



HOUSE OF COMMONS  
CANADA

**GOVERNMENT DECISIONS LIMITED PARLIAMENT'S  
CONTROL OF PUBLIC SPENDING OF THE 2006 REPORT  
OF THE AUDITOR GENERAL OF CANADA**

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

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

**October 2006**



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# **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **NINTH REPORT**

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Auditor General of Canada's May 2006 Special Report (Government Decisions Limited Parliament's Control of Public Spending). The Committee as agreed to table this Report as follows:

## INTRODUCTION

1. The *Firearms Act* was passed in 1995 and shortly thereafter the Canadian Firearms Program was established. Since its inception, this Program has attracted considerable attention from parliamentarians. This attention was heightened when, in December 2002, the Auditor General tabled a report on the Canadian Firearms Program. At that time, the Auditor General found that Parliament was not kept informed about the dramatic cost increases of the Program. Parliament was thereby not given sufficient information to effectively scrutinize the Program and ensure accountability. In October 2003 the Public Accounts Committee reviewed this report and recommended that the government provide Parliament with more detailed information on the costs of the Program.

2. In May 2006, the Auditor General released her Status Report, which contains follow-up audits of previous audits. In this report, the Auditor General followed-up on the audit of the Canadian Firearms Program. During the course of this audit, officials at the Office of the Auditor General uncovered issues of significance to Parliament. Hence, the Auditor General decided to table a Special Report entitled *Government Decisions Limited Parliament's Control of Public Spending*. This report outlines how two accounting "errors," one by the Department of Justice in 2002-03 and the other by the Canada Firearms Centre in 2003-04, undermine the ability of the House of Commons to exercise control on government expenditures.<sup>1</sup> It also discusses how the accounting treatment of an ongoing contract may be inappropriate, as well as how key decisions taken within government regarding these accounting issues were not documented.

3. The Committee was greatly concerned by the selective use of accounting rules to obscure the costs of the Firearms Program. Given the importance of the issues to Parliament, the Committee decided to hold two hearings on this report. On May 30, 2006, the Committee met with the Auditor General of Canada, Sheila Fraser, who was accompanied by Peter Kasurak, Principal, and Frank Vandenhoven, Principal. William Baker, the former Commissioner of the Canada Firearms Centre appeared, as did John

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<sup>1</sup> An accounting error is not necessarily an accident or mistake, but represents an inappropriate accounting treatment in the opinion of the external auditor, in this case, the Auditor General of Canada.

Brunet, the Centre's Chief Financial Officer. From Treasury Board of Canada Secretariat, the Committee heard from Charles-Antoine St-Jean, the Comptroller General of Canada; John Morgan, Acting Assistant Comptroller General; Susan Cartwright, Assistant Secretary; and Bill Matthews, Senior Director. Morris Rosenberg, the former Deputy Minister of the Department of Justice was supported by Wayne Ganim, the former Director General of Finance at Justice. John Wiersema appeared in his role as the former Acting Comptroller General.

4. On June 8, 2006, the Committee held another hearing to hear from Margaret Bloodworth, the former Deputy Minister of Public Safety and Emergency Preparedness Canada; Jim Judd, the former Secretary to the President of the Treasury Board; and from the Department of Public Works and Government Services: Scott Leslie, Senior Director, Henry Sano, Director General, and John Shearer, former Assistant Deputy Minister. John Wiersema joined the discussion during the course of the hearing.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. First Accounting Error**

5. In fiscal year 2002-03, the Department of Justice was responsible for the Canadian Firearms Program (the Program). In its 2002-03 Report on Plans of Priorities, the Department stated that planned spending for the Program would be \$113 million. As part of this amount, the Department asked for Parliament's approval of \$72 million for the Program in October 2002 in the Supplementary Estimates (A). This amount was included as part of the Department's overall vote. By unanimous consent, the House of Commons reduced funding for the Department of Justice by the amount specified for the Firearms Program in December 2003. The Minister of Justice returned to the House for \$59 million for the Program in the Supplementary Estimates (B) in February 2003. In response to a question, the then Minister of Justice, the Hon. Martin Cauchon told the House: "This fiscal year we are talking about \$100 million. If we look at supplementary estimates (B) we are talking about \$59 million, which is part of the \$100 million."<sup>2</sup> The House subsequently approved the request for additional funds.

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<sup>2</sup> House of Commons Hansard, March 24, 2003.

6. In October 2003, The Department of Justice reported that the Centre's actual spending in the fiscal year 2002-03 was \$78.3 million, but this did not include development costs of \$39 million for an updated electronic system to manage information on firearms licences and registrations (the Canadian Firearms Information System, or CFIS II). The Auditor General concluded that this was an error because it did not comply with the Treasury Board's Policy on Payables at Year-End (PAYE), which requires that costs should be recorded as expenditures in the fiscal year in which they are incurred, rather than when they become due and payable under a contract.

