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

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**EVIDENCE**

**Wednesday, March 28, 2012**

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**Chair**

**Mr. Pat Martin**



## Standing Committee on Government Operations and Estimates

Wednesday, March 28, 2012

• (1530)

[English]

**The Chair (Mr. Pat Martin (Winnipeg Centre, NDP)):** We will call the meeting to order.

Welcome, everyone, to the 36th meeting of the Standing Committee on Government Operations and Estimates.

We will continue today with our ongoing study considering the estimates and supply matters of the federal government. We've had a very interesting study to date, and today we're very pleased to welcome to give his views the Auditor General of Canada, Michael Ferguson. With him today is Nancy Cheng, the Assistant Auditor General, and Richard Domingue, principal with the Office of the Auditor General of Canada.

The normal custom, Mr. Ferguson, is a five- or ten-minute opening statement, and then we'll go to questions and answers from the committee members. The floor is yours, sir, and welcome.

[Translation]

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you, Mr. Chair.

The review of the estimates is an important part of parliamentary control over spending of public funds. We are pleased to see the committee's interest in the process surrounding the review of the estimates.

With me today are Nancy Cheng, Assistant Auditor General and Richard Domingue, Principal.

The Office of the Auditor General last audited the government's Expenditure Management System in 2006. Among other matters, the audit report commented on the government's use of supplementary estimates. We noted in particular that when in a surplus position, the supplementary estimates increased substantially.

In fact, between the fiscal years 1997-1998 and 2005-2006, the use of supplementary estimates more than doubled. We noted that reliance on supplementary estimates meant that the Main Estimates had become less meaningful because they no longer showed the complete picture of planned spending.

[English]

This issue is still relevant today.

The main estimates do not provide a complete picture of the spending plan and are not connected with the budget. When we performed the audit in 2006 we found that the main reason for including items in the supplementary estimates was timing. The

tabling of the main estimates in advance of the budget was a key factor that gave rise to increased use of supplementary estimates.

In a separate audit report also tabled in 2006 entitled "Managing Government: Financial Information", we noted that the basis of accounting for the estimates is different from that of the budget and the public accounts. We commented that accrual-based appropriations in the estimates would provide Parliament with the same basis for control and approval over voted spending as the government's overall financial plan and the summary financial statements.

A full accrual approach to budgeting and appropriations would recognize budgeting and spending by votes when the underlying economic transactions are expected to occur, rather than when cash is expected to be paid.

[Translation]

In the report, we noted that the government had outlined a plan to implement accrual-based budgeting in phases. It would then evaluate the costs and benefits of accrual appropriations during the 2012-2013 fiscal year.

In 2011, the interim Auditor General of Canada reported that the government's progress in implementing accrual appropriations was unsatisfactory. We encouraged the government to complete its studies of accrual-based budgeting and appropriations, and to determine whether or not it will implement accrual appropriations in the future.

[English]

As an audit office, we make recommendations based on evidence that is gathered during audit work. Since we have not audited the estimates and the supply process in recent times, we are not in a position to offer specific recommendations.

In closing, I would like to note that the office has recently updated a guide about the estimates process. We have been providing this guide to parliamentarians following every general election, as recommended by this committee in 2003. The guide provides a description of the supply process. It also suggests questions that committee members may wish to ask when reviewing the estimates documents, such as the reports on plans and priorities.

This concludes my opening statement, Mr. Chair. We would be pleased to answer any questions.

• (1535)

**The Chair:** Thank you very much, Mr. Ferguson.

As is our tradition, we'll begin with the official opposition, with Alexandre Boulerice for the NDP.

You have five minutes, Alexandre.

[*Translation*]

**Mr. Alexandre Boulerice (Rosemont—La Petite-Patrie, NDP):** Thank you, Mr. Chair.

Mr. Ferguson, thank you for your presentation. I would also like to thank your colleagues for coming. I must say that I was delighted to hear your opening statement, of which a good part was in French. Bravo! That was great to hear.

Last week, when discussing an issue I know something about, the G8 spending scandal in the President of the Treasury Board's riding, Ned Franks told us that the spending complied with the existing rules because of the way the votes are structured. We also believe that departments should have some flexibility when it comes to the way in which they provide their programs. However, like most Canadians, we think ministers should not be able to distribute money in their ridings for projects undertaken mainly for election purposes. We in the NDP want to prevent ministers from being able to give gifts in their riding.

How can we, parliamentarians or the public, know if taxpayers' money is used for other purposes that are clearly different from those we examined and approved? How can we as parliamentarians restructure these appropriations in order to prevent this type of misuse of funds?

**Mr. Michael Ferguson:** Thank you for your question.

[*English*]

In response to the honourable member's question, I think the critical thing is that the votes themselves need to be clear about what they are for and what they are intended to be for. I think that's the fundamental starting point in all of this: it's that what Parliament is approving needs to be clearly laid out in each of the appropriations. Then, once it's clearly laid out, it's I guess part of the process to make sure that the spending then complies with what's contained in those appropriations.

So I think it's purely a matter of making sure the appropriations are clear and then making sure that the overall management structure ensures that the spending is in agreement with what the votes were approved for.

[*Translation*]

**Mr. Alexandre Boulerice:** Thank you. We agree on that.

The Parliamentary Budget Officer appeared before this committee during our study on the process. He indicated that both the quantity and the quality of information provided to Parliament by departments are too low now and that the situation has become worse in recent years.

Not only does this lack of relevant information stand in the way of adequate scrutiny of the estimates by members on both sides of the House, but it is also difficult for interested Canadians or Quebecers to follow their taxes and know how they are spent.

