr. Ronald Salole:** That's a real beauty, and we haven't been able to crack it.

We don't have the same problem as the European countries. Our heritage assets are very young compared to those in Europe—the Coliseum or whatever the items are—and they haven't cracked it either.

I think it illustrates very well one of the limitations of financial reporting. Financial reporting is good at telling you what happened, when it happened, and what transaction and event occurred. It tells you that story.

I think for things such as collections, museums, heritage assets, one has to almost go outside of the financial statements and say, we don't want to burden the financial statement. This is my own personal view. We haven't cracked it.

People are talking as we speak. I've just received a draft paper from the International Public Sector Accounting Standards Board talking about heritage assets. We're in the middle of trying to decide whether fair market values make an awful lot of sense.

The tendency is not to include them in financial statements for the reasons you've stated. It's costly. You might as well not.

But we can handle it outside of the financial statements. We can look at ways to keep that stock of heritage assets, such as collections in museums, alive and ensure that the maintenance and development of those assets are maintained. I think it's going to be outside.

● (1205)

**Mr. Chris Warkentin:** Right. It becomes complicated, of course, when you have buildings, structures, because obviously these need ongoing maintenance, and they are often being used for practical purposes. The House of Commons precinct is a perfect example.

If we move out of heritage to general but fixed government assets, such as some of the infrastructure the federal government owns, how do you get away from the high cost of valuing that on an annual basis?

We want the information. We want to know what the current liability for that structure is in terms of the infrastructure, but coming from the private sector involved in the construction industry, I know the high cost of doing an ongoing evaluation, doing appraisals on an annual basis. It's astronomical. There's no real value to it per se, except to get the books right.

Is there a mechanism or a standard that can be applied here where we just say, you know, inflation? Or are there general principles that can be applied to get away from the high cost of trying to follow or collect this information, so that we're not burdened with additional, astronomical costs?

**Mr. Ronald Salole:** The Public Sector Accounting Board currently has a particular project that's trying to look at infrastructure assets. But primarily it's going to affect local governments more than anything else. It's the roads, the sewers, and the difficulty there is the so-called infrastructure deficit that people have not been able to maintain and develop. How do you account for that? How do you make sure that some of the easy decisions when you're pushed for money are not to continue with a deferred maintenance plan, but make sure that those assets are maintained?

It really goes back to what I was saying right at the very beginning. Financial statements on the accrual basis of accounting are a great way to tell you what transactions and events happened in a particular period. They are limited in being able to then tell you that you haven't spent in maintaining your assets to the degree that you want.

Currently our accrual accounting system is rooted in ensuring that we are going to keep to historical costs, actual transactions, as opposed to looking at fair market values. If there are those values that are going to be placed or tend to be placed, primarily by way of note—

**Mr. Chris Warkentin:** I think the difficulty is that sometimes there is evidence or documentation of a liability, as it's commonly known. We've had witnesses before our committee telling us that there is an infrastructure deficit for many of the buildings the federal government owns in the amount of \$4 billion. It's not accounted for anywhere. It's just a generally understood idea.

We could put that on the books. But if you don't contrast that with the current market value of those structures, you don't make wise decisions. We need to maintain the current market value estimates on the books somewhere, so that we don't make unwise decisions.

If we did a cost of purchase, all those structures may amount to \$2 billion, so we say let's give these buildings away—but I'm just pulling numbers out of the air.

**Mr. Ronald Salole:** Don't get me wrong, I don't hold with putting a liability on the books either. Today it might be the infrastructure deficit. Why wouldn't somebody down the road come up and say there's an education deficit, we have a liability, we have to put it up there? Or some other deficit somewhere else. Those things do not, the way we think in standards setting, meet the definition we have for a liability. That has to meet a very strict definition, but it's good information that ought to be held.