7. This error is significant because had the \$39 million been recorded appropriately, the Program's spending would have been \$117 million, more than the Minister of Justice had told the House would be the Program's spending for the year. Nonetheless, even if this expense had been recorded in 2002-03, the voted appropriation would not have been exceeded, because the Program was then part of the Department of Justice's appropriation.

8. Officials from the Department of Justice explained their accounting treatment of CFIS expenses before the Committee. Wayne Ganim, the former Director General of Finance at the Department of Justice said:

When we thought about establishing an account payable at the end of the fiscal year for the whole contract, plus an amount for the delays, I didn't realize that I could debit that amount from the appropriation under section 33 of the act, because the merchandise hadn't been delivered by March 31, as provided in the contract. There were too many doubts about the contract's validity with regard to the delivery of known services. Another important aspect is that the contract was designed to transfer all the risk to the supplier. It's a risk-transfer contract. If the contractor can't provide the service, no balance is payable. That's based on these two factors. I didn't feel comfortable using section 33.<sup>3</sup>

However, the Department of Justice did not provide the Office of the Auditor General any documentation showing any analysis or process by which the decision was made.

9. While the officials from the Department of Justice defended their actions, the Treasury Board Secretariat agrees that an error was made in this case. In its response to the Auditor General's report, the Secretariat wrote, "For greater clarity, the Secretariat

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<sup>3</sup> Meeting No. 5, 13:30.



confirms its full agreement with the Auditor General's finding with respect to the first accounting error in 2002-03."<sup>4</sup>

10. The Committee is very concerned that the Treasury Board policy and proper accounting rules were not followed. If there was genuine concern about the proper accounting treatment, then the Department should have consulted the Treasury Board Secretariat, but this was not done. Moreover, there is no documentation to explain why the decision was made. The Committee takes extremely seriously the fact that Parliament was misinformed, if not misled, about the Program's expenditures in 2002-03 at a time of considerable debate and controversy over the approval of additional funds for the Firearms Program. If Parliament is to approve and then review government expenditures, it is essential that Parliament receives fulsome and accurate information.

11. The Committee feels that the employees of the Department of Justice are in part responsible not only for this accounting error, but also, in part, for the second error described below. The considerable difficulties that the new Canada firearms Centre experienced were in large part attributable to the carry-over of these costs in 2003-2004. We feel, however, that the ministers should bear a large part of the responsibility in this matter. We should recall that the Auditor General, in Paragraph 32 of her report, maintains that the responsible ministers were informed of this accounting manoeuvre and that "Secretariat accounting officials were asked to look for an accounting treatment that would avoid having to record all of the CFIS II costs incurred in 2003-04 and therefore avoid, if possible, the need to submit Supplementary Estimates."

11B. The Auditor General reported and Ms. Bloodworth, Mr. Wiersema, and Mr. Baker, the principle public servants in this matter, all indicated that the minister was aware of this problem. Regardless, evidence suggests that the minister knew, and she

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<sup>4</sup> Auditor General of Canada, *May 2006 Report—Government Decisions Limited Parliament's Control of Public Spending*, p. 20.

did nothing to ensure that Parliament was fully informed and for that she must accept responsibility.

## **2. Second Accounting Error**

12. In April 2003, the Canada Firearms Centre (the Centre) was established as a separate department, reporting to the Minister of Public Safety and Emergency Preparedness Canada (PSEPC). In January 2004, due to the \$39 million in CFIS II costs not recorded by the Department of Justice in 2002-03 and unexpected rising CFIS II costs, the Centre sought advice from the Treasury Board Secretariat on the appropriate way to record the CFIS II costs in fiscal year 2003-04. The Centre's Commissioner subsequently wrote to the Minister of Public Safety and Emergency Preparedness Canada to say that the 2002-03 CFIS II costs of \$39 million would have to be recorded in 2003-04 in order to comply with the (PAYE) Policy on Payables at Year-End; however, this amount would take the Centre over its parliamentary appropriation for the year. As William Baker, the then Commissioner of the Canada Firearms Centre put it, there were then two options: "either obtain supplementary estimates or blow the vote, which is something that none of us ever wishes to do."<sup>5</sup>

13. In February 2004, officials from the Centre made further consultations and two legal opinions were sought. The first legal opinion was sought by senior officials from the Treasury Board Secretariat. This legal opinion was delivered on February 3 and indicates that the Policy on Payables at Year-End does not contradict the *Financial Administration Act* and that there is a requirement to charge appropriations for an estimate of work in progress even if no payment has been made.

14. On February 9, another legal opinion was sought by the then Deputy Minister of Public Safety and Emergency Preparedness Canada, Margaret Bloodworth, from the Department of Justice. While she was not Mr. Baker's supervisor, Ms. Bloodworth told the Committee that she sought out the legal opinion because she was the senior public service advisor to the Minister and felt more questions needed to be asked. She was concerned that the CFIS II costs were going to be booked differently in 2002-03 than

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<sup>5</sup> Meeting No. 5, 12:05.

they were in 2003-04 and the terms “debt” and “liability” were being used interchangeably. This legal opinion was interpreted to say that the amounts in question did not need to be charged against the Centre’s appropriation in 2003-04 because they did not constitute a “debt.”

