



**HOUSE OF COMMONS
CANADA**

PUBLIC ACCOUNTS OF CANADA 2009

Report of the Standing Committee on Public Accounts

**Hon. Shawn Murphy, MP
Chair**

APRIL 2010

40th PARLIAMENT, 3rd 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

TENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied “Public Accounts of Canada 2009,” and has agreed to report the following:

INTRODUCTION

Every fall, the federal government publishes the *Public Accounts of Canada*,¹ 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 and policies. In addition to the financial statements, the *Public Accounts* also presents the use of financial authorities by each federal government organization and other information and analyses, such as the financial statements of revolving funds, ex gratia payments, court awards, federal-provincial cost-shared programs, and expenditures of ministers' offices.

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 financial statements.

The Committee held one meeting on the *Public Accounts of Canada, 2009* on 23 November 2009.² From the Office of the Auditor General (OAG), the Committee met with Sheila Fraser, Auditor General of Canada; and Nancy Cheng, Assistant Auditor General. From the Department of Finance, the Committee met with: Paul Rochon, Senior Assistant Deputy Minister, Economic and Fiscal Policy Branch. From the Treasury Board of Canada Secretariat, the Committee met with: James Ralston, Comptroller General of Canada; Bill Matthews, Assistant Comptroller General, Financial

¹ The Public Accounts of Canada are available electronically at: <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html> (la version française: <http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-fra.html>)

² House of Commons Standing Committee on Public Accounts, 40th Parliament, 2nd Session, Meeting 41.

Management and Analysis Sector; and Suzie Gignac, Executive Director, Government Accounting Policy and Reporting, Financial Management and Analysis Sector.

AUDITOR GENERAL'S OPINION AND OBSERVATIONS

For the 11th straight year, the Auditor General gave the government's consolidated financial statements for the fiscal year ending 31 March 2009 an unqualified opinion; that is, she concluded that the financial statements fairly present the government's financial position and are prepared in accordance with the government's stated accounting principles. In her testimony, the Auditor General commended the government for this achievement. She said:

I would say this is a very significant achievement. First of all, there are very few countries that actually receive what we call a clean opinion. In many cases the auditors have some difficulty in certifying the accounts. As well, there are very few that have as long a history, if you will, of clean opinions. That is why we really do believe that the Government of Canada is a leader internationally in its financial reporting, especially since the government is doing its accounts on what we call the accrual basis, not the cash basis, which makes it even more difficult to do a lot of the estimations and to do a lot of the numbers that go into the accounts. So it is a very significant achievement.³

The Public Accounts Committee also commends the efforts of the government's financial and audit professionals who deserve credit for their considerable efforts and due diligence in developing and maintaining the federal government's sound financial accounting system.

In addition to her overall audit opinion, the Auditor General also provides general observations on matters that will require continuing attention in future years, as follows:

- The government's disclosure of various financial and economic initiatives related to Canada's Economic Action Plan is adequately reported in this year's summary financial statements. The OAG intends to monitor whether

³ Meeting, 41, 16:05.

these transactions are properly presented in next year's financial statements, when more significant transactions will be reported.

- The government's estimate for corporate tax revenue is fairly presented in the financial statements. In order to ensure that it has a reliable estimate of tax revenues, the government will have to identify and implement further improvements to its methodology for estimating those revenues.
- The Department of Justice was the first department to undergo an audit of its financial statements, and it received an unqualified opinion. The OAG will proceed with controls based audits of the financial statements of other departments, as departments indicate their readiness to be audited.
- The government and Crown corporations have adopted a process to identify issues in the transition to International Financial Reporting Standards (IFRS). Meeting the deadline for the changeover to IFRS will require a rigorous conversion process and a significant investment in human and financial resources.⁴

One issue raised by the Auditor General has been of particular concern to the Public Accounts Committee—accrual appropriations. The government currently prepares its financial statements on an accrual basis, but its spending estimates are prepared on a modified cash basis. This means that it can be difficult to make comparisons between what the government proposes to spend, as laid out in the Estimates, and what it actually spent, as outlined in the *Public Accounts*. The Committee has made several recommendations in the past that the government should adopt accrual appropriations,⁵ and the issue was the subject of an in-depth study by the

⁴ The Auditor General's observations can be found in the *Public Accounts of Canada 2009*, Volume I, pages 2.34-2.39. (en français : 2.36-2.41)

⁵ In its report on the *Public Accounts 2008*, the Public Accounts Committee recommended that the government provide a firm timeline for adopting accrual appropriations (6th Report, 40th Parliament, 2nd Session, *Public Accounts of Canada 2008*, March 2009).

