



**HOUSE OF COMMONS  
CANADA**

# **PUBLIC ACCOUNTS OF CANADA 2008**

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

**Hon. Shawn Murphy, MP  
Chair**

**MARCH 2009**

**40th PARLIAMENT, 2nd SESSION**



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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

## **SIXTH REPORT**

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied the Public Accounts of Canada 2008 and has agreed to report the following:

## **INTRODUCTION**

Every fall, the federal government publishes the *Public Accounts of Canada*, a three-volume set of documents that provides substantial detail on the government's financial operations over the previous fiscal year. It includes the government's consolidated financial statements which are prepared under the joint direction of the President of the Treasury Board, the Minister of Finance, and the Receiver General for Canada in compliance with governing legislation.

The Office of the Auditor General of Canada audits the consolidated financial statements of the *Public Accounts of Canada* in accordance with public sector accounting standards and issues an opinion as to whether they are fair and consistent. The *Public Accounts of Canada* also typically includes a section called "Supplementary Information: Observations of the Auditor General on the Financial Statements of the Government of Canada," where the Auditor General raises "matters of concern" which, while important, are not considered of sufficient importance to alter the overall opinion of the statements.

The Committee held one meeting on the *Public Accounts of Canada, 2007-2008* on 5 February 2009 with officials from the Office of the Auditor General and the Treasury Board of Canada, Secretariat. The Office of the Auditor General was represented by John Wiersema, Deputy Auditor General; Douglas Timmins, Assistant Auditor General; and Tammy Squires, Principal. The Treasury Board of Canada, Secretariat was represented by Rod Monette, Comptroller General of Canada; John M. Morgan, Assistant Comptroller General, Financial Management and Analysis Sector; and Bill Matthews, Executive Director, Government Accounting Policy and Reporting.

## **IMPROVING FINANCIAL MANAGEMENT**

For the tenth year in a row, the Auditor General concluded that the federal government's financial statements "fairly" reflected its overall financial situation, that the statements contained no "material misstatements," and that the government's accounting policies were applied consistently.<sup>1</sup> The Public Accounts Committee is suitably impressed with the government's record of consecutive unqualified opinions by

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<sup>1</sup> *Public Accounts of Canada, 2007-2008*. Volume 1, p. 2.4.

the Auditor General on the government's consolidated financial statements. This means that Canadians can have confidence in the numbers presented by the government in its *Public Accounts*; that is, the information on the total tax revenues, expenditures, assets, and liabilities of the Government of Canada is trustworthy and is fairly represented. The consistently high quality of the government's financial statements is a credit to the hard work and dedication of the public servants who prepare these statements. The Committee agrees with the words of Deputy Auditor General, John Wiersema, "In our view, Canada continues to demonstrate leadership in financial reporting by a national government."<sup>2</sup>

The government has also undertaken a number of other initiatives in the past few years to strengthen financial management. The government strengthened the position of departmental senior financial officers through its *Policy on Responsibilities and Organization for Comptrollership*; adopted a new *Policy on Internal Audit*, which requires large departments to have independent audit committees; and made a commitment to have the largest 22 departments' financial statements audited. The government has made progress on each of these initiatives; though there is still work to be done.

The Committee was informed that 21 of the 22 senior financial officers for the largest departments now have a professional accounting designation. This represents substantial progress when not long ago less than half of these senior financial officers had a professional accounting designation.

The Committee believes that independent audit committees are an important part of the internal control processes and accountability mechanisms vital to any effectively managed large organization. While the Committee was informed that 42 of 46 organizations will have an independent audit committee established by the deadline of 1 April 2009, only 30 organizations currently have an audit committee up and running. The Committee is somewhat concerned that it has taken so long to establish these committees, when the requirement has been known about since April 2006. Nonetheless, these committees should help reinforce oversight within departments for

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<sup>2</sup> House of Commons Standing Committee on Public Accounts, 40<sup>th</sup> Parliament, 2<sup>nd</sup> Session, Meeting 2, 15:35.



rectifying weaknesses identified by the Office of the Auditor General and by internal audit.

The 22 largest departments are moving forward in having their financial statements ready for audit, with some departments ready in 2009-2010 and the rest ready over the next few years. The Committee strongly supports this initiative as it will lead to better comptrollership and systems of control. The Auditor General noted in her observations on the *Public Accounts* that she was pleased to note progress, but also noted that many departments have significant work to do to achieve the goal of readiness for an efficient audit of their financial statements.

