



HOUSE OF COMMONS
CANADA

PUBLIC ACCOUNTS OF CANADA 2006

Report of the Standing Committee on Public Accounts

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

December 2006



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**THE STANDING COMMITTEE ON
PUBLIC ACCOUNTS**

has the honour to present its

TWELFTH REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Public Accounts of Canada 2006. The Committee as agreed to table this Report as follows:

INTRODUCTION

1. Each fall, the Government of Canada tables the Public Accounts of Canada in Parliament. This report provides detail on the government's financial operations over the previous fiscal year. It is prepared from data contained in the accounts of Canada and from more detailed records maintained by departments and agencies. While departments manage on a modified cash basis, the financial statements are prepared on a full accrual basis of accounting whereby assets include both financial and non-financial assets; revenues, including tax revenues, are recorded when earned; and expenses include accrued expenses and amortization of capital assets.

2. The Auditor General audits the consolidated financial statements in accordance with generally accepted accounting principles for the public sector and gives an opinion on whether the financial statements are presented fairly, in accordance with the federal government's own accounting policies, and applied in a way that is consistent with previous years.

3. In order to highlight their importance as an accountability document, the Public Accounts Committee held a meeting on the Public Accounts on the day that they were tabled. On September 28, the Committee met with the Auditor General, Sheila Fraser, Douglas Timmins, Assistant Auditor General, and Frank Vandenhoven, Principal, of the Office of the Auditor General. Charles-Antoine St-Jean, Comptroller General of Canada, appeared along with Bill Matthews, Senior Director of the Financial Management and Analysis Sector, of Treasury Board of Canada, Secretariat. Chris Forbes, Director of the Fiscal Policy Division, appeared on behalf of the Department of Finance.

OBSERVATIONS AND RECOMMENDATIONS

4. As has been the case for the previous seven years, the Auditor General issued a "clean" opinion on the financial statements. The Government of Canada continues to demonstrate leadership in financial reporting, and the Committee commends the government for the consistent quality of its financial statements.

5. In addition to her opinion on the financial statements, the Auditor General usually raises issues that concerned her during the course of the audit in a section called “other matters.” These issues are not reservations of her opinion on the fairness of the financial statements but are of importance to Parliament and to the future financial reporting of the Government. This is the second year in which the Auditor General expressed no pressing concerns.

Foundations

6. One issue that has concerned the Auditor General and the Committee for several years (the Committee again raised the issue in its 1st report of the 39th Parliament), is the accounting for money transferred to foundations. For a number of the years, the government has been giving grants of public money to foundations which service public policy purposes and expensing the funds in the year of the transfer, even though the money had not yet been sent by foundations to its intended recipients. The Auditor General told the Committee that the government has finally acted and has followed a reasonable approach to implementing a new accounting standard.

7. The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants revised the standard on the government reporting entity, such that organizations that are controlled by the government are treated as part of the government entity. Hence, the summary financial statements of the government will then reflect the assets, liabilities, expenses, and revenues of controlled organizations. This change has led to the inclusion of the following organizations within the Government of Canada reporting entity: Canada Foundation for Innovation, Canada Millennium Scholarship Foundation, Canada Foundation for Sustainable Development Technology, Aboriginal Healing Foundation, and the St. Lawrence Seaway Management Corporation. Their inclusion has meant that the government’s opening deficit was reduced by \$5.1 billion. In the opinion of the Auditor General, this results in a more complete and fair presentation of the government’s financial position and results.

8. The Committee is pleased to see that this outstanding issue has finally been addressed to the satisfaction of the Auditor General; though, she did note that some entities, which are currently not significant, may need to be revisited in the future.

Departmental Financial Statements

9. The Office of the Auditor General (OAG) follows guidelines put forward by the Canadian Institute of Chartered Accountants (CICA) and reviews the consolidated 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.) As some departments are too small to have an accounting error of plus or minus \$1 billion, the OAG audits the financial records of internal controls of these departments on a cyclical basis rather than annually. Departments do have an internal audit function, which could detect errors and the Comptroller General will audit small departments and agencies. Nonetheless, audited departmental financial statements would provide greater assurance about the financial records of all departments.

10. The Comptroller General told the Committee that the government is moving towards departmental financial statements, which were included in the 2005-2006 departmental performance reports. By 2009, the government is planning to have the financial statements of the largest 22-23 departments, which represent about 95% of government program spending, subject to an annual audit.

11. The Committee strongly supports this move towards audited departmental financial statements because it will considerably improve accountability and transparency and mean that the financial records of government departments will be scrutinized more closely. The Committee does recognize that this will require a considerable amount of time, effort, and resources on behalf of departments and the Office of the Auditor General.

Accrual Accounting in Budgeting and Appropriations

12. The Government of Canada has for several years prepared its financial statements based upon the principles of full accrual accounting instead of cash accounting or

modified accrual accounting. Under full accrual accounting, expenses are recorded as resources are consumed, instead of when cash is spent. In a similar way, revenues are accounted for in the period to which they relate, not when they are received.

13. The principles of accrual accounting are applied to elements of the budget process. However, this is not complete and has not been applied to the appropriations process whereby Parliament approves the proposed expenditures of the government. This means it is very difficult to compare the Estimates to the Public Accounts because they are prepared on a different accounting basis. Also, departments essentially manage their operations on a cash basis and then modify their books at the end of the fiscal year to comply with accrual accounting for the purposes of the Public Accounts. Perhaps most importantly, the Auditor General pointed out that failing to use accrual accounting in budgeting and appropriations can lead to uneconomical management decisions. In chapter 7 of her May 2006 Status Report, the Auditor General found that Public Works and Government Services Canada was not picking the most cost-effective option when renting properties and buildings for the government because cash to purchase buildings was not available in the budget for the year.

14. The Committee believes that accrual based budgeting and appropriations would have a number of benefits. It would be easier to compare financial results with plans. There would be improved management decisions and better information on the cost of programs. Also, it would be possible to understand more clearly the implications of non-financial assets and liabilities, such as environmental liabilities and land claims. The Committee notes that accrual based budgeting and appropriations are used in Australia, New Zealand, and the United Kingdom.

15. The Committee has been concerned about this issue for a number of years. In its 1st report of the 39th Parliament, the Committee recommended that the government extend accrual accounting to budgeting and appropriations and set a firm timeline. The government responded by requesting a consultant to study the issue and is developing models of appropriations and estimates documents in conjunction with the Department of Finance and the Privy Council Office.

16. The government has been studying this issue for years. Given the many models and approaches available and the amount of effort that would be required to put any changes into place, the Committee recognizes the complicated nature of the issue and the need to proceed cautiously. Nonetheless, the Committee is becoming quite frustrated by the slow pace of progress. It is certainly evident that Parliament needs to be involved in any modifications to the appropriations process, and the Committee notes that the Standing Committee on Government Operations and Estimates is studying the issue. However, it is not up to Parliament to develop the way forward. At some point the government needs to stop studying the matter, make a decision, and present a possible model to Parliament. Consequently, the Committee recommends that:

RECOMMENDATION 1

The Government of Canada presents to Parliament for discussion and debate a model, including projected costs and benefits, on extending full accrual accounting to budgeting and appropriations by 31 March 2007, and implements accrual accounting in budgeting and appropriations by April 1, 2008. That, if the Government is not able to do this, reasons be provided to the Public Accounts Committee.

CONCLUSION

17. The Committee is pleased to observe that for the eighth year in a row, the Auditor General has issued a “clean” opinion on the consolidated financial statements of the Government of Canada, the Public Accounts. Also, the Auditor General did not raise any matters of concern because previous issues, such as the accounting of transfers to foundations, had been addressed. The Government of Canada has established itself as a world leader in the preparation of its financial statements and will be making further progress by moving towards audited departmental financial statements. However, the Committee is concerned by the lack of progress on the matter of increasing the use of accrual accounting in budgeting and appropriations. The Committee is hopeful that decisive action will be taken soon.

Witnesses List

Public Accounts of Canada 2006

<i>Organizations and Individuals</i>	<i>Date</i>	<i>Meeting</i>
Department of Finance Chris Forbes Director Fiscal Policy Division, Economic and Fiscal Policy Branch	2006/09/28	17
Office of the Auditor General of Canada Sheila Fraser Auditor General of Canada	2006/09/28	17
Office of the Auditor General of Canada Doug Timmins Assistant Auditor General	2006/09/28	17
Office of the Auditor General of Canada Frank Vandenhoven Principal	2006/09/28	17
Treasury Board of Canada Secretariat Bill Matthews Senior Director Financial Management and Analysis Sector, Office of the Comptroller General	2006/09/28	17
Treasury Board of Canada Secretariat Charles-Antoine St-Jean Comptroller General of Canada Office of the Comptroller General	2006/09/28	17

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. 13, 17, 29 and 30 including this report](#)) is tabled).

Respectfully submitted,

Hon. Shawn Murphy, M.P.
Chair

MINUTES OF PROCEEDINGS

Meeting No. 30

Tuesday, November 28, 2006

The Standing Committee on Public Accounts met at 3:27 p.m. this day, in Room 269, West Block, the Chair, the Hon. Shawn Murphy, presiding.

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

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

Witnesses: As an individual: Arthur Kroeger.

Pursuant to Standing Order 108(2), the Committee resumed its study on the Review of the Roles and Responsibilities of the Treasury Board Secretariat.

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

Arthur Kroeger made an opening statement and answered questions.

At 4:31 p.m., the sitting was suspended.

At 4:32 p.m., the sitting resumed *in camera*.

The Committee resumed consideration of draft report no. 11, Chapter 2, National Defence - Military Recruiting and Retention of the May 2006 Report of the Auditor General of Canada.

It was agreed, — That the final report (as amended) on Chapter 2, National Defence – Military Recruiting and Retention, of the May 2006 Report of the Auditor General of Canada be adopted as the Eleventh report of the Standing Committee on Public Accounts.

That the Clerk be authorized to make such editorial and typographical changes including the approved ones as necessary, without changing the substance of the

Report.

That the Chair be authorised 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.

The Committee resumed consideration of draft report no. 12 on Public Accounts of Canada 2006.

It was agreed, — That the final report (as amended) on Public Accounts of Canada 2006 be adopted as the Twelfth report of the Standing Committee on Public Accounts.

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

That the Chair be authorised 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 5:09 p.m., the Committee adjourned to the call of the Chair.

Georges Etoke
Clerk of the Committee