House of Commons Standing Committee on Government Operations and Estimates, who made a similar recommendation.⁶

In her observations, the Auditor General pointed out that the government has not yet made a commitment on an implementation date for adopting accrual appropriations, or explained why it would not be prudent to do so. Instead, the government is implementing a pilot program of accrual-based budgeting, which it will then evaluate in the 2012-2013 fiscal year. The Committee was told this go-slow approach has been adopted because accrual appropriations have received mixed reviews in other countries.

While the Committee recognizes the need for prudence, the Committee continues to believe that the government needs to make a firm commitment to adopting accrual appropriations. The Estimates documents are designed to provide information to parliamentarians, and parliamentarians have clearly stated repeatedly the information that they would like to receive. Further study will not clarify the matter, but only delay implementation. The Committee strongly recommends:

RECOMMENDATION 1

That the government improve the information provided to parliamentarians by adopting accrual appropriations as soon as possible.

ERRATA⁷

During the Committee's hearing on the *Public Accounts*, members often ask questions about specific items in the documents, especially items that stand out as unusual. One member asked about a specific item under the category "Losses of Public Property due to Accidental Destruction or Damage." The printed version of the *Public*

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

⁷ Errata is the plural for erratum, which is the Latin term for mistake. In current usage, it refers to errors in printing or writing, usually noted in a list of corrections to a published volume.

Accounts shows a loss to the Department of Transport of \$53,389,899 due to damage to hopper cars.⁸ Bill Matthews, the Assistant Comptroller General, told the Committee that this number had also caught his eye, and he asked the Department about it. Mr. Matthews informed the Committee that this was an error because the loss had been incorrectly calculated by the Department. In fact, it was not a loss but a gain of \$3 million as CNCP had compensated the government for damages to hopper cars.

When preparing documents with a large amount of numerical information, such as the *Public Accounts*, it is perhaps inevitable that some errors in transcription, calculation, or interpretation will occur from time to time. The issue is to ensure that those errors are appropriately communicated to the key users of the documents in a clear and effective manner.

The government's current method of making readers aware of errors in the *Public Accounts* is to include the following note in the electronic version of the document:

ERRATUM

Subsequent to the tabling of the *Public Accounts of Canada*, corrections were made to the information reported in Volume III, section 2, Losses of public money and property. The amended information is highlighted in Section 2.⁹

In most cases, an error is denoted by a highlighted line in the text. Though, for the error mentioned above, a footnote is provided.¹⁰

⁸ Government of Canada, *Public Accounts of Canada 2009*, Volume III, p. 2.34.

⁹ Government of Canada, *Public Accounts of Canada*, Volume III. This note only occurs in Volume III. Thus, one must assume that errors have not been identified in Volumes I and II.

¹⁰ The footnote states, "Subsequent to the tabling of the *Public Accounts of Canada*, it was determined that the removal from operation of 1533 hopper cars was a disposal of capital assets by departmental management which should not have been reported as a loss of public property due to accidental destruction or damage. As a result, the loss reported as "Damage to hopper cars (1533 cases)" for an amount of \$53,389,899 has been removed."

While the Committee appreciates that no method of noting errors in an already published document is without weaknesses, the Committee has serious concerns about the method currently used. Firstly, Committee members primarily use the printed version of the document, and the errors are only noted in the electronic version. With this method, members would have to browse the electronic version prior to the hearing to ensure that any items of interest have not been changed due to an error. Secondly, errors are often not detected all at once. The error in question was only included in the electronic version subsequent to the Committee's hearing. Thus, under the current method, readers would have to return regularly to the electronic version to ensure that new errors have not been found. Thirdly, the Committee was not made aware of this or any other error prior to the hearing. This means that valuable Committee time was spent discussing an error that could have been spent elsewhere. Fourthly, the errors are simply highlighted, making it difficult to know what the error was, except by comparing the printed version to the electronic version and looking for discrepancies in the numbers.