15. Senior officials then met in mid-February to discuss whether or not to seek supplementary estimates for the Centre. Mr. Baker described the discussions:

My duty was to present the options to the minister. That in turn triggered more detailed examination by officials at the Treasury Board Secretariat and the Office of the Comptroller General, and others, which in turn raised questions about the amount of liability or debt and triggered requests from the Department of Justice for a legal opinion. Then, based upon the reflections on that legal opinion and everything else, it was determined that in fact this was not something that had to be charged to the appropriation.<sup>6</sup>

However, no documentation of these discussions was kept, making it very hard to verify Mr. Baker’s account.

15B. The Committee heard evidence that the minister was aware of the possible need for supplementary estimates, but witnesses denied that there was any political direction or interference in the decision not to seek supplementary estimates.

16. Based on these consultations and the legal opinion sought by Ms. Bloodworth, Mr. Baker decided to record \$21.8 million in CFIS II costs as an “unrecorded liability,” rather than a charge to the Centre’s own appropriation. This information was reported to Parliament in the Centre’s 2003-04 Departmental Performance Report (DPR). Mr. Baker took full responsibility for the decision. He said, “As the head of the centre, I make an attestation, along with the chief financial officer, to ensure that we’re accurately reporting to Parliament.”<sup>7</sup>

17. Nonetheless, similar to the first accounting error, the Auditor General concluded that this also constituted a failure to comply with Treasury Board’s *Policy on Payables at Year-End* and may have contravened the *Financial Administration Act* (Section 37.1). She also concluded that the failure to seek proper authority for supplementary estimates in this case could be interpreted as a breach of the Standing Orders and an infringement of the privileges of the House of Commons.

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<sup>6</sup> Meeting No. 5, 12:30.

<sup>7</sup> Meeting No. 5, 12:55

18. In its response to the Auditor General's report, the government indicates that it "accepts" the Auditor General's interpretation, but disagrees that a second accounting "error" was made. Instead, it argues that while an agreement in principle had been reached in July 2003 with the contractor to carry out extra work on CFIS II and incur delay costs, this agreement was not a legally binding contract as it had not yet received Treasury Board approval and other conditions had not been met. In his opening statement, Charles-Antoine St-Jean, Comptroller General of Canada, said:

The key issue was that these costs were incurred under an agreement in principle and not under contract. Furthermore, there was an issue about the nature of the liability; for example, whether it was a liability or debt under subsection 37.1 of the Financial Administration Act. This legal advice concluded that the costs in question did not meet eligibility requirements of the Financial Administration Act for charging against appropriation. Given that these costs could not be charged to appropriation, it was concluded that there was no immediate requirement for ministers to seek supplementary estimates.<sup>8</sup>

In other words, the government claims that the way the *Financial Administration Act* is written prevented the costs from being recorded against the Centre's appropriation. Mr. St-Jean said:

[T]he amount, the contingent liability of \$21.8 million, was recorded in the financial statement of the Government of Canada. It was not recorded against the appropriation based on the legal advice that was obtained. Do I like it? No. But the legal advice was making reference to the fact that the law, the Financial Administration Act, makes reference to the word "debt" and not "liability." Do I like it? Absolutely not, but it's the law.<sup>9</sup>

19. However, accepting a legal opinion over proper accounting principles is not consistent with the guidance of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, which says that the correct accounting treatment should reflect the economic substance of a transaction over its legal form.<sup>10</sup> The Committee is deeply troubled that accredited senior accounting officials at Treasury Board Secretariat and the Canada Firearms Centre did not adhere to clearly stated accounting principles. The proper accounting treatment should have been self-evident to all involved.

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<sup>8</sup> Meeting No. 5, 11:25.

<sup>9</sup> Meeting No. 5, 12:25.

<sup>10</sup> This accounting standard is quoted in the Auditor General's report at paragraph 34.

20. Moreover, Treasury Board's *Policy on Payables at Year-End* (PAYE) is quite clear:

It is the policy of the Government of Canada to record liabilities to outside organizations and liabilities incurred up to and including March 31 in each fiscal year and to charge them to existing appropriations or provide for them through a central provision.<sup>11</sup>

The policy goes on to say:

Liabilities determined under the terms of the policy must be charged to an existing departmental appropriation (if there is one) pursuant to section 37(1) of the *Financial Administration Act*. Liabilities must be charged to the relevant appropriation even when the appropriation has been, or will be over-expended.<sup>12</sup>

However, the legal opinion, which was provided to the Committee, does not take into account the PAYE policy, even though subsection 37.1(1) of the *Financial Administration Act* begins, "Subject to such directions as the Treasury Board may make. . ." It would be reasonable to conclude that the PAYE policy is one of those directions and that the policy is consistent with, and in fact flows out of, the *Act*, as the quote above indicates. The policy even includes the possibility that an appropriation would be over-extended, as happened in this case.