• (1210)

**Mr. Chris Warkentin:** I know my time is up, I'm sure, but can I just ask a follow-up question?

**The Chair:** Yes.

**Mr. Chris Warkentin:** For instance, \$4 billion is a number that's thrown out. At what point would it then be put on the books? Is it when a commitment has been made to do something about that? I guess that's what would have to happen.

**Mr. Ronald Salole:** Not even a commitment.

**Mr. Chris Warkentin:** Or tendering has been....

**Mr. Ronald Salole:** This is off the top of my head. And, Martha, I'm going to have to rely on you to come up with this, as I don't know if I can remember completely.

The definition of a liability is where you know that a future economic benefit is going to be lost and you have no ability to be able to get out of it. Once you've stated....

**Mr. Chris Warkentin:** Once a contract has been signed.

**Mr. Ronald Salole:** Almost. It's not quite legal, because I think a constructive liability would fall under that, but where the person who has made the promise cannot get out of it.

**Mr. Chris Warkentin:** Okay.

**Mr. Ronald Salole:** It's a tough definition.

**Mr. Chris Warkentin:** Right.

**Mr. Ronald Salole:** But that's what we need for financial statements; otherwise people will say, I have a liability here, there, and everywhere, and before you know it you have no rules.

Madam Chair, if you will excuse me, I will leave you in the capable hands of my colleague.

**The Chair:** We excuse you.

I have a question of my own, maybe before you leave.

I've been an MP here for 18 years and I was in municipal office before that. Many of the things I have seen, especially on buildings, on owning versus leasing...most of the time I felt that the short-term decision on leasing was certainly based on the fact that you could go and get cash in that year for that lease and not have to worry about getting the cash to actually build the building. But I know of some buildings that I'm convinced the Government of Canada has paid for ten times, and are still paying for. That's where I think accrual accounting is extremely important.

I'm going to ask you the one question, and this is where the problem seems to be, where the bureaucracy says...and I think it is a challenge. Every year we vote on appropriations, which are based on cash. How would you see that change so that the appropriations could be based on multi-year funding either for a purchase or leasing so that it's more accurate? This is always what it comes back to. It's because of Parliament, and they have to vote on the cash. I want that addressed, and I'm going to keep asking that. I think that's an even bigger challenge than all of those valuations, because there are ways of doing all of that. I think there's a way of doing it too, but that's the reason for not moving ahead.

**Mr. Ronald Salole:** I think that is going to be the mind change that needs to take place, because all the time the belief is that you need to have an envelope system that gives you the spending authority for that cash for the next year and the warrants for times when you don't have that spending authority. Then being able to move to a system where you say we can go to multi-year funding, we can go to an outcome-focused type of delivery system that gets Parliament to approve a particular program based on the total cost for that program, is not going to move forward. I don't know the answer to that, to be honest with you. Whether it's an insurmountable obstacle, I'm not too sure, but I don't know that it's an easy solution; it's a tough one.

**The Chair:** I'm anxious to hear from the provincial governments that have actually done it—

**Mr. Ronald Salole:** B.C. has—

**The Chair:** —and they can explain it, more so, I would think, than perhaps you.

**Mr. Ronald Salole:** A practical way of doing it.

**The Chair:** Thank you.

**Mr. Ronald Salole:** My apologies.

**The Chair:** Mr. Alghabra.

**Mr. Omar Alghabra:** I have a question that follows up on the previous line of questions about heritage assets and other assets that may not have any firm rules to evaluate their value. I just want to draw a parallel, and you can correct me in regard to whether you think that's an applicable parallel or not, but a lot of businesses put a value on their brand name and on what they call goodwill. It perhaps has some discretion, but the discretion is based on logic and market conditions and historical performances. Could we use the same thing in evaluating some of those assets?

• (1215)

**Ms. Martha Denning:** You're right, they do. They call them intangibles, and goodwill is one of them. They do put a value on them and write them off when the goodwill doesn't seem to be there any longer.

