



HOUSE OF COMMONS
CANADA

PUBLIC ACCOUNTS OF CANADA 2005

Report of the Standing Committee on Public Accounts

**Hon. Shawn Murphy, M.P.
Chair**

May 2006



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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FIRST REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Report on the Public Accounts of Canada 2005 tabled on October 31st, 2005 as the Twenty-First (21st) Report of the Standing Committee on Public Accounts in the First (1st) Session of the 38th Parliament. The Committee has agreed to re-table this Report as follows:

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PUBLIC ACCOUNTS OF CANADA 2005

INTRODUCTION

Every fall, the federal government publishes the Public Accounts of Canada, a three-volume set of documents that provides substantial detail on the government's financial operations over the previous fiscal year. The summary financial statements of the Public Accounts of Canada are audited by the Office of the Auditor General of Canada, which audits them in accordance with public sector accounting standards and issues an opinion as to whether they are fair and consistent. The Public Accounts of Canada also typically include a section called "Supplementary Information: Observations of the Auditor General on the Financial Statements of the Government of Canada," where the Auditor General raises "matters of concerns" which, while important, are not considered of sufficient importance to alter the overall opinion of the statements.

For the seventh year in a row, the Office of the Auditor General has said the federal government's financial statements "fairly" reflected its overall financial situation, that the statements contained no "material misstatements," and that the government's accounting policies were applied consistently.¹

For the first time since assuming office in 2000, Auditor General Sheila Fraser did not raise any "matters of concern" in her observations on the government's financial statements. Instead, she provided a mostly positive or neutral update on what the government has done to address her concerns from years past. In particular, in each of her previous four audits of the Public Accounts, Ms. Fraser raised concerns about the accountability of foundations, the government's accounting practices with respect to foundation transfers, and the accumulation of large notional surpluses in the Employment Insurance Account.² In last year's observations, Ms. Fraser also said she was concerned about challenges in the transition to full accrual accounting at the Department of National Defence and the Canada Revenue Agency.

OBSERVATIONS

In her observations on the 2005 Public Accounts, Ms. Fraser instead said she was pleased that the government had passed legislation in July 2005 enabling her to conduct performance audits of foundations and most Crown corporations.³ She also pointed to the relatively small amount of foundation transfers — \$535 million in 2004-2005 versus more than \$2 billion in some earlier years — as justification for her positive assessment of the government's efforts to improve the accountability of foundations.

¹ In 1998, then-Auditor General Denis Desautels included a "reservation of opinion" in his assessment of the federal government's financial statements because of a \$2.5 billion transfer that he believed should have been recorded in fiscal 1998-1999 instead of 1997-1998.

² Mr. Desautels raised similar concerns in his last few observations on the Public Accounts documents.

³ The two exceptions are the Bank of Canada and the Canada Pension Plan Investment Board.

Ms. Fraser also removed her earlier critical comments about the Employment Insurance Account, saying that recent amendments to the *Employment Insurance Act* removed her previous concern that the intent of the act was not being met.⁴

The Committee recognizes the government's efforts to address the Auditor General's and the Committee's long-standing concerns about foundations and employment insurance. The Committee also notes that the 2005 statements represent the first time in at least 25 years that an auditor general has included no discussion about concerns over and above an accounting assessment of the summary Public Accounts financial statements.⁵ Finally, the Committee notes that Canada is considered by many to be a world leader in the implementation of full accrual accounting, notwithstanding some lingering challenges and ongoing recommendations by the Auditor General and this committee to extend full accrual accounting to the budgeting process.⁶

PUBLIC SECTOR ACCOUNTING BOARD GUIDELINES AND FOUNDATION TRANSFERS

That said, the 2005 Public Accounts do include a brief discussion by the Auditor General about two issues related to foundations which are of ongoing concern to the Committee.

First, Ms. Fraser said both her office and the government are still trying to decide how best to interpret new Public Sector Accounting Board (PSAB) guidelines that are supposed to clarify which organizations should, for accounting purposes, be considered "controlled" and thus included in the government's books, and which organizations should be considered "arm's length" and outside the government's books. Deputy Auditor General John Wiersema told the Committee this debate boils down to a question of "defining the reporting entity, (of) what is included in the reporting entity."

