



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

# **Standing Committee on Government Operations and Estimates**

---

OGGO • NUMBER 012 • 1st SESSION • 42nd PARLIAMENT

---

**EVIDENCE**

**Tuesday, May 10, 2016**

—  
**Chair**

**Mr. Tom Lukiwski**



## Standing Committee on Government Operations and Estimates

Tuesday, May 10, 2016

• (1530)

[English]

**The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)):** Colleagues, I think we'll start a few minutes early, because we will require about 10 to 15 minutes for committee business prior to adjournment. I want to make sure everyone has plenty of time to get back to the House in time for votes.

We have with us this afternoon members from the CPA.

Ms. Denning, I would ask you to please identify the officials you have with you. I understand you've asked for 12 minutes for opening statements.

**Ms. Martha Denning (Principal, Public Sector Accounting, Chartered Professional Accountants of Canada):** Actually, I'm going to pass it to Ms. Fox, because she will be doing the testimony. I'm just here to help, if need be.

**The Chair:** Thank you very much. We would ask that you please introduce those with you today and then begin your opening statement. We will have questions following that.

**Ms. Stephenie Fox (Vice-President, Standards, Chartered Professional Accountants of Canada):** Thank you. This is Martha Jones Denning, principal, public sector accounting board at CPA Canada, and I'm Stephenie Fox, vice-president of standards at CPA Canada.

On behalf of the Chartered Professional Accountants of Canada, I want to thank you for the opportunity to appear before you today.

By way of background, I'm a Canadian chartered professional accountant and am the vice-president of standards at CPA Canada.

The chartered professional accountant designation is Canada's only business and accounting designation. It and CPA Canada were established through the unification of Canada's three legacy designations: chartered accountant, certified management accountant, and certified general accountant.

CPA Canada is now one of the largest national professional bodies worldwide with more than 200,000 Canadian CPAs working at home and abroad. One of CPA Canada's primary objectives is to serve the public interest. One of the ways that CPA Canada does this is by funding the independent standard-setting processes that are delivered through Canada's accounting and auditing standards boards.

One of these boards is the public sector accounting board, which we call PSAB. PSAB establishes standards and other guidance for financial reporting by all Canadian entities in the public sector. PSAB's mission is to contribute to supporting informed decision-

making and accountability by maintaining a financial reporting framework that provides a basis for high-quality information reported by Canadian public sector entities.

This afternoon I am here to speak about the importance of consistency between the estimates and the public accounts and why this will serve the public interest, increase accountability to the public, and facilitate more informed resource allocation and other policy decisions in government.

As you know, the three main pillars of the financial cycle of the federal government are the budget, the main and supplementary estimates, and the public accounts. The financial cycle of government is an accountability cycle. It plays a major role in fulfilling a public sector entity's duty to be publicly accountable, as long as that information is understandable and prepared on a consistent basis.

The public and its elected representatives are the primary users of government budgets and financial statements, so it is crucial to be able to compare what was planned to what actually happened. They need the information to be clear and understandable. This is why the federal budget and financial statements are prepared on the same basis, which is an accrual basis of accounting.

Since 2003, federal budget and public accounts have been prepared on the same full accrual basis for the same reporting entity, and this means that it's easy to compare actual and budgeted performance. But the main and supplementary estimates remain on a cash basis, so comparing the estimates to the budget and public accounts is complicated. This does not help when we're trying to hold government to account.

Accountability is best achieved when those to whom an entity is accountable understand the financial information provided to them. If all three pillars of the financial cycle are on the same basis, comparing the actual results to those planned is easier to do and it's easier to understand. This is why moving the estimates to an accrual basis makes good sense. We applaud the government for addressing this issue and committing to better align the estimates and public accounts.

Let me elaborate a little. Currently, federal government managers are responsible for both cash and accrual based performance. As of April 1, 2001, all federal departments and agencies had successfully implemented new financial systems capable of handling accrual financial information for the preparation of summary financial statements. Accrual accounting information was also implemented to support cabinet-level decisions.

But the clear and understandable link to the estimates is still missing. This is problematic, because generally speaking, if it's not measured, it's not managed. When appropriations are on a cash basis, it is only that part of the balance sheet, the cash account, that is being managed.

Accrual accounting is about all parts of the balance sheet, not just cash, but all of the other assets and the liabilities, too. It's also about parts of the operating statement, including all revenues and expenditures. Accrual appropriations will deal with all parts of the balance sheet and the operating statement, including all assets, liabilities, revenues, and expenditures. This is better management and will allow better accountability.

When all three pillars of the financial cycle are on the same basis, the cycle moves from a process orientation to a performance orientation. If they can follow the links, then MPs can evaluate if the public resources they allocated to a particular activity have achieved the results they wanted. A change to accrual-based estimates is possible. Two major Canadian jurisdictions, British Columbia and Ontario, have already done it successfully.

Let me make it clear that moving to accrual-based estimates does not mean the government would no longer manage cash. It would continue to manage cash. Moving to accrual-based estimates also does not necessarily mean that Parliament would no longer approve capital spending every year. It probably still would, although separately, because capital expenditures are large amounts and they still deserve parliamentary scrutiny. What accrual-based estimates means is that appropriations would supply the funds needed to accomplish the accrual-based performance planned for the activities, programs, and entities of government.

Let me summarize. The benefits of moving to accrual-based estimates are as follows.

First, financial accountability will be improved because the three pillars of the government's financial cycle would speak the same language.

Second, we would have improved parliamentary scrutiny and financial oversight because the link between the appropriations, the budget, and the actual results can be made. Improved resource allocation would also result because there could be a connection made between resource allocation, actual financial results, and actual outcomes.

Last, we would have improved decision-making because complete and consistent information is available from all three pillars.

This is not to say there are not challenges. We recognize this, and we believe they should be outlined and they should be planned for. Challenges will include changing the processes, making sure that everyone understands them, from program managers to elected officials, and changing the culture in the federal public service.

For example, the existing approach is entrenched and familiar, so it will take time and effort to change. MPs are generally not accountants, so there would need to be an education process and the time to transition. If appropriations are on an accrual basis, there will be some items that won't seem to fit within the traditional idea of appropriation. For example, something we call depreciation is an

accounting allocation, not a use of funds. Some people would question whether making an appropriation for depreciation makes sense. I would submit it does, but there would be some complexities that would need to be ironed out and planned for.

The issues can be overcome with time, effort, and education, and the fact that some major jurisdictions have achieved this demonstrates that there is value in the change. It all comes back to serving the public and being accountable to the public. That means ensuring the process for using and managing public money is transparent, understandable, and complete. It must ensure understandability, so there can be appropriate levels of parliamentary scrutiny and financial oversight.

Moving to accrual-based estimates makes good sense. For it to work, the public and its elected representatives need to see and understand how they would work and how they would improve accountability.

• (1535)

May I respectfully suggest to the standing committee, if it has not already done so, that you seek testimony from appropriate officials from the departments of finance of the governments of British Columbia and Ontario. These jurisdictions have already moved to accrual-based estimates. They fully understand the pros and cons of such a move because they have experienced it, and they have learned how to tell the public and their elected representatives what the changes mean.

With a four-year mandate ahead of this Parliament, now is the time to put in place long-term initiatives that will transform how government works, and how it shows it is accountable for using and managing the public resources entrusted to it.

Ensuring that the estimates are prepared on the same basis as the budget and public accounts simplifies and improves the accountability provided through the financial cycle of government.

Thank you. I'd be more than happy to address any questions or comments.

**The Chair:** Thank you very much, Madam Fox. I appreciate your economy of words.

We have a seven-minute round, with questions starting from the government side. I have Madam Shanahan as the first questioner.

**Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.):** Thank you very much, Chair.

To the witness, thank you very much for providing this very informative and educational testimony.

Indeed, I have the pleasure of sitting on both the public accounts and now the estimates committees, so I see the before and I see the after. At some point, I might see the during. The adventure continues.

We did touch on this issue in public accounts, the importance of aligning the reporting methods. I know that later we'll be hearing from the Auditor General on this issue, but if it makes so much sense, why hasn't it happened before?

I believe your organization has a role in auditing the Auditor General's office, or something similar. Am I correct? There is a relationship.

• (1540)

**Ms. Martha Denning:** There is an international body called the International Organization of Supreme Audit Institutions, and they audit each other on a rotating basis.

**Ms. Stephenie Fox:** Strictly speaking, CPA Canada is not involved in auditing the auditor. The auditor would apply the accounting standards, so the Government of Canada does apply the accounting standards that are issued by CPA Canada in the CPA Canada handbook.

**Mrs. Brenda Shanahan:** Okay. That's very good.

Could you go back and suss this out for us a little more as to why—and, as a former banker, I understand the importance of cash flow. In the reality of it, you can have a budget; you've allocated resources; you're building a building or putting forth a program, and you have to find your cash from somewhere. I can understand where the importance of managing the cash took priority, but we're seeing an evolution in our public accountability and management methods and performance methods, which is all to the good. That would help us to understand the importance of...because it sounds as if it's going to be a huge step if we are able to put it forward.

