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PUBLIC ACCOUNTS OF CANADA 2011

Report of the Standing Committee on Public Accounts

**David Christopherson, MP
Chair**

JUNE 2012

41st PARLIAMENT, 1st SESSION



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

41st PARLIAMENT, 1st SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

EIGHTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied the Public Accounts of Canada 2011 and has agreed to report the following:

INTRODUCTION

The *Public Accounts of Canada* presents the federal government's consolidated financial statements. These statements provide information to Canadians and parliamentarians about the government's financial performance over the previous fiscal year—its revenues, expenditures, and budgetary balance. The statements also provide a snapshot of the government's financial position at the end of the fiscal year—its liabilities, assets, and net debt.

The Auditor General of Canada provides an opinion and observations on the government's financial statements. The Auditor General examines whether the financial statements:

- present fairly, in all material respects, the financial position of the government;
- are prepared according to the government's own accounting policies; and
- apply accounting policies in a way that is consistent with previous years.

If the Auditor General concludes that these criteria are met, then he will provide an unmodified, or “clean,” audit opinion. If, on the other hand, the Auditor General determines that there are enough misstatements in the financial statements that a person relying on them would be influenced to change his or her decisions, then the Auditor General will include a modification, or reservation, to his audit opinion. In addition, the Auditor General may provide observations on specific issues that he believes should be brought to the attention of Parliament, which, while important, are not considered of sufficient significance to alter the overall opinion on the statements.

The House of Commons Standing Committee on Public Accounts (the Committee) believes that it is important to hold a meeting on the Public Accounts in order to hold the government to account for the quality of its financial information. The Committee held a hearing on the *Public Accounts of Canada 2011* and heard from a number of witnesses on December 5, 2011.¹ From the Office of the Auditor General of

¹ House of Commons, Standing Committee on Public Accounts, *Evidence*, 1st Session, 41st Parliament, December 5, 2011, Meeting 19.

Canada (OAG), the Committee met with Nancy Cheng, Assistant Auditor General; Louise Bertrand, Principal; and Tammy Squires, Principal. From the Treasury Board of Canada Secretariat (TBS), the Committee met with Jim Ralston, Comptroller General of Canada; Tom Scrimger, Assistant Comptroller General, Financial Management and Analysis; and Sylvain Michaud, Executive Director, Policy and Liaison. From the Department of Finance Canada, the Committee met with Doug Nevison, Director, Fiscal Policy Division, Economic and Fiscal Policy Branch.

PUBLIC ACCOUNTS OF CANADA 2011

The Interim Auditor General, John Wiersema, gave the federal government's consolidated financial statements for the fiscal year ending March 31, 2011 an unmodified audit opinion. He concluded that the financial statements fairly presented the government's financial position, were prepared in accordance with the government's stated accounting principles, and these principles were applied in a manner consistent with the preceding year.

This is the 13th consecutive year that the Auditor General has given a "clean," or unmodified opinion, on the government's consolidated financial statements. The Assistant Auditor General, Nancy Cheng, described how this compares to other jurisdictions:

Very few jurisdictions in the first instance have whole-of-government accounts as we do, so we stand above a lot of countries even just for having whole-of-government accounts. Then to have the accounts come back with clean opinions, no modifications, no qualifications, and no reservations is really a big feat, and we don't see that happening very often in other jurisdictions.²

The Committee notes the efforts of the government's financial, accounting and audit professionals who deserve credit for their considerable efforts and due diligence in developing and maintaining the government's sound financial accounting system. Not many governments are able to prepare consolidated financial statements in a manner that receives a clean audit opinion, year after year.

² Meeting 19, 1555.

The Committee also notes the findings in the Public Accounts regarding Canada's economic recovery throughout 2010 and into early 2011. The Public Accounts state that the Canadian economy has had the strongest recovery to date among G-7 countries, and that Canada is the only G-7 country to have recovered both all of the GDP and all of the employment lost during the recession.³

CAPITAL EXPENDITURES

Before the federal government can spend funds, it must obtain Parliament's approval of its spending plans, as outlined in estimates documents. Parliament considers and adopts appropriation bills, which include separate authorities, or votes, for each federal organization. These votes act as a form of parliamentary control by setting an upper limit on government spending for each vote. Many federal organizations have separate votes for operating and capital expenditures. If an organization has less than \$5 million in capital expenditures, it simply has one vote, a program expenditures vote, which includes both operating and capital expenditures.