Do you agree with the Parliamentary Budget Officer? Do you think we lack information and that, since billions of dollars are spent every year, that that is a problem for transparency and accountability?

[*English*]

**Mr. Michael Ferguson:** Thank you again for the question.

Again, it's difficult for us to answer these types of questions. We haven't done a specific audit on the estimates process, so I don't have a detailed audit report on the process here for me to speak to. Certainly I can agree that it's important to make sure there is transparency in the budget process, transparency in the accounting process, and that's something we have always supported.

But as I say, we haven't gone through a full audit process. In our audits of the federal government's public accounts, we will from time to time bring forward issues that we notice and make recommendations on those. For example, we made some recommendations on accrual-based budgeting and that sort of thing.

So in general, I can say that we certainly support any approaches that help to improve transparency.

• (1540)

[*Translation*]

**Mr. Alexandre Boulerice:** Thank you.

[*English*]

**The Chair:** That's about all the time you have, Alexandre. Thank you.

Next, for the Conservatives, Jacques Gourde.

[*Translation*]

**Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC):** Thank you, Mr. Chair.

Mr. Ferguson, thank you for coming. Congratulations on the quality of your French during your presentation.

Mr. Ferguson, is it important for the main estimates to be coordinated with the budget?

[*English*]

**Mr. Michael Ferguson:** Again, I don't have a specific document or audit that we have done. Maybe what I will do in response to your question is turn a little bit to my experience in New Brunswick, where I was the comptroller for five years and the deputy minister of finance for one year.

Certainly in New Brunswick, our practice was that the public accounts, the budget document—if you want to refer to sort of the summary information that the minister would have included in his speech when delivering the budget—and the main estimates document were all on the same basis. They were all on an accrual basis. They all used the same reporting entity. So the same definition of government was used whether it was in financial statements or the main estimates.

As well, the main estimates were broken down into things like ordinary accounts, capital accounts, special purpose accounts, with multiple ways of dividing it down. There was a table at the beginning of the main estimates that reconciled all of that. It was easy to follow from the total amount of expenses, for example, in the budget document down into the amount each department was being voted, in whatever account. There was a clear reconciliation between the main estimates, the budget, and then the ultimate financial statement.

So again, just to reply to your question, that's what I was used to in the province of New Brunswick, that there was a very clear trail between all three documents.

[*Translation*]

**Mr. Jacques Gourde:** Mr. Ferguson, we know today federal budgets represent huge amounts of money. We're talking about over \$200 billion. We're working with a system that, historically, started in the 1880s and 1900s.

Would it be preferable to table the budget one quarter earlier, which would change the schedule and perhaps improve the system?

[*English*]

**Mr. Michael Ferguson:** I think with a number of the questions that I'm going to get on this subject today, I don't have a specific audit report to talk to, so I'll probably go back to my experiences in New Brunswick and how things were done there.

One normal practice that we had in New Brunswick was to table the capital budget usually in December. Again, I realize that New Brunswick is a small province compared to the size of the federal government. The main reason the capital budget was tabled in December was that, for a provincial government, capital spending was mostly about road construction or building construction. If you waited until the end of March to put your capital budget out, and then you had to go through a process of putting out tenders and getting people to respond and evaluating and awarding, you were halfway through the construction season before you could actually get any work done. So capital budgets were done in December so that the process could be under way, and starting April 1 or whenever the construction season was ready to go, that work could commence.

There was also at least one year—possibly two, but at least one year—where the province actually did table their full budget in either November or December, but that probably would be going back at least ten years. So they did do it at least once, but then they moved back to essentially a March budget for the main operating budget.

• (1545)

**The Chair:** That's your five minutes, Jacques. I'm sorry.

Next is Mathieu Ravignat for the NDP.

**Mr. Mathieu Ravignat (Pontiac, NDP):** Thank you very much for being here. It's very important that you be here for this particular study.

One thing I've found frustrating as a parliamentarian is being unable to track, through the estimates process, spending that seems to be unjustified or seems to be unmeasured. I'm referring particularly to the overcharging of SNC-Lavalin, for example, for

light fixtures and for desks, etc. How could this process be better structured so that we can track these types of out-of-control expenses?

**Mr. Michael Ferguson:** Thank you for the question.

Part of what we do is that we audit the federal government's public accounts, but we audit that at the sort of macro level of the public accounts to make sure that the financial statements the government presents are presented fairly. We don't perform our audit in order to track the spending at the sort of individual vote level. We don't audit at that level of detail. It is really left up to the internal workings of government to make sure that the departments are spending according to the budgets they were given.

So again, it's not really something I can comment on, because it's just not the level of detail we get to. If in the course of our audit we were to find spending that we felt significantly didn't comply with an appropriation, we would probably raise that in our observations.

**Mr. Mathieu Ravignat:** Thank you for that.

Since we are talking about audits, could you tell me why you abandoned the audit for the defence construction?

**Mr. Michael Ferguson:** I'm sorry, I missed the question.

**Mr. Mathieu Ravignat:** Since we're on the subject of audits, can you tell me why you abandoned the audit on defence construction?

**Mr. Michael Ferguson:** I don't.... We haven't abandoned any audit.

**Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC):** Point of order, Mr. Chair.

**The Chair:** We have a point of order from Scott.

**Mr. Scott Armstrong:** It's called a point of order on relevance. We're here to talk about the estimates. I'm just wondering if audits have anything to do with the estimates we're looking at.