The PSAB guidelines, which have been available since August 2003, will be used to produce the 2006 Public Accounts and could affect the government's accumulated deficit through changes in its assets, liabilities, revenues and expenses, as the Committee noted in its Twelfth report (Accountability of Foundations, Chapter 4 of the February 2005 Report of the Auditor General of Canada). While there is no readily available information on total foundation liabilities, revenue and expenses, the Auditor General did note that there is about

⁴ The amendments introduced a new premium rate-setting mechanism for 2006.

⁵ The two previous Auditor Generals, Kenneth Dye and Denis Desautels, included "matters of concern" in their analysis of the Public Accounts. Mr. Desautels, for example, indicated in his observations to the 2000 Public Accounts (p. 1.26): "For my part, every year I have included in these Observations a number of matters that require continuing attention. During my 10-year term, I have raised 23 such matters..."

⁶ This is discussed in greater detail later in the report.

\$7.4 billion sitting in foundation bank accounts. That money could, in theory, find its way back onto the asset side of the federal balance sheet.⁷

In its Twelfth report, the Committee recommended that the Comptroller General, along with the Office of the Auditor General, review the 15 largest foundations and decide which, if any, are controlled versus which operate at arm's length and report back to the Committee by 31 March 2006⁸. In its response to the Committee's Twelfth report, the government agreed to the recommendation, promising to report back to the Committee by 31 March 2006.

During its 4 October 2005 meeting on the 2005 Public Accounts, the Committee again emphasized the importance of completing this study and was told that the government would respect the 31 March 2006 deadline. Given the importance of this issue, the tight deadline for arriving at a consensus on the guidelines, and possible repercussions on the government's balance sheet, the Committee wishes to repeat its earlier recommendation, noting that the government has recently determined that four foundations will be consolidated within the government accounting entity (and thus 'controlled'.)⁹ The Committee therefore recommends:

RECOMMENDATION 1

That the Comptroller General, along with the Office of the Auditor General, review all 15 major foundations and decide which, if any, are controlled or which, if any, operate at arm's length. The Comptroller General should report back to the Committee with the results of the study no later than 1 September 2006. In the report, the Comptroller General should indicate to Parliament whether the Auditor General agrees with its classifications of foundations as controlled or arm's length.

The second issue raised by Ms. Fraser in the "Observations" section of the 2005 Public Accounts is also related to foundations and, in particular, an ongoing PSAB review of the accounting rules governing foundation transfers. For a number of years now, the Auditor General has expressed concern about the federal government's practice of expensing transfers when money is handed over to foundations rather than when it is used.¹⁰ In the 2005 Public Accounts, Ms. Fraser

⁷ These assets would presumably be offset by liabilities but this information is not, as noted, readily available.

⁸ The 15 major foundations are : Canada Foundation for Innovation, Canada Millennium Scholarship, Canada Health Infoway, Genome Canada, Aboriginal Healing Foundation, Green Municipal Investment Fund, Canadian Health Services Research Foundation, Pierre-Elliott Trudeau Foundation, Canada Foundation for Sustainable Development Technology, Canadian Foundation for Climate and Atmospheric Sciences, Clayoquot Biosphere Trust Society, Forum of Federations, Pacific Salmon Endowment Fund Society, Canadian Institute for Research on Linguistic Minorities, and Frontier College Learning Foundation.

⁹ The four foundations are; Canada Foundation for Innovation; Canada Millennium Scholarship Foundation; Sustainable Development Technology Canada; and, Aboriginal Healing Foundation.

¹⁰ The normal full accrual accounting practice is to "expense" spending only when funds are used for their ultimate purposes. The government's practice of "expensing" transfers to foundations ahead of actual delivery of services by the foundations is more consistent with cash-flow based accounting and consequently would normally be associated with the term "expenditure" rather than "expense."

said she was optimistic that the Comptroller General's proposal to transfer funds based purely on cash needs (and not ahead of time, as is currently the practice) could alleviate her long-standing concern.

That said, the Committee notes that the PSAB guidelines on foundation transfers were supposed to be ready by March 2004. The Committee also notes that the foundation-transfer issue is linked to the ongoing debate about the PSAB guidelines used to determine whether a foundation is "controlled" or "arm's length." Foundations that are "controlled" cannot, by definition, accumulate large amounts of off-balance sheet money. There is therefore no need or justification for transferring and expensing large amounts of money ahead of need for foundations deemed to be controlled.

