

## 2 FINANCIAL MANAGEMENT

MANAGEMENT OF THE PUBLIC SERVICE

REPORT 2: FINANCIAL  
MANAGEMENT

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# PART 1

# 1

## INTRODUCTION

The activities of the Government of Canada are carried out today through a large and complex organization. Forty-eight departments, commissions and boards, comprising the executive branches of government listed in the Estimates and receiving parliamentary appropriations, are currently disbursing upward of \$7,000,000,000 annually. About one-half of the amount is represented by the purchase of goods and services by the government itself and the balance, being transfer payments to individuals and other levels of government, is principally devoted by the recipients to the purchase of additional goods and services. Viewed in relationship to the gross national expenditure of Canada, almost \$36,000,000,000, it becomes evident that the effectiveness with which these large sums of money are managed by the government has important implications for the well-being of the country.

The growth in total budgetary expenditures of the Government of Canada from the Consolidated Revenue Fund and Old Age Security Fund is shown by the following tabulation:

FISCAL YEAR	TOTAL BUDGETARY EXPENDITURES
1871 .....	\$ 18,872,000
1881 .....	32,579,000
1891 .....	38,855,000
1901 .....	55,503,000
1911 .....	121,658,000
1921 .....	528,899,000

FISCAL YEAR	TOTAL BUDGETARY EXPENDITURES
1931 .....	441,568,000
1939 .....	553,063,000
1951 .....	2,901,242,000
1956 .....	* 4,799,328,000
1961 .....	* 6,550,514,000
1962 (Budget estimate) .....	* 7,188,400,000

\* Including Old Age Security payments of \$366,200,000 in 1956 and of \$592,400,000 in 1961 and \$625,000,000 in 1962.

The dimensions of the increase from pre-World War II levels to the present, a twelve-fold gain, are due only in part to the continuance into peacetime of defence expenditures on a major scale. Contributing substantially to this increase has been a marked broadening in the scope of federal activities, as well as expansion in the volume of welfare and transfer payments. What was a relatively simple government organization in 1939 has become today a complicated system of departments, boards and commissions engaged in a multitude of different tasks. Obviously, the methods found effective for the management of the relatively compact organization of the pre-war days cannot control, without extensive alteration, the vast complex which has come into being in the past twenty years.

Your Commissioners are required to report on steps that may be taken for the purpose of "making more effective use of budgeting, accounting and other financial measures as means of achieving more efficient and economical management of departments and agencies". Consequently, comparisons have been made of the means employed to manage and control large and complex organizations by leading commercial and industrial corporations and by other governments, principally those of the United Kingdom and the United States.

In commerce and industry, efficient financial controls and accounting have long been regarded as indispensable management tools, without which the modern large corporation could not have come into being. In the United Kingdom, as well as in the United States, the past decade has witnessed increasing emphasis by government upon the management aspect, and extensive modernization of procedures to increase efficiency.

In Canada, with little similar development, the government's financial controls and accounting systems are cumbersome, with a multiplicity of checks, counter-checks, and duplication; and blind adherence to regulations is too often given precedence over efficiency and despatch. This ponderous system, virtually unchanged in the past thirty years, is regarded by many as the price

that must be paid under democracy in order to hold public servants properly accountable. The fact is that the present system, with all its excessive elaboration, fails even in that aim. Inadequate delegation of authority, divided responsibility, all the duplicate and repetitive checks, make it virtually impossible to assess responsibility for error or inefficiency in such a way that the public servant can be held accountable.

Resistance to change in government procedures is often based on the conviction that what has been found useful in private business is not applicable, because government and business are different. Is government really different, or is the extent and nature of such difference sufficient to justify the refusal to adopt proven efficiency techniques developed by business? While government is not directly influenced by the incentive that profits give to owners, most employees in large businesses are only indirectly influenced by profits. The objectives of employees are expressed in terms of sales, service, volume, costs, and they often have no knowledge of the resulting profits.

Budgeting, accounting and other financial measures are a means of providing all levels of management with targets or objectives so that the performance of each may be measured. They also provide a check on the efficiency with which available resources, material and human, are used. Modern business, losing with growth much of the direct incentive provided by profits, has been forced by competitive pressures to develop techniques to meet modern needs. Similarly, the explosive growth in the scale of government expenditure necessitates the adoption of modern and efficient management methods, similar in many respects to those employed by business.

The terms of reference direct your Commissioners to review the executive side of government and the inquiries conducted have, accordingly, considered the various areas of government activity in the context of the management structure as a whole. It has, however, been recognized that finance and accounting matters have direct relevance to the parliamentary process, particularly in their reporting aspects. An acceptable system must both meet the needs of the Executive and facilitate the task of the House of Commons in exercising control over the public purse.

# 2

## FINANCIAL ASPECTS OF MANAGEMENT

### *Planning*

Good management of any enterprise, either in government or industry, requires sound planning. If the time and effort going into the preparation of the government's annual financial plan, or Estimates, is a reliable yardstick, the Government of Canada might be thought to lead industry in this regard. All levels of management in government are involved: the several departments, in planning and original preparation; the Treasury Board and the Cabinet, in reviewing and approving; and Parliament, in discussing and ultimately voting the necessary funds.

Parliament's control of the purse is firmly established in our system of government. Taxes cannot be imposed nor money spent without the approval of Parliament. The Estimates are, therefore, primarily designed to secure Parliament's consent to projected expenditures. The utility of the present form in performing this role will be discussed later in this report.

Forecasts of expenditures also have a management control function. They not only serve as indicators of future results, but can be used to govern the scope and intensity of effort to be applied to individual operations. They can be applied to establish standards of performance or goals against which performance by management at all levels may be judged. Wisely designed and accompanied by appropriate delegation of authority and responsibility, a system of budgetary control permits senior management to free itself of a mass of detail and devote its whole effort to major affairs. In this context, the present planning procedures of the government are seriously deficient.

Parliament is requested to approve a department's spending plans by a num-

ber of subdivisions called votes. In the fiscal year 1961-62, the Main Estimates included 495 votes, over three times the number currently used in the United Kingdom. Each vote defines the particular service or activity it covers and states the total financial requirement therefor in the coming year. In the 1961-62 Estimates, vote amounts ranged from \$500 to \$536,000,000, with provision for some specific activities divided between two or more votes. Rationalization and a reduction of the number of votes would make the definition, planning and control of activities more effective, and would give management greater flexibility in achieving its objectives. Closer identification of votes with programmes or activities, and with levels of responsibility, would meet the need for greater accountability for performance.

The British North America Act declares that Parliament may not appropriate revenues or impose taxes unless they are first recommended by message of the Governor General. Although the ministers of the Crown, as advisers to the Governor General, are collectively responsible for the overall expenditure of the government, the volume and complexity of the Estimates are such that most of the responsibility for detail has been delegated to the Treasury Board. This is a statutory committee of the Queen's Privy Council of Canada composed of six ministers, including the Minister of Finance as Chairman. This group of busy ministers looks to its staff of approximately 140, provided by the Department of Finance, for much of the detailed review of proposals coming before it.

The vital role of the Treasury Board in the planning process cannot be over-emphasized. Spending agencies and their ministers are not always objective in approaching the question of how available funds should be allocated. Nor can the clash of competing agencies be expected to guarantee the optimum return from public expenditure. Central review at a very senior level is necessary to analyze the programmes of all operating departments and agencies, to evaluate competing alternatives, and to promote good management and consistency in administrative policy.

The preparation and consideration of the Estimates is a continuous process commencing in June of each year for the fiscal year beginning in the following April. The Estimates are prepared by departments and agencies in accordance with procedures prescribed by the Treasury Board. The main emphasis is placed on a comparison of proposed expenditures with the current and past years' performance, and explanations must be given for all changes.

A list of authorized staff positions, called establishments, is submitted to the Treasury Board staff for review during August and September. A considerable amount of time of senior departmental, Treasury Board and Civil Service Commission personnel is involved in reviewing these establishments. The review is concerned mainly with proposed increases. For example, if a vote currently



provides for an establishment of 100 and the proposed establishment is 105, the emphasis is on justifying the need for the additional five positions, rather than on making an objective review of the continuing requirement for all positions previously authorized.

All other categories of estimated expenditure, such as buildings and works, real estate, materials, supplies, travel and removal expenses, are submitted to the Treasury Board after the establishment review. The same approach, with the main emphasis on justification of increases, is applied by the Treasury Board staff. The resulting Estimates, incorporating revisions agreed upon between the Treasury Board staff and departmental management, are submitted for consideration by the Treasury Board itself and, in due course, a general recommendation goes to Cabinet for final settlement. The Estimates are tabled early in the session, frequently as soon as the debate on the Throne Speech is completed. Supplementary estimates are subject to like review.

It has been found that the review by the Treasury Board staff has tended to be increasingly concerned with the detail of proposed expenditures rather than with the competing needs giving rise to them. Thus, there is a discernible tendency to challenge the judgment of departmental management as to the ways and means of executing approved policy. There are two results: the staff of Treasury Board is immersed in detail, much of it unnecessary; and senior departmental personnel have come almost unanimously to regard this concern with detail as representing an unwarranted interference in the day-to-day management of their departments—as indeed it is! The resulting frustration, not unnaturally, discourages departmental managers from accepting responsibility for their plans, and leads them to regard this responsibility as being shared with the Treasury Board staff. A frequent cause of misunderstandings is the free use of the Board's name. In preliminary reviews and discussion with the Board's staff, departments seldom know whether queries in fact originate from the ministers on the Board itself, or merely from the staff. All too often the result is that departmental management abdicates its responsibility for inefficiencies and waste arising out of faulty planning, and lays the blame on the Treasury Board.

Part of this problem arises from the essentially subjective approach in the review of Estimates taken by both senior departmental management and the Treasury Board staff. Records of past performance, which are largely relied on, are a poor substitute for objective standards. In particular, where a department has operated below estimated cost in the past, not only has the unspent authorization lapsed at the end of the fiscal year, but the existence of such lapsed balances tends to prejudice the department and attract reduction in the amounts authorized for future spending. The indirect result is to encourage un-economic or wasteful expenditure toward the close of the fiscal year, thereby

rendering historical performance data dangerously misleading when used as standards for the assessment of future financial need.