21. The Committee believes that the government's argument over the meanings of "debt" and "liability" is not relevant to this issue and therefore does not constitute an acceptable explanation for the ultimate decision that was made. As the Auditor General of Canada, told the Committee:

Our argument is there was a liability. The government agrees there was a liability. They booked a liability. They even call it an "unrecorded liability", and there was an existing appropriation to cover those expenses. So we can argue till the cows come home about the definition of debt, but the government's policy...and this is the way government has been applying this since they've adopted [the policy.]<sup>13</sup>

The issue of whether or not the agreement in principle was a legally binding agreement and thus constituted "debt" under the *Financial Administration Act* is not relevant because the government recorded the CFIS II delay costs in 2003-04 as an "unrecorded liability," despite the contradiction of the term.

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<sup>11</sup> Treasury Board of Canada, *Policy on Payables at Year-End*, 1994, p. 1.

<sup>12</sup> *Ibid.*, p. 4.

<sup>13</sup> Meeting No. 5, 12:10.

22. In fact, if the government truly accepted its legal opinion, then the government would not have acknowledged a liability and would not have booked the costs in 2003-04 at all. The legal opinion quite clearly states that the amounts in question do not need to be booked in the fiscal year 2003-04. Yet, the amounts were booked in 2003-04, just not under the Centre's appropriation. Consequently, the issue is not *whether* the costs should have been recorded in 2003-04, as they were, but *where* they should have been recorded. The legal opinion says nothing about how to record the liability. None of the arguments presented to the Committee explained why, when there was an available appropriation for the Centre, the CFIS II delay costs were not recorded against it. Moreover, if the costs were included in the government's financial statements under a central provision, then where was the parliamentary approval for this expenditure?

23. Ultimately, the Committee can only conclude that this position is not tenable. Instead, there appear to have been concerted efforts to justify circumventing proper accounting practices and the government's own policy, to the extent of seeking a second legal opinion when the first legal opinion did not provide the desired advice. The Committee is disturbed that departmental officials have continued to maintain their position about the accounting treatment, even after the Auditor General has strongly disagreed, whose opinion on accounting matters should carry considerable weight, if not be the final word on the issue.

24. If, though, the Committee was to accept the argument of departmental officials, this would necessitate a fundamental change to the way in which the government records liabilities. As Ms. Fraser put it:

I must say that we have a serious issue, then, with how government records liabilities and if the government is going to go to strictly recording based on debt. The way they have analyzed that in that legal opinion, I have yet to see anybody go through and make sure there are signed contracts approved by Treasury Board for every accrual. We're talking about a fundamental and huge change in the way government records liabilities at the end of the year, and I'm not sure that's what government expects to come out of all this.<sup>14</sup>

To date, the Treasury Board Secretariat has not issued further guidance on how to

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<sup>14</sup> Meeting No. 5, 12:15.

interpret the PAYE policy in light of its new understanding of how to record liabilities as required by subsection 37.1 of the *Financial Administration Act*, nor did it indicate to the Committee that it intends to do so. Further, to do so would involve restating the government's financial statements going back to 1994 when the policy first came into effect.

25. The Committee is very concerned that accounting officials chose to follow a legal opinion rather than accepted accounting standards and the government's own policy. The Committee does not accept the argument about the differences between debt and liability as the proper accounting treatment was evident. Hence the Committee recommends that:

#### **RECOMMENDATION 1**

**Decisions about accounting issues be based on accounting standards and policies and not legal opinions.**

#### **RECOMMENDATION 2**

**The Treasury Board Secretariat issues a statement of agreement with the opinion of the Auditor General regarding the proper recording of the CFIS II delay costs in fiscal year 2003-04 and issues a clarification to ensure that this type of accounting error does not occur again.**

26. The Committee also heard conflicting testimony about the possibility of decisions being made based upon their political implications rather than appropriate accounting standards. Given the lack of documentary evidence to substantiate either side of this discussion, it is difficult for the Committee to draw firm conclusions. Nonetheless, the Committee firmly believes that it is not the role of public servants to make political decisions on behalf of ministers. The decision to avoid seeking supplementary estimates through Parliament and thus political controversy by creating a unique accounting treatment should have been made by the relevant ministers.