The Committee is encouraged by ongoing progress, but will continue to monitor these and other financial management initiatives to ensure accountability for effective implementation.

## **DATA INTEGRITY**

In order to prepare the government's financial statements, departments and agencies must collect, estimate and consolidate data from various information sources. However, the consolidated financial statements are only as reliable as the processes used to gather the data, and the Auditor General has expressed concern for several years about the systems and practices of the Canada Revenue Agency and the Canada Border Services Agency.

One of the most significant management estimates used in the preparation of the consolidated financial statements is the estimate for doubtful tax receivables; that is, the amount of tax that is deemed to be uncollectable. For 2007-2008, the total revenue was \$242 billion. Of this, \$74.6 billion were tax receivables at March 31. The amount determined to be uncollectable was \$8.7 billion. If this latter amount was significantly under- or over-estimated, it could have a material impact on the government's overall financial position. The Canada Revenue Agency began a project to develop a new methodology for its estimate of doubtful tax receivables in the fall of 2006. However, the Auditor General noted that this project has encountered data integrity problems, concerns with management assumptions, and mathematical errors. The Auditor

General said that her office expects to receive a detailed plan from the government on how to improve its estimation model and address data integrity concerns.

Additionally, the Auditor General noted that the Canada Border Services Agency has had difficulty in reconciling information between the amounts receivable in the general ledger and the various reports taken from the Agency's tax program systems, which were not designed to function as accounting systems. This had led to unexplained differences at year-end. The Committee was told that this was due to information technology systems not being able to share data, and it would take several years to fully fix.

While the Committee understands that problems with data integrity and the ability to reconcile information held in different systems are complicated and will take time to fix, the Committee remains concerned that these problems continue. In order to ensure that these problems have sufficient management attention and public accountability, the Committee recommends:

#### **RECOMMENDATION 1**

**That the Canada Revenue Agency provide the Public Accounts Committee a detailed plan with timelines by 31 May 2009 of how it will improve its methodology to calculate the allowance for doubtful tax receivables.**

#### **RECOMMENDATION 2**

**That the Canada Border Services Agency provide the Public Accounts Committee a detailed plan with timelines by 31 May 2009 of how it will improve its tax revenue accounting systems.**

#### **LOSSES TO THE CROWN**

Each year the government experiences considerable losses of money or property due to offences, illegal acts or accidents. These losses are outlined in the *Public Accounts*, Volume III. For example, Public Works and Government Services reported a loss of \$2.7 million due to malfeasance by an employee and \$2.1 million due to overpayments of the Public Service Pension Fund.

Government organizations should have adequate systems of internal control to ensure that these types of losses are detected quickly and are minimized as much as possible. Mr. Monette told the Committee that, "To minimize risk, it is a good idea to ask each department to submit a plan for improving its internal control systems. We also try to recover any losses and occasionally, we are successful. This is a serious problem and we try to avoid these kinds of situations. It is important to have a plan in place for recovering losses in the case of a criminal offence."<sup>3</sup> The Committee agrees and recommends:

### **RECOMMENDATION 3**

**That the Comptroller General of Canada ensure that federal government departments have adequate internal control systems to prevent losses of public money and property and plans in place for recovering losses in the case of criminal offences; and that the Comptroller General provide the Public Accounts Committee with an update on this initiative by 31 December 2009.**

### **ACCRUAL APPROPRIATIONS**

Since 2002-2003, the government has prepared its financial statements on an accrual basis.<sup>4</sup> However, the Estimates are prepared on a modified cash basis. This makes it difficult to make a direct comparison between the Estimates and the *Public Accounts*. Consequently, a reconciliation must be made between these two different methods of accounting, which is included in the *Public Accounts*. Also, accrual accounting can give a fairer and more complete presentation of an organization's financial position and is widely used in the private sector.

The Public Accounts Committee has long been an advocate of accrual accounting, and has sought to push the government towards adopting accrual based appropriations. In 2006, the Public Accounts Committee recommended that the

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<sup>3</sup> Meeting 2, 16:05.