Objective standards are practically non-existent. While there has been a praiseworthy attempt by the Treasury Board staff to promote the development of more standards of comparison, particularly for activities requiring large staffs performing repetitive functions, such standards as have been developed are seldom scientifically based. Little use has been made of modern, highly developed techniques, such as work measurement, cost analysis and statistical sampling. Great advantage will result from the development of a system of review employing modern objective standards for the assessment of all operating activities.

In prescribing the form of the Estimates, current Treasury Board practice is to classify expenditures into twenty-two categories, known as "standard objects of expenditure"; in addition, eleven "special objects" are now in use. This classification by category of expenditure such as salaries, postage, and equipment rentals, has attractions from a statistical viewpoint but little value as a means of planning and control. The alternative method generally followed by business and some other governments is to classify expenditures by the activity that gives rise to the expenditure. Instead of using secondary categories, such as postage, printing and office supplies, expenditures are classified by programmes or organizational units, such as national parks, airports, scientific laboratories, research programmes, educational programmes, and regional or operating divisions. This type of classification has actually been initiated by certain departments for a number of programmes, with beneficial results, but this is the exception rather than the rule.

Classification by standard objects increases the tendency to focus attention on the nature of the expenditure rather than on the activity giving rise to it. Instead of a continuous study of all programmes and an assessment of their costs against current need, the review process centres on the lump sum figures shown for the standard objects. Rather than identifying obsolete programmes and reducing the scope of activities where the benefits are marginal, the practice is to reduce the specific figures appearing in the standard classification. The result may leave departmental personnel responsible for achieving objectives without the means they consider necessary.

The standard objects-of-expenditure classification has further drawbacks, for it is also used by the Treasury Board as a means of controlling departmental expenditures during the year. Parliament permits the details of expenditure within each vote to be varied within the dollar limit approved. Departments, in turn, prepare a breakdown of each vote into allotments which must be submitted for Treasury Board approval. These individual allotments,

with some exceptions, must be classified by the same standard objects of expenditure, and cannot be overspent without Treasury Board approval.

If the whole of government activity were carried on in Ottawa, these limitations would not be unbearable. But, with the broad dispersal of activity throughout Canada, the need to break down departmental appropriations into a series of rigid expense categories and to assign to each field unit a share of each individual allotment constitutes organizational nonsense. Nevertheless, many departments make the attempt and, while field officers are thus given the appearance of having some scope for the exercise of individual discretion, there is in fact remarkably little flexibility. Other departments, apparently recognizing that little is to be gained by this ponderous performance, delegate practically no spending authority to the field and make most field expenditures from their Ottawa headquarters.

The conclusion is inescapable that the present procedures in developing and reviewing the Estimates are wasteful and inefficient. The form of the Estimates does not permit intelligent criticism and, in placing the major emphasis on the nature of expenditure rather than on its real purpose, the matters coming under senior review are the less important details of administrative judgment. Any valid assessment of performance by departmental management is excluded, and it is virtually impossible to form any objective judgment from the Estimates as to the desirability of continuing, modifying, or enlarging specific programmes in the public interest.

- We therefore recommend that:*
- 1 The number of votes be reduced and all cost elements of individual programmes be consolidated within the same vote.
  - 2 Departmental estimates be prepared on the basis of programmes of activity and not by standard objects of expenditure.
  - 3 The establishment review be undertaken as part of the overall review process and not as a separate exercise.
  - 4 More objective standards for analysis and comparison be developed and employed by senior departmental management and the Treasury Board in the review process.

It is normal in industrial budgeting to relate revenues and costs. In government those revenues derived from services rendered are only incidental, since the benefits can seldom be directly allocated to specific beneficiaries. While the costs of most services are met out of tax revenues, there are activities where

charges are made for services rendered. The normal control exercised by Parliament is on the gross expenditure, and revenues are not available to cover further spending. As a result, departmental management has little incentive to collect a fair price for a particular service, even where a reasonable charge would not interfere with the purpose of the service. Also, because expenditure is controlled without regard to related revenue, management cannot increase expenditures to provide increased services in response to demand, and the willingness of the public to pay.

Control would not be lost by either Parliament or the Executive if all vote and allotment controls were to be based on the net, rather than on the gross cost of the service, provided the revenue is directly derived from the provision of a service optional to the user. Further, the true anticipated cost of these services to the public purse would appear in the Estimates, avoiding inflation of the budget and permitting a better analysis of competing or alternative programmes.

*We therefore recommend that:* Where appropriate, revenues be offset against related expenditure, and that votes be shown in the Estimates and controlled on a net basis.

The principle that Parliament should vote funds for expenditures on an annual basis is recognized as a necessary element in its control of the purse. Nevertheless, no intelligent planning can be done on an annual basis without giving consideration to the impact of current plans on future years. Both the Treasury Board staff and most departments now tend to ignore long-term planning except for capital projects. Too little consideration is given to the impact of new programmes on future operating costs, and the thought that is given is seldom laid down in a formal way to facilitate responsible planning by departments and the Minister of Finance. A review of every department's long-term plans in advance of consideration of the detailed Estimates would not only be a salutary discipline on the departments, but would permit approval in principle of new plans and expenditure limits before each department spends the time and effort necessary to include the details of such plans in the annual Estimates.

Having regard to the rapid elaboration of government activity and the continuing demand for the provision of new or enlarged programmes of public expenditure, the question of forward planning assumes major significance. Based upon forecasts by each department over a period of years ahead, surveys of total anticipated expenditure in relation to prospective resources would provide a most useful background against which decisions involving substantial

future expenditures should be taken. A five-year projection, amended and updated each year, should be an indispensable tool for policy-making, but has not so far been developed in Canada.

- We therefore recommend that:*
- 1 All departments and agencies be required to prepare and submit to the Executive long-term plans of expenditure requirements by programmes.
  - 2 Based thereon, an overall forecast of government expenditures and prospective resources for a period of five years ahead be prepared annually.

#### *Expenditure Control*

Funds are appropriated by Parliament to the Executive, but departments generally assume that it is "their" money, once a sum is voted. Consequently, the documentation used to justify a vote to the Treasury Board, and any revisions made by the Board, are fundamental to the control of the subsequent application of such funds. If departments were held to the intent expressed when their Estimates were approved, many of the other steps now employed to control the spending process would be unnecessary.

The emphasis on programmes in the planning process is designed to facilitate delegation of authority to all appropriate levels of management. Planning must have central direction, but the officers charged with execution must have adequate authority in order to carry out the programme efficiently. Neither the Treasury Board nor the ministerial heads of departments can hope to have detailed knowledge of each of the many and varied activities being carried on. But response of the Treasury Board to this situation has been to curtail the managerial freedom of operating personnel by multiplying controls, ceilings and regulations. Departmental heads, with their authority so circumscribed that they are unable to delegate authority to the manager in the field, tend to surround him with even more restrictive controls.

Detailed restrictions, centrally imposed, multiply the number of departmental submissions to the Treasury Board requesting authority to act. Thus the Board is inundated with administrative detail. A sampling of Board Minutes indicates that decisions are required on about 16,000 submissions annually. These vary from elaborate and far-reaching projects involving a sizeable portion of Canada's economic resources, as in a new defence installation, to a request involving a few dollars for the purchase of sugar and tea for a reception at an Experimental Farm. Obviously, the ministers on the Board cannot review

such a mass of requests in any detail, and much is therefore left to the decision of the staff of the Board.

Your Commissioners believe that departmental management must be entrusted with the power of decision in many of the areas now being controlled by the staff of the Treasury Board. Leaving such detailed matters to the departments should develop a greater sense of responsibility among departmental managers. Some administrators may be reluctant to accept the responsibility which must accompany the proposed transfer of authority, but experience in business has proved that able managers will respond to the challenge provided by additional freedom to make decisions. Treasury Board, freed of this detail, should concentrate on the essential task of reviewing the programmes and objectives of departmental management in relation to overall government policy.

Treasury Board's method of allocating funds by objects of expenditure, as noted, limits the ability of departmental management to choose between alternative methods of achieving objectives. Restrictions of another type result from the authority conferred on the Treasury Board by the Financial Administration Act to make regulations "for the efficient administration of the public service".

Statutory directives and Treasury Board regulations are designed to establish certain standards of performance and practice to apply uniformly throughout the public service. Under the present system of financial control, unless there is specific authority, departments cannot get their expenditures certified for payment. Thus, situations not covered by existing regulations have to be referred to Treasury Board for authority. When these become too numerous, a cure is attempted by promulgating more regulations, drafted to cover every possible contingency.

Regulations are necessary in any large, diverse, multi-functional operation, but it is generally accepted that the rule-making authority should not become directly involved in the application. Regulations that are really elaborations of policy can facilitate decision-making if properly designed. But, excessively detailed inconsequential regulations limit the discretion of managers and thereby impair the quality of the administrative effort. When the judgment of departmental managers is unduly circumscribed by detailed controls imposed by central authority, it is only natural for these harassed officials to seek refuge from parliamentary or public criticism behind the barricade of regulations.

Departmental management is confronted by a particularly onerous set of restrictions in the Government Contract Regulations. Last revised in 1954, these regulations set out the rules for tendering and drawing up contracts, and establish the limits of ministerial authority for entering into contracts without the approval of the Treasury Board. These limits vary in accordance with the type of contract, the maximum for construction being \$50,000; for purchase,

\$25,000; and for services, \$15,000. With the exception of the Department of Defence Production (where amounts are set by statute), these limits apply equally to large and small departments. Submissions to the Treasury Board for expenditures, normally involving contracts, constitute a large and growing proportion of the business coming before the Board; in 1953 they amounted to 20% and, in 1961, to 35% of all submissions.

A particular irritant resulting from the contract approval procedures is that items of expenditure in excess of ministerial authority may be dealt with by the Treasury Board as many as four different times: first, on submission to the Board for prior approval in principle; second, when the proposed expenditure is included in the annual Estimates; third, when the contract itself is submitted to the Board for approval; and fourth, if and when the contract has to be amended and involves an amount in excess of ministerial authority (this may happen more than once in the course of performance).