**Mr. Mathieu Ravignat:** That's fine. I can go ahead with another question.

**The Chair:** Okay. Carry on.

[*Translation*]

**Mr. Mathieu Ravignat:** Your predecessor, Sheila Fraser, mentioned the following in a statement to our committee in September 2006:

... We concluded that Parliament would be better served if it also received information in the estimates and appropriations that was based on accrual accounting. Such an approach would make the process more consistent with the one used in the government's financial reporting of results.

The government has been studying this issue since 1998 without establishing a clear position on the direction it will take. I believe it is time, after eight years of study, that the government decide.

It is 2012. I have asked a few public servants about their preference regarding the use of a cash basis of accounting or accrual accounting, and they all said they prefer a cash basis of accounting. Do you agree with them?

[*English*]

**Mr. Michael Ferguson:** Certainly, yes, when it comes to financial statements, it needs to be accrual accounting, and we are definitely on record as having recommended that the government also follow an accrual approach in preparing the estimates.

• (1550)

**The Chair:** You have one and a half minutes, Mathieu.

[Translation]

**Mr. Mathieu Ravignat:** Some people suggest that we move the budget to the fall. That way, the financial cycle would be more efficient. We heard that during a meeting earlier this week. I was wondering what you thought of that suggestion, of changing the date of the fiscal year.

[English]

**Mr. Michael Ferguson:** Again, it's not something we have done an audit of. As I responded to the earlier questioner, it was a normal practice in New Brunswick on the capital budget side, and we did it once on the operating budget side.

On the operating budget side, the advantage, of course, was to certain organizations. Again, I'm thinking at the provincial level, but it was always a benefit to organizations like hospitals to have some lead time, before the year actually started, to know what their budget was going to be. On the other hand, when you try to do a budget that you are going to table in December, there are certain things like pension expense, where you are trying to foresee what the rate of return is going to be at the end of March, so it becomes more difficult to budget some items.

So there are some good parts to it, and then there are some things that would have to be worked out.

**The Chair:** Thank you, Mathieu.

Thank you, Mr. Ferguson.

Next, for the Conservatives, Ron Cannan.

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** Thanks, Chair.

Thanks to you and your colleagues for being here, Mr. Ferguson.

This is officially a bilingual country, so I want to commend you on your English skills as well, on your very good English grammar.

**Voices:** Oh, oh!

**Mr. Ron Cannan:** But seriously, it's great to have you here. Your predecessor came to the committee several times, and we appreciate the work of the Auditor General in helping us, as parliamentarians, to oversee the public finances. It's sometimes a very daunting task when you see the volume of information we receive, especially when it comes to the estimates. On the other hand, we also want as much information as possible.

In your experience in New Brunswick, in trying to use that information as efficiently and effectively as possible, did you have any implementation of technologies using hyperlinks, for example?

**Mr. Michael Ferguson:** My recollection in terms of the budget information that was made public was that for the most part it was simply documents available on the Internet and that sort of thing.

**Mr. Ron Cannan:** Okay.

Just picking up on the comments of my colleague Mr. Ravignat about timing, how far in advance before the beginning of the fiscal

year do you feel a budget should be presented to Parliament for consideration ?

**Mr. Michael Ferguson:** Again, it's not something we have done significant work on—or done any work on—as to what the right timing is. Anything I would say in response to that would be purely personal. Again, I think the only thing I can really say is that I have seen a budget prepared well in advance of the fiscal year and it had both advantages and disadvantages.

**Mr. Ron Cannan:** We've had several witnesses—and there's been some discussion even from the Treasury Board—saying that they have the availability to post monthly program spending. One of the suggestions from a number of witnesses was about moving from approval of votes to approval of programs. They feel that's giving Parliament more control over the estimates process. I'm just wondering what your thoughts are and whether you'd recommend that change moving forward.

**Mr. Michael Ferguson:** Again, because we just haven't done the work on that, it's not something I can comment on.

**Mr. Ron Cannan:** So in New Brunswick it was strictly on.... It wasn't on programs. It was on votes...?

**Mr. Michael Ferguson:** Well, I can describe to you how it worked in New Brunswick.

For the most part, there would have been a vote for a department on ordinary account; there would have been a number of programs within that ordinary account. Each one would have been described in the main estimates. But for that department, the amount that was actually appropriated would have been the total of all of those programs for that department.

So the programs were listed, but the vote would have been on the accumulation of all of those programs.

• (1555)

**Mr. Ron Cannan:** I guess we have some time yet to wrap this up. I'm just wondering when you think you will have your first complete cycle and be able to come back to report, with a better handle on recommendations, more fulsome recommendations, to the committee.

**Mr. Michael Ferguson:** The work we do in the Office of the Auditor General is that we conduct audits. We set an objective and a set of criteria, and then we audit to those. We haven't done an audit of the estimates process and we don't have an audit of the estimates process under way right now. It's not something we have planned to do. That's why it's difficult for me to make recommendations on these topics: because we just haven't put it through our process of audit.

**Mr. Ron Cannan:** I appreciate the limited amount of time in looking at the federal perspective, but from your time here, are there any specific nuggets you could recommend that we could include in our report in trying to learn from your experience and wisdom?

**Mr. Michael Ferguson:** You know, I think we are on record in the office as recommending accrual budgeting: that the main estimates be done on an accrual basis. I understand that there are some complexities to this and that you have to also consider the cash side of the appropriations. We are on record as recommending that the government move to accrual budgeting.

**Mr. Ron Cannan:** Thank you very much.

**The Chair:** Thank you, Ron.

Thank you, Mr. Ferguson.

That segues nicely into one of John's favourite subjects.

John McCallum, for the Liberals.

[*Translation*]

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you, Mr. Chair.