**Ms. Stephenie Fox:** Let me try to make the analogy with cash. The importance of cash is understandable.

Cash is only one of the resources that government has. It's an important resource, but a government has many other resources. If you think about capital assets, buildings are an easy one, but military equipment that the Department of National Defence is responsible for would be another one. When you're managing only on cash, you're focused on the cash. When you're managing on an accrual basis, you're focused on all the resources that a government is responsible for. Once you start focusing on all those things, you manage differently.

I will use the pension liability example. In a way it's an easy example from the accounting perspective. I'll try not to get too technical, but there's a very big difference between looking at pensions—and governments obviously have large pension liabilities—and looking at pensions on a cash basis. On an annual basis, the government would pay a certain amount of funds to fund pension liabilities or the pensions of its employees, but on an accrual basis, it's the importance of looking long term, what that's really going to cost us down the road.

If you're only managing on a cash basis, you're managing for the next year. When you're looking longer term at the full liability, you're saying the commitment you made today to your employees has a cost beyond just today or just next year, that it has a cost down the road. Ultimately, it will flow through to future generations. There's almost a transfer of intergenerational equity. We've seen that if you're not looking at that or paying attention to that, you are less likely to

manage that, and less likely to make decisions that look down the road and are longer term in nature.

Does that help?

**Mrs. Brenda Shanahan:** It does. I'd like you to talk about a few other examples and get technical. Maybe I don't talk for the rest of the group, but that's what we like.

**Ms. Martha Denning:** One thing, maybe to clarify, is that right now, the appropriations are the authority to use public funds, so cash. An appropriation that is accrual-based is giving the authority to use public resources. As Stephenie mentioned, it's granting a bigger authority in some ways and tying it to, for example, an income statement of a department that has revenues, expenses, and outcomes that are supposed to happen as a result of getting those revenues and incurring those expenses.

The appropriation is permission to use those resources for that reason to get those results. It's a linked process all the way along. If you're focusing only on how much money am I going to give them, the government as a whole isn't scrutinizing the use of all public resources.

**Mrs. Brenda Shanahan:** Could we be looking line by line at estimates, rather than just a lump sum?

**Ms. Martha Denning:** No. In preparation for this, one of the things we looked at were some other Westminster-based democracies.

What we do at CPA Canada is set standards for the financial statements. We don't set standards for the budget or the estimates, but we do recognize accountability is improved if they're all on the same basis. When we looked at the other Westminster democracies, we wanted to see if they had moved to accrual-based appropriations. We looked at the U.K., New Zealand, and Australia, and the answer was, yes, they had.

When we looked at what they put behind it—and it took a long time; New Zealand has probably been doing it the longest—they require all of their departments and agencies to submit their plans on a full accrual basis: this is what we think we raised in revenues; this is what we'll spend; these are the programs that are behind those expenses; this is the outcomes we expect, and they give them authority to do that. How do they vote? I didn't have enough time to get into the detail of that.

As Stephenie and I were discussing—two Canadian examples, B. C. and Ontario, are good ones, and New Zealand is another good example to look at. They've been through the process. In terms of doing the research for appearing in front of you today, when we looked at those Westminster-based democracies, the New Zealand information was easy to understand and easy to follow.

Perhaps the researchers that work for you might be able to source some of that information for you, because I think it would add to your discussion.

•(1545)

**The Chair:** Thank you very much. We're slightly over time, but thank you very much for your answer.

We'll now go to Mr. Blaney, for seven minutes.

[*Translation*]

**Hon. Steven Blaney (Bellechasse—Les Etchemins—Lévis, CPC):** Thank you, Mr. Chair.

I would like to thank the two representatives of Chartered Professional Accountants of Canada for being with us today. I liked your presentation. It was very clear. We can see that it was prepared with great care.

Ms. Fox, I feel like playing devil's advocate. There is a saying in English that goes: "If it ain't broken, don't fix it." The budget is passed in the House of Commons, and in committee, and we approve the supplementary estimates. You have explained that the government of Canada's financial system is based on three pillars. You talked about two acts. The briefing notes for the committee tell us that this could imply major costs and there would be a lengthy transition period.

I can agree that, in theory, the method you advocate is the best one, but should we take into consideration the costs of the transition and training, which might also be rather high? This is a rather complex process and we might find ourselves embroiled in a situation where we would not necessarily come out ahead. You have advised us to listen to the provincial governments on this point.

Your recommendation is clear. You are asking whether the rewards are worth it. Can you explain it again, more concretely or more concisely?

[*English*]

**Ms. Stephenie Fox:** Thank you.

It's always difficult in these situations to assess cost versus benefit, because typically, cost is very easy to quantify, and benefits are more qualitative, so they're often difficult to quantify. However, I believe that the benefits do outweigh them, and certainly, when we've looked at the practices in other jurisdictions, this is really a best practice.

I must say that we both worked in public sector accounting in Canada for quite a long time, and actually, Canada globally is a world leader. Certainly the federal government and the provinces are far ahead of many other countries in the world, and we are a world leader in terms of best practice. This is the last piece of that best practice that is just not there yet that would take it one notch up toward completing the cycle and completing the circle.

In terms of training and transition costs, there would certainly be costs. Any time there's a change, then those costs would have to be counted and they would have to be planned for. I would fully support the comment that there will be a transition period and that it may be quite lengthy to get all of those processes into place. We don't have the expertise here to know exactly what that would be.

We haven't done all of the research with all of the other governments, but I would submit that, when you see the number of other governments that are already doing this and have seen the benefits in terms of performance management and managing all of

the other resources, they have seen the value of this. They haven't turned back, in other words. If you look at the research, it does support this, but it's always difficult to quantify benefits. It's always easier to set out the costs.

•(1550)

**Hon. Steven Blaney:** You say it's not necessarily easy to quantify the benefits, but you mentioned costs. Do you have any views on the financial costs and the transition period if the federal government were to embark on that journey? Have you any evaluation or estimation?

**Ms. Stephenie Fox:** I don't think we're in a position to comment on that. We also don't have access to the same information that you would have, and we haven't done the detailed research on that.

**Hon. Steven Blaney:** You've presented quite the same recommendations. I believe you published a report.

[*Translation*]

I am going to speak in French because the document I am referring to is in French.

In October 2006, you published a document entitled "Addressing Accrual Issues in Canadian Government Budgeting; Discussion Papers".

[*English*]

It addresses accrual issues in Canadian government budgeting discussions. A while ago, in 2006, you recommended that the government go in that direction. Is that correct?

**Ms. Martha Denning:** That was a research report. The individuals who participated on that committee were from the budget community across Canada, including the Government of Canada. They were kind of doing a self-examination of what they were doing in the various jurisdictions with respect to accrual budgeting primarily. I don't think they spent as much time on the estimates. They were more talking about moving to accrual budgeting because at that stage a lot of the senior government jurisdictions in Canada hadn't made that move. The Government of Canada had, but others had not, so they were talking about even having their budget on a full accrual basis. That was more the emphasis than the estimates.

**Hon. Steven Blaney:** You mentioned in your presentation that this would increase transparency and somehow access to information.

How do you see this change in the political environment in which government evolves? How could it help us, parliamentarians here at committee, let's say, to evaluate the program? What is the benefit when approving the estimates of taking into account the liability of a government? This is not necessarily something we do. Let's take, for example, defence. It's rare that we would take the time to look at the worth of the defence assets in Canada. What is the benefit for us to take into account the assets in our budget process or in approval of estimates?

**The Chair:** I have to interject, and I apologize for doing this. I hate when I do this, but we are completely out of time.

Perhaps you'll make note of Monsieur Blaney's questions and you can integrate your answer somewhere in a future round.

We'll go to Mr. Weir, for seven minutes, please.

**Mr. Erin Weir (Regina—Lewvan, NDP):** Thank you for your presentation. Having seen all these TV ads from CPA, I always feel compelled to ask what the "P" stands for, but I think I know, so I will go on to more serious questions.

I think one of the things that really strikes people in comparing the federal budget to a provincial budget is how, in a provincial budget, you have a breakdown of spending by department. In effect, you have the estimates being presented as part of the budget. I think it strikes a lot of people as strange that in the federal budget documents, you don't actually find a breakdown of how much money is being allocated to each department.

I'm just wondering if you could speak to what would be required to put the federal budget on the same basis as a provincial budget. Would moving the main estimates to an accrual basis do that? Would it involve a change in the timing of the budget? Would it involve other factors?

• (1555)

**Ms. Stephenie Fox:** Again, I do not have the exact cycle of the provincial governments, although we've done some research internationally, but here's my understanding of the situation with the federal government in terms of the cycle of the budget and the appropriations.

It is my understanding that the appropriations are actually made before the budget. The budget is developed and then it is tabled on budget day. At that point in time, the budget initiatives are not reflected in the main estimates until the supplementary estimates are done. There actually can be quite a time lag between when a budget decision is made and when it actually is reflected in the estimates.