Under existing TBS guidelines, first issued in 1992, organizations can charge "minor" capital expenditures to their operating expenditures votes. Minor capital expenditures are defined as not being "controlled;" that is, they are not land, buildings, engineering structures and works, major modifications and renovations, nor capital items that exceed the limits established for the organization.⁴

In his observations on the *Public Accounts of Canada 2011*, the Interim Auditor General noted that TBS' guidance leaves federal organizations with broad room to interpret which capital expenditures may be charged to an operating vote, rather than a capital vote, and departments may set different thresholds, with no upper limit, for capital expenditures classified as minor capital expenditures. The OAG found that one organization had set a limit of \$1 million for minor capital expenditures, and another organization recorded expenditures associated with infrastructure modernization as minor capital expenditures and charged them against its operating vote. Some

³ *Public Accounts of Canada 2011*, Volume 1, section 1.3 "Economic Highlights," paragraph 2.

⁴ Treasury Board of Canada Secretariat, *A Manager's Guide to Operating Budgets*, Ottawa, 1992, p. 19.

organizations that did not have a capital vote, had capital expenditures in excess of \$5 million. In other words, organizations were using different interpretations of TBS' guidance, such that some organizations were charging significant capital expenditures to their operating vote, even when they had a capital vote. In addition, what organizations classified as minor capital expenditures was inconsistent from one organization to another.

The OAG believes that this issue needs to be addressed to ensure appropriate parliamentary control of government spending. The Assistant Auditor General said that it may be necessary to examine how the system is set up, stating:

We're not suggesting any element of wrongdoing; it's just the way the system is set up. It's not conducive to your oversight, if you choose to exercise that oversight. So in what's before you, it is not necessarily easy for you to see that various capital expenditures are falling below the limit you've set out for that department or agency. We suggest that perhaps it's time to take a look at how they actually set up those votes, who should get capital votes, and who shouldn't. ... There are a few things in the system itself, in the framework, but there are also parameters they use that perhaps would be helpful if the government could take a look at it. Our understanding is that the government is in agreement and said they would take a look at that framework in the coming year.⁵

According to the OAG, TBS had committed to review, over the next year, the circumstances in which capital votes are required and the factors that determine which expenditures are to be charged to capital votes, and to implement any changes from this review in the next feasible cycle of the estimates. However, the Comptroller General did not comment on this issue during the Committee's hearing. Nonetheless, the Committee recommends:

RECOMMENDATION

That by 30 September 2012 the Treasury Board of Canada Secretariat provide the Public Accounts Committee with the results of its review of the circumstances in which capital votes are required and the factors that determine which expenditures are to be charged to

⁵ Meeting 19, 1655.

capital votes; and that the Secretariat update its guidance on these matters in time for the preparation of the 2013-2014 Main Estimates.

CONCLUSION

The Committee is pleased to note that for the 13th consecutive year, the Interim Auditor General of Canada issued a “clean” audit opinion on the federal government’s consolidated financial statements. The Committee recognizes that the Public Accounts are a valuable accountability tool and commends the work of both the OAG and the Office of the Comptroller General for their efforts in assuring Canadians that the government has presented its financial position fairly.

The Committee also notes that there are inconsistencies in how federal organizations interpret TBS’ guidance on the charging of capital expenditures to capital or operating votes, and that TBS needs to update its guidance to ensure that parliamentary control of federal spending is maintained.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Finance Douglas Nevison, Director, Fiscal Policy Division, Economic and Fiscal Policy Branch	2011/12/05	19
Office of the Auditor General of Canada Louise Bertrand, Principal Nancy Cheng, Assistant Auditor General Tammy Squires, Principal		
Treasury Board Secretariat Sylvain Michaud, Executive Director, Policy and Liaison Jim Ralston, Comptroller General of Canada Tom Scrimger, Assistant Comptroller General, Financial Management & Analysis		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (41st Parliament, 1st Session: [Meetings Nos. 19, 35 and 44](#)) is tabled.

Respectfully submitted,

David Christopherson, M.P.

Chair