Welcome to Ottawa, Mr. Ferguson.

I would like to start with a question on the G8 Legacy Fund.

[*English*]

I'm sure you're aware of this issue over the G-8 legacy fund, which was supposed to be for border infrastructure but ended up being used in Muskoka. So I guess my question to you is whether there are.... I mean, we're not saying that transfers should never be made, but we are suggesting that parliamentarians should at least be informed when such transfers are made.

My question is whether there's a mechanism that would require the government to inform us of such changes and what that mechanism might be.

**Mr. Michael Ferguson:** Again, in terms of the details of the mechanisms and the internal workings, it's not something we have done an audit of, so I think it would be the government officials who would have to tell you what those actual processes are. It's not something we've looked at or made a recommendation on.

**Hon. John McCallum:** I thought you did do an audit of the G-8 legacy fund.

**Mr. Michael Ferguson:** We did an audit that included the G-8 legacy fund, but my understanding is that it didn't include something dealing with those transfers. We did make observations about the G-8 legacy fund, though.

**Hon. John McCallum:** Okay.

My next question is about an order paper question in which we asked the government to provide information on which elements of the statutory elements of the estimates were not included in the estimates. The answer we got was that the elements of the statutory components not included in the estimates were so numerous that they could not give us an answer within 45 days.

I would have thought that as part of the estimates process it would be important for parliamentarians to have a clear understanding of all the expenditures of the government, including the statutory components. I wonder if you have any comment on that.

**Mr. Michael Ferguson:** Our office has always promoted and will always promote government transparency and accountability. I can't speak to the specific item you're talking about or the response to the government, because it's just not something we have looked at or have audited, but as a general concept, we certainly support transparency.

● (1600)

**Hon. John McCallum:** My third question, then, relates to your introductory comments. You said that the problem of the main estimates not coinciding with the budget is an issue of timing, and we have heard many witnesses say that if the budget were introduced three months earlier, say, than the presentation of the main estimates, then we could have main estimates coinciding with the budget and have less need for supplementary estimates. I believe that's what you said in your opening comments.

Many witnesses have said that they think this would be a major step, and they've been saying that for years, but it has never happened. Perhaps this is an unfair question, since you're just recently arrived—or maybe some of your colleagues could answer—but do you know of any reason why this would be a bad idea? Or is it just bureaucratic inertia that something that seems fairly obvious simply never happens?

**Mr. Michael Ferguson:** I think I'll answer the question by going back again to my experience in New Brunswick, which is a small province when compared to the complexity of the federal government. In New Brunswick, when we tabled a budget that included an amount of total expenses we also tabled main estimates that completely reconciled to the expenses in the budget. There was a direct link on a full accrual basis between the estimates and the budget speech of the minister, and they were all tabled on the same day.

**Hon. John McCallum:** Oh?

**Mr. Michael Ferguson:** Again, it was a surprise to me when I got here and found out that the main estimates are actually done on a different basis from the budget and the financial statements. I see that we've made a recommendation on it: that there should be full accrual budgeting in the main estimates. So again, my experience was that those documents were tied together.

**Hon. John McCallum:** Thank you.

**The Chair:** That's very interesting and very useful to us.

I think for the Conservatives the last speaker in this round is Scott Armstrong.

**Mr. Scott Armstrong:** Thank you, Mr. Chair.

I want to thank all three of you for being here.

Mr. Ferguson, my riding borders on New Brunswick, so I follow what goes on in the New Brunswick legislature fairly closely. Currently the sales tax in New Brunswick is 2% lower than it is in Nova Scotia, so that causes people on my side of the border a great deal of difficulty.

I do have some questions about your experience. I see that you were the comptroller, also the auditor general, and later the deputy minister of finance in New Brunswick. I think that provides you a unique level of experience to bring to this committee.

My first question is on the accrual versus cash issue. I know that it's the position of the federal Auditor General to move us more towards an accrual formula. From your perspective as the Auditor General, what is the argument between cash and accrual?

**Mr. Michael Ferguson:** The argument I guess essentially is... Well, if you start with the financial statements of a government, the financial statements of a government that represent "here's what happened during the year"—so they're backward-looking documents—have to be prepared on an accrual basis. Accounting standards dictate that they have to be prepared on an accrual basis. As auditor, we have to make sure they were prepared on that basis.

So when you start with this—that the final report the government issues has to be on an accrual basis—then you start to look at the budget documents, which are forward-looking documents. In order to be able to tie the budget documents to the financial statement documents, there are a couple of things: number one, you would need to have the same basis of accounting; and number two, you would need to have the same definition of the entity, of what's in the budget. The organizations that are in the budget should be the same ones as those in the financial statements.

But then you get down to where there are some items that are expensed on an accrual basis. For example, I will use provision for losses on accounts receivable. You have accounts receivable and you expect that some of them you won't collect, so you have to expense the amount that you expect you're not going to collect. But it doesn't require you to pay out an amount of cash in that year. Okay?

I think that's what people struggle with in terms of accrual appropriations versus cash appropriations. It's that the accounting would require you to record one amount, but cash management may be very different from the year when you actually record the expense on an accrual basis.

As for what parliaments have done historically, parliaments have approved cash disbursement. So I think the thing that has to be sorted out is just exactly how you would represent the difference between the accrual estimates that tie into all of the other documents with the amount of cash that needs to come out of the bank account.

•(1605)

**Mr. Scott Armstrong:** So from our perspective of trying to provide some oversight—it's not only us, of course, but the standing committees on each department that also try to review the estimates—do you think if we moved to more of an accrual basis it would make our job easier because it's a bit more transparent? What do you think would happen from our perspective?