Although departments have limited authority to contract on their own responsibility, there is often a singular reluctance to delegate any such authority to junior levels of departmental management. This has a bearing at all levels upon the extent to which certain requirements may be contracted out. There is a tendency for departments themselves to engage in activities that might readily be undertaken by other departments or private enterprise, thus unnecessarily increasing the scope of their operational responsibilities.

Some limits on contract authority are obviously necessary, but they should be established in the light of the experience of the individual department, the volume of contractual expenditures handled, and the extent of prior approval of the particular expenditure.

The Travel Regulations illustrate the dangers of a very detailed set of regulations which dictate, rather than guide, expenditure policies. These regulations, laid down by the Treasury Board, specify the maximum amounts that may be spent for various categories of travel expenses and the documentation required to submit claims for reimbursement. These regulations are a source of great annoyance and frustration to public servants and, yet, seldom reduce expenditures. Departmental officials, approving travel claims, are given little latitude, although their accounting and administrative staff devote an excessive amount of time to ensuring that the details of the regulations are adhered to, as does an undue proportion of the staff of the Comptroller of the Treasury.

Travelling allowances on a per diem basis are rarely used in the public service. Greater use of such allowances would lead to substantial savings in administrative costs. It is recognized that variations would probably be necessary to compensate for regional differences in the cost of travelling. The status of individual public servants should also probably be given some recognition.

However, the potential savings surely permit fair rates to be established for those large cities where a substantial number of public servants are on travel status.

- We therefore recommend that:*
- 1 Departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal.
  - 2 The Treasury Board continue to lay down policies on financial and administrative matters common to all departments and agencies, but in a less restrictive manner.
  - 3 Departments and agencies be granted more discretion in the negotiation of contracts.
  - 4 Greater use be made of per diem rates and other measures to simplify travel regulations.

While departmental management is presently supervised closely by Treasury Board, it is also subject to restrictions imposed by another external control agency, the Comptroller of the Treasury. An officer of the Department of Finance, with a staff of 4,700 scattered throughout the public service across Canada and abroad, the Comptroller can be likened to a policeman patrolling the departments to ensure financial rectitude. Under the Financial Administration Act, he is responsible for certifying that funds are available in appropriations to cover every proposed expenditure—this is known as “commitment control”. He has the duty of examining all expenditures prior to payment; he must withhold approval and refer to the Treasury Board for instructions any expenditure which, in his opinion, is not a lawful charge against an appropriation—this operation is known as “pre-audit”. The Comptroller of the Treasury is also responsible for issuing cheques and for keeping the central accounts of the government. Although departments are not obliged to use the Comptroller’s accounting services, he is empowered to provide such services as departments request.

The Comptroller of the Treasury exercises commitment control over departmental expenditures in order to prevent the overspending of votes or allotments. He performs this function by maintaining a record of all outstanding commitments. These records are duplicated by many departments for two reasons: first, because they believe the funds should be earmarked or committed as soon as the decision to enter into a contract is made, rather than waiting until the neces-



sary documentation has been completed; and second, because some departments feel they cannot responsibly recommend expenditures at all operating levels, particularly in the field, without being aware on a current basis of previous commitments.

Departmental management should be capable of ensuring that expenditures are not made in excess of available funds. Neither the United Kingdom nor the United States places this responsibility in the hands of an external control agency.

Reference has been made to the pre-audit procedures of the Comptroller of the Treasury, whose detailed verification is designed to ensure that goods or services have been supplied or that the work has been performed, that prices charged are reasonable or in accordance with contract, that funds are available, and that the expenditure is properly authorized and legally chargeable against the appropriation. Departmental management must apply these tests in the first instance when handling individual items on a day-to-day basis. However, in order to avoid delays, questions, or rejection at the hands of the Comptroller, many departments subject their expenditures to a further check or pre-audit of their own in advance of verification by the Comptroller. The cost of such duplication is very substantial.

A sure indication that responsibility for many of these operations lies properly within the departmental spending unit is that the Comptroller has to rely on the certificate of a departmental officer for many of the things that he checks. Effective pre-audit can best be performed within the department, and the Comptroller's responsibility might reasonably be limited to satisfying himself, before issuing a cheque, that a properly authorized officer of the department has certified the expenditure.

- We therefore recommend that:*
- 1 Responsibility be placed on departments for certifying to the Comptroller of the Treasury that expenditures will be lawful charges and that funds are available.
  - 2 The responsibility of the Comptroller of the Treasury be limited to ensuring that the departmental officers providing this certificate are properly authorized.

These recommendations for improving financial control by delegating appropriate authority to departmental managers are not inconsistent with the concept of the public service as a unified, integrated system. This re-location of financial powers is in no sense intended to place departmental managers beyond the complete control of the Executive, including Treasury Board and ministerial

heads. The current method of ensuring accountability, by surrounding departmental managers with a hedge of detailed, negative controls and regulations, can only frustrate the aims of efficient, economical management.

The granting of greater working freedom to departments must be accompanied by two restraints. First, departmental managers must work within common policy guidelines laid down by the Treasury Board. Second, the Treasury Board should be required to concur in the appointment and participate in the development of the careers of the senior finance officers of each department and agency. This practice has been followed in the United Kingdom over the last forty years and has facilitated a successful devolution of authority from the British Treasury to departmental management. The scheme has not been incompatible with the aim of preserving a unified public service; it has freed central authority from the niggling detail that now clutters the Canadian Treasury Board, and has enabled the British Treasury to concentrate on the broader elements of administrative policy and direction. At the same time, responsibility for the expenditures of each department is placed squarely where it belongs—on the shoulders of senior departmental officials, who are held personally accountable.

It should be emphasized that the departmental finance officers would not be officials of the Treasury Board simply by virtue of conferring on the Board a voice in appointment. They would remain, as they have in the United Kingdom, subject to the authority of their deputy ministers, who would continue to be accountable for the management of the departments.

The report "A Plan for Management" sets out in greater detail the general philosophical and organizational concepts against which this particular recommendation can be tested. In the report on "Personnel Management" a parallel recommendation has been made concerning the senior personnel officer in each department and agency.

*We therefore recommend that:* The appointment of the senior financial officer in each department and agency be subject to the concurrence of the Treasury Board.

### *Accounting*

The delegation of appropriate financial authority to departments and agencies and the recommended relief of the Comptroller of the Treasury from the internal verification process will necessitate a major improvement in departmental accounting procedures. The art of accounting, once concerned almost

exclusively with recording the past, today addresses itself at least as much to the future as to the past and, in doing so, has become a more practical instrument for management. It is able to provide a language in which any financial plan can be expressed and traced as it is executed.

No one accounting system can meet the requirements both of the government and of its individual departments and agencies. Departmental accounts must be compatible with government requirements and provide the information necessary for the Public Accounts, but the primary need is to give departmental managers the information that they require. No standard or uniform set of accounts could adequately record the activities of all the departments and agencies of the Government of Canada, with their varying and diverse responsibilities. Accounting is flexible, and systems should be designed to meet the specific needs of each organization at all levels of management. Therefore, the management of each department or agency, subject to Executive needs, must be responsible for designing and operating an accounting system tailored to its own requirements and, to this end, must be provided with the necessary technical assistance, both from within and outside the departments.

The Comptroller of the Treasury is empowered to provide accounting services to any department or agency on request. Because the Comptroller's primary responsibility is to record and account for the cash received and expended by the government, the systems provided are designed to service his own requirements and seldom meet adequately the needs of departmental management for up-to-date reports and data indicating progress of plans at all operating levels. The Comptroller should continue to keep the central accounts of the government, but his responsibilities for departmental accounts should be limited to the right of review, to ensure that the accounting data provided for incorporation in the central accounts of the government are satisfactory and properly comparable. On request from departments, he should also act as a consultant and provide advice on accounting matters.

*We therefore recommend that:* Departments be responsible for designing and maintaining the accounting records necessary to meet their requirements.

Most departments with large and varied expenditure programmes will not be able to meet their managerial needs by retaining the present cash method of accounting. Accounting for expenditure transactions can take place at any one of the following times: first, when the need to purchase the goods or services is realized and the contract issued—this is commitment accounting; second, when the goods or services are paid for—this is cash accounting; and third, when the

goods or services are used (either before or after they are paid for)—this is accrual accounting.

Accrual accounting is almost universally used in industry to provide management with accounting information on activities as they take place. It makes accounting reports more objective and comparable over any period of time. It lays the basis for, but does not necessarily imply, cost accounting. For most governmental activities, accrual accounting will simplify the accounting records that must be kept. Accrual accounting can provide adequate safeguards against over-expenditure on all outlays other than large capital acquisitions, and the latter can be recorded by other means.

Depreciation accounting is closely related to accrual accounting. Except in those separately organized government corporations following normal commercial practices, capital costs in the Government of Canada are charged off when the funds are expended. However, depreciation needs to be taken into account by the government, for example, whenever an activity or service is expected to operate at a profit or to break even; whenever a government department or agency provides services which might alternatively be provided by private enterprise; and whenever alternative courses of action are being considered for planning purposes. Wherever depreciation accounting is necessary for management purposes, it should be incorporated in the departmental accounts, or else adequate records of assets in use should be maintained.

Little would be gained by converting the overall accounting system of the government to an accrual basis. Parliament is primarily interested in knowing what funds must be raised through taxation to meet expenditures due to be incurred in the fiscal year, and is only interested in the operating results for the full fiscal year. Under the present cash system of accounting, modifications are made by holding the books open for thirty days after the end of the fiscal year to permit disbursements to be made on goods or services received but not paid for during the fiscal year. Other modifications have been made to the cash accounts to bring the annual results closer to those that would be obtained on an accrual basis.

*We therefore recommend that:* Departments adopt accrual accounting.

Since the goal of any accounting system is to set forth objectively in monetary terms a department's plans and its success or failure in achieving them, the system should be based as much as possible on actual and complete costs. Many instances have been found where incomplete and inconsistent cost data have misled management into faulty planning. More than \$110 million is spent on

common services now provided free of charge to the user departments. These free services include accommodation, furniture, power, franked mail, superannuation and other employee benefits. Unless these costs are charged, user departments cannot be expected to be conscious of the costs or to have an incentive for more efficient utilization.