#### **Role of the Comptroller General**

27. In 2003 the Office of the Comptroller General was reestablished within Treasury Board Secretariat (TBS) as a distinct unit. The Comptroller General reports through the

Secretary to the President of the Treasury Board. According to TBS's departmental performance report, the Comptroller General has responsibility for:

- overseeing all government spending, including review of and sign-off on new spending initiatives;
- setting or reviewing financial, accounting, and auditing standards and policies for the Government of Canada; and
- providing leadership to ensure and enforce appropriate financial controls and cultivating sound resource stewardship at all levels across the federal Public Service.<sup>15</sup>

28. In this instance, the then Acting Comptroller General, John Wiersema, was of the position that he did not agree with the proposed accounting treatment. Though, the Committee heard conflicting evidence about the extent to which this disagreement was conveyed to other senior government officials. Nonetheless, his opinion did not carry the day. It concerns the Committee greatly that the advice of the senior official within the government responsible for financial and accounting standards was not followed. While the ultimate responsibility for financial reporting lies with a department's deputy head, in this case the Commissioner of the Canada Firearms Centre, Mr. Baker, the opinions of the Comptroller General should be followed. If not, how else can the Comptroller General "enforce appropriate financial controls?"

29. The current Comptroller General, Mr. St-Jean made a proposal to prevent this type of situation occurring in the future:

These are quite unusual circumstances, and we have to make sure to prevent this kind of miscommunication or error from happening again. So we've put in place a number of action plans, including one in which the Comptroller General, the next time he or she is not in agreement with, say, the deputy minister, must advise the deputy minister in writing of the disagreement on the proposed accounting treatment. That will be part of the policy on financial reporting.<sup>16</sup>

However, it is unlikely that written correspondence would have prevented the outcome in this instance. It would merely provide a written record of the disagreement; though, this would be an improvement given the lack of documentary evidence noted by the Auditor General.

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<sup>15</sup> Treasury Board of Canada Secretariat, 2004-05 Departmental Performance Report, October 2005, p. 70.

<sup>16</sup> Meeting No. 5, 13 :15.



30. In this case, there appeared to be disagreement between the Comptroller General and the accountable deputy head. However, it was not clear how this disagreement should have been resolved or what the Comptroller General could do besides raising a concern. There also seemed to be some confusion as to the roles of various senior officials, given the ad hoc nature of the discussions and the intervention of the deputy minister of Public Safety and Emergency Preparedness Canada. Consequently, in order to ensure that proper accounting rules are followed within the government, the method of resolving disagreements needs to be clarified. The Committee recommends that:

### **RECOMMENDATION 3**

**The Treasury Board Secretariat develops a clear protocol for resolving disagreements on accounting standards and policies between the Comptroller General of Canada and deputy heads.**

31. In this instance, the advice of the person responsible for accounting standards within the federal government, the Comptroller General, was not followed. The Committee believes it is fundamental that the Comptroller General holds a status within the apparatus of government and exercises an authority that is commensurate with the importance of the responsibilities he or she is assigned. This suggests that the Comptroller General's role should be strengthened. The Committee therefore recommends that:

### **RECOMMENDATION 4**

**The Comptroller General of Canada has the final word on the interpretation and application of accounting standards and policies within the Government of Canada.**

#### **4. Review of the Public Accounts by the Auditor General**

32. Each year the Office Auditor General (OAG) examines and the Auditor General gives an opinion on the summary financial statements of the Government of Canada, known as the Public Accounts of Canada. The OAG follows guidelines put forward by the Canadian Institute of Chartered Accountants (CICA) and reviews the financial statements with a materiality of 0.5%, or about \$1 billion of about \$200 billion in annual expenditures. (Materiality is the term used to describe the significance of financial statement information to decision-makers.)

33. After the decision had been made to not seek supplementary estimates for the Canada Firearms Centre in 2003-04, the question still remained of how to record the liability for the \$21.8 million. The government intended to record the liability as part of central allowance amount included in the summary financial statements. Officials from the Comptroller General St-Jean's office brought the issue up verbally with officials from the OAG, including providing them with the legal opinion. However, officials from the OAG reviewed the appropriateness of the accrual and not whether it should have been charged against the Centre's appropriation. Frank Vandenhoven, Principal at the OAG, said:

I looked at [the legal opinion] from the accrual accounting perspective: was this a legitimate liability, an appropriate charge, if you will, to the surplus of the government for that point in time. I did not focus on the issue of whether it should have been charged from appropriation.<sup>17</sup>

In addition, Ms. Fraser said, "We do not audit appropriations."<sup>18</sup>

34. Given the sensitivity of the Firearms Program and the 2002 report of the Auditor General on the Program's cost escalation, it is unfortunate that the OAG was unable to pick up on the significance of this accounting treatment during its annual audit of the government's summary financial statements. However, because the OAG reviews and makes an opinion on the fairness of the summary financial statements of the government as a whole, the \$21.8 million would not have been material and would not have resulted in a qualified opinion on the financial statements. Also, the OAG's

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<sup>17</sup> Meeting No. 5, 13:05.

<sup>18</sup> Meeting No. 5, 11:40.

rotational audit strategy for financial audits limits the work on selected departments to detailed work in high risk areas. This means that the financial records of the Canada Firearms Centre were only examined due to the follow-up performance audit for the May 2006 Status Report.