Let's look at some of the comparisons we did, for example, in New Zealand. In New Zealand the appropriations act is actually the very last step in that cycle. The appropriations are passed after budget day. I would suggest that it would involve looking at the planning cycle, all of these pieces that fit together.

The importance is that these are three pillars that should be fitting together, that there's an appropriate cycle for them, and that we would need to look at that. It's difficult to be transparent about government policies, for example, that are reflected in the budget when they're not then reflected in the main estimates, because the main estimates preceded them, and it takes time for them to be in the supplementary estimates. Does that make sense?

**Mr. Erin Weir:** It does. I know, for a long time, there's been this question of timing in the federal cycle, about maybe moving the budget around to allow its initiatives to be incorporated into the main estimates. It does strike me that the provincial governments seem to have figured out how to do this, and I wonder if there are lessons that could be directly applied from that level.

**Ms. Stephenie Fox:** Yes. It is my understanding that some of the structures in the provincial government may be a little different. For example—and, again, this is just my understanding—in the provincial governments, the budget and the estimates are prepared by the same department; whereas in the federal government it's a bit

more unique, where both the Department of Finance and Treasury Board, I guess it is, are involved. Maybe that makes it a little easier to overcome in the provincial jurisdictions because they're within the same department, but I wouldn't think that would have to be an obstacle that would prevent it.

Having said that, I recognize it would be important to be able to plan for it.

**Mr. Erin Weir:** I want to change gears and ask about the whole area of tax expenditures.

I know it's not the main focus of your presentation, but I am struck by the fact that we have this very involved process to examine and scrutinize spending by the government, and you've described much of that process. I'm also struck by the fact that the government could effectively deploy the same money for the same purposes through the tax system, and while the Department of Finance might put forward a report that covers some of those tax expenditures, they're not subject to the same sort of scrutiny. There isn't a whole committee like this one devoted to studying them.

I wonder if you could comment on whether there's an appropriate way of incorporating tax expenditures into this system of budgets and estimates, or whether you think they should be. Maybe there's a case that they shouldn't.

**Ms. Martha Denning:** Arguably, all expenditures of government, whether they're done through the tax system or done directly, should receive parliamentary scrutiny. If tax expenditures receive less, and it's a way to get around the process by which Parliament provides scrutiny of spending, then there's an issue.

Unfortunately, I haven't seen examples of where they've been incorporated into the estimates, but I wasn't looking for that in my research. The whole idea of tax expenditures is a tax policy question, and the simplifying of the tax act, and that's beyond what we look at. Certainly, if you're going to be looking at the estimates process, it would be an appropriate question to ask, because why wouldn't you have the same level of scrutiny?

**Mr. Erin Weir:** That is my thought. There are certainly people who would propose that we should have fewer tax expenditures, and I think that is what you mean by simplifying the tax system—

**Ms. Martha Denning:** Yes.

**Mr. Erin Weir:** —but even if we just take as a given that we have all these tax expenditures, it does seem to me that there is a question, especially if we are trying to envision a new estimates process, that they would somehow be included in that and subject to the same sort of evaluation and oversight.

**Ms. Martha Denning:** Yes, that makes sense in a democracy that takes the management of public resources seriously.

**Mr. Erin Weir:** Would the choice between modified cash and accrual accounting have any effect on the feasibility of incorporating tax expenditures into the main estimates?

•(1600)

**Ms. Martha Denning:** There are so many different types, that I am not sure I can easily answer that question.

The idea that you're providing money one way or the other way, it deserves the same level of scrutiny. I think what is important with the accrual basis is that it is a more fulsome look at the resources of government that are being used than the cash basis.

Whatever form the tax expenditure takes, it should receive the same level of scrutiny under either estimates approach, but I would think you would get a fuller picture under an accrual-based estimate system.

**Mr. Erin Weir:** How are we doing on time?

**The Chair:** You are basically out of time, Mr. Weir.

**Mr. Erin Weir:** No problem.

**The Chair:** Thank you very much.

Mr. Drouin, you have seven minutes, please.

**Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.):** Thank you, Mr. Chair, and thank you to the witnesses for being here. We really appreciate it. We have been talking about this issue for quite a while. I am sure your organization has been in front of this committee previously, to talk about the main estimates process and accrual accounting versus cash accounting.

I want to make sure I understand correctly. You said that under accrual accounting we would be able to see a fulsome picture. Let's say the government makes new program spending, but you can actually see the different.... There isn't enough to replace our capital, because you would see that with the depreciation. Then, these guys would be able to say to the government, "You are not watching. You don't have enough money to fulfill your capital commitments."

Would that give a clearer picture with accrual accounting?

**Ms. Stephenie Fox:** I believe so. Accrual accounting looks at all the resources, assets, liabilities, revenues, and expenses of the government.

It is important to get that fulsome picture to be able to manage all of those resources, not just focus on the cash resource.

**Ms. Martha Denning:** I think it is important to note that the jurisdictions that have gone to accrual-based estimates look at capital spending as well. They all have appropriations for operations, which will include depreciation expenses, but they also have capital spending that they look at.

Those are big amounts, as Stephenie said in her testimony, and they still deserve parliamentary scrutiny, but you also want the departments and agencies to manage the full costs of using public resources, and depreciation is one of those costs. You are using up service potential of an asset.

That cost should be among the costs that a department manages and that you allocate...or give authority to them to use those resources, but you also want Parliament to look at those big dollar amounts for capital spending.

Having a separate appropriation for capital spending is part of an accrual-based estimates process.

**Mr. Francis Drouin:** In previous committees, there were some discussions about moving towards a program approval approach. I think that would involve about 2,500 votes in Parliament.

Do you have an opinion on that? I understand the worry that moving away from a cash accounting perspective in Parliament means that we may not be able to vote...well, the way we would vote would be different.

**Ms. Martha Denning:** Yes.

**Mr. Francis Drouin:** I understand capital spending. What would be the impact on operational spending?

**Ms. Martha Denning:** I am not sure I have the expertise to answer that question satisfactorily for you.

With the international ones we looked at, it was just one piece of a whole process that was outcome oriented. You establish what outcomes you want, and then you work back and decide what use of resources is needed to get to those outcomes.

I think that is one of the reasons previous witness testimony we have seen, before the 2012 report this committee did, indicated that it would take a long time to do because, as Stephenie said in her remarks, it is a whole culture change.

This government is partway there already. The budget is already on an accrual basis. The financial statements are on an accrual basis. They compare actuals to budget. They have a feel for that.

The last piece is what we have authorized you to do in Parliament, in terms of the use of cash, in this case. How do we link, "We have authorized you to use this amount of cash" to this outcome? As MPs, you don't have that information. Taxpayers can't evaluate and hold the government to account on that basis.

They have all done it in different ways, but they have tried to make it outcome oriented rather than just output oriented. It is a culture change, as well. As I said, though, this government is partway there with that. It is just that last link to the appropriations that is missing.

•(1605)

**Mr. Francis Drouin:** We've had discussions about potentially moving toward the Australian model in aligning the budget with the main estimates, by having the main estimates after the budget. The CPA would be in support of this.

**Ms. Stephenie Fox:** I think as a general statement, it makes sense in terms of the financial cycle and the accountability cycle without knowing all of the details.

From our perspective as accountants, it's more intuitive because there's a more logical link. You would be able to see the policy decisions of the budget reflected in the estimates more directly. I think in terms of the cycle, it makes sense. It's quite intuitive for us.

**Mr. Francis Drouin:** Great.

**Ms. Martha Denning:** It must have a lag.

**Mr. Francis Drouin:** To build on Mr. Blaney's point, what's the negative impact of not moving toward accrual-based accounting and sticking with cash-based accounting? As accountants, can you tell us what is the negative impact of accrual accounting that we would see?

**Ms. Martha Denning:** I'm sorry. What's the negative impact of not moving to accrual accounting? Is that what you're asking?

**Mr. Francis Drouin:** Yes. Exactly.

**Ms. Stephenie Fox:** The first thing I would say is that if you're not focused on an accrual basis, you're not focused on the long term.

It's easy to make decisions for the short term on the next period you're working on, such as the next budget period for the next fiscal year, for example. It tends to not be focused on making long-term decisions or managing things in the long term for the commitments you made, or the resources you have, like the pension example. You have more of a tendency to not focus on those things and think about the long-term impact.

I would say, from my perspective, one of the negative impacts of that is we end up downloading additional debt or liabilities to future generations as opposed to taking care of some of those and planning for those commitments starting today.

We have to be aware that when we make decisions, we're making commitments not just for today, but for down the road as well.

**The Chair:** Thank you very much.

We'll go to a five-minute round. We have a number of speakers.

Mr. McCauley, you're first up.

**Mr. Kelly McCauley (Edmonton West, CPC):** Thanks for joining us. You're delightfully informative so far. Thanks very much.

I realize you're not experts on what they have done in B.C. and Ontario, but I'm wondering for Ontario, because it's the larger, how long it took for them to transition from our way to their way.