*We therefore recommend that:* The costs of major common services be charged to user departments.

#### *Other Controls*

The importance of budgeting as a control technique in industry has been described earlier. If, in addition to the budget, there is a well-planned system of management reports, results can be communicated to higher levels of management in such a way that deviations from the budget plan are highlighted and appropriate action can be taken.

The principal financial statements now in use are produced by the Comptroller of the Treasury. These are monthly statements showing the cash disbursed, outstanding commitments, and unspent balances for each appropriation by allotment. Generally speaking, other than some statistical accounting data, these are the only financial reports available for use by the departments, the Treasury Board and the Minister of Finance. Management reports, showing expenditures incurred on an accrual basis for each month and year to date at each level of operating responsibility, are not available and are not compared with amounts budgeted for the period.

In industry, most periodic reports are for internal use only. Since present reporting techniques in government are geared to the purposes of external control agencies, there has been little development of reports for managerial control within the departments themselves. However, the recommendations for increased delegation of authority to departments and agencies, subject to control at the policy level only, will accentuate the need for adequate internal reports for the use of both departmental management and the central financial authority.

*We therefore recommend that:* Departments and agencies adopt modern management reporting techniques.

Internal auditing is a management device used widely in large industrial concerns to maintain a high standard of performance. The internal audit depends for its economy and effectiveness on the adequacy of what is known in industry as internal control. This relates to the arrangement of duties and division of work in such manner that one employee, independently following

his work assignment, is automatically checking (but not duplicating) the work of another. A practice generally followed in government is to employ large clerical staffs to perform routine, repetitive checks, designed to turn up errors; this should be replaced by a properly planned system of internal control. Reference to the report on "Paperwork and Systems Management" will provide numerous illustrations of the immense cost of the checking procedures presently employed in the public service.

At the moment, very few departments have internal auditors engaged in verifying the accuracy of accounting records, the adequacy of internal control, and compliance with departmental directives. The Comptroller of the Treasury, through his Audit Services Division, verifies the accuracy of certain manufacturers' and contractors' records, primarily for contracts issued by the Department of Defence Production. As a service to certain departments, this Division also carries out some internal audits, primarily of revenue and mainly concerned with the correctness of the accounts rather than with the performance of management.

With the recommended transfer of the pre-audit responsibility to departments, there is no particular reason for the retention of supervision of the Audit Services Division by the Comptroller of the Treasury, and the verification of costs of outside suppliers could better be done by the purchasing departments. Should the expert accountants of the Audit Services Division be transferred to the departments, they could continue to perform their present duties and would also serve as a qualified nucleus for internal audit groups. Such transfers would prove an effective stimulus to those departments and agencies that have already taken steps to create internal audit sections.

*We therefore recommend that:* Departmental management be responsible for establishing and maintaining a proper system of internal audit.

### *Revenue and Cash Management*

The House of Commons and Treasury Board maintain continuing scrutiny over expenditures, but neither intervenes to any extent in the collecting process, although the exercise of departmental discretion may be far-reaching. This is because two automatic safeguards are characteristic of revenue management: first, the Crown's constant need for money makes obligatory an efficient collecting system and, second, aggrieved persons enjoy right of access to the courts for relief against any illegal levy.

The ministerial head of a collecting department may rely exclusively on the advice of his officers in deciding a matter involving a substantial sum of reve-

nue, but he often has quite limited discretionary powers where a fraction of the amount is to be spent under the authority of a vote. Because of this, reviews of administrative practices disclosed that there is, generally, greater proficiency in the collecting of tax revenue than in public spending.

Some inconsistencies have been observed in legislation relating to tax collections. For example, only the Income Tax Act permits the taking of a mortgage on property of a taxpayer as security for taxes due but not paid. Another exception is that only the Income Tax and Unemployment Insurance Acts provide that, on production of a certificate of indebtedness to the Exchequer Court, proceedings may be taken thereon as if the certificate were a judgment of the Court. It is also difficult to reconcile the reasoning behind penalty provisions in various taxing statutes. Some are harsh, while others are nominal. On another level, most taxes can be paid by ordinary cheque, but payment by certified cheque or cash is necessary for customs duties.

*We therefore recommend that:* Consideration be given to making more consistent and generally applicable any special powers granted to enforce tax collections.

Many non-tax statutes provide that the Governor in Council may fix scales of fees and charges for licences granted, services rendered, etc. In one statute, it is observed that the scale of fees is to “be regulated so that they will, as nearly as may be, meet the cost of carrying this Act into effect”, but this is exceptional.

Instances were noted where collections far exceed cost—the fee derived from incorporating a company is an example. Conversely, there are cases where revenues fall far short of costs, as in the administration of the Canada Grain Act. Where rates are fixed by statute, legislative adjustments lag behind increases in operating costs. The rate fixed by statute for carrying second-class mail is an illustration. It was also observed that the only prerogative fee (the charge for passports) results in a substantial profit to the Crown.

In days long gone, collections were used to finance directly various public services. For example, customs officers were compensated by a percentage of their collections; postmasters were paid out of their receipts; toll roads were common and wharfingers earned a living out of tolls collected on goods crossing wharves. This had the effect of automatically regulating the dimensions, standards and costs of a variety of public services. Sometimes, payments are still made out of revenues but the system no longer acts as a check on expenditures.

The 1951 Old Age Security Act is a modern adaptation of the technique. The Act imposes special income and sales taxes to finance pension payments and requires that, if the Minister of Finance be of opinion that the resulting revenue

will be inadequate, he is to report to the House of Commons "what measures he recommends for the purpose of increasing the revenues of the Fund".

Public administration is now so diversified that, where possible, an economic relationship between income and cost of a variety of public services should be maintained.

*We therefore recommend that:* All scales of fees and charges, which are fixed by either statute or regulation, be periodically reviewed to the end that revenues and expenditures be related.

The procurement and management of stores is discussed in detail in other reports of your Commissioners. It is an axiom of financial management that irregularity in the use or disposal of stores is equivalent to an illegal appropriation of money. This is also true in government when stores, acquired as a cost to one vote, are applied to the purpose of another.

In some instances, Parliament has authorized use of revolving funds as a safeguard against this practice. All issues from inventories, financed from revolving funds, are charged at cost to the appropriate vote at the time the goods are used. Where a revolving fund is not used, inventory control is by quantities and the entire cost is charged to the vote at the time of purchase, not when the goods are consumed. Wherever practical, the revolving fund plan is preferred, so as to preserve financial control and to avoid an accumulation of stores beyond current need.

*We therefore recommend that:* Consumable stores be controlled by greater use of revolving fund accounts.

The management of money held by the Crown is the responsibility of the Department of Finance. The Comptroller of the Treasury, as an officer of that department, prepares daily and monthly cash reports; monthly forecasts are prepared by both the Comptroller and the Bank of Canada. No change is recommended in respect of the handling of disbursements and cash balances arising from the activities of most departments and agencies now coming within the responsibility of the Comptroller. However, substantial sums are also held by Crown corporations and other independent agencies. These funds are often in excess of immediate requirements, and the practice is to deposit them in chartered banks or invest them in government securities. At the end of 1960 the amounts deposited in chartered bank accounts by such agencies totalled \$35.6 million. No uniform or consistent policy appears to be followed in connection with such banking transactions.



# 3

## AUDIT OF RECORDS OF THE PUBLIC

Records maintained by the public, either individuals or corporations, must be audited so as to ensure compliance with tax and social welfare legislation and collection of imposts arising therefrom; in addition, claims against the government for cost-plus and other contracts, and refunds, must be verified before payment.

The Taxation Division of the Department of National Revenue audits the books and records of taxpayers to verify the correctness of returns of taxable income. The Customs and Excise Tax Division of the same department is engaged in certain audit activities to verify the correctness of taxes and duties on goods imported into or manufactured in Canada. The Unemployment Insurance Commission examines the records of employers to ensure the accuracy and remittance of deductions from employees' pay. The Audit Services Division, now responsible to the Comptroller of the Treasury, audits the records of certain suppliers to the government. Various regulatory boards and commissions audit activities of companies falling under their jurisdiction for rate-making or other purposes.

Companies may thus be visited by more than one government auditor, but, in most instances, these are inspectors who are versed in the specific matters arising from particular legislation. With one major exception, it would be impracticable to combine these audit functions within a single service. The exception is the audit of payrolls by both Unemployment Insurance and Income Tax auditors. These audits could usefully be combined; for the requisite technical knowledge is comparable, the same records are examined, and the audits are

relatively simple. The records of 400,000 employers in Canada are examined at least every two years by auditors of the Unemployment Insurance Commission, but Income Tax auditors normally restrict their activities to new employers or to those who fail to make prompt remittances of moneys withheld.

*We therefore recommend that:* Payroll audits of the Department of National Revenue (Taxation Division) and the Unemployment Insurance Commission be combined and carried out for the purposes of both authorities by auditors of the Unemployment Insurance Commission.

The auditing requirements of the government necessitate the employment of expert personnel at varying levels of professional competence, and the very magnitude of these operations calls for skilled management of such audit staff and their procedures. Approved techniques in general use by the accounting profession include the maintenance of audit charts or programmes, preparation and retention of orderly working papers, budgets of audit time and the making of audit reports. In this area, the government's procedures too often fall short of an acceptable standard. Although the auditors employed are competent, wide variations were found in the educational requirements and training and development programmes of different audit groups. There are important advantages to be gained by improving supervision and by adopting auditing techniques in general use by the accounting profession.

*We therefore recommend that:* An inter-departmental committee on auditing be established to develop personnel and improve audit standards and procedures.

# 4

## ACCOUNTABILITY TO PARLIAMENT

Financial control and accounting procedures in government must be designed to perform a dual function of servicing management and meeting the needs of Parliament. Thus far, this report has directed attention to the defects in the system and recommended improvements to facilitate the conduct of government business and provide management with the information needed for sound administration. The other equally important purpose of financial control and accounting practices is the provision of information needed by the House of Commons to perform its traditional function as custodian of the purse.