35. Consultations with the external auditor are a common practice in the private sector but are not as common in the public sector, in part because the Auditor General acts as the external auditor on behalf of Parliament and not the government. The Comptroller General has developed a protocol to obtain audit opinions from the OAG for complex and significant accounting transactions prior to the transactions taking place. However, it depends on the government seeking the opinion of the external auditor on issues the government identifies as significant. The Committee believes that a more satisfactory solution must be found.

36. The government has committed to move towards financial statements for each department and agency. This will lower the materiality level considerably, making it more likely that smaller amounts will be examined by auditors. As the Comptroller General pointed out to the Committee, the public sector operates in two worlds: the parliamentary and accounting worlds. It is important that the government's external auditor, the Auditor General, examine financial statements both from an accounting perspective and an appropriation perspective. Consequently, the Committee recommends that:

#### **RECOMMENDATION 5**

**The Government of Canada continues its movement towards financial statements for all departments and agencies. That the Treasury Board Secretariat provides the House of Commons Standing Committee on Public Accounts with a timeline for this project and reports progress in its departmental performance report.**

#### **RECOMMENDATION 6**

**The Auditor General of Canada be the external auditor for departmental financial statements. That the Office of the Auditor General of Canada be given adequate funds and, if required, a clear legislative mandate to do so. Parliamentary appropriations should be included in the audit program of those statements.**

## **5. Ongoing Contract**

37. The Auditor General raised an additional accounting concern in her report. The contractor for the CFIS II project has been contracted to operate and maintain the system over 15 years. The Royal Canadian Mounted Police plans to record development and delay costs incurred against annual appropriations over the entire 15 year life of the contract. Unless, as noted earlier, Treasury Board's *Policy on Payables at Year-End* is modified, this accounting treatment will not comply with the policy. The Committee recommends accordingly that:

### **RECOMMENDATION 7**

**The Royal Canadian Mounted Police records CFIS II development and delay costs against annual appropriations as they are incurred.**

## **6. Documenting Key Decisions**

38. During the course of their audit, officials from the OAG had difficulty tracing the decision-making process regarding the recording of CFIS II costs in 2002-03 and 2003-04 because key decisions were not documented. In one instance in mid-February 2004, there appeared to be different interpretations of what was decided at a meeting discussing whether or not to seek Supplementary Estimates for the Centre in 2003-04. Given the unusual and sensitive nature of this issue, the Committee would have expected a greater effort to document decisions. The Committee was astonished, therefore, to learn that the documentation that should have accompanied decisions of such magnitude – particularly since they may have established precedents for future accounting treatment within government – was entirely lacking. It is also unfortunate that the meeting discussed earlier between officials from the Office of the Auditor General and the Office of the Comptroller General was not documented.

38B. The recording of key decisions is important not only for avoiding confusion over what has been decided, but also documentary evidence makes it possible to reconstruct the process of decision-making and allows for independent review and audit. Failing to make or keep documentary evidence makes the public service less transparent and has

the convenience of avoiding accountability when decisions become controversial. The Committee is dismayed that it appears to be a regular practice at senior levels of the bureaucracy to not take minutes of important meetings or record significant decisions, since this is not the first serious incident of the failure to record decisions.

39. Justice John Gomery encountered a similar difficulty during his inquiry into the Sponsorship Program. He concluded in his Report that, “A lack of transparency in the system made it possible for some individuals to subvert management processes and bypass lines of accountability.”<sup>19</sup> He felt that mandatory record keeping, the obligation to keep a “paper trail,” should be more than policy and should be enshrined in legislation. The Committee takes the lack of record keeping very seriously, but it is not quite willing to go that far. Rules, regulations, and even legislation are only as good as their enforcement. There is a policy that currently exists, but compliance with that policy appears to be optional.

40. The failure to keep written records of key decisions reflects non-compliance with the Treasury Board’s *Policy on the Management of Government Information*, which states that departments must “document decisions and decision-making processes throughout the evolution of policies, programs, and service delivery.”<sup>20</sup> It is the responsibility of deputy heads to ensure the implementation of this policy. Yet, the Committee is not pleased that deputy heads do not appear to be held to account for enforcing this policy. There is no point of having rules and policies if there are no consequences for failing to follow those rules. Therefore the Committee recommends that:

## **RECOMMENDATION 8**

**If it becomes apparent that there was a failure to comply with Treasury Board’s *Policy on the Management of Government Information*, serious sanctions be imposed, up to and including dismissal from the public service.**

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<sup>19</sup> Commission of Inquiry into the Sponsorship Program and Advertising Activities, *Restoring Accountability: Recommendations*, p. 177.