**Ms. Stephenie Fox:** I know the approximate timelines. The recommendation to do this was made in 1995. There was an Ontario Financial Review Commission in 1995, and there was a recommendation out of that for all three—the public accounts, the budget, and the estimates—to move to full accrual accounting. They were all on a cash basis.

To move all three of those, it was 2002-03 that the financial statements and the budget were moved to a full accrual basis, and it was one year later that the estimates were moved. From the time of the decision to the time of full implementation of all three pillars of the cycle, it was nine years to fully complete it.

**Mr. Kelly McCauley:** Oh, good Lord.

**Ms. Stephenie Fox:** Now, recognize that's for all three.

**Mr. Kelly McCauley:** Right.

**Ms. Stephenie Fox:** You already have two of those three in place.

I think that's important to recognize, because in Ontario, there was an enormous change in some of the financial systems that were needed to be implemented. Without knowing the details, some of those you quite likely already have.

**Mr. Kelly McCauley:** Do you know if Ontario or B.C. ran into huge stumbles along the way, or was it a relatively orderly transition? I realize they are going from three, and we're looking at one.

**Ms. Stephenie Fox:** Yes.

**Mr. Kelly McCauley:** I'm trying to think in the future for us and if there are any risks.

**Ms. Stephenie Fox:** I don't know the details of those transitions. We do have a staff member who works with us, who was working in the Province of Ontario at the time. He spoke to me about it and talked about the culture change. In the end, once it was supported and recommended, and once they had planned for it appropriately, he felt it went reasonably smoothly.

There were some challenges along the way with the culture change a bit. Planning for the long term, as opposed to the short term, is a bit of a shift in how you manage. Once they got through that education process with their program managers and their elected officials, they were able.... Now, apparently, it's quite well understood.

• (1610)

**Mr. Kelly McCauley:** We talked about the difficulty of moving over because the way we're doing things here is so entrenched. I realize it's like trying to move the *Titanic* away from the iceberg.

Is it us, the people around the table? Is it the public service? Is it all of us? Or is it just because that's the way we've always done it is the entrenched part?

**Ms. Martha Denning:** I think that's what it is. It's the way it's always been done, and you're right that it's a big ship to turn.

My understanding is that a lot of retirements are coming up in the public service and a lot of new people coming in and they may be, if they came from a business background.... I understand some hiring in the federal public service for finance people has come from business. They may be familiar with accrual accounting, and it may not be something that they're as used to. In fact, they may still be learning how government does stuff.

I think you have an opportunity.

**Mr. Kelly McCauley:** We said that about Shared Services as well.

**Voices:** Oh, oh!

**Mr. Kelly McCauley:** I probably don't have much time, and it's a very difficult question to answer, but cost-wise there's retraining, but these are people who are already here. It's not like we're going out and hiring brand new people or we're training them on a new piece of equipment.

Do you think there will actually be a noticeable bump in actual new costs, or can we assume it will mostly be offset by savings in other efficiencies we'll find?

**Ms. Stephenie Fox:** It's difficult for us to answer that.

**Mr. Kelly McCauley:** The reason I'm asking this is that it makes sense to go forward with this. It just seems logical, which is probably why we haven't done it, but my fear is that we're going to end up with another Shared Services type of thing where we'll have costs and costs and costs thrown on us to stop it.

**Ms. Stephenie Fox:** I think the challenge for us answering that is not knowing the systems you have.

**Mr. Kelly McCauley:** I know you can't see the future.

**Ms. Stephenie Fox:** Because you have two of three pillars in place already, it would be my intuitive sense that there are already systems in place that would make this fairly straightforward to shift.

**Ms. Martha Denning:** The other thing Stephenie mentioned earlier was best practices. I would strongly urge Canada not to reinvent the wheel if New Zealand has done it, Australia has done it, the U.K. has done it, and B.C. and Ontario have done it. Learn from them, and maybe that will reduce some of the costs.

**The Chair:** Thank you very much.

Mr. Grewal, you have five minutes, please.

**Mr. Raj Grewal (Brampton East, Lib.):** Thank you, Mr. Chair.

Accrual accounting is super difficult. I was a financial analyst at my first job after graduating from Laurier, and this thing kept me up at nights. It was not fun. I wasn't an accounting major; I was a finance major. I can only imagine implementing it. That was a Fortune 500 company that was switching from cash to accrual. I can only imagine trying to implement it in the Government of Canada.

The benefit to accrual accounting is that it gives you an accurate snapshot of your fiscal picture. You've used the pension example. Say there's a scenario that a party was campaigning on a raise to public servants and then gets elected and realizes that it cannot meet those objectives because the previous government didn't do a good job of managing the fiscal situation, and instead it increases their pension benefits.

That won't affect that year's surplus deficit under cash-based accounting. Under accrual-based accounting, you're saying that that pension promise needs to be accounted for. How would you account for that promise accurately?

**Ms. Stephenie Fox:** There are standards for accounting for pension liabilities. There are an enormous number of estimates, and you would have to make estimates based on actuarial assumptions. There's a large body of literature out there already.

Truthfully pension accounting, as complicated as it can seem to non-accountants, is fairly well established in accounting literature and, in terms of accrual accounting, it's fairly well accepted in terms of developing the obligation for pension liability.

I would agree with you. If you make a change in a decision that would result in an increase in the pension obligation, what you will have to pay down the road, then it would be reflected in the government's balance sheet, and I would suggest it should be reflected in the balance sheet. The importance of having that information is to make better decisions. That decision has had an impact. It is an impact that reflected the increased liabilities of the government and the importance of that.

There are a lot of technicalities in pension accounting, but it's fairly well laid out in both private sectors, business accounting, and in public sector accounting.

• (1615)

**Mr. Raj Grewal:** One of the biggest benefits of accrual accounting is accuracy and understanding revenues and liabilities. Technically, you're supposed to be able to make better decisions because of it.

Correct me if I'm wrong, but did it take nine years to implement in the Province of Ontario?

**Ms. Stephenie Fox:** It took nine years to shift from a full cash basis that was being used for the public accounts, for the estimates, and for the budget to shift to having a full accrual basis for all of those. It took eight years to shift the financial statements and budgets and it took an extra year for the estimates. However, recognize that, when you're going from all cash to full accrual, systems were needed to do that. That is a long time, I agree, but that's a very fundamental shift; whereas, in the Government of Canada, two of those three pillars have already shifted.

**Mr. Raj Grewal:** I would be interested to know about the safeguards that would be put in place to ensure a smooth transition. I'm concerned about the training at the public service level. People have been doing something a certain way for a very long time, and to get them to do.... It's not easy. Accrual-based accounting is not a simple matter. It's very technical. Is there anything you would recommend that the government do to ensure that this process is as seamless as possible?

**Ms. Martha Denning:** My understanding is that government departments have been managing with accrual-based information since 2001 and are already comfortable with it. That major transition was relatively smooth.

The estimates are a different piece of managing your responsibilities, and it's your authority to do things; essentially in this case the authority to use public funds, and under the accrual basis the authority to use public resources broader than cash. It's just a different way of looking at your appropriation. But since federal government managers are already using the accrual basis for managing the departments and agencies, they're already familiar with it, so I don't think there's a large risk there. It's just the understanding of what an appropriation under an accrual basis means, how to understand it, and how that trickles down to how they link it to outcomes.

**The Chair:** Thank you very much.

Monsieur Blaney, you have five minutes, please.

[Translation]

**Hon. Steven Blaney:** Thank you, Mr. Chair.

What has been said was very interesting.

Listening to Mr. Grewal, I recalled the period when I was Minister of Veterans Affairs Canada. We wanted to implement an annual increase in the amount paid for funeral expenses for veterans who did not have enough money. We had to consider the potential number of veterans who would need the program over a 40-year period. The decision was being made at that time, but it had repercussions for a 40-year period, and so it certainly produced higher figures.

I am going to build on what Mr. Grewal said. In terms of the third pillar, if we adopted estimates accounting, how would you see management of assets and liabilities? I am talking about both tangible assets and the funds for which the government must make provision, for old age security or its employees' pension funds, which were mentioned earlier.

Can you tell me how we could improve the tools that parliamentarians have for making decisions about this?

[English]

**Ms. Stephenie Fox:** In terms of that third pillar, because that piece is missing, as an overall it's hard to link the appropriations to the budget and to the financial statements. The budgets and the financial statements are prepared on the same basis, the accrual basis, so you can compare those two. But it's very difficult to make the link between the estimates, if they're on a cash basis, to the budget and to the financial statements. If it's difficult to make that link, then it's difficult to understand whether some of the programs are being carried out and how they're being carried out.

We have this issue of the timing and the potential lag. My understanding, for example, is you can have a lag of sometimes up to a year before a budget initiative is reflected in the estimates. That makes it very difficult to be able to manage when the three things don't match. The importance of the consistency to be able to be transparent in all parts of that accountability cycle, it makes it easier to understand and manage those things.

• (1620)

**Hon. Steven Blaney:** You mentioned that the Ontario government took nine years to transition its whole accountability system. Now at the federal level we're only talking of the estimates, so we can suppose that it would take much less time to transition the estimates using the accrual method.