Basic information is provided to Parliament in the Estimates before funds are voted. The form of the Estimates is such that, although a mass of data are presented, it is difficult to determine the uses to be made of funds requested. Even with access to the information supporting the Estimates and used in their compilation, the officers of your Commission were seldom able to compile the cost of any activity on a functional or performance basis. The Estimates, in content and arrangement, tend to frustrate rather than facilitate public and parliamentary scrutiny of the spending programmes of departments. Among the defects are:

- The present classification of the votes does not identify the purposes of the expenditures on a functional basis or by individual programmes or activities.
- The information provided is incomplete; the narrative is not sufficiently descriptive; neither the free services provided by other departments nor the revenues arising from departmental activity are identified with votes or pro-

grammes (improvement in this regard has been made in the 1962-63 Estimates); ordinary and capital expenditures are not separated; and forward commitments are seldom shown.

- The details provided on objects of expenditure are of limited interest and exceedingly voluminous; they should be condensed or omitted.

An illustration of an improved form of Estimates designed to meet the above criticisms is provided in Part II of this report.

*We therefore recommend that:* The form of the Estimates be revised so that the votes will more clearly describe the purposes of expenditure, more comparable and complete supporting information will be provided, and unnecessary detail eliminated.

In the annual Public Accounts, the Executive reports to Parliament on its stewardship of funds appropriated. Following the adoption by the House of Commons of the Second Report of the 1961 Standing Committee on Public Accounts, steps were taken to improve the form and content of the Public Accounts. The revised accounts, though an improvement, could undoubtedly be more useful by deletion of names (Canadian practice is unique in this respect), and the more extensive use of tables. This document will become more illuminating if the recommended changes in the Estimates are adopted, since the Accounts will naturally follow the same pattern of classification by programmes. In addition, brief explanations of the variances between estimated and actual expenditures should be provided.

*We therefore recommend that:* Further improvements be made in the Public Accounts to eliminate unnecessary detail and to explain variances between actual and estimated expenditures.

Canada is an exception among national governments in that the Minister of Finance annually issues a balancing statement of assets and liabilities. This practice originated in 1868, when the Minister was directed to prepare annually a statement exhibiting the state of the Public Debt and the amount chargeable against each of the public works for which any part of the debt had been contracted. The practice then was to borrow for the cost of named works. The statement also disclosed such other accounts as were necessary "to show what the liabilities and assets of the Dominion really are at the date of such statement". No audit certificate was required until 1933.

Criticism of values given to assets became so general that, after World War

I, the Minister of Finance retained outstanding accountants of the day to review the statement. On their recommendation, he deleted upwards of \$300 million from the Assets side on the ground that: "Assets which are not readily convertible, as the specie reserve is convertible, or are not interest producing, are not such assets as ought to be deducted from the gross debt."

During World War II, the Department of Finance introduced a reserve "for losses on realization of assets". Round sum amounts were annually added for a number of years, and the amount is now \$546 million. However, this reserve is not meaningful because no part of the total is identified with specific assets.

Since 1951, legislation directs that the statement consist of such of the assets and liabilities as in the opinion of the Minister are necessary "to show the financial position of Canada" at the year-end. The words "financial position" are ambiguous when a government is involved, since the accounting conventions and principles followed in business and industry are only partially applicable to government.

The balancing figure is described as "Net Debt", which is really the excess of liabilities over the stated value of the assets. It is possible to make the mistake of viewing this as a significant figure, since it purports to represent that portion of the outstanding debt not accounted for by liquid or self-supporting assets. In fact, many of the assets are not self-supporting and others are deferred expenditures. Various items on the liabilities side are also open to challenge as artificial or unrealistic.

From the accounting viewpoint, "Net Debt" is a meaningless and misleading concept. Other countries avoid such perils by publishing statements of outstanding debt. This is accepted as a good yardstick to measure the financial position of the nation, since it indicates what loans, advances or expenditures have been financed by borrowings and not paid for from revenues.

*We therefore recommend that:* The Statement of Assets and Liabilities be replaced by a statement accounting for outstanding debt, direct and indirect, with no reference to net debt.

In the office of Auditor General, Parliament has provided itself with an independent agent empowered to scrutinize in detail the financial administration of the Executive branch and to report his findings to the House of Commons. The Auditor General has to satisfy himself that accounting systems, internal control and other management techniques are satisfactory in order to ensure that public funds are being legally spent. The importance of the audit of the Auditor General will be enhanced with the removal of many of the checks now imposed on departmental management. Because the Auditor General is

an officer of Parliament and not part of the Executive, it is not suggested that he should become involved in the operation of any of the procedures recommended herein. His role should continue to be that of an independent examiner reporting his findings to Parliament.

# 5

## CONCLUSION

Your Commissioners' terms of reference direct attention to steps that may be taken for the purpose of "making more effective use of budgeting, accounting and other financial measures", and also to ways and means of "improving efficiency and economy by alterations in the relations between government departments and agencies, on the one hand, and the Treasury Board and other control or service agencies of the government, on the other". The adoption of the recommendations in this report will require significant changes in these relationships, which are summarized at this point.

Senior departmental management will have substantially increased authority and be charged with responsibility for:

- Planning and estimating financial requirements by programmes, including adequate forecasts of funds required for future years.
- Allocating funds and delegating contract and other expenditure authority to management at the operating level.
- Maintaining control by developing appropriate accounting and costing systems and introducing management reports for each level of responsibility.
- Authorizing expenditures and ensuring the availability of funds, within an adequate system of internal control.
- Securing, on the basis of equitable charges to users, non-tax revenue from the provision of goods, services or privileges.

Some of the responsibilities mentioned above are currently exercised by the Comptroller of the Treasury. This officer, whose title might appropriately be altered to that of Accountant General, the more accurately to reflect the proposed revision in his duties, would perform the following functions:

- Issuing cheques and managing government bank accounts and cash funds.
- Maintaining the central accounts of the government, preparing periodic statements of the financial position on an overall basis, and compiling the Public Accounts.
- Providing, as required, skilled assistance and advice on accounting matters to departments and agencies.
- Administering all superannuation and pension plans, including those of the Armed Forces and Crown corporations.
- Providing automatic data processing facilities on a service basis.

These last two duties relate to suggestions contained in other reports of the Commission and represent new responsibilities for this officer. Transfer of these functions to the Comptroller of the Treasury (Accountant General) will remedy the present unsatisfactory diffusion of responsibility for the administration of pensions and automatic data processing activities.

The office of the Comptroller of the Treasury now employs 4,700 people across Canada and abroad, at an annual cost of over \$21 million. Approximately one-third of the staff is engaged in departments on commitment control and pre-audit tasks. The staffs of the Comptroller and of the departments duplicate these functions to such an extent that the elimination of a second check by the Comptroller should free a large number of Treasury officers for other duties. Departments required to develop their own accounting procedures, however, will need additional staff of high calibre. Treasury officers becoming redundant because of these changes are thus an obvious source for the recruitment of departmental accounting staff.

The new duties proposed for departmental management will in no way limit the powers of the Treasury Board. On the contrary, the recommendations are designed to increase the effectiveness with which the Board performs its vital role. The Board will be responsible for the following aspects of financial management:

- Reviewing and approving the programmes and objectives of departmental management, both annual and long-term, to ensure execution and compliance with government policy.
- Establishing broad principles of administration to ensure reasonable uni-



formity and consistency throughout the public service.

- Concurring in the appointment of the senior financial officer in each department or agency to ensure an adequate level of departmental performance.
- Supervising application of financial policies and practices.

The reports on "Personnel Management" and on "Paperwork and Systems Management" describe other duties which should be assumed by the Treasury Board staff. It is suggested that the division of the staff which would be responsible for advising the ministers on the Board on many of the matters set forth in this report should be known as the Programmes Analysis Division. This Division, like its counterparts, should consist of a small but highly-qualified group of officers. The intent is that none become long-term members of the staff of the Board; instead, they should go back into departments where they can apply the experience gained in Treasury Board work. Consistency between departments and agencies will be secured, not only through application of common administrative policies, but by a deliberate policy of rotation of senior officers between the different departments and the central staff of the Treasury Board.

No estimate can be made of monetary savings arising from this altered relationship of the Treasury Board to departments. Removal of the administrative details which now swamp the Board and frustrate departmental management will undoubtedly enable the Board to discharge its important responsibilities more effectively.

The regular departments of government, which are financed by funds appropriated through Parliament, can readily be brought within the management arrangements visualized in the recommendations of this report. Some of the agencies by virtue of their present organizational form and their relationships to central authority will need to be adapted to bring them within the proposed plan. In reporting on the general plan of organization for the federal government we detail the necessary steps to be taken with respect to these agencies.

Your Commissioners recognize that certain corporate entities are in a special position, either because they are engaged in activities of a commercial nature comparable to private enterprise or because they require, for reasons of public policy, varying degrees of independence from the executive branch. The agencies which, in our judgment, most clearly fall into this category are:

Canadian National Railways and subsidiaries, including Trans-Canada Air Lines; Polymer Corporation Limited; Eldorado Mining and Refining Limited and its two subsidiaries; Canadian Overseas Telecommunication Corporation; Bank of Canada; Canadian Broadcasting Corporation; The Canada Council.

These agencies, it is concluded, should not be brought within the framework of financial management proposed in this report.

In emphasizing the needs of management in the public service, your Commissioners have not been unmindful of Parliament's duty to control the public purse. Both Parliament and the Auditor General should benefit from the recommendations by receiving from the Executive a clearer accounting for moneys spent and a more intelligible forecast of the expenditure programmes of the government. Proposals for improving management, far from impairing Parliament's authority, should strengthen the vital chain of responsibility that links administrators to the representatives of the people.

That objectives such as these are difficult to attain is recognized; that they are fully possible to achieve is evidenced by the experience of other countries. Your Commissioners are convinced that the benefits, both in monetary savings and improved performance, will be very substantial.

## PART 2

# 1

## THE PRESENT ORGANIZATION FOR FINANCIAL CONTROL

### ORIGINS

1 Financial control practices in the Government of Canada have undergone little formal change since 1931, when a major revision in the governing legislation was made. The historical development leading to the 1931 legislation is, therefore, pertinent to an analysis of current practices.

