OPENING STATEMENT OF SHEILA FRASER, FCA
AUDITOR GENERAL OF CANADA

BEFORE THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAPTER 1 OF THE DECEMBER 2008 REPORT
A STUDY OF FEDERAL TRANSFERS TO THE PROVINCES AND TERRITORIES

3 MARCH 2009

1. Mr. Chair, thank you for this opportunity to present the results of our study of federal transfers to the provinces and territories, published in the December 2008 Report. With me today is Neil Maxwell, Assistant Auditor General responsible.

2. Federal transfer to the provinces and territories make up a significant portion of the federal government's annual spending, and they are a major source of funds for services provided to Canadians in areas such as health, post-secondary education, and social assistance. In the 2006-2007 fiscal year, the most recent year for which complete information was available to us during the study examination period, these transfers amounted to about $50 billion, or just under 23 percent of federal spending.

3. We carried out this study to answer questions that parliamentarians have raised about federal transfers. Because this is a study and not an audit, it is descriptive and does not include recommendations.

4. In this work, we examined the three main mechanisms the federal government uses to transfer funds to the provinces and territories. The first and largest includes four major transfers that recur annually by law and are managed by Finance Canada: the Canada Health Transfer; the Canada Social Transfer, Equalization Program transfers, and Territorial Formula Financing. Just over $42 billion was transferred in the 2006-07 fiscal year for these transfers. The second mechanism involves the transfer of funds by individual federal departments to support specific program areas. Just over $5 billion was transferred by departments in 2006-07. Finally, the third mechanism involves the federal government's transfer of funds to the provinces and territories using trusts managed by Finance Canada. The government transferred about $3 billion through these trusts in 2006-07.

5. We found that the nature and extent of conditions attached to federal transfers to the provinces and territories vary significantly. While some transfers have specific conditions that recipients must meet, often including reporting to the federal government on the use of the transferred funds, others are unconditional. As auditors, we recognize that decisions on whether, and to what extent, conditions are attached to transfers are policy decisions, often involving sensitive federal-provincial and territorial negotiations. We do not question policy decisions in our work.

6. Government officials whom we interviewed cited a number of reasons for choosing transfer mechanisms with limited or no conditions. In some cases, the provinces and territories may be best positioned to determine program priorities and implement programs in response to them. Government officials also told us that in a mature federation, governments report directly to their own legislatures and citizens rather than to the federal government.

7. However, depending on the circumstances, the federal government may opt for a conditional transfer when parliament wants to ensure that recipients use the funds for specific purposes, encourage uniformity of services across the provinces and territories, or receive information on results achieved.

8. According to the federal government, the level of federal accountability for how the provinces and territories spend transferred funds depends on the nature and extent of conditions attached to the transfers. In all cases, the federal government is accountable for its decision to use transfers with or without conditions as the best policy choice available in the circumstances.

9. Some transfers, such as those that support criminal legal aid services, involve conditions that, for example, oblige recipients to provide the federal government with information on how they spent the transferred funds and to what effect. The federal government must demonstrate that it is monitoring provincial and territorial compliance with these conditions and that it is taking action in cases of non-compliance.

10. Where transfers have conditions, the federal government's monitoring of the conditions is subject to performance audits by our Office. For all transfers, we ensure that the amount paid is properly recorded in accordance with the Public Sector Accounting Standards and the federal government's stated accounting policies.

11. The government's introduction of trusts in 1999 was a significant change in its use of transfer mechanisms. Since then, 23 trusts have been established to transfer almost $27 billion to the provinces and territories. Transfers of this type are earmarked in public announcements by the federal government for specific purposes (for example, police officer recruitment or affordable housing), but there are no conditions that legally obligate provinces and territories to spend the funds for the announced purposes or to report subsequently on that spending to the federal government. As an alternative, federal officials told us that the government had opted in recent trusts to require provinces and territories to publicly announce how they intend to use the funds, on the assumption that their legislative assemblies and citizens will hold them to account for these commitments.

12. Mr. Chair, that concludes my open statement. I would be pleased to answer your Committee's questions.