**Mr. Michael Ferguson:** As a personal observation and simply going back to my history—and again, understanding that I don't know the complexity of the federal government process—I always felt that it was important to have the main estimates on the same basis as the budget and as the financial statement, so that then you have a very clear trail from one to the other, which would imply, as the Office of the Auditor General of Canada has recommended in the past, that you would use an accrual-based approach for the estimates.

Again, though, you have to reconcile that with the traditional parliamentary role of approving the cash that needs to be paid out. In New Brunswick, for example, what we would do is budget for the amount of bad debt expense, but then we would also have a separate amount that budgeted the amount of new loans that we would pay out, even though new loans weren't an expense, but they were a cash item. Okay?

**Mr. Scott Armstrong:** Right.

**Mr. Michael Ferguson:** So in that type of approach, you need to have both. You need to have the expense on an accrual basis, but then you need to consider also including some other items that represent additional cash that would have to be paid out.

**Mr. Scott Armstrong:** How much time do I have?

**The Chair:** You have about 30 seconds, Scott.

**Mr. Scott Armstrong:** Really quickly, then, what services do you provide to people on this committee and other standing committees to help us wade through the estimates? Do you have any idea of what services your office can provide us?

**Mr. Michael Ferguson:** Certainly we are always willing to sit down with any member of the committee and talk through what we know about it. But again, we haven't done any audits and we're not doing any audits on this, so we're not going to present any report to Parliament on that.

We have also presented an overview of the estimates process, which this committee, in the past, recommended we do. But we're certainly willing to sit down with anyone to help people understand.

**Mr. Scott Armstrong:** Thank you.

**The Chair:** Thank you, Scott.

Thank you, Mr. Ferguson.

That concludes the first round of questioning.

I'd just like to raise a point of clarification, based on questioners from two parties and from your opening remarks. One of the things we heard was a witness recommendation that if we moved the fiscal year to July 1 instead of April 1, we could in fact have a full three months to examine the estimates instead of the rather truncated time we're given now. That would align the budgets and the mains and it would eliminate the need for interim supply. I gather from your answer to John's questions that this is something you see as being feasible or even perhaps is the practice where you came from, the alignment of the budget and the mains.

**Mr. Michael Ferguson:** I think there were a couple of things in there.

Yes, the practice we had in New Brunswick was very much an alignment between the budget and the main estimates. But I think you started the question by saying that people have suggested moving the fiscal year-end—

**The Chair:** Yes, to give us more time to examine the estimates. This was a recommendation we heard from a couple of witnesses, something that they have actually done in other countries in recent years.

**Mr. Michael Ferguson:** I'd have to look at that. I have a hard time understanding moving the fiscal year-end. To me, it just potentially moves all of the problems to different dates.

•(1610)

**Mr. Mike Wallace (Burlington, CPC):** Keeping the budget process the same, though—moving the fiscal date, but the budget would still be presented in March.



**The Chair:** Yes, exactly, to merge. We're given a couple of days to examine the estimates, and they're deemed to be adopted if we don't get the time to examine them properly. So in some of the recommendations we've heard that committees need a reasonable length of time to truly give the estimates a going-over. Maybe I didn't put it clearly in my opening remarks, but how do you feel about that, then, just your personal view?

**Mr. Michael Ferguson:** Thank you for the clarification. I think I understand better.

Instead of moving the fiscal year-end, the same thing could be accomplished by saying that the budget needs to come out in December or in January or whenever, right?

As I said, the capital budget in New Brunswick was always done in December. The operating account budget we did at least once in December. It had some good points and some bad points.

The other thing that would happen in New Brunswick.... They brought down their budget, for example, yesterday, and they would now be going through the committee of supply process to approve it. What they would do is set aside a number of hours—and I don't remember exactly how many hours—for the committee of supply to consider the main estimates. It was a significant number of hours, though.

The committee would call in the ministers for the departments they wanted to review, and it would be up to the committee to decide which departments they wanted to review. They would call them in, and they would go through asking the minister many questions about that. By the time the final vote was taken on the main estimates, it was probably into early June before the final vote was taken. So again, that's just what happened in New Brunswick.

**The Chair:** That's very interesting. Thank you, Mr. Ferguson.

For the NDP, Denis Blanchette. Go ahead.

[*Translation*]

**Mr. Denis Blanchette (Louis-Hébert, NDP):** Thank you, Mr. Chair.

I would also like to thank Mr. Ferguson for being with us today.

I started to cut and paste some parts of your presentation. In a nutshell, you are saying that the main estimates are becoming less meaningful because they don't show the complete picture of planned spending and aren't linked to the budget.

Do you think the estimates process is still useful? Does it still have any value? Is it a waste of time and energy? If so, do you have suggestions on how to fix it?

[*English*]

**Mr. Michael Ferguson:** Again, we have made the recommendation that the main estimates should be on the same basis, an accrual basis, as the budget and the financial statements.

We have also made the comment that when you can't make the reconciliation between the main estimates and the budget, it makes it difficult to understand what's in the main estimates and what's not. I think we are very much on record as recommending that the way to

deal with it is to move to accrual budgeting and figure out how to bring those main estimates in line with the budget and the actuals.

[*Translation*]

**Mr. Denis Blanchette:** Okay.

Even if we do that, we get an additional budget presented to us very quickly, containing new measures. It is what they call the Supplementary Estimates (A).

Do you think we should continue with this process, that is having estimates, then the budget speech and, soon after that, the Supplementary Estimates (A)? Do you think it is a good process? Should we not be looking at other ways?