2 The British North America Act carried forward the financial rules and procedures of the former Province of Canada. A single Consolidated Revenue Fund was created into which all moneys received were to be deposited, with Parliament alone enjoying the power to authorize expenditures from the Fund. Such authority was given annually on the basis of Estimates submitted by the Executive, detailing the nature of the proposed expenditures. At the outset, Parliament regulated the Executive most closely in matters relating to the staffing of departments. A board of deputy ministers was directed to submit annually to the House of Commons an establishment or listing of staff positions for each department and, once tabled, the

government was bound by it during the ensuing twelve months. Moreover, Parliament fixed the rates of pay for the few grades of employees then composing the civil service structure.

3 Parliament also created a Treasury Board consisting originally of four cabinet ministers. The function of this Board was declared to be that of supervising all matters relating to finance, revenue and expenditure. At first, the Board met intermittently and concerned itself more with policy than administration. By 1910 the Board had begun the practice of reviewing the Estimates, and progressively assumed a variety of functions. However, the extensive and detailed central control, now exercised by the Board over departmental administration, is a relatively recent innovation.

4 The Consolidated Revenue and Audit Act of 1878 set forth in a comprehensive manner the financial and audit practices which were to govern without substantial alteration until 1931. It established the office of Auditor General and made him answerable for the expenditure of appropriations by requiring him

to countersign all cheques drawn on the Consolidated Revenue Fund.

5 Expenditures under this Act could be made in one of two ways: the claim for payment properly certified could be approved by the Auditor General, following which a cheque was released by the Receiver General; or, on the Auditor General's application, a lump sum could be placed in a chartered bank to the credit of a department, and properly approved officers of the department could draw cheques on this credit until it was exhausted. Progressively, more and more accounts were paid by the latter method, and the Auditor General's review prior to payment became an audit after the payment had been made.

6 Since the accounting records and financial procedures of departments came within the authority of their deputy heads, both the nature and quality of the financial control varied greatly among departments. Votes were over-expended; expenditures were charged to the wrong vote; liabilities were incurred which committed in advance almost the entire amount of votes appropriated by Parliament in the succeeding year; expenditures were made out of revenues; and other questionable practices were often in evidence. The Auditor General could challenge these practices and refuse to issue or renew letters of credit, but this presented a problem since the banks and creditors, both innocent parties, would be the ones to suffer. Eventually, he merely reported to the House of Commons over-expenditures and other practices which he questioned.

7 The growth in the size of departments increased the tendency to over-expend votes. This, together with the lack of means for determining the outstanding liabilities and commitments of the government, made a change imperative. As a result, the Consolidated Revenue and Audit Act was rewritten in 1931 and a new office in the Department of Finance, that of the Comptroller of the Treasury, was

created. He was made answerable for the legality of all charges to votes, and for any over-expenditures. Inconsistencies among departments were reduced by transferring departmental staffs to the Comptroller's office in the Department of Finance. A system of commitment control was introduced whereby funds were reserved out of appropriations to cover expenditures, before obligations were incurred. These amendments also relieved the Auditor General of his responsibility for controlling the issue of cheques and of any power to prevent an expenditure which he considered improper. His duties became solely those of an auditor examining accounts after payment and reporting his findings to Parliament.

8 The Consolidated Revenue and Audit Act was replaced in 1951 by the Financial Administration Act, which further clarified the roles and responsibilities of the Treasury Board and the Comptroller of the Treasury. No significant change in financial legislation has been made since 1951.

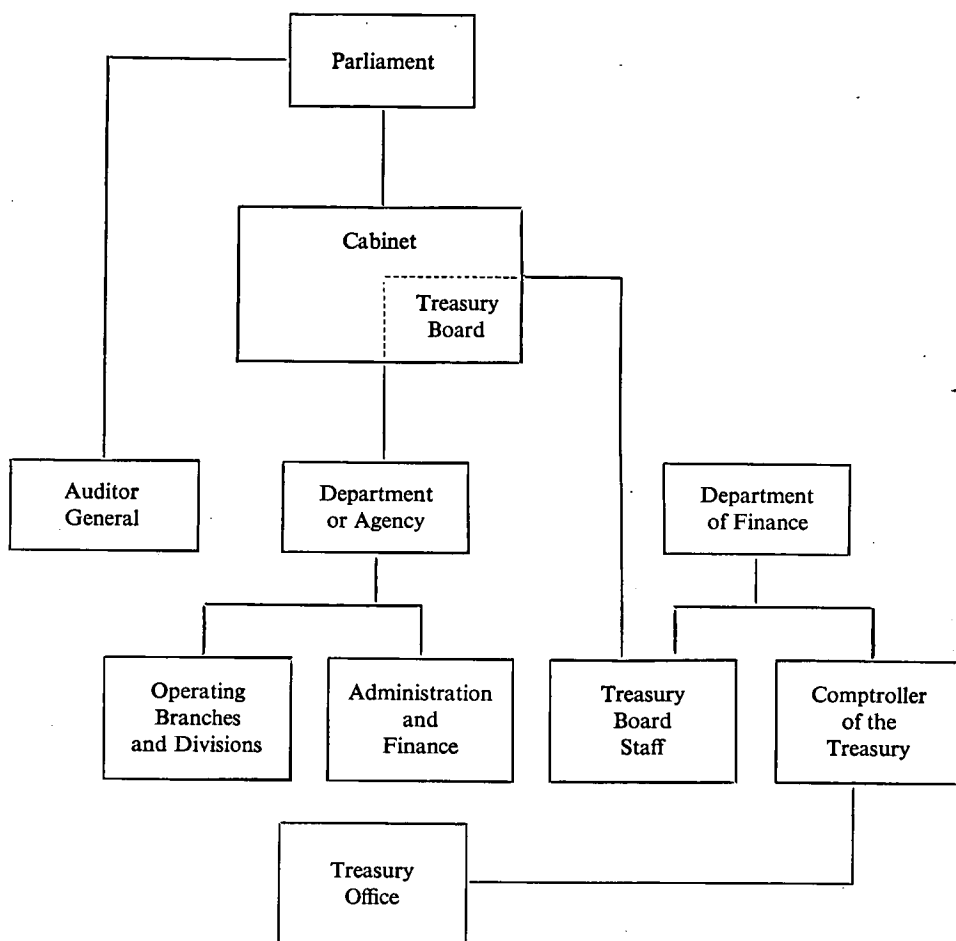
9 This Act, the foundation of the present financial control system, provides "for the Financial Administration of the Government of Canada, the Audit of the Public Accounts, and the Financial Control of Crown Corporations". It determines the roles and responsibilities of the Minister of Finance, the Treasury Board, the Comptroller of the Treasury, and the Auditor General.

10 Chart I concisely depicts the existing organization for financial control, the details of which are developed below.

#### PARLIAMENT

11 Each year, the expenditure programme of the government is submitted to Parliament in the form of Estimates, main and supplementaries, which are reviewed and approved through the enactment of appropriation acts. Each department's expenditure proposals are

Chart 1—PRESENT ORGANIZATION FOR FINANCIAL CONTROL IN THE GOVERNMENT OF CANADA



divided into one or more votes, each vote covering several functions or activities of the department, the intent of the vote being expressed in the narrative. The Main Estimates for the fiscal year ending March 31, 1961, included approximately 500 votes. Each vote governs subsequent expenditures in two ways: the dollar limit mentioned in the vote cannot be exceeded, and all expenditures must conform with the limits prescribed by the wording of the vote.

12 The parliamentary responsibilities are exercised as follows:

- Estimates are tabled by the Minister of Finance for parliamentary consideration.
- The Committee of Supply approves each vote by separate resolution, questioning the appropriate minister, advised by his senior officials, when the votes are considered. Some Estimates may be referred to the House of Commons Estimates Committee

or a special committee, such as the External Affairs Committee, before consideration by the Committee of Supply.

- The Committee of Ways and Means then passes resolutions appropriating moneys out of the Consolidated Revenue Fund to cover the expenses of public services.
- The House of Commons next approves appropriation bills which normally follow the wording and amounts used in the Estimates. Interim supply may be voted to meet departmental requirements pending this final approval.
- Funds become available only when the bills are given Royal Assent.

13 It is important to note that moneys are provided by Parliament to the Executive to be spent within its discretion and not to the management of departments individually. However, where a statute provides that resulting expenditures be a charge to "unappropriated moneys in the Consolidated Revenue Fund", it is not a grant to the Crown but a provision for meeting a statutory obligation. Interest on the public debt and judges' salaries are examples.

14 The Financial Administration Act also provides a method for drawing on the Consolidated Revenue Fund without parliamentary authorization. It is commonly known as the use of "Governor General Warrants". These may not be issued while Parliament is in active session, and a payment must meet the requirement of the Act as being "urgently required for the public good". Practice is to make limited use of this section, but since 1896 the power has been exercised five times to finance general costs of government when Parliament was dissolved before it had appropriated funds for the public service.

#### THE TREASURY BOARD

15 The ministers of the Crown, acting collectively as advisers to the Governor General,

are the Executive in the Canadian parliamentary system of government. Their primary role in the financial control system is to establish the policies of the government which, for their implementation, require the expenditure and collection of public funds. Parliament enacts the necessary legislation and provides the required funds, but the Executive is responsible for the execution of the approved programmes.

16 In practice, the ministers exercise their collective responsibility for policy in Cabinet. Most of the detailed supervision of expenditures has been delegated to a sub-committee, the Treasury Board, which is composed of six ministers with the Minister of Finance as chairman. These ministers meet, generally once a week, to consider and approve proposals made by departments and agencies, or by the Treasury Board staff.

#### *Authority*

17 The Financial Administration Act states that:

5. (1) The Treasury Board shall act as a committee of the Queen's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures and financial commitments, accounts, establishments, the terms and conditions of employment of persons in the public service, and general administrative policy in the public service. . . .
- (3) The Treasury Board may prescribe from time to time the manner and form in which the accounts of Canada and the accounts of the several departments shall be kept, and may direct any person receiving, managing or disbursing public money to keep any books, records or accounts that the Board considers necessary.
- (7) The Treasury Board may make regulations . . . for the efficient administration of the public service.

This and other acts give the Board extensive authority in many additional areas.