**Ms. Stephenie Fox:** I would be optimistic. Again, I don't know what the systems are, and so on, but it seems intuitive to me that, because you already have two of the three pillars and you already have the systems in place, there should be a shorter time frame. We don't have the expertise to comment on that particularly.

**Hon. Steven Blaney:** You mentioned that this is already used in the private sector, but in the private sector they don't necessarily have the same process. They only use accrual.

**Ms. Stephenie Fox:** Definitely, the private sector has a different accountability cycle. The focus on the budget is quite different in the private sector. A budget is obviously a public document in

government. In a private enterprise it is not, so it is a little bit different.

I was really referring to the adoption of accrual accounting in terms of private sector financial statements.

**Hon. Steven Blaney:** But were we to align the three pillars, the federal government would align with the private practice in terms of accounting. Could we say that?

**Ms. Stephenie Fox:** I think they already do. The adoption of full accrual accounting by the government in 2001 was already in effect an alignment with a practice that has been occurring in the private sector for many years. I would suggest that on that side it's already aligned.

**The Chair:** Thank you very much.

We have a final five-minute intervention by Mr. Ayoub.

[Translation]

**Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.):** Thank you, Mr. Chair.

I would like to thank the witnesses for being with us today.

This is interesting. I am not an accountant, but I am a manager. When I worked in municipal government, we called for accountability. That is a very important thing.

I would like to review what the government did in 2001. It examined certain pillars and part of the problem was solved. However, the question of the estimates documents was not resolved. I am a little apprehensive because I heard the figure of nine years, but ultimately, there is probably a year of work left to do. However, the strategy of changing the accounting method always carries costs with it. We have discussed it here several times. It is somewhat concerning not to know whether there was a strategy for this. Has it been started but not completed? What are the costs associated with this strategy? How can we plan for finalizing the strategy? That is the first part of my question.

While we are waiting, there are methods that could help us get through this phase and lessen the shock. There is talk of doing the budget before, earlier or later in the spring. Is there one solution that is better than the other, and why?

[English]

**Ms. Stephenie Fox:** Perhaps I'll answer the second question first and come back, just because it's French. In terms of methods to make.... Martha suggested, and I would agree, that there is experience out there. Understanding the experience and the best practices that have already happened I think would be valuable in terms of doing that research. My understanding is that there are certainly also some well laid out practices in terms of some of those budgeting cycles and accountability cycles. I think that looking at those and comparing those to current practices would be important.

It is my understanding that there are some differences in your current cycle. A shift in some of the timing of that I think could be advantageous. In terms of the exact timing, I'm not sure, but given the fact that the appropriations are in effect before the budget, I think if that were switched around, it would be helpful. As to the exact timing of when the budget should be presented, I'm not sure, but if you look at some best practices, that cycle of the process would be a bit different and might be improved. Again, I think there are some best practices out there that you could look at that would help in terms of implementing that.

Your first question I think was why the first two pillars got done and the last pillar never got done. Because I don't work for the government and I don't know what the policy decisions were, I don't have the background in terms of why that decision was made, or whether it was ever intended to be made and stopped. I'm not sure.

• (1625)

**Ms. Martha Denning:** I can't answer that either.

**Ms. Stephenie Fox:** Certainly we could see if we can get information on that and come back to you, but I'm not actually aware of the rationale behind that historic context.

[Translation]

**Mr. Ramez Ayoub:** I am not looking for a perfect historical perspective. Normally, when a system is implemented, there is a plan. That is mainly what I want to know. Is there a plan? When you have a plan, you can know where you are in it after nine years. When you make recommendations, or there is an audit, you need to know the purpose and the reasons that explain what has happened. That is the kind of information I need. If you do not have that information, the analysts might be able to help us with this.

[English]

**The Chair:** Thank you very much.

Mr. Weir, if you have a question that could take less than three minutes for both the question and the answer, it's up to you.

**Mr. Erin Weir:** All right, in today's discussion we've had a lot of comparisons between the federal government and the provincial governments. I'm as guilty as anyone of making that analogy, but it does seem to me that a fundamental difference is that while provincial governments could conceivably run out of cash, the federal government can't. We have a sovereign Canadian dollar, and I wonder if that fact has any effect in the review of what type of accounting regime is appropriate.

In particular, I think about pension accounting where there's a huge difference between assessing a pension on a going-concern basis versus a solvency basis. The Government of Canada, of course, is never going to have to wind up its pension plan and pay out the benefits all at once, so to some extent all this concern about unfunded pension liabilities may not be as relevant at the federal level. I wonder if you could address some of that.

**Ms. Martha Denning:** My understanding is when they set up the investment board for the public pension plan under Paul Martin, they did so because they had estimated the future liability and said that unless they did something, trying to manage it on a pay-as-you-go basis as they've done in the past wasn't going to work. So they used

accrual decision-making with respect to the social security benefit and came up with what they had to do.

I think accrual information is used for that type of thing as well. Yes, I understand sovereign government. Provinces are sovereign in some areas too. New Zealand has dealt with some of those sovereign responsibilities in their estimates as well. Again, I would suggest you look at what they've done. Seeing how a national government has done that might be useful.

**Mr. Erin Weir:** Do I have more time?

**The Chair:** You have very little.

**Mr. Erin Weir:** I have almost a yes or no question. Do you think it makes sense for the federal public service pension plan to be subject to solvency evaluations? Is there a reason for that?

**Ms. Martha Denning:** Do you mean the employee pension plan?

**Mr. Erin Weir:** Yes.

**Ms. Stephenie Fox:** I don't think we're in a position to answer that right now.

**Ms. Martha Denning:** We don't know, but as a taxpayer I would think so. As a professional accountant, I haven't looked at it.

**The Chair:** Thank you very much. I appreciate that.

Madam Fox, Madam Denning, you've been most informative and very helpful to the committee. We appreciate your being here.

We're on a bit of a tight schedule, so I'll excuse you now with our thanks.

I will adjourn for about two minutes. If we can hold to that timeline, we'll have the Auditor General with us.

•

\_\_\_\_\_ (Pause) \_\_\_\_\_

•

• (1630)

**The Chair:** Colleagues, perhaps we could get started. As I mentioned at the outset of this meeting, I need a little time at the end of this meeting for some committee business and we don't want to short shrift the Auditor General in his appearance before us today.

Mr. Ferguson, thank you so much for being here. It's an honour and a pleasure to have you before this committee.

Sir, could I have you introduce those who are with you and then commence with your opening statement.

[Translation]

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada):** Mr. Chair, thank you for inviting us to take part in the committee's study of the estimates process.

With me today are Richard Domingue, principal responsible for audits of Finance Canada, and Karen Hogan, principal responsible for the audit of the government of Canada's financial statements.

[English]

I'd like to start by providing a brief overview of the mandate of the Office of the Auditor General. We conduct performance audits of federal departments and agencies and we conduct annual attest audits of the financial statements of the Government of Canada and of crown corporations. On a cyclical basis we also conduct special examinations of the systems and practices of crown corporations.

In our performance audits, we examine whether government programs are being managed with due regard for economy, efficiency, and environmental impact. We also look to see if there are means in place to measure the effectiveness of programs. Although we may comment on policy implementation, we do not comment on policy itself.

We report our performance audits to Parliament in the reports of the Auditor General of Canada and in the reports of the commissioner of the environment and sustainable development.

[Translation]

Mr. Chair, we are pleased to participate in the committee's study of the estimates process. We are aware that the President of the Treasury Board appeared before this committee and announced his intention to make some changes to the process.

The budget and the estimates process are the first steps in the government's financial reporting and accountability cycle that ends with the tabling of the public accounts of Canada.

We provide an audit opinion on the federal government's financial statements, which are included in the public accounts of Canada.

[English]

I would like to mention some issues related to the estimates process.

First, the main estimates do not include all of the expenses forecast in the budget. For example, the 2016 budget included expenses of \$317 billion, while the main estimates totalled \$250 billion. The main estimates do not include all of the expenses forecast in the budget because the main estimates are finalized before the budget. Planned expenses relating to new budgetary measures are included in supplementary estimates, which are tabled in Parliament after the start of the fiscal year.

Second, through some of our recent performance audits, we've identified that more information should be available to parliamentarians as part of the estimate process. For example, in 2012 we audited the management of interest-bearing debt and observed that the public debt charges associated with the unfunded pension liability of public sector pension plans needed to be better reported in the estimates. This has now been done.

Also, in 2015 we noted that tax-based expenditures are not subject to scrutiny through appropriation bills, and are therefore not reviewed by parliamentarians.

Finally, we recently reported on the \$400-million venture capital action plan which was a non-budgetary transaction. This highlights the importance of all types of expenditures, budgetary and non-budgetary.

• (1635)

[Translation]

In the past, we have also commented on the fact that the estimates are prepared on a cash basis while the budget and the financial statements are prepared on an accrual basis. Under the accrual method, financial transactions and other economic events are recorded when they occur rather than only when the entity receives or pays cash.