[*English*]

**Mr. Michael Ferguson:** I'll go back to my experience in New Brunswick. The main estimates would have agreed with the budget, so when the budget was brought down there was a main estimates document that tied in exactly to the budget. Subsequent to that, during the year it would be possible that there would have been a supplementary estimate brought down, but it would be very clear to everybody that the supplementary estimate would be spending that is outside the original government's budget plan. It was very clear at the provincial level that what a supplementary estimate represented was spending that the government hadn't foreseen or hadn't predicted at the time they brought their budget down.

That's what I'm used to in terms of supplementary estimates.

• (1615)

[*Translation*]

**Mr. Denis Blanchette:** Thank you very much.

You are at the end of the accounting cycle with auditing. Of course, the entire financial cycle is important. Aside from the type of accounting, do you have recommendations for the committee on the overall financial cycle, in particular regarding budget estimates?

How should we reorganize things, to be able to better understand what is there, to see how we could better assess spending and allow members to better understand estimates and what they mean, to be able to have a better idea of the results at the end of the process?

[*English*]

**Mr. Michael Ferguson:** I'm sorry to keep sounding like an accountant, but I am one, after all.

I think fundamentally the starting point has to be an agreement, as I said earlier, on how you define the entity—so what the government is—and then how you account for things. On those two things there are recommendations by the Public Sector Accounting Board on how that's done, and the federal government follows those recommendations in preparing its actual financial statements.

In order to be able to compare actual performance with budgeted or predicted performance, it's therefore important that all of the budget documents, including the estimates, be prepared on the same basis. That's the only way at the end that you will be able to know whether the government met its plan or not. So it's about making sure those are lined up.

The other thing that's important in terms of the whole appropriations process—again, I'm not exactly sure how you do this at the federal level—is to make sure that what is being voted on is clear. If there's an amount being voted, it needs to be clear to Parliament what it is actually voting that money for and what it's to be used for. That would be the other side of it.

**The Chair:** Thank you, Denis.

Thank you, Mr. Ferguson.

For the Conservatives, Kelly Block.

**Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC):** Thank you very much, Mr. Chair.

I would like to welcome you to our committee, and offer you my congratulations as well on your appointment last November 28.

As we have moved through this study, what has become clear to me is that this is a very complex process. Recognizing that you have only been in the position you're in for four months, I am very interested in your experience in New Brunswick. I want to refer to that experience and ask if there are any estimates practices used in New Brunswick or that you were aware of, perhaps even in other provinces, that you would consider useful at the federal level.

**Mr. Michael Ferguson:** I think I can mention some of the things that I felt were good practices in New Brunswick, and that should at least be considered at the federal level. I'm not sure whether they could actually be adopted.

Despite the fact that the budget was broken down into many different types of categories—and at the federal level we have things like grants and contributions and capital and all kinds of different categories—we always had a reconciliation between that breakdown and the expenses in the budget. That way you could always drill down enough to learn how much money a department was getting to spend, and how this would tie into the overall budget amount.

Another thing that New Brunswick was working on over the last few years was making sure that any tax expenditures were showing up on the spending side of the ledger, rather than the revenue side of the ledger. Governments sometimes put in place programs whereby people can access funding through the tax system. Therefore, they treat it as a reduction of revenue instead of a spending item. So we were working towards identifying those items and making sure they were on the spending side.

At the provincial level, I think doing a capital budget in December was a best practice just because of the need to get the construction started as early in the construction season as possible. I don't know how that relates to the federal government's world, but I think it was a best practice.

There was also accrual and making sure that everything was on the same basis, as well as the fact that the committee of supply went through a number of debates and asked a number of questions. The downside was that departments never knew what questions were coming, and they had to prepare binders and binders of material to try to prepare for every conceivable question that might come up in the estimates process. At least there were many hours set aside for questions.

So those would be some of them.

• (1620)

**Mrs. Kelly Block:** An observation has been made that another big challenge is the huge volume of information that the estimates contain. Still another has to do with the various objectives we're trying to achieve through the estimates. I'm wondering if you would like to comment on that. I know you said you haven't really done an audit of the estimates process. But based on your experience, do you think it's similar to what happens at the provincial level? What would you see needing to be changed to manage the volume of information that one has to wade through?

**Mr. Michael Ferguson:** There were those challenges, even in a smaller province. For example, at the provincial level the hospitals in New Brunswick were fully consolidated in the province's financial statements. In the main estimates document, there would have been one line for grants to hospitals, which in comparison to the province's total budget would have been a very large number, but the only thing it would have said would have been “grants to hospitals”. So it wouldn't have given members of the legislature any information about the types of services or any of that. Mind you, they would have had the opportunity to ask those types of questions at the committee of supply. You can put only so much detail in a main estimates document, and we had that problem even in our small jurisdiction.

**Mrs. Kelly Block:** Thank you.

**The Chair:** That's it for your time, Kelly. Thank you.

Mathieu Ravignat.

[*Translation*]

**Mr. Mathieu Ravignat:** The OAG had made the following recommendation to the Treasury Board of Canada Secretariat:

The Treasury Board of Canada Secretariat should review the practices for determining the information that is presented to Parliament in the Estimates. It should amend its processes so that when Parliament approves funds, it is presented with clear and accurate information about how the funds will be used.

The Treasury Board of Canada Secretariat accepted that recommendation. I was wondering if your office has followed up on it.