<sup>20</sup> Treasury Board of Canada, *Policy on the Management of Government Information*, 2003. [http://www.tbs-sct.gc.ca/pubs\\_pol/ciopubs/TB\\_GIH/mgih-grdg\\_e.asp](http://www.tbs-sct.gc.ca/pubs_pol/ciopubs/TB_GIH/mgih-grdg_e.asp)

## CONCLUSION

41. The accounting treatment given to the CFIS II costs by the Department of Justice in 2002-03 and then by the Canada Firearms Centre in 2003-04 stands contrary to requirements set forth in statutes which support the core principles of parliamentary government in Canada. Two of these requirements can be found respectively in the Constitution of Canada and the Financial Administration Act. These statutes emphasize the importance of Parliament's authorization before the government makes expenditures.<sup>21</sup>

42. It is profoundly disturbing to the Committee that those who made the final decisions in these cases appeared to be either oblivious to these larger considerations or ignored them entirely when they determined which approach to take. While on the surface these decisions may seem to involve narrow accounting and legal issues, they in fact seriously compromised Parliament's control over the public purse and distorted the costs incurred by a highly controversial and politically sensitive program. Moreover, they bent, or even disregarded, proper accounting principles and the government's own policy. The Committee strongly believes that the government must take action to ensure that this type of situation never happens again.

43. The Committee is cautiously hopeful that this incident will lead to greater care and probity in the recording of expenditures within the limits established by Parliament when it approves Estimates and adopts appropriations acts. This care and probity, the Committee believes, will be better assured through the implementation of the recommendations contained in this report.

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<sup>21</sup> Section 53 of the Constitution states, "Bills for appropriating any Part of the Public Revenue, or for imposing any Tax or Impost, shall originate in the House of Commons." Section 26 of the *Financial Administration Act* states, "no payments shall be made out of the Consolidated Revenue Fund without the authority of Parliament."

## APPENDIX

<b>The first accounting error</b>	
October 31, 2002	The Minister of Justice seeks an additional \$72 million for the Firearms Program as part of the Department of Justice's Supplementary Estimates (A), bringing the total for the Firearms Program to \$113 million in 2002-03.
December 5, 2002	The House of Commons reduces the Department of Justice's Supplementary Estimates (A) by \$72 million.
February 26, 2003	The Minister of Justice seeks an additional \$59 million for the Firearms Program as part of the Department of Justice's Supplementary Estimates (B), bringing the total for the Firearms Program to \$100 million in 2002-03.
March 2003	Parliament approves the Department of Justice's Supplementary Estimates (B).
October 2003	The Department of Justice reports in the Public Accounts that the actual spending for the Firearms Program in 2002-03 is \$78.3 million. This did not include \$39 million in CFIS II costs, which would have brought the total to \$117 million.
<b>The second accounting error</b>	
April 2003	The Canada Firearms Centre (the Centre) is established as a separate department reporting to the Minister of Public Safety and Emergency Preparedness Canada (PSEPC).
July 3, 2003	The Centre, Public Works and Government Services Canada (PWGSC) and the contractor verbally reach an agreement in principle for the contractor to carry out extra work and incur delay costs.
January 2004	The Centre seeks advice from Treasury Board Secretariat (TBS) on the appropriate accounting treatment for 2003-04 CFIS II costs.
January 30, 2004	The Centre's Commissioner writes to the Minister to say that due to CFIS II costs, Supplementary Estimates would be required in order to avoid exceeding that year's voted appropriation.
February 2004	Senior officials briefed ministers. It was decided that Supplementary Estimates were not desirable.
Early February 2004	Senior officials from TBS and PSEPC seek separate legal opinions.
Mid-February 2004	A meeting took place with senior officials from the Centre, PSEPC, PWGSC and TBS in attendance. There are no written records from the meeting. After meeting the Centre's Commissioner decides that Supplementary Estimates would not be required.
March 2004	TBS accounting officials continue to evaluate alternative accounting treatments for the CFIS II costs.
May 2004	The Centre recorded \$21.8 million in CFIS II costs as an

	“unrecorded liability” in a letter on “Valuation of Assets and Liabilities” to TBS.
October 2004	The Centre discloses the unrecorded liability in its 2003-04 departmental performance report.

Source: Based on information in the Auditor General’s May 2006 Special Report, *Government Decisions Limited Parliament’s Control of Public Spending*.