The Committee understands that the foundation transfer mechanisms may therefore hinge on how the PSAB guidelines on the government reporting entity — on whether a foundation is controlled or arm's length — are interpreted. In response to a committee recommendation on this matter from its Twelfth report, the government said it would report back to the Committee before 31 March 2006. The Committee looks forward to hearing from the government on this matter.

FULL ACCRUAL ACCOUNTING

This year's "Observations" section in the Public Accounts did not include a follow-up discussion about challenges with the transition to full accrual accounting and reporting at the Department of National Defence and the Canada Revenue Agency. That said, the Committee was told during its meeting with the Auditor General that progress was being made in both departments.

Over the course of the meeting, the Committee also repeated its long-standing concern about the government's use of cash accounting for its day-to-day decision making, which is tied to its use of cash accounting for budgeting and appropriations as reported in the Estimates documents. By moving to full accrual budgeting and appropriations, the Auditor General and the Committee believe that managers would be in a better position to make more informed decisions. Converting the Estimates to full accrual accounting would also help avoid confusion. As is, there are two sets of books. One set of books, namely the *Public Accounts of Canada* and the various budget documents, use full accrual accounting; the other set of books, the Estimates documents, use cash accounting. This situation makes it difficult to reconcile the government's various accountability documents.

During its meeting, Comptroller General Mr. Charles-Antoine St-Jean told the Committee that, "... we still have some way to go to ingrain the culture of accrual accounting that is in the day-to-day financial management. That will take some time, but we're working on this." Mr. St-Jean added that the Office of the Comptroller General and Treasury Board are studying the broader issue of full accrual budgeting and appropriations and want "to come to (a) conclusion in terms

of what should be the basis of accounting for appropriation(s) I want a recommendation on this, and that's what we're working on right now.”

In its report on the 2004 Public Accounts, the Committee recommended that the government set a firm timeline for moving to full accrual budgeting and appropriations and that it report annually to Parliament on its progress. In its response to the Committee's recommendation, the government agreed to report on its progress via Treasury Board Secretariat's annual departmental performance report. It declined, however, to set a firm deadline for the achievement of full accrual budgeting and appropriations, noting that it believed “a prudent and thorough approach to introducing changes in budgeting or appropriations is the most appropriate approach.”

While the Committee takes note of the government's efforts to move towards full accrual budgeting and appropriations, it believes that setting a clear timeline is an important motivational tool for the Office of the Comptroller General and Treasury Board and an important monitoring tool for Parliament. The Committee feels, as it did last year, that the government should make a definite commitment, complete with timelines, for the transition to full accrual budgeting and appropriations.

It therefore recommends:

RECOMMENDATION 2

That the government extend full accrual accounting to budgeting and appropriations and set a firm timeline for its completion.

CONCLUSION

Notwithstanding the Committee's ongoing interest in the accounting issues discussed here and its desire to see the government move decisively towards full accrual budgeting and appropriations, the Committee acknowledges that the 2005 Public Accounts represent progress. They are the seventh consecutive Public Accounts tabled without criticism from the Office of the Auditor General and the first Public Accounts in recent memory to include no “matters of concern” in the observations from the Auditor General. The Committee commends the government for this achievement.

REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meetings No. 2 including this report](#) is tabled).

Respectfully submitted,

Hon. Shawn Murphy, M.P.
Chair

MINUTES OF PROCEEDINGS

Meeting No. 2

Thursday, May 11, 2006

The Standing Committee on Public Accounts met at 11:05 a.m. this day, in Room 371, West Block, the Chair, Shawn Murphy, presiding.

Members of the Committee present: Hon. Navdeep Bains, David Christopherson, Brian Fitzpatrick, Mike Lake, Hon. Shawn Murphy, Richard Nadeau, Yasmin Ratansi, David Sweet, John Williams and Borys Wrzesnewskyj.

Acting Members present: Bill Casey for Pierre Poilievre and Yvon Lévesque for Benoît Sauvageau.

In attendance: Library of Parliament: Brian O'Neal, Analyst; Alex Smith, Analyst.