I can't say it's one I've ever seen them try to apply to heritage assets, though I must agree that some of the value of it is intangible because they are part of us as Canadians. I haven't seen that theory applied. I'd have to think about it again. I'm not sure I could answer that off the top of my head. It's an interesting idea. I did not see it put forward in the paper that Ron was talking about, nor when we did capital assets many years ago.

**Mr. Omar Alghabra:** Usually those values can appreciate or depreciate based on the market condition—the performance of that brand or that business. Then you have auditors who examine these values and determine whether the logic used to attribute that value is reasonable or not.

**Ms. Martha Denning:** Yes, and that same preparer push, auditor pull happens when they look at any of the values of the capital assets on the government's books. Right now all we require for heritage assets is that you have a record of them so you know you have them. Somebody knows they're there. Obviously there are going to be maintenance records as well, and that's as far as we go, because, as Ron said, we have not cracked that nut. We don't really know how to portray them.

Some people say those assets have economic benefits attributed to them because they bring tourists in, and suggest we should perhaps try to put those benefits in with the value. Trying to do that gets extremely messy and nebulous. It's definitely an area that we haven't resolved, and, as Ron said, it's an even bigger issue for the older European countries.

I'm sorry I can't provide anything definitive. I wish I could.

**Mr. Omar Alghabra:** It just occurred to me that the parallel is there, because even in the brand name or the goodwill there is an intrinsic value to the business itself.

**The Chair:** Usually if you have goodwill on the books, you would have purchased it.

**Mr. Omar Alghabra:** No.

**The Chair:** Often.

**Ms. Martha Denning:** Often.

**The Chair:** There's usually some relationship when you buy a business. That's usually the basis for the setting of it—not always, but most of the time. It's quite tangible, usually.

**Ms. Martha Denning:** Some kind of market price has been put on it. It's not something you have done yourself.

**The Chair:** Right.

Monsieur Nadeau is next.

[Translation]

**Mr. Richard Nadeau (Gatineau, BQ):** Thank you, Madam Chair.

In a good number of reports, the Auditor General states that accrual accounting is the method to use. Several meetings have

demonstrated that progress has been made towards implementing a system of accrual accounting across the federal government, but that there is still a lot of work to be done.

Once again, Mr. Salole and yourself, as well as other experts we have met with, are demonstrating that accrual accounting ensures greater transparency as regards the collection and use of public funds by the government. Accrual accounting may also prompt the government to spend less in certain areas and make more appropriate decisions. And all of that benefits taxpayers.

We have covered the topic quite thoroughly. My colleagues asked very relevant questions about both technical and more general matters. My question is more general.

As you mentioned earlier, New Zealand and British Columbia, which is a province of Canada, have experience with some of the more technical points. In your opinion, what more should the federal government be doing to ensure that it has a system of accrual accounting that is just as good as the one used in other countries?

British Columbia doesn't have an army, but New Zealand does. There are things related to military spending that we could look at, if only to see how you move from cash accounting to accrual accounting in an area like that.

If the will were there, what else would Canada have to do to implement accrual accounting in a reasonable amount of time?

• (1220)

[English]

**Ms. Martha Denning:** To answer that as well as I'm sure you would like, I'd have to have a more intimate knowledge of what has been done now and what's left to do. I think you probably have experts within government who could probably give you a better feel for the specifics.

Ron has mentioned that a sea change is needed in the culture—for example, “This is what's been given to me and I have to spend it,” as opposed to a fuller picture of, “These are the resources I've been given to achieve these outcomes.” The way of managing has to change.

There will be inertia when people have been managing a certain way for a very long time. The countries that have adopted accrual budgeting and that seem to have had some success with it have also done significant public sector management reform at the same time. They've changed how they give resources to the departments and how they hold them accountable. They hold them accountable for results, and in order to be held accountable for results, you have to have a good picture of what it costs to achieve those outcomes.

That is what accrual accounting gets you—a better picture of the costs. Here are all my resources, this is what I'm using up in this particular year, and this is what it's costing me out of my resources to achieve that particular outcome. And until management focuses on outcomes rather than spending, it's not going to be as effective a change. Reconciliations at year-end do not promote that type of change.