18 The powers of the Board are exercised, in most instances, by considering and approv-

ing submissions from departments or agencies requesting funds or authority. The Board, on its own initiative, also issues regulations to give direction and delegate authority to departments. Currently, there are approximately 16,000 yearly submissions reviewed and decided upon by the Treasury Board. The subject matter of submissions made in 1960 is analyzed as follows:

Table 1 — ANALYSIS OF TREASURY BOARD SUBMISSIONS

Acquisition or provision of—		
Buildings, land and works	2,401	
Supplies	1,523	
Ships and aircraft, including equipment	958	
Services	780	5,662
Personnel and associated matters—		
Civil	3,169	
Other than civil	111	
Pension, annuity and compensation plans	1,560	
Travelling, removal and other expenses	627	5,467
Accounting and administrative procedures		
		1,893
Estimates and transfers between allotments		
		1,750
Claims—		
By and against the Crown	342	
Remissions, refunds and drawbacks	167	509
Other—		
Payment of grants and subsidies	220	
Veterans' benefits and regulations	45	
Committees and conferences	13	
Social security	36	
Miscellaneous	192	506
Total number of submissions		15,787

### *The Treasury Board Staff*

19 The Minister of Finance is empowered to designate an officer of the Department of Finance, generally an assistant deputy minister, to be Secretary of the Treasury Board. The Secretary is responsible for preparing the agenda for Treasury Board meetings, attends

the sessions, and provides any additional information required by the ministers. He acts as the administrative head of the Treasury Board staff, composed of approximately 140 employees who are provided by the Department of Finance. The staff is divided into a number of organizational units as outlined in Chart 2 (the number of staff at July, 1961, being shown in parentheses).

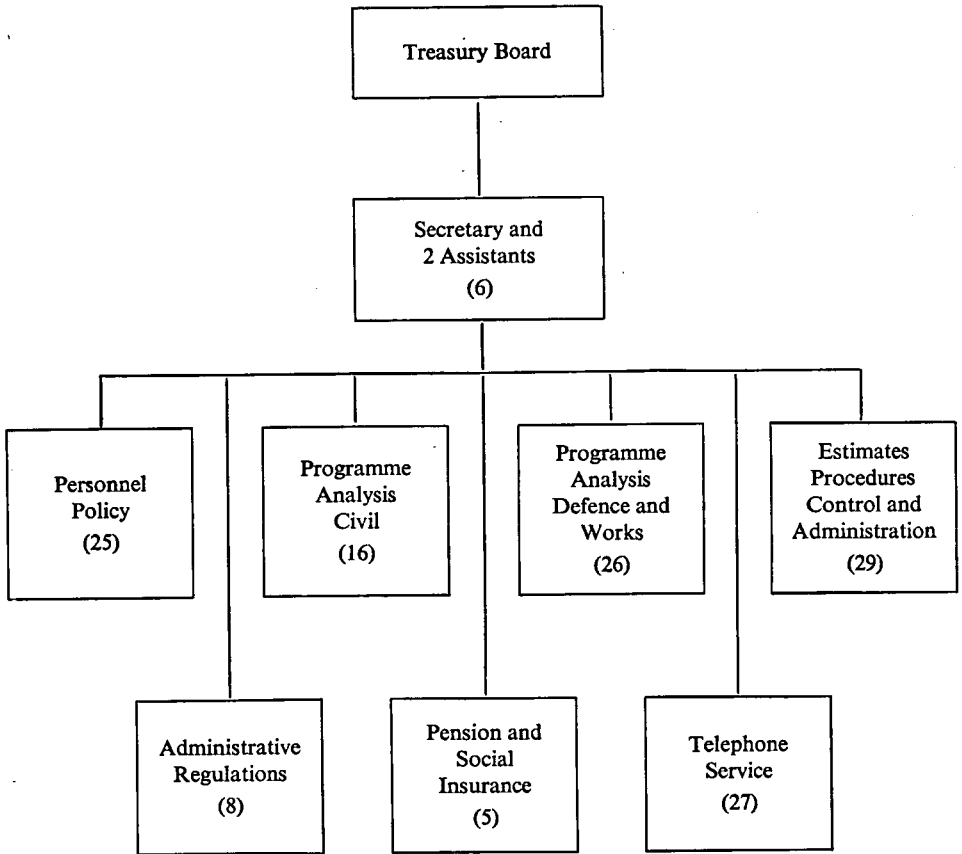
20 The Secretary has two assistant Secretaries, each of whom carries broad responsibilities for staff activities. One is concerned primarily with matters relating to the government as an employer and directs the activities of the Personnel Policy, and Pension and Social Insurance sections. The other is concerned more with financial management, and directs the activities of the sections concerned with Programmes Analysis, Estimates Procedures Control and Administration, and Administrative Regulations.

21 The responsibilities of the sections shown on the chart are as follows:

- The Programmes Analysis sections are responsible for reviewing Estimates and other submissions, and formulating recommendations on general expenditure matters.
- The Defence and Works section processes submissions from Public Works, National Defence, Defence Production, Veterans Affairs, and certain related agencies and corporations. The Civil section deals with all other departments, agencies and corporations.
- The Personnel Policy section formulates recommendations on personnel regulations and processes submissions on personnel matters not delegated to departmental management by these regulations. It also assists the Programmes Analysis sections in assessing the size of staffs requested by departments in their Estimates.
- The Administrative Regulations section is responsible for preparing various types of



Chart 2—ORGANIZATION OF TREASURY BOARD STAFF



administrative regulations and has, itself, been delegated authority to approve expenditures for items such as stationery and office equipment.

- The Estimates Procedures Control and Administration section works in conjunction with the Programmes Analysis units to develop instructions for the preparation of Estimates, arranges for the printing of the annual Estimates, and provides for the staff's internal administration.
- The Pension and Social Insurance section is primarily a staff group advising the Treasury Board and Department of Finance on pensions and insurance matters.

- The Telephone Services section manages the government's telephone system in Ottawa.

22 Four of these sections, the two Programmes Analysis Divisions, the Personnel Policy, and Administrative Regulations groups, are most concerned with financial control and most involved in the day-to-day financial control of departmental affairs.

#### *Review of Submissions*

23 Because of the large volume of submissions from departments and agencies (approximately 300 per week), the Board relies

heavily on its staff to evaluate and make recommendations on each submission. The value of proposals submitted varies from a few to millions of dollars. Submissions are separated functionally, analyzed by an officer of the appropriate group, the more complex proposals being reserved for senior officers. Submissions which have been reviewed between meetings of the Board are gathered together by the Secretary and assistant Secretaries. Since the Board meets for only a few hours each week, the submissions are coded so as to indicate the extent of consideration that it is felt is required of the ministers. In some cases, many routine submissions of the same character may be grouped together and submitted to the Board under a covering list.

24 In reviewing submissions, the staff is primarily concerned with ensuring that the request is reasonable, that the department has considered all aspects of the subject matter, and that the proposed action is in accordance with government policy. The officer responsible for reviewing the submission relies on his knowledge of the department's organization, objectives, plans and programmes, supplemented by detailed, technical questioning by correspondence or telephone. Such questioning is generally informal and based on a close day-to-day working relationship.

25 Many proposals considered to be routine are dealt with on the basis of previous Board decisions on comparable proposals. Although decisions of the Board are circulated among the senior staff, there is no formal system of cross-referencing decisions. Departmental officials, with years of experience in submitting proposals to the Board, refer to many apparent inconsistencies. One department, faced with the problem of the rotation of its own senior financial and administrative personnel, maintains a record of Treasury Board decisions in order to avoid submitting proposals which have little likelihood of approval, or to be able to refer to previous favourable precedents to support its submissions.

### *Calibre of Staff Required*

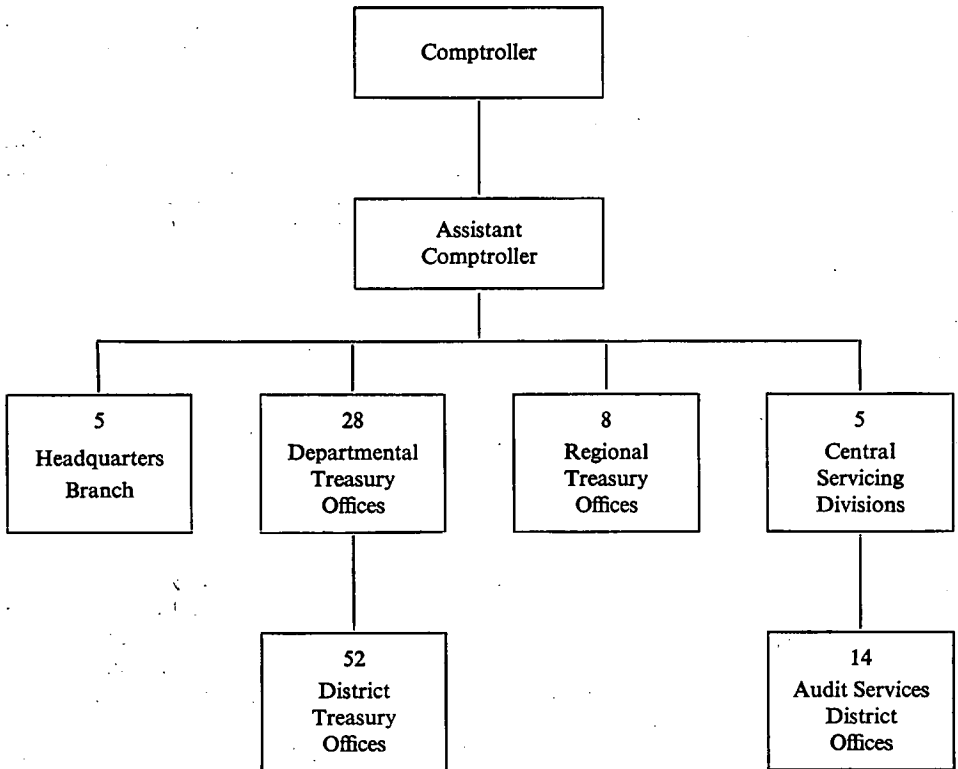
26 The significance of the authority conferred on the Board's staff becomes apparent when it is realized that the Board exercises various degrees of financial control over almost one hundred departments, agencies, commissions, boards and corporations of government. Currently, these spend funds appropriated by Parliament exceeding \$6.8 billion, as well as substantial additional sums earned by revenue-producing corporations which may be spent without parliamentary appropriations.