Witnesses: Office of the Auditor General of Canada: Sheila Fraser, Auditor General ; John Wiersema, Deputy Auditor General; Robert D'Aoust, Comptroller.

The Committee proceeded to the consideration of matters related to Committee business.

The Chair presented the First Report from the Subcommittee on Agenda and Procedure which read as follows:

The Subcommittee on Agenda and Procedure of the Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

Your Subcommittee met on Tuesday May 9, 2006 and agreed to make the following recommendations :

That 48 hours' notice be required for any substantive motion to be considered by the Committee, unless the substantive motion relates directly to business then under consideration; and that the notice of motion be filed with the Clerk of the Committee and distributed to members in both official languages before consideration is given.

That the witnesses be given five (5) minutes to make their opening statements and if they have additional information, it should be deposited with the Clerk of the Committee.

That during the questioning of witnesses the time allocated to each questioner be as follows: On the first round of questioning, eight (8) minutes to a representative of each party in the following order: Liberal, Bloc Québécois, Conservative, NDP, Liberal and

Conservative, on the second round of questioning, five (5) minutes per party in the following order: Liberal, Conservative, Bloc Québécois, Conservative, NDP, Liberal and Conservative.

That the 21st Report as amended (Public Accounts of Canada 2005) of the Standing Committee on Public Accounts in the 38th Parliament be concurred in this session of Parliament and that the Chair present this as a Report to the House.

That pursuant to S.O. 109 the Committee requests a global response to this Report from the Government.

That the 22nd Report as amended (Chapter 3 of Report of the Auditor General, April 2005) of the Standing Committee on Public Accounts in the 38th Parliament be concurred in this session of Parliament and that the Chair present this as a Report to the House.

That pursuant to S.O. 109 the Committee requests a global response to this Report from the Government.

That the Committee schedule for the next 3 meetings be as follows:

May 11th: Main Estimates vote 20, under Finance and the Performance Report of the Office of the Auditor General.

May 16th: Lock-up for the Auditor General's Report (no formal meeting) Room 237-C Center Block.

May 18th: (luncheon meeting starting at 12:00): Auditor General's Report tabled May 16th followed by a Subcommittee meeting to select the Chapters from the Auditor General's report that will be studied by the committee starting May 30th.

That we hear from the House of Commons Legal Counsel before the Committee further looks at comparing the testimonies before the Gomery Commission and the Public Accounts Committee.

That on an experimental basis, an informal meeting be held with the Auditor General's office and the Departmental officials concerned before a Department appears.

That one meeting with experts be dedicated to a round table on improving the effectiveness of the Public Accounts Committee.

That a proposed budget for ten (10) members and the necessary staff be prepared to permit the Committee to travel to Charlottetown from September 10, 2006 to September 12, 2006 in relation to the Twenty Seventh Conference of the Canadian Council of Public Accounts Committee.

On motion of David Christopherson, it was agreed, — That the First report of the Subcommittee on Agenda and Procedure be concurred in.

Pursuant to Standing Order 81(4), the Committee commenced consideration of the Main Estimates 2006-2007: Vote number 20 under Finance referred to the Committee on April 25, 2006.

By unanimous consent, the Chair called Vote number 20 under Finance.

Sheila Fraser made a statement and, with the other witnesses, answered questions.

Vote 20 under FINANCE carried.

On motion of Yvon Lévesque, it was agreed, — That the Chair report Vote 20, less the amounts voted in Interim Supply, under FINANCE to the House.

It was agreed, — That the preferred date for a dinner with the Auditor General would be Monday May 28th, 2006.

It was agreed, — That the Chair seek the permission of the House to authorize the twelve (12) members of the Committee to travel to Charlottetown from September 10 to September 13, 2006 in relation to the Twenty-seventh Annual Conference of the Canadian Council of Public Accounts Committees and that the necessary staff accompany the Committee.

It was agreed, — That the proposed budget in the amount of \$ 45,179, for the period of September 10, 2006 to September 13, 2006 be adopted and that members be encouraged to use their travel points to get to and from Charlottetown and that the Chair present the said budget to the Budget Subcommittee of the Liaison Committee for its approval at the earliest opportunity.

At 12:57 p.m., the Committee adjourned to the call of the Chair.

Danielle Bélisle
Clerk of the Committee