I'm thinking back to a number of years ago, when Alberta decided to implement wholesale change. I remember their comptroller coming and speaking to us about taking the Nike approach, namely, "Just do it." That's what they were told: "Just do it, just get it done, and this is when you have to get it done by."

So it was the leadership at the top that made it happen, that said it was going to be pushed down, that said how much time would be given to do it. And I think leadership is needed, really. I won't comment on whether that is or isn't here now, because I don't know, but definitely leadership from the top and a different focus in operations is needed. For example, multi-year estimates and multi-year appropriations help with that.

[Translation]

**The Chair:** Mr. Albrecht.

[English]

**Mr. Harold Albrecht (Kitchener—Conestoga, CPC):** Thank you, Madam Chair.

Thanks to both of you for being here today. In addition to the Auditor General's report, I think your report certainly has come out most clearly in support of moving to a complete accrual accounting basis.

I want to follow up on a question raised by our chairman a few minutes ago to do with a comparison of leasing versus purchasing.

One of the things we constantly hear is that the government can't afford to own these buildings because of the deficit impact, the infrastructure deficit. I'm wondering if you feel that if we were to move to full accounting in all departments, all across, it would show clearly that the government can in fact save the Canadian taxpayer money by moving to this system of owning buildings rather than going into these high-cost, short-term leases that we are in at present.

**Ms. Martha Denning:** I think it will vary by situation. Certainly the accrual basis of accounting treats leased tangible capital assets, as we call them, the same way as owned, if you're going to be leasing it for a very long time. In fact, we call it a capital lease; it treats them exactly the same way.

I think you would get that information better on a full accrual basis of accounting. If you're just reflecting the lease payments each year and you don't have a full appreciation of the entire cost of the building, different management decisions are going to be made. If you're in a building that's being maintained properly, then your lease payments should be including some of that maintenance expense. It might be buried in the lease expense.

Certainly owning does carry with it the requirement to maintain. You have the choice then of whether you maintain it or not, and therefore whether costs go through or whether this infrastructure deficit is building.

I think all I can say for accrual accounting is that it should give you better information to know whether leasing or buying is the right impact on the government at that particular time. It should give you full information, and there shouldn't be an advantage, because of the accounting, of going one way or the other.

•(1225)

**Mr. Harold Albrecht:** But accrual accounting would show more clearly and would help us to prepare and plan for the maintenance parts of it?

**Ms. Martha Denning:** Yes.

**Mr. Harold Albrecht:** I'm going to share my time with my colleague.

[Translation]

**Mr. Steven Blaney (Lévis—Bellechasse, CPC):** Good morning. I will be making my comments in French.

The purpose of the presentation was to explain the accounting process using the accrual method.

As regards accrual accounting, what connection can be made between the accounting entity and consolidation of government activity overall? Will moving to accrual accounting mean that there is a more comprehensive view of overall government activity? For example, I'm thinking of certain foundations that may not necessarily be consolidated or companies with hidden deficits. Could you comment on that?

Second of all, this morning we talked about vigilance in accounting. Accrual accounting did not allow the private sector to avoid financial scandals. There are mechanisms available, such as the ones put in place by the Auditor General. Will they make her life more difficult or more complex in terms of auditing the Government's financial statements? In your opinion, will steps be taken to avoid situations where figures have been tampered with?

You commented on assets. How do you determine the value of the Parliament of Canada in terms of assets? Some of Canada's assets have a heritage-related value. These are interesting and realistic challenges. Do you see any other challenges, including those related to military assets?

There are three points here: the accounting entity, consolidating the foundations, and the vigilance that will be required of the Auditor General because of this change in accounting systems.

And in closing, could you tell us how you intend to evaluate government assets?