The weakness of the current method is highlighted by the fact that a member of the Committee asked about another item, theft of computer equipment from the Department of Fisheries and Oceans, which also included an error (as noted in the electronic version), but the witnesses either were unaware of the error or failed to inform the Committee of it.¹¹

The Committee finds this matter troubling because if a question had not been asked during the hearing, members would not have been aware of the error. This should not be a complicated issue. It should be possible to devise a means to report errors in a current, clear, and effective manner. At the very least, members of the Committee should be made aware of errors in the printed documents prior to the Committee's hearing on the *Public Accounts*. One possible method would be to have a separate link or document on the Receiver General's website which would clearly

¹¹ The error is quite minor. The amount not expected to be recovered was reduced by \$530, as this is expected to be recovered in subsequent years.

outline all errors and their corrections, as well as identify when the correction was made. The Committee recommends:

RECOMMENDATION 2

That the Comptroller General disclose to the Public Accounts Committee all errors and other concerns in the *Public Accounts of Canada* prior to the commencement of the Committee's hearing on the matter.

RECOMMENDATION 3

That the Receiver General for Canada develop and implement prior to the tabling of the next *Public Accounts of Canada* a current, clear, and effective manner for reporting errors and miscalculations in those documents.

LOSSES TO THE CROWN

The government reports losses of money or property due to offences, illegal acts or accidents in Volume III of the *Public Accounts*. In its report on the *Public Accounts 2008*, the Committee expressed concern that government organizations may not have adequate systems of internal control to ensure that these types of losses are detected quickly and are minimized as much as possible. The Committee recommended:

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 2009.¹²

In its response, the government noted that the Comptroller General will be liaising with the five departments that account for 65% of losses, and the government would be willing to provide an update to the Committee before 31 December 2009 on actions taken by departments. On 25 February 2010, the President of the Treasury Board,

¹² House of Commons Standing Committee on Public Accounts, 6th Report, *Public Accounts of Canada 2008*, 40th Parliament, 2nd Session, 24 March 2009.

Stockwell Day, wrote to the Committee to indicate that they had followed up with the five departments and that of the \$156 million in losses reported by these organizations, 94% of the losses will be recovered. Additionally, the Policy on Internal Control will result in the annual disclosure on the state of internal controls over financial reporting in departments. However, this response does not indicate what actions have been taken to prevent losses, so the Committee recommends:

RECOMMENDATION 4

That the Comptroller General of Canada provide the Public Accounts Committee an update by 31 December 2010 on actions taken by the five departments to improve their systems of internal controls in order to prevent losses of public money and property due to offences, illegal acts, or accidents.

LAPSING FUNDS

The *Public Accounts* includes tables that report actual spending against authorized spending levels. If an organization spends less than is authorized, the money is said to have “lapsed,” because the spending authority was only for that fiscal year. During the hearing it was noted that some grants and contributions programs lapsed a significant portion of their funds during 2008-2009, for example:

- Citizenship and Immigration Canada’s contributions for language instruction for newcomers to Canada lapsed \$81.9 million, or 32% of its available authorities;¹³
- Human Resources and Skills Development Canada’s apprenticeship incentive grant lapsed \$45.6 million, or 46% of its available authorities;¹⁴
- Human Resources and Skills Development Canada’s contributions to fund the construction of capital projects enabling accessibility lapsed \$21.8 million, or 100% of its available authorities;¹⁵ and

¹³ *Public Accounts of Canada 2009*, Volume II, p. 6.6. (en français: 9.7)

¹⁴ *Ibid.*, p. 14.14. (en français: 22.16)

¹⁵ *Ibid.*, p. 14.17. (en français: 22.20)

- Public Safety Canada's grants in support of the Safer Communities Initiative lapsed \$5.5 million, or 87% of its available authorities.¹⁶

This does not mean that these funds are no longer available to the government to use for these particular programs. Departments can carry-forward operating funds from one year to the next, up to 5% of their total operating expenditures. Departments can also seek the approval of the Treasury Board of Canada Secretariat to reprofile funds, that is, change the timeframes for planned spending.

However, lapsing funds indicates that the department was not prepared to spend the funds as was originally planned, and it may not be easy to reprofile the funds. As the OAG noted several years ago, “the reprofiling process was time-consuming and tied to a fixed schedule, often making it difficult to get the changes when needed, prior to program implementation.”¹⁷

While the Committee believes that it is better to not spend public funds than to spend them unwisely, the lapsing of funds could indicate poor planning or implementation by departments, and the difficulty of reprofiling funds may inhibit full delivery of these programs in future years. Additionally, the Committee is concerned that departments are coming to Parliament for the approval to spend funds before they are fully prepared to implement the programs needed to spend those funds. This can potentially provide a misleading picture to parliamentarians of what spending and related activities will take place in the coming year.