[*English*]

**Mr. Michael Ferguson:** I'm sorry, were you referring to a recommendation we made? Yes? Okay. Which recommendation?

[*Translation*]

**Mr. Mathieu Ravignat:** It is recommendation 2.15.

[*English*]

**Mr. Michael Ferguson:** In...

[*Translation*]

**Mr. Mathieu Ravignat:** It was in 2011.

[*English*]

**Mr. Michael Ferguson:** Oh, okay.

Again, we stand behind that recommendation—

[*Translation*]

**Mr. Mathieu Ravignat:** Has the recommendation been implemented? Have you followed up on it?

•(1625)

[English]

**Mr. Michael Ferguson:** No, we haven't followed up on it at this point, simply because it's too soon in terms of when we actually issued that recommendation. But we will be following up on it.

[Translation]

**Mr. Mathieu Ravignat:** Okay, thank you for the confirmation.

In addition, federal ministers and organizations also prepare other unaudited financial information, such as quarterly financial reports and future-oriented financial statements.

I would like to have your opinion. How much should this other unaudited financial information, such as financial reports and future-oriented financial statements, be studied and scrutinized independently? Should this information be reviewed by parliamentary committees in your opinion?

[English]

**Mr. Michael Ferguson:** Certainly I think we're on record as recommending that parliamentary committees should review documents such as the reports on plans and priorities and the performance reports of departments and organizations. We certainly believe that the committees should be using those documents as primary documents to hold organizations and departments accountable for their performance.

[Translation]

**Mr. Mathieu Ravignat:** Thank you for sharing New Brunswick's experience with us; it was very interesting.

You have no doubt been in contact with your counterparts in the other provinces. Do you have other information or other good examples of what other provinces are doing? That could be useful for us in our study.

[English]

**Mr. Michael Ferguson:** At the risk of offending provinces—I won't name any specifically—certainly my belief is that some have very good budgeting practices that are very consistent with their accounting practices. I think there are others that still need some improvement, perhaps, in some of their budgeting practices, so because of that I won't actually name names.

I think if you went through the different provinces, you would find some that have some very good budgeting practices.

**The Chair:** You have about 45 seconds left, Mathieu.

**Mr. Mathieu Ravignat:** Could you cite an example or choose an example that could be useful for us?

**Mr. Michael Ferguson:** I'll hazard a guess—or not a guess, but I'll take a chance on it. I would suggest probably looking at Alberta and British Columbia in particular probably as potential good areas. That doesn't mean I'm saying all the rest are bad; I'm just picking those two out as two that come to mind as having good practices.

**Mr. Mathieu Ravignat:** Thank you for that. I understand the tight spot I put you in.

**The Chair:** Thank you, Mathieu.

Now we have Peter Braid for the Conservatives for five minutes.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

Thank you, Mr. Ferguson, for being here this afternoon, and welcome.

Mr. Ferguson, in your opening presentation you indicated that between 1997 and 2006 the use of supplementary estimates doubled. I realize that this was before your time, but do you have any insight into why that occurred?

**Mr. Michael Ferguson:** Again, it is before my time. I believe that it was a time of rising surpluses, and that probably contributed. It's my understanding that contributed to the ability to have supplementary estimates.

**Mr. Peter Braid:** Right. Thank you.

We've talked today about the difference between a cash and an accrual basis of accounting. You've spoken about some of the benefits of the accrual basis. I want to ask what would be involved in the transition from a cash basis to an accrual basis. What steps would be involved? What timeframes would be involved? I presume you can't just fall off a cliff from one to the other.

•(1630)

**Mr. Michael Ferguson:** Without having reviewed it, I wouldn't be able to give you an itemized list, but certainly in making that type of change, there would have to be a transition. We made the recommendation to government that we feel that an accrual basis would be appropriate for the main estimates, and I think the government has said that they would look at that. I would expect that one of the things they would have to consider would be how to actually do that transition. I wouldn't expect it would be something you could make a complete change to in one cycle. It might take more than one cycle.

**Mr. Peter Braid:** Was it an accrual basis in New Brunswick?

**Mr. Michael Ferguson:** Yes, it was on an accrual basis.

**Mr. Peter Braid:** Thank you.

Mr. Ferguson, we had an interesting meeting earlier this week with the witnesses who participated. One was an academic in South Africa who participated by video conference, and he brought a global perspective. He explained to us that in New Zealand and South Africa, one of the changes they've made is moving from voting on estimates, the approval of votes, to approving actual programs or outputs.

I wanted to share that with you, and ask if you had any thoughts on that recommendation or proposal, moving from an approval of votes to an approval of actual programs or outputs.

**Mr. Michael Ferguson:** Without really understanding what he was seeing as the difference, and what exactly he was envisaging there, it's not something I could comment on.

**Mr. Peter Braid:** Thank you.

**The Chair:** Thank you, Peter.

Now we have John McCallum for the Liberals for five minutes.

**Hon. John McCallum:** Thank you.

I notice that in your presentation you say the last time your office did an audit of the expenditure management system was in 2006, six years ago. Especially in light of this study we're doing, would you think it might be time to do another one quite soon?

**Mr. Michael Ferguson:** It's not something we currently have in our audit plan. Certainly it's something we can consider as we're doing future plans, but it's not something we have yet agreed to do.

**Hon. John McCallum:** Okay, so in terms of the kind of audit you do, you've already proposed the accrual system. In terms of our own efforts to make proposals to improve the system, do you think an audit by your office would help in that regard, or not particularly?

**Mr. Michael Ferguson:** I think the main issue would be one of timing. I'm not sure exactly when it would be by the time we got it into our process, went through the audit, and presented a report, even if we started right away. My concern would be that the timing of our audit wouldn't coincide very well with when this committee might be thinking of actually reporting.