[English]

**Ms. Martha Denning:** I will do my best to answer all of those for you.

The government financial statements right now consolidate all government organizations that are controlled by the government. That's the standard, and the Government of Canada follows the standard. They get a clean opinion on their financial statements. At the year-end, financial statements include the whole of government, as we would call it.

I believe—and I can't tell you for certain, but I believe—that the Government of Canada also budgets on that basis, so they have a consolidated budget to a certain degree. I can't say absolutely, but I believe they have something that resembles a consolidated budget. Whether the entities for the budget and the financial statements are exactly the same, I can't say.

The foundations themselves are tested against criteria as to whether they're controlled or not. Some are in the government's reporting entity and some are out. There are very clear criteria about what you'd look at to decide whether they're in or out. I think the government has changed its relationship with some of them in the recent past, and therefore some that used to be out are now in. I know it's been a very big issue for the Auditor General, because money has gone out of government and has sat there. It seems to be out of the control of government. But if they're able to meet the criteria for them to be out, they're out.

I would say that the idea of an entity is part of accrual accounting. I think all of the entities use accrual accounting when they're put into the statements, and I think you get a better picture of the whole of government.

I'll try to paraphrase your second question, just to make sure I understand it properly. I think you're talking about some of the scandals there have been with the federal government, or maybe you were talking about the private sector ones and wondering if something similar could happen. Is it more along that idea? Yes?

The first thing I should say is it wasn't really a standards issue. It was more that they weren't being applied. The correct standards were in place in the U.S., where Enron happened, but they were not applied right, and it wasn't really caught. They were extremely complex transactions, and it just wasn't caught soon enough.

I know that one of the issues with the federal government here is not that the controls weren't in place. I think, based on what I know, it's that some of them weren't being followed. I'm not sure accrual accounting or standards will help any more than they already do. The more information you have, particularly if it's summarized and analyzed in a way that will help you make good decisions, the less likely you are to have those issues, but in the end it comes down to controls and whether people follow them.

I think the right controls were in place and just weren't followed.

With respect to the heritage assets, I don't know how to help you on that one. It's a difficult topic, coming up with a value. I suspect if you talked with different evaluators they'd come up with different values.

The property they sit on will have a very high value. The value of the assets themselves...? I don't think all of it is quantifiable, so I'm not sure you're ever going to come up with a value that's truly going to reflect its value to the particular country, whether you take into account tourism revenue or other intangibles. I can't really answer definitively.

•(1230)

[Translation]

**Mr. Steven Blaney:** An asset sometimes becomes a liability. That is the case for the Pont de la Concorde or certain government buildings contaminated by asbestos. In those cases, the assets move to a different column. These are, indeed, significant accounting challenges.

Thank you for your answers.

**The Chair:** Thank you.

Before we conclude, would Ms. Thibault like to ask another question?

**Ms. Louise Thibault:** Do you have any questions?

**Ms. Peggy Nash:** No, I have no questions.

**The Chair:** In that case, we are going to

[English]

Is that it?

Thank you very much for coming. As you can see, it's a complex issue. I really believe we will move this way. We're trying to do this study so that we can nudge the officials to move forward on a full basis, but we have to find means of addressing this appropriation of cash year by year rather than for more than one year.

In the end it's a management issue as well. It's a big change, and they would have to let their managers manage to outcomes, as you say. But we're going to do our best to see that we push them forward.

**Ms. Martha Denning:** Could I leave you with one thing?

**The Chair:** Yes.

**Ms. Martha Denning:** It is somewhat tangible. When we came up with accrual accounting for senior governments, we produced a publication, twenty questions about government financial reporting, in French and English. It was a while ago and these are my last two copies, but I thought if I left them with your clerk, perhaps copies could be made.

**The Chair:** Yes, that would be very much appreciated.

**Ms. Martha Denning:** It starts with the basics and goes right up to the financial statements, and it might help.

**The Chair:** Thank you very much. We'll ask the clerk to make copies for all of us because it would be quite useful.

Thank you very much, and have a nice weekend, everybody. The meeting is adjourned.







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