Parliamentary committees play a crucial role in government accountability. To help members of Parliament, a number of years ago, we produced a reference guide called "Examining Public Spending", which we have provided to all parliamentarians after every general election as recommended by this committee in 2003. We provided an internet link to this guide to all members of Parliament in November of 2015. The guide includes a description of the supply process and suggests some questions that committee members may wish to ask when reviewing the estimates documents.

[English]

Mr. Chair, this concludes my opening statement. We'd be pleased to answer your questions.

**The Chair:** Thank you so much, Mr. Ferguson.

Madam Ratansi, for seven minutes, please.

**Ms. Yasmin Ratansi (Don Valley East, Lib.):** Thank you for being here.

Earlier we had the CPA talking about the accrual accounting, the estimates process, etc. What we're trying to achieve really as parliamentarians is how to make the three pillars—the budget, the estimates and the public accounts—more simplified and transparent, because when you look at the estimates—the main estimates or the supplementary estimates—that our committee is asked to approve, we cannot follow the audit trail really. We do not know where it goes to and how it ends up in the budget. You have indicated that the estimates show \$250 billion and the budget is \$317 billion.

The minister has asked that the estimates and the budget process be on the same cycle, but I'm not sure whether he wants it on an accrual basis.

What are some of the problems the departments see in accrual accounting? Why would they not adopt something that is so simple? For an accountant, it's simple.

**Mr. Michael Ferguson:** Mr. Chair, I think, first of all, in the accounting that departments do it's all on an accrual basis. Remember, I guess, that the end result of all of this process is the preparation of the financial statements of the Government of Canada.

**Ms. Yasmin Ratansi:** Right.

**Mr. Michael Ferguson:** Those financial statements are prepared on a full accrual basis and respecting all of the accounting standards of the Public Sector Accounting Board.

The cash question comes in because the estimates are prepared on a cash basis. The departments have to account for all of their transactions on an accrual basis, but then they also need to be able to translate those accrual amounts back into cash amounts, so they can then compare that to the estimates, which are on a cash basis. I think that's the fundamental problem. Departments have no trouble doing accrual accounting. That's how they account for all of their transactions. They are then required to also track against the estimates. The estimates are on a cash basis, so they have to do the adjustments to be able to make sure they know what their transactions are on an accrual basis, but also what the cash impacts of those transactions are, so they can compare it to the cash basis estimates.

• (1640)

**Ms. Yasmin Ratansi:** The question is—and I've been reading Mr. Reg Alcock's presentation from 1997—why is it so difficult for the Treasury Board to convert their estimates to an accrual basis rather than to a cash basis?

**Mr. Michael Ferguson:** I guess Treasury Board Secretariat would have to answer that, but I can give you some thoughts on it.

Fundamentally it needs to come down to parliamentarians understanding what they are voting on when they are voting on an accrual basis rather than a cash basis. I think it also comes down to the Treasury Board Secretariat and the government having appropriate ways to control what is being voted, when it's voted on an accrual basis.

For example, departments will get a capital budget. Capital expenditures do not affect the bottom line surplus or deficit. It's buying an asset. What affects the bottom line surplus or deficit is the amount of amortization that is recorded in a given year and how much a particular asset depreciates in that year. In the budget process, there would have to be both. There has to be approval to acquire the capital asset, so that's essentially a cash transaction. It's not exactly, but essentially it's an approval to acquire the asset, but also it's an estimate or an appropriation to approve the recording of the amortization. You wouldn't want a department to record less amortization, for whatever reason, and use the excess of that amortization appropriation to spend on something else.

I think there are some types of accrual expenditures, like amortization and some other types of expenditures, that would need to be protected so that departments couldn't spend it on something else. I think Treasury Board Secretariat is wrestling with those types of issues.

You can also run into issues with pension accounting where because of the way the expense is recorded in pensions, it's based on a lot of assumptions, a lot of assumptions about future events, and

trying to establish what's the value of the pension benefits earned in that year. That may be different than the amount of cash that has to go into the pension plan in that year. On an accrual basis, the estimate may show one thing for pension expense, but the amount of cash that needs to be paid into the pension plan may be different. It may be higher than the pension expense, probably not right now, but in some cases that can happen, and I've seen that happen in my experience in New Brunswick.

There are some things like that which people need to be aware of in terms of the differences between accrual and cash accounting. In my opinion, doing the estimates on an accrual basis is preferable, but people need to understand what those differences are.

**Ms. Yasmin Ratansi:** You're saying that if the estimates were to come before our committee on an accrual basis, it has to be so transparent to show us exactly what the amortization is or what CCA rate is being utilized when an asset is being purchased. When we are looking at it, are we looking at a holistic picture?

**Mr. Michael Ferguson:** Certainly on an accrual basis you would need to make sure you have all of that picture, including the amortization expense. That's the capital expenditure, or how much is going to be spent to purchase the asset, but also how much the amortization is going to be in a given year.

**Ms. Yasmin Ratansi:** Thank you.

**The Chair:** Thank you very much.

Monsieur Blaney, you have seven minutes.

[*Translation*]

**Hon. Steven Blaney:** Thank you very much, Mr. Chair.

I would like to welcome the Auditor General and his two advisors.

Mr. Ferguson, we are very pleased to have you with us at the committee. Your opinion is very important to us. I was joking earlier that when my accountant gives me advice, I follow it to the letter. We can consider you to be somewhat like Canada's accountant. We listen carefully to what you say.

You said that you agreed with abandoning cash accounting for the main and supplementary estimates. Do you think we should change the timetable for this? You said that, at present, the problem is that expenses are not included because the budget is tabled afterward.

Do you think that if we changed the accounting system, we would have to change the timetable for approving budgets?

• (1645)

**Mr. Michael Ferguson:** The accounting method is a different question from the question of the timetable for approving the budget and the main estimates. The budget and the main estimates are not prepared at the same time, and that is what causes a problem. I think the fundamental issue is first to find a way of preparing the main estimates at the same time as the budget.

**Hon. Steven Blaney:** So, it could be done at the same time?

[English]

You're suggesting we could do it at the same time.

**Mr. Michael Ferguson:** Certainly that would be preferable.

When I think about all the issues you are struggling with.... I go back to my history. I was the comptroller in the Province of New Brunswick for five years. I was deputy minister of finance and secretary to the board of management for one year. I've had to live through all these issues about preparing budgets, preparing estimates, and preparing financial statements.

Certainly the practice in New Brunswick with preparing the budget was that both the budget and the main estimates were prepared at the same time. If you looked at the expenses in the budget, you could then go to the main estimates book and see the same number for expenses in the main estimates book. You could add up all the departments and you could see how that number was arrived at. Everything was agreed to at the same time.

Of course, then it takes some time for the estimates to get through all the estimates process and get voted in the legislature. The Financial Administration Act in New Brunswick provides authority for the comptroller to continue paying expenses for any program that existed before the start of the fiscal year. They can continue making those payments for the first three months of the fiscal year, so it allows the business of government to continue.

[Translation]

**Hon. Steven Blaney:** Mr. Ferguson, you explained that the departments have to change their accounting methods. If the three methods were standardized, would that not be a way of simplifying the process? Could something be presented on that subject? We have some concerns. We were told just now that the transition could be lengthy, costly, tedious and complex. We were told that Ontario changed its three methods and it took nine years.

In light of your information, would standardizing the accounting approach definitely lighten employees' workload?

[English]

**Mr. Michael Ferguson:** If I were starting from a clean piece of paper, I would certainly say prepare the budget on an accrual basis; prepare the estimates at the same time on an accrual basis, and of course the financial statements will be prepared on an accrual basis. I think that is a much simpler approach. It means not having to keep track of both the accounting expenses and the expenditures against the main estimates. I think that is fundamentally the simpler process.

I have sympathy for the fact that.... Departments right now have one approach. They have all of these different methods in place that they're used to using, so there would be a certain period of transition for departments to go through, which would.... Whenever you're changing something, even if it's not the best way of doing it and you're changing it to something else, there is always a transition period to make that change. That creates a little hesitation on the part of some people, perhaps.

In the end, if the transfer was made to an approach that was fully an accrual basis for the budget and the estimates, and of course the financial statements, it would be a simpler system.

• (1650)

[Translation]

**Hon. Steven Blaney:** I wanted to say this in the next round of questions, but I will mention it now.

I am very happy to see you today, Mr. Ferguson. As a minister, I had an opportunity to meet with you several times over the four years I was a minister. It seemed that every time, there was a chapter dealing with the departments for which I was responsible. Today, now that I am in opposition, I am even happier to see you. I urge you to continue the excellent work you do and the rigorous way you do it. You contribute...

[English]

**Mr. Kelly McCauley:** He has almost a smile.

[Translation]

**Hon. Steven Blaney:** I just want to say that you do play an important role, of maintaining public confidence in government. That is important for our democracy.

[English]

**The Chair:** Thank you very much.

I'm not sure whether you want to respond, Mr. Ferguson.