# **APPENDIX A**

## **LIST OF WITNESSES**

### **Chapter on Parliament's Control of Public Spending of the May 2006 Report of the Auditor General of Canada**

<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
Baker, William V. William Baker Former Commissioner Canada Firearms Centre	30/05/2006	5
Ganim, Wayne Wayne Ganim Former Director General, Finance Department of Justice	30/05/2006	5
Office of the Auditor General of Canada Sheila Fraser Auditor General	30/05/2006	5
Office of the Auditor General of Canada Peter Kasurak Senior Principal	30/05/2006	5
Office of the Auditor General of Canada Frank Vandenhoven Principal	30/05/2006	5
Rosenberg, Morris Morris Rosenberg Former Deputy Minister and Deputy Attorney General Department of Justice	30/05/2006	5
Treasury Board of Canada Secretariat Susan Cartwright Assistant Secretary Accountability in Government	30/05/2006	5
Treasury Board of Canada Secretariat Bill Matthews Senior Director Financial Management and Analysis Sector, Office of the Comptroller General	30/05/2006	5
Treasury Board of Canada Secretariat John Morgan Acting Assistant Comptroller General Financial Management and Analysis Sector, Office of the Comptroller General	30/05/2006	5
Treasury Board of Canada Secretariat Charles-Antoine St-Jean Comptroller General of Canada Office of the Comptroller General	30/05/2006	5

***Organizations and Individuals***

***Date***

***Meeting***

Wiersema, John  
John Wiersema  
Former Comptroller General of Canada

30/05/2006

5

Wiersema, John  
John Wiersema  
Former Comptroller General of Canada

08/06/2006

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# 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 Nos. 5, 8, 14, 18, 19, 21 and 22 including this report](#) is tabled).

Respectfully submitted,

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

# **Liberal Dissenting Opinion**

**On**

## **REPORT – Government decisions limited Parliament’s control of Public spending of the May 2006 Report of the Auditor General of Canada**

The dissenting Members hold that the Committee’s criticism of the former Minister of Public Safety and Emergency Preparedness is groundless and insinuates inappropriate conduct where none took place.

Committee Members heard public servants explain the technical process by which officials deliberated as to the appropriate treatment of the CFIS II costs. This included the February 2004 decision by the Deputy Minister of Public Safety to seek a legal opinion on the matter, which with other evidence convinced the responsible officials that the costs should not be charged to the current year appropriation and that consequently supplementary estimates were not required. The former Commissioner of the Canadian Firearms Centre told the Committee that as a result of this error he did not recommend to the Minister that supplementary estimates were necessary. He further explained that as Deputy Head he was responsible for the decision and signed off on the Firearms Centre accounts with an attestation.

The Committee did not establish that the former Minister bore any duty to inform Parliament about the deliberations of her officials. The Committee can not be justified in criticizing the former Minister for failing to inform Parliament about a non-existent supplementary estimate she was never advised by officials to request. The former minister's duty was to refrain from interference, to rely on the expert advice of her officials, and either approach parliament for supplementary estimates or not depending on that advice. That the advice was flawed is not acceptable grounds for a personal indictment of the minister. Furthermore when Committee Members have established by repeated questioning of witnesses that no political pressure or interference was exerted on the officials who took this decision, it is inconsistent to then criticize the former Minister for following that same advice and not approaching Parliament with a request for additional funds.

As a result the dissenting Members find that the Committee’s criticism of the former Minister lacks the factual basis appropriate to a Committee report and instead is based on political considerations more appropriate in another arena.

Marcel Proulx  
Liberal M.P. for Hull-Aylmer  
Member, Public Accounts Committee

## MINUTES OF PROCEEDINGS

Meeting No. 22

Tuesday, October 24, 2006

The Standing Committee on Public Accounts met at 3:24 p.m. this day, in Room 269, West Block, the Chair, the Hon. Shawn Murphy, presiding.

*Members of the Committee present:* Brian Fitzpatrick, Jean-Yves Laforest, Mike Lake, Hon. Shawn Murphy, Richard Nadeau, Pierre Poilievre, Marcel Proulx, Yasmin Ratansi, David Sweet and John Williams.

*Acting Members present:* Dawn Black for David Christopherson and Sukh Dhaliwal for Borys Wrzesnewskyj.

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

*Witnesses: Canadian Comprehensive Auditing Foundation:* Geoffrey Dubrow, Director, Capacity Development.

Pursuant to Standing Order 108 (2), the Committee proceeded to a briefing session by the Canadian Comprehensive Auditing Foundation on maximizing the effectiveness of Public Accounts Committees.

Mr. Fitzpatrick tabled documents related to the Ninth Report of the Committee on the Special Report of the auditor General of Canada of May 2006, Government Decisions Limited Parliament's Control of Public Spending.

Geoff Dubrow made a présentation and answered questions.

At 4:46 p.m., the sitting was suspended.

At 4:51 p.m., the Committee resumed sitting *in camera*.

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

- Consideration of Draft Report no. 9
- Planning of Future business

It was agreed, — That the draft report (as amended) on the Special Report of the auditor General of Canada of May 2006, Government Decisions Limited Parliament's Control of Public Spending be adopted as the Ninth report of the Standing Committee on Public Accounts.

That the Clerk and analysts be authorized to make such editorial and typographical changes as necessary without changing the substance of the Report.

That the Chair be authorized to table the Report in the House.

That, pursuant to Standing Order 109, the Committee request that the Government provide a comprehensive response to this Report .

At 5:18 p.m., the Committee adjourned to the call of the Chair.

Georges Etoka  
Clerk of the Committee