27 A profile of a typical officer on the staff of the Treasury Board would show him to be thirty-seven years of age, holder of a university degree and, prior to joining the government service, having some two years' employment outside the government, in addition to any time spent on military service or graduate studies. He will have had nearly three years' experience in the government other than with the Treasury Board, and will have been on the staff for some six years.

28 The senior financial and administrative officers with whom the Treasury Board staff are in day-to-day contact commented favourably on the capabilities of the Treasury Board staff, but criticized vigorously their lack of operational or managerial experience at the departmental level prior to joining the Board's staff. Detailed and repetitive questions, which departmental officials find annoying, time-consuming and unproductive, are attributed to this inexperience. This situation is further aggravated by the Board's policy of rotating junior staff within the Board secretariat to enable them to gain a variety of experience. Departmental officers indicated that the inexperience makes the staff of the Board susceptible to proposals that are adroitly presented.

29 The role of the Treasury Board is vital in any system of financial control. Many re-

Chart 3—ORGANIZATION OF THE OFFICE OF COMPTROLLER OF THE TREASURY



commendations in this report are designed to relieve the ministers on the Board of a substantial portion of the detail with which they are now confronted, and which must now of necessity be delegated to the staff. Nevertheless, the Board will continue to need a small, but highly qualified staff to advise it. Such officers should be recruited only from those senior executives of departments whose proven experience in administration will enable them adequately to assess the proposals presented to the Board.

COMPTROLLER OF THE TREASURY

*Authority*

30 The Comptroller of the Treasury is an officer of the Department of Finance, whose

primary responsibility is to enforce the financial decisions of Parliament, the Executive and Treasury Board. The Financial Administration Act states that:

- 31. (2) Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Comptroller may require.
- (3) The Comptroller shall reject a requisition if he is of the opinion that the payment
  - (a) would not be a lawful charge against the appropriation,
  - (b) would result in an expenditure in excess of the appropriation, or
  - (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it.
- 30. (1) No contract providing for the payment of any money by Her Majesty shall be entered into or have any force or effect unless the

Comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into.

- (3) The Comptroller shall establish and maintain a record of all commitments chargeable to each appropriation.
31. (7) Where, in respect of any contract under which a cost audit is required to be made, the Comptroller reports that any costs or charges claimed by the contractor should not in the opinion of the Comptroller be allowed, such costs or charges shall not be allowed to the contractor unless the Treasury Board otherwise directs.
33. (1) Every payment . . . shall be made under the direction and control of the Comptroller by cheque drawn on the account of the Receiver General or other instrument, in such form and authenticated in such manner as the Treasury Board directs.
15. On the request of the appropriate Minister and with the approval of the Minister of Finance, the Comptroller may
- (a) provide accounting and other services in connection with the collection and accounting of public money for a department, and
  - (b) examine the collecting and accounting practices applied in a department, and report thereon to the appropriate Minister.

31 The Comptroller, in performing any of these duties, may request direction from the Treasury Board and, in turn, may be overruled by the Treasury Board on appeal from the minister concerned.

32 The Minister of Finance has delegated to the Comptroller responsibility for maintaining the central accounts of the government, preparing the annual Public Accounts, and for certain cash management functions.

### Organization

33 Chart 3 shows the organization of the Comptroller of the Treasury in January, 1961, indicating, as well, the number of offices in each division.

34 In the fiscal year 1961-62, the organization operated at an annual cost of \$21 million, of which 81% represented salaries; it had an authorized establishment of 4,773, distributed as shown below:

Table 2—LOCATION OF THE STAFF OF THE COMPTROLLER OF THE TREASURY

	<i>Staff</i>
Ottawa—central staff including all Audit Services employees	1,082
—stationed in Treasury offices attached to departments	1,697
Outside Ottawa—regional and district offices	
—in Canada	1,921
—abroad	73
	4,773

35 The significant growth in this staff over the past thirty years is indicated in the following tabulation which shows the actual strength of the Comptroller's office at the beginning of certain fiscal years from 1932 to 1961:

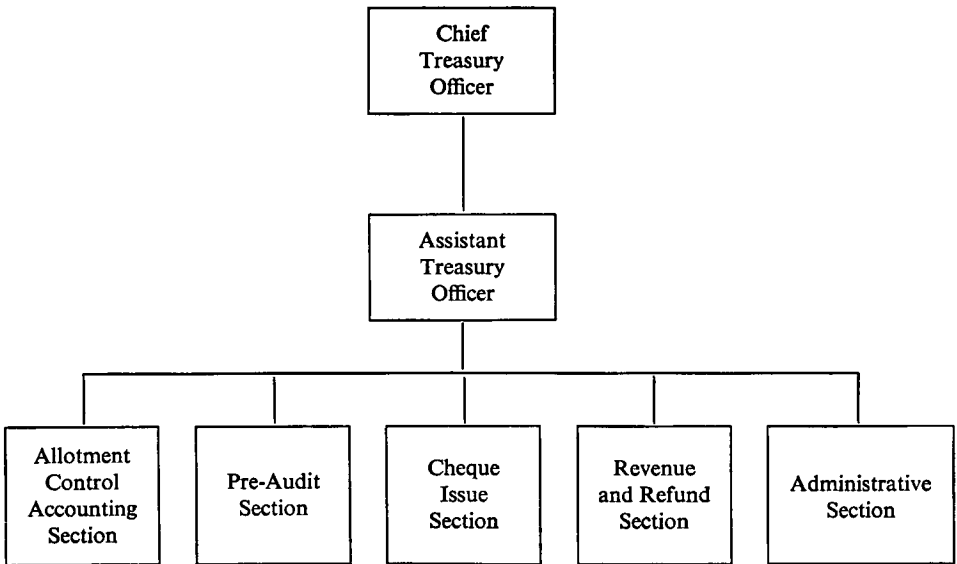
Table 3—GROWTH OF THE STAFF OF THE COMPTROLLER OF THE TREASURY

<i>Year</i>	<i>Staff</i>
1932	961
1939	1092
1940	1723
1946	9258
1947	5510
1955	4186
1961	4551

36 The responsibilities of the offices or branches identified above may be briefly summarized as follows:

- Departmental, district and regional Treasury offices service the various departments or agencies of the government. Departmental Treasury offices are usually located within the headquarters complex of the department to which they are attached, in space provided by the department. The

Chart 4—TYPICAL ORGANIZATION OF A TREASURY OFFICE



district offices, coming under the authority of departmental Treasury offices, are established to provide better service for departmental activities outside Ottawa. District offices may service more than one department, but regional offices are generally established where several departments are involved. Regional offices report directly to the Comptroller.

- The five branches at headquarters provide accounting advice; forecast cash requirements; prepare the Public Accounts and other central accounting reports; advise on authorities given by statutes, regulations, etc.; prepare manuals and supervise, coordinate and provide administrative services, including inspections and studies of systems and procedures.
- The central servicing divisions provide other offices and departments with those services which benefit from specialization or centralization, such as: cost audits; compilation, audit, issue and recording of pay and superannuation; cheque issue and reconciliation; and custody of securities.

37 The organization and procedures of departmental Treasury offices vary with the size and special needs of the department being served. However, as indicated in Chart 4, five functional units are discernible in most offices.

38 The Chief Treasury Officer, although similar to the chief accountant of a commercial enterprise, does not generally form part of the management team of the department. The functions of the various units will be described in later chapters of this report. The majority of this staff is clerical, performing work of a routine nature. Very few of these employees have professional accounting qualifications. Personnel with such qualifications are generally assigned to the Audit Services Division where they perform a cost audit function and seldom participate in the other financial control and accounting functions that occupy most of the Comptroller's staff. The following distribution, taken from the 1961-62 Main Estimates, shows the number of positions by salary range:

**Table 4—SALARY DISTRIBUTION OF THE STAFF OF THE COMPTROLLER OF THE TREASURY**

<i>Salary Range</i>	<i>Numbers</i>
\$	
Over 15,000	2
7,500 to 15,000	158
5,000 to 7,500	639
4,000 to 5,000	1,667
Under 4,000	2,307
Total	<u>4,773</u>

**AUDITOR GENERAL**

39 The Auditor General, an officer of Parliament, is responsible for conducting a post-audit of financial transactions and reporting thereon to Parliament. He is entitled, at all convenient times, to free access to all files, documents and other records relating to the accounts of departments, and to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper conduct of his duties. His officers are stationed, where necessary, in the various departments and agencies to enable him to carry out his duties effectively.

*Authority*

40 The Financial Administration Act states that:

67. The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
- (a) the accounts have been faithfully and properly kept,
  - (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
  - (c) money has been expended for the purpose for which it was appropriated by Parliament, and the expenditures have been made as authorized, and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

70. (1) The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
  - (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
  - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
  - (d) an expenditure was not authorized or was not properly vouched or certified,
  - (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
  - (f) a special warrant authorized the payment of any money,
- and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

*Organization and Function*

41 The Auditor General's office is organized on a sectional basis, each section dealing with a number of departments, agencies and corporations. Field staffs have recently been established in various cities in Canada. The Estimates for 1961-62 provided \$1,135,400 for the office, and an establishment of 159.

42 The audit of departmental financial transactions is primarily an audit of expenditures. Generally, all accounts, vouchers and other accounting documents are made available for post-audit to the Auditor General's representative in the department. Examinations are normally made by means of tests, the extent being determined by the nature of the transactions and the state of the accounts under review. The audit groups in the various departments also audit revenue, stores and other matters. The audits of Crown corporations are similar to those performed on private companies by professional public accountants.

43 Increasingly, in recent years, it has been the parliamentary practice to refer the Auditor General's report and the Public Accounts to the Public Accounts Committee of the House of Commons. This Committee considers his report, questions the Auditor General and representatives of departments, and makes such recommendations to Parliament as it considers necessary.

#### DEPARTMENTS AND AGENCIES

44 Departments vary both in size and