**Mr. Michael Ferguson:** I appreciate very much the comments.

[Translation]

I thank the member for his comments.

[English]

**The Chair:** Mr. Weir, for seven minutes, please.

**Mr. Erin Weir:** As my colleague Mr. Blaney said, the Auditor General tends to be very popular on the opposition side of the table. But I should also note that at this end of the opposition table, we really believe in a strong role for government and the value of public programs, and it seems to me there's a fundamental difference between auditing in the public sector and auditing in the private sector. In the public sector, your role is really to unearth all the problems and shine a light on them, whereas in the private sector an accountant might be paid by the company that they're auditing. There's a bit of a different incentive, and they might go a bit easier.

I wonder whether you think there's any risk, with that difference, of creating the impression that things are a lot worse in the public sector, when in fact they're just subject to tougher scrutiny.

**Mr. Michael Ferguson:** I think, Mr. Chair, there's perhaps a more fundamental difference. It's something that people aren't always particularly aware of in our office.

We tend to be known for the performance audits that we issue. Those are the audits that get the most attention and scrutiny, and those are audits that look at how government departments are operating certain programs.

Private sector audits tend to be similar to our financial statement audits. For the most part, you go in and look at a set of financial statements, look at all of the underlying information, and express an opinion on the fairness of that set of financial statements. In fact, our process for doing financial statement audits is essentially exactly the same as what a private sector firm would do. For the most part we are issuing clean audit opinions, audit opinions which say that the financial statements are presented fairly. Whenever we are presenting something that says something is presented fairly, people don't tend to have as much interest in it as when we are presenting something that says there are problems that need to be fixed.

Half of our business is doing financial statement audits. Our role would be very similar to the role of a private sector auditor and our relationship with our clients would be very similar to their relationship. But people tend to focus on our performance audit work, and that's why people see us perhaps as an organization that brings forward issues and see that particular difference between us and private sector auditors.

**Mr. Erin Weir:** One point you made in your remarks was that tax expenditures, or I suppose any tax changes, aren't really covered in the estimates or in any of the regime of scrutiny that's established in the parliamentary system. I wonder whether you could elaborate on that and maybe make some recommendations and tell us how you think there could be a better evaluation of tax expenditures and perhaps of other tax changes.

**Mr. Michael Ferguson:** I will start and then I'll ask Monsieur Domingue to add to it.

We did a performance audit on tax expenditures recently. We have a report out on it. Fundamentally we were concerned that there are some types of tax measures that, while they are appropriately accounted for as reductions of tax revenue, have the characteristics of programs that could have been issued as a grant program, for example. We felt that parliamentarians should be aware of those types of programs.

I'll ask Monsieur Domingue if he has something else to add.

• (1655)

**Mr. Richard Domingue (Principal, Office of the Auditor General of Canada):** Those tax-based expenditures can account for tens of billions of dollars. What we noted in the report, and the government made some improvements to the reporting of those tax expenditures, is that even though they are not reported in the estimates, there is a tax expenditure report published every year. There is, then, some sort of reporting back and transparency with regard to the tax expenditures, but they are not included as statutory spending in the main estimates.

**Mr. Erin Weir:** Did you think they should be?

**Mr. Michael Ferguson:** Fundamentally they are statutory, because they are legislative items. I think it doesn't necessarily matter whether they are included as statutory items in the way that you see them, but I think it needs to be very clear to parliamentarians how much the tax expenditures are and how much they are reducing the revenue base.

Again, there would be a line. Some of these things are integral to the tax system, and you would just say, well, that's part of the normal tax system. Others of them seem to be programs that could have

been constructed as a grant program to pay a grant out to somebody. I think it's fundamentally those ones that we feel parliamentarians should be better aware of.

I don't think it matters much to us whether in the estimates they're described as statutory or non-statutory; they obviously get their authority through statute. I think fundamentally there needs to be a way that parliamentarians are aware of exactly what those types of tax expenditures are.

**Mr. Erin Weir:** Another point you made in your remarks was about unfunded liabilities in public sector pensions. I'd ask you to elaborate a bit on that, particularly with reference to the fact that the Government of Canada is never going to go out of business. It's never going to have to wind up a pension plan and pay out all the benefits all at once, so is solvency valuation really a relevant metric in the federal public sector?

**Mr. Michael Ferguson:** A solvency valuation is one way that actuaries look at pension plans. It provides pension plan managers with a way of assessing the overall pension plan. I think, though, that understanding the pension liability and the growth in the pension liability and in the pension benefits is something that is particularly important.

Certainly the federal government has much more means to withstand the impacts of some of its different types of expenditures. I know that in New Brunswick, again going back to the small type of jurisdiction, the pension expense got to the point that a number of the pension plans had to be restructured into shared risk pension plans to make sure that everybody understood how much risk the employer was taking and how much risk the employees were taking. That was very much driven by the fact that the pension expense was starting to get so large as a percentage of expenditures that it had to be dealt with.

Again, the federal government has much more ability to manage this, but I think it's something that needs attention to be paid to it. There's an issue of intergenerational equity in it as well. In funding pension plans, part of what's happening is that the employees today and the government today—the employer today—are making sure they put enough money aside, within actuarial assumptions, to deal with it. If that doesn't happen and that liability just sits there, it could then be passed on to future generations to perhaps have to fund their own pension plan but also go back to fund the pensions of retirees, if the plan hadn't been fully funded.

It's not so much a question of solvency or other valuations. It is, though, very much a question of good, sound pension plan management to make sure that the plans are going to be able to live up to the promises that have been made.

**The Chair:** Thank you, Mr. Ferguson.

Mr. Whalen, for seven minutes please.

**Mr. Nick Whalen (St. John's East, Lib.):** Thank you, Mr. Chair, and thank you guys so much for being here today. It's great to get this in-depth look. Many of us on this side are excited about the prospect of trying to improve government oversight by aligning the estimates and the budget process, if that seems to be helpful, and also perhaps moving to a cash or accrual system on the estimates process.

It raises a number of questions, however. I'm not sure that pensions would necessarily be the best example, because pensions are going to be statutory. They won't come before us necessarily in the estimates.

How are other types of unfunded liabilities that might get to us currently accounted for in the estimates process? Maybe more important, what additional authority would our committee need to have to provide proper oversight to either approve or provide our support for non-cash appropriations or to deny or reduce authority for non-cash appropriations?

● (1700)

**Mr. Michael Ferguson:** In terms of unfunded liabilities, I guess the term "funded" really means that an appropriate level of assets have been set aside to pay for a particular liability, particularly in the pension plan. You figure out the value of all the promises owed, and then how much has been set aside in the pension plan assets to deal with that.

In terms of other liabilities, you could argue that probably all of them are unfunded because, by definition, they haven't been paid and they're going to have to be paid out of the cash, and there's been no specific funding set aside to pay for them. There may be some other exceptions to that. Fundamentally, they are going to be paid in the future. Unfunded liabilities are simply just the result of accrual accounting. You record the things that you haven't yet paid for or you haven't yet received because the underlying transactions have already happened.

In terms of the authority question, if I understand it appropriately, that maybe goes back to my example of something like the amortization, where there would need to be... When the estimates are put together... Again, the way we handled this in New Brunswick was amortization was in a separate vote all on its own. The individual departments were listed by how much amortization we thought was going to be recorded in the individual departments. Amortization was voted for the government as a whole as one vote. The reason for that was it meant that if the department underspent their amortization, if an asset wasn't built so the amortization wasn't as high as they originally expected it to be, they couldn't then transfer that money to something else and spend it on grants or contracts to somebody, or something like that. If they wanted to do that outside of the vote that they got for ordinary funding, they would have to go and get a supplementary appropriation.

In terms of how the committee deals with those types of things, just making sure there's the appropriate controls through the voting mechanism on the different accrual aspects of it would be what you'd need to do.

**Mr. Nick Whalen:** Along those same lines, would there have been in New Brunswick some type of a process for deferred long-term asset maintenance? How would those types of capital expenditures on asset maintenance figure into the process?

**Mr. Michael Ferguson:** No, that type of thing is more part of the decision of acquiring the asset in the first instance. When there is an asset, the asset is acquired; it's set up on the balance sheet, and amortization is recorded every year in the income statement. There may be some other expenses recorded around maybe retirement of the asset depending on the type of asset—contaminated site liability,

some of those types of things. There would be nothing recorded for just the regular operation and the life-cycle cost of that asset when it was originally set up. That would be part of the original decision when saying, can we can afford this, because it is going to have an impact on our budget going forward. It's not something that would be voted because it is going to be future costs that would be accounted for in the future, but it's part of the original decision.

**Mr. Nick Whalen:** I have this idea now that we might need some extra votes if we move to an accrual accounting method in order to make sure that we're siloing off some types of spending. Are there other types of potential games departments might be able play if we move to an accrual system? It sounds like if they had to do extra work to provide us with the information on the cash accrual basis, then maybe that provides parliamentarians with information of those consolidated numbers that we might need to make a good decision on cash management.