**Hon. John McCallum:** Do you know if your office has any plans to do an audit of the green infrastructure fund?

**Mr. Michael Ferguson:** It's not something in our plans right now, but I know that it is part of our considerations. But we haven't made any decisions.

**Hon. John McCallum:** Okay, I'll leave it at that. Thank you very much.

**The Chair:** Okay, thank you, John.

The last person in this round, and I believe it would be the last questioner of the day, unless I hear strong feelings otherwise, is Mike Wallace.

**Mr. Mike Wallace:** Thank you, Mr. Chair.

I want to thank you for coming today.

Mr. Ferguson, I don't want to say you have big shoes, but you have important shoes to fill. I know that it's a learning curve for you to come here.

Part of the process at this committee is to look at what other provinces are doing, so I thought it was excellent that someone with your experience would come here. Now we know a little bit about the New Brunswick experience.

Just so I'm absolutely clear, as the Auditor General, or the auditor's office, the date of our fiscal year-end is not an important issue for you—whether it's April 1 or whether it's June 1—as long as we have one, of course. The actual date the Government of Canada chooses is not an important issue to you as the auditor. Would that be an accurate statement?

• (1635)

**Mr. Michael Ferguson:** That would be an accurate statement.

**Mr. Mike Wallace:** Okay.

The other thing is that I've put forward about eight recommendations I've had in my mind about things to do and improve. I don't know if I've given them to the committee yet.

Based on your experience and what you've said today on New Brunswick, right now estimates—mains or supplementaries—are

technically to be reviewed by committee. If they're not reviewed by a certain date, they're deemed approved by that committee. Does that deemed rule apply in New Brunswick, or do all estimates automatically go to that supply committee?

**Mr. Michael Ferguson:** I'm at risk of not understanding all of the technical parliamentary rules, I guess, in New Brunswick, but certainly my understanding is that the whole estimates would be referred to the committee of supply. The committee of supply would have a certain number of hours, and it would be a substantial number of hours, for deliberation. They would call the departments forward.

**Mr. Mike Wallace:** Basically, you're telling me that one committee looks after it all. I know that it's a much smaller number than we have here. One committee looks after it all, reviews the estimates, and reports back to the New Brunswick house, approving or disapproving or whatever. That's very interesting to me.

Do you know if there was a position in the New Brunswick house responsible for actually training members of the provincial house on the books and how things operate from a financial perspective? Was there a certain group responsible for that? Did it happen or did it not happen?

**Mr. Michael Ferguson:** I don't know of any formal process for the way it happened, no.

**Mr. Mike Wallace:** Okay.

Your office, as you've highlighted, gives us a little booklet when you join. Now, I've been here six years and have spent a lot of time looking at this stuff, but not everybody has. One of my recommendations is that we need to be better trained, as individuals, to understand what we're looking at.

With your accounting hat on, would you say that it's easier for those who are not in the financial area to understand cash over accrual? Is it not an easier concept to understand? Regardless of how long the asset's going to last and when the actual acquisition takes place, it's just easier to understand that we have to put away the cash for it, and we're spending it this year, even though it may have a longer lifetime and we may acquire it over time.

What's your view of being able to train MPs, who come from all different backgrounds, on accrual over cash? Or do you think it doesn't really matter?

**Mr. Michael Ferguson:** I think you're right that, in general, people understand cash. I think it's very important, though, when you're dealing with an organization like the federal government that decision-makers understand where there are risks if you just focus on cash. The big one that comes to mind is the pension expense and pension liability, which is very much based on understanding what the value of the pension promise is, because it goes into the future, and then understanding how much cash you have to set aside for that.

So one area where you can have a significant difference in expense is on pensions, and it's very important to understand that difference between the accrual expense and the cash that's getting paid out. So cash may be simple, but there are certainly areas where you have to be very careful with understanding the accrual.

**Mr. Mike Wallace:** May I ask one more question?

**The Chair:** You sure may.

**Mr. Mike Wallace:** Thank you, Mr. Chair. This is my final question.

We really don't have a separate capital budget and a separate operating budget; it's all lumped into one, and that's a different discussion altogether. But you did mention that in New Brunswick one budget was ahead of their fiscal timeframe when it started to take place and you said there were positives and negatives. Can you give me one negative that you can remember from your days in New Brunswick of having that budget presented earlier, prior to the fiscal date? With having that space, what was the negative?

•(1640)

**Mr. Michael Ferguson:** I think the negatives were again primarily trying to understand...because you're trying to put a budget together for April 1 on, right?

**Mr. Mike Wallace:** Right.

**Mr. Michael Ferguson:** And you're three to four months in advance of that, so you have to make some assumptions about what's going to happen in that three or four months in order that you know what your starting point is going to be the next year.

So I think it's just trying to understand that, what's going to happen to the economy in those three or four months and what's

going to happen in the stock market that will affect pension expense and that type of thing.

**Mr. Mike Wallace:** Because you're making those estimates on a 12-month basis anyway, you're just adding three to four months to that estimate then?

**Mr. Michael Ferguson:** It's adding some uncertainty to it, yes.

**Mr. Mike Wallace:** Okay, thank you, sir, and thank you very much for coming.

Thank you, Mr. Chair.

**The Chair:** Thank you, Mike.

I believe that does conclude our second round of questioning. I think the members are satisfied that they've asked you all they needed to ask you, Mr. Ferguson. So we thank you for attending today. Your testimony was very helpful and very useful, and we will fold that into the mix as we continue our studies on the examination of estimates.

Thank you for attending, sir.

**Mr. Michael Ferguson:** Thank you.

**The Chair:** The meeting is adjourned.

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