As there are many possible reasons for lapsing funds, such as changing circumstances beyond a department's control, the Committee does not have a specific recommendation at this time. Nonetheless, the Committee intends to monitor this issue

¹⁶ Ibid., p. 22.15. (en français: 25.16)

¹⁷ Auditor General of Canada, November 2006 Report, *Chapter 2—Expenditure Management System in Departments*, paragraph 2.39.

to ensure that the lapsing of funds is not a systemic problem across the government or within a particular department.

MANAGEMENT CONSULTING

According to the *Public Accounts*, the federal government's total net expenditures in the fiscal year 2008-2009 were \$208 billion (this does not include public debt charges of \$31 billion). Of this, \$9.4 billion, or 4.5%, was spent on professional and special services. This includes:

- Business services,
- Engineering and architectural services,
- Health and welfare services,
- Informatics services,
- Interpretation and translation services,
- Legal services,
- Management consulting,
- Protection services,
- Scientific and research services,
- Special fees and services,
- Temporary help services,
- Training and educational services, and
- Other services.

This is a considerable amount, but it is difficult to determine from the aggregate amount and the overall categories whether the government is receiving value for money from its expenditure on professional and special services. However, there is one area—management consulting—that may merit closer examination. The following is a list of departmental expenditures on management consulting in 2008-2009:

- Agriculture and Agri-food: \$8.6 million;
- Canada Revenue Agency: \$3.6 million;
- Canadian Heritage: \$1.6 million;

- Citizenship and Immigration: \$3.8 million;
- Environment: \$26.3 million;
- Finance: \$0.8 million;
- Fisheries and Oceans: \$15.6 million;
- Foreign Affairs and International Trade: \$17.6 million;
- Health: \$27.6 million;
- Human Resources and Skills Development: \$82.8 million;¹⁸
- Indian Affairs and Northern Development: \$34.3 million;
- Industry: \$21.9 million;
- Justice: \$2.0 million;
- National Defence: \$32.4 million;
- Natural Resources: \$10.3 million;
- Public Safety: \$9.0 million;
- Public Works and Government Services: \$178.6 million;¹⁹
- Transport: \$35.3 million;
- Treasury Board: \$7.4 million; and
- Veterans Affairs: \$0.5 million.²⁰

There appears to be significant variation between departments in the amount spent on management consulting. In some instances, the departmental expenditures on management consulting seem rather high when compared to similar size departments. For example, Environment Canada's \$26.3 million of expenditures on consulting is significantly higher than the \$3.8 million spent by Citizenship and Immigration Canada, especially as they have comparable overall expenditures (\$1.1 billion and \$1.3 billion, respectively).

¹⁸ Of the \$82.8 million spent by Human Resources and Skills Development on management consulting, \$45.4 million went to Statistics Canada.

¹⁹ Of the \$178.6 million spent by Public Works and Government Services on management consulting, \$115.1 million went to Public Works and Government Services.

²⁰ This information was compiled from *Public Accounts of Canada 2009*, Volume III, pages 3.2 ff.

It is not possible to make an overall statement about the value of management consulting, as in many cases consultants provide expertise that cannot be found within the government. However, in other cases it is possible that this work could equally, and more cost effectively, be provided by public servants. As the government looks for potential savings or reallocations in the coming years, it may be useful to closely examine whether or not the level of expenditures on management consulting is necessary.

CONCLUSION

The Committee commends the government and all those who work on the preparation of the *Public Accounts of Canada* for receiving a clean (unqualified) audit opinion—the 11th consecutive clean opinion—on the government’s consolidated financial statements. The next challenge will be for departments to produce similarly reliable financial statements. Nonetheless, the Committee continues to believe that the government should clearly commit to adopting accrual appropriations, and the Committee has concerns about departments allowing funds to lapse and the level of expenditures on management consulting.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<u>40th Parliament, 2nd Session</u>		
Department of Finance Paul Rochon, Senior Assistant Deputy Minister Economic and Fiscal Policy Branch	2009/11/23	41
Office of the Auditor General of Canada Sheila Fraser, Auditor General of Canada Nancy Cheng, Assistant Auditor General		
Treasury Board Secretariat Suzie Gignac, Executive Director Government Accounting Policy and Reporting Financial Management and Analysis Sector Bill Matthews, Assistant Comptroller General Financial Management and Analysis Sector James Ralston, Comptroller General of Canada		

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 (40th Parliament, 3rd Session: [Meetings Nos. 5 and 7](#); 40th Parliament, 2nd Session: [Meeting No. 41](#)) is tabled.

Respectfully submitted,

Hon. Shawn Murphy, MP

Chair