Will we still have that information to make those good decisions if we switch, or will departments, through their own internal processes, manage things in a way that won't allow us to help?

**Mr. Michael Ferguson:** There will always be what are called the non-budgetary transactions, which are essentially the cash types of transactions, so again, the acquisition of a capital asset, the capital budget. The acquisition of a capital asset is not an expense when it's purchased, but it is an expenditure incurred to build something or acquire something. It's important that those votes for capital continue to exist even though they're not going to be part of the expenses of the government.

Similarly, significant investments...the \$400 million in the venture capital action plan that I mentioned in my opening statement was an investment, not an expense that is carried on the government's balance sheet that will have to be assessed every year to determine whether it still has its value. I think it's also important that the committee have those types of things, loans and advances. All of those types of cash transactions still need to be accounted for, and in the estimates.

What doesn't really need to be in the estimates are all of the regular trade accounts payable and receivable at the end of the year. That would be set up on an accrual basis, and trying to deal with those types of things.

The committee would have to determine whether there are any of those types of cash things that they would want to know at the same time as also voting the expense authority on an accrual basis.

● (1705)

**The Chair:** Thank you very much.

Colleagues, as I mentioned at the outset of this meeting, we do need a bit of time at the end of the meeting for some committee business. Therefore, I think we have time for two five-minute rounds.

I have on my list Mr. McCauley on the official opposition side, and Mr. Grewal on the government side.

Mr. McCauley, you have five minutes, please.

**Mr. Kelly McCauley:** I want to thank Mr. Whalen for stealing my questions.

**Mr. Nick Whalen:** Yes, yes.

**Voices:** Oh, oh!

**Mr. Kelly McCauley:** About the amortization risk, about governments playing “silly buggers” with the books, do you see any other possible transparency risks if we went to accrual, besides the amortization bit?

**Mr. Michael Ferguson:** It depends what you mean by those types of risks. In New Brunswick, we had an accrual-based budget and accrual estimates. There was a period of time, believe it or not, in the early 2000s when pension plans were making large returns. I remember one year when the pension plan in New Brunswick made a 20% return, and it was essentially a fully funded plan.

**Mr. Kelly McCauley:** Yes, I fondly remember those days.

**Mr. Michael Ferguson:** Significant returns.... In fact, there was a year or two when our pension expense was negative. In other words, we were earning more in terms of the interest and investment income on the pension plan assets than the pension plan expense. The pension plan expense was essentially zero or negative, but we still had to make contributions to the plan, because the employer was still essentially matching employee contributions. There was a disbursement of cash, even though the amount voted was very low, because on an accrual basis the expense was very low.

There are some of those things that I think people need to be aware of. Fundamentally, though, that can be dealt with just by understanding what the total cash requirements of the government are going to be over the year, and where those cash requirements are going to be put. Then, on the expense side, the expenses are all on an accrual basis, so people understand that this is what the accounting is going to show.

[Translation]

**Hon. Steven Blaney:** Mr. Ferguson, your recommendation is clear: you want the main estimates and the supplementary estimates to change to cash accounting. You have also explained clearly that it is important to consider risk capital in relation to budgetary and non-budgetary measures.

To complete your testimony, if you have recommendations to make to the committee's analysts, I invite you to send them to them so that we can migrate to cash accounting that reflects budgetary and non-budgetary items as well as non-capitalized items, as you have done.

The members opposite say they are transparent, but they did not want to acknowledge the fact that the last government left them a budget surplus. It is all very well to say that the old age pension age will be brought back down to 65 from 67, but we must not forget that there are costs associated with doing that.

How can we, as politicians or as parliamentarians, make sure that this aspect is properly accounted for to the public?

[English]

**Mr. Michael Ferguson:** I will take the first part of that question, in terms of other recommendations we may have. I think I want to go back to your earlier comments about the importance of the timing of everything as well, and being able to match up the budget and the estimates. Again, right now the estimates are prepared before the

budget, so they include some things, and then you end up with the supplementary estimates afterwards.

I think it would be preferable if there was a way of making sure that the budget and the estimates are put together at the same time. There would need to be some process for interim supply, probably, because by the time the budget and the estimates are prepared and it goes through all of the process in Parliament to get approved, you would be a month or two into the fiscal year. There definitely would have to be a method for interim supply. As I said, in New Brunswick, that was managed through.... It was the legislation that allowed expenses to continue to be paid. I think that would be something important.

The other thing that would need to be built into the budget, similar to amortization, would be the impact on the budget of consolidated organizations. Some organizations operate on their own. They may need very little in terms of an appropriation, or they may need a certain amount in an appropriation, but then they generate their own revenue. Their expenses would be the combination of what they received in an appropriation and their own revenue, when they spend that. Making sure that the estimates include not just the amount appropriated for the government to pay to those organizations, but also how much those organizations are going to raise on their own, which will be consolidated into the financial statements of the government at the end of the year—finding a way to build that into the estimates—would also be an important aspect of this.

• (1710)

**The Chair:** Thank you very much.

Our final intervenor will be Mr. Grewal for five minutes.

**Mr. Raj Grewal:** Thank you, Mr. Chair.

I'll be splitting my time with Ms. Shanahan.

Sir, we ran on a platform in the campaign to be more accountable and more transparent, and that's one of the reasons that accrual-based accounting does make a lot of sense. It gives you a more transparent outlook on the government's financial structure.

My question is on point number 9 in your submission. It says, “in 2015, we noted that tax-based expenditures are not subject to scrutiny through appropriation bills and are therefore not reviewed by parliamentarians”. Can you expand on that a little?

**Mr. Michael Ferguson:** I'll ask Monsieur Domingue to expand on it, but before I do, I want to make sure everybody is absolutely clear that the federal government's year-end financial statements are on an accrual basis. As the Office of the Auditor General, we audit those financial statements and we've been expressing a clean audit opinion on those financial statements for the last 17 years. Those financial statements are on an accrual basis. They respect all the standards of the Public Sector Accounting Board with all the relevant transparency around that, so the financial statements are very transparent.

I think the transparency issue is more one of the estimates are on one basis and the year-end financial statements are on another basis, so we're worrying about the bottom line on this basis, but we're worrying about complying with parliamentary authority on this other basis. I think that confuses people.

I'll ask Mr. Domingue to talk about the comment.

**Mr. Richard Domingue:** Tax expenditures would include, for example, refundable tax credits like the GST tax credits, which are not reported in the main estimates, but are reported in the public accounts. One could argue that the tax system is used to determine the eligibility for the tax credit and not to assess the tax liability of that individual, so there's a disconnect between the treatment of tax expenditure for the public accounts and the way they are treated in the main estimates.

**Mr. Raj Grewal:** I have a clarification question about the previous textbook tax credit. Are you saying technically because that was passed in a previous budget, that now and for future years it's not being approved by parliamentarians?

**Mr. Richard Domingue:** Mr. Chair, when a tax measure is adopted through legislation, it is approved by itself every year through the legislation that gives the authority to the Department of Finance, or CRA in this case, to issue a tax credit, if it's a tax credit. That's something different from the way the reporting is done in the main estimates. As I said before, tax expenditures are reported in an annual report called "Tax Expenditures and Evaluations", which lists all the tax expenditures. That's one thing.

Then you also have, as an example, the refundable tax credit, which has nothing to do with the tax liability. The tax system is used to assess the eligibility of the individual to that benefit, and that benefit is accounted in the public accounts, but not accounted in the main estimates.

Going back to the question that was raised before with regard to the reporting, and shall it be reported in the main estimates, the problem is that you cannot add up tax expenditures because they

don't add up because of the effect that each one has on each other. Adding a big number like this as the value of all the tax expenditure measures in the main estimates would be an impossible task.

**Mr. Raj Grewal:** What's your recommendation on that?

• (1715)

**Mr. Richard Domingue:** The fact is that the basis used to prepare the main estimates is not the same as the one used in the budget or the public accounts. In the budget, in the Department of Finance's numbers, you will see embedded in the expense row the cost of those tax expenditures. When you look at the expenses reported in the main estimates, it's on a different basis.

**Mr. Raj Grewal:** Thank you.

**The Chair:** Ms. Shanahan, your colleague has left you with 20 seconds.

**Mrs. Brenda Shanahan:** I just want to say thank you so much. We're finally getting to the nitty-gritty. I think this will be useful to help us tackle underlying assumptions, to be able to make good assessments, and not to spend our time taking political cheap shots.

**The Chair:** Thank you very much.

Thank you all, colleagues.

Mr. Ferguson, once again, it has been an honour and a pleasure to have you here, as always. Thank you so much. I'm sure we'll be seeing each other over the years on a more frequent basis.

Colleagues, we'll suspend for about two minutes and we'll get back to committee business, which will be in camera.

[*Proceedings continue in camera*]





Published under the authority of the Speaker of  
the House of Commons

---

### SPEAKER'S PERMISSION

---

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

---

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité  
du Président de la Chambre des communes

---

### PERMISSION DU PRÉSIDENT

---

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

---

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>