<sup>4</sup> Under accrual accounting, expenses are recorded as they are consumed, rather than as a pure expenditure, and revenues are recorded in the period to which they relate, rather than when received. For example, under cash accounting, the purchase of a new car is recorded in the fiscal year when the money was spent to purchase the car. Under accrual accounting, the car would be recorded as an asset that is expensed over time, as the car ages and loses resale value.

government begin implementing accrual accounting in budgeting and appropriations.<sup>5</sup> Additionally, in its report on accrual budgeting and appropriations, the Standing Committee on Government Operations and Estimates recommended that the government introduce multi-year appropriations and implement accrual based accounting for budgeting and appropriations within five years.<sup>6</sup>

In her observations the Auditor General notes that the government has now outlined a plan to move to accrual-based budgeting, starting with a two-year pilot project involving ten departments in 2009-2010. However, the focus of this plan is accrual-based budgeting, and it does not include a specific target date for putting into practice accrual appropriations. Instead, the government plans to evaluate the costs and benefits of accrual appropriations in 2012-2013, after the implementation of accrual-based budgeting. The Auditor General is also concerned that the models presented by the government to parliamentarians for adopting accrual appropriations did not include long-term budgeting for assets and liabilities.

The Comptroller General, Rod Monette, told the Committee that he was cautious about moving too quickly to accrual appropriations. He said:

I'm starting to worry that we're building a system that's so complex that people just don't understand it. I'm feeling that as accountants, and I'm one of them, we're building a system where it's right on paper, all the theory is right and it's good for all those reasons, but it's very difficult for people to understand it. I'm not saying I'm against it, but, for example, with accrual appropriations—and I know your background, that you've studied this with the operations committee and are very knowledgeable on it—saying that you're voting a level of depreciation, even as an accountant I have to wrap my mind around exactly what that means. I'm always asking myself if there is a way to get the same objective, which is better information and better management, without building a system that is going to be so complex that there are not going to be too many people other than we accountants who get the thing.<sup>7</sup>

He even suggested that some countries, notably Australia and Denmark, were having second thoughts about the move towards accrual appropriations.

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<sup>5</sup> House of Commons Standing Committee on Public Accounts, *Public Accounts of Canada 2006*, 39<sup>th</sup> Parliament, 1<sup>st</sup> Session, December 2006.

<sup>6</sup> House of Commons Standing Committee on Government Operations and Estimates, *Accrual Budgeting and Appropriations in the Federal Government*, 39<sup>th</sup> Parliament, 1<sup>st</sup> Session, December 2006.

<sup>7</sup> Meeting 2, 16:35.

While the Committee agrees that some care must be taken before adopting significant new budgeting and appropriations practices, the Committee is somewhat puzzled by the Comptroller General's hesitancy with respect to an issue that has been studied and debated for a number of years. As the Deputy Auditor General said,

Finally, with respect to accrual appropriations, with all due respect to my colleague here, the issue has been under study for a long time. I believe the Auditor General first raised it, as Mr. Kramp indicated, in 2004. We are now in 2009. We still haven't entirely figured out the way forward. I take the Comptroller General's point that we need to move cautiously and carefully, but it shouldn't take quite that long, in our opinion.<sup>8</sup>

The government still has not yet made a commitment on an implementation date for adopting accrual appropriations nor provided a clear explanation of why it would not be wise to do so. If there are valid concerns, such as cost, training, or comprehension, then these should be clearly stated and discussed. If not, the government should move ahead. Consequently, the Committee recommends:

#### **RECOMMENDATION 4**

**That the Government of Canada provide a firm timeline for implementing accrual appropriations.**

#### **CONCLUSION**

The government is to be congratulated for the consistently high quality of its consolidated financial statements, which have been given an unqualified opinion by the Auditor General for ten years in a row. Nonetheless, there are still improvements that can be made. The 22 largest departments have a considerable amount of work to do in order to prepare their individual financial statements for an efficient audit by the Office of the Auditor General. Also, the Canada Revenue Agency needs to improve its estimation methodology and the Canada Border Services Agency needs to fix its information systems. Lastly, the Committee is concerned about unclear messages from the government with regards to accrual appropriations. It is time that the government made

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<sup>8</sup> Meeting 2, 17:15.

a firm commitment so that departments and parliamentarians have a clear understanding of the direction forwards.

# APPENDIX A LIST OF WITNESSES

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<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Department of Finance</b> Cheryl McMullin, Coordinator, Fiscal Policy Division	2008/02/05	2
<b>Office of the Auditor General of Canada</b> Tammy Squires, Principal  Douglas Timmins, Assistant Auditor General  John Wiersema, Deputy Auditor General		
<b>Treasury Board Secretariat</b> Bill Matthews, Executive Director, Government Accounting Policy and Reporting  Rod Monette, Comptroller General of Canada  John M. Morgan, Assistant Comptroller General, Financial Management and Analysis Sector		

# 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 ([Meetings Nos. 2, 6 and 8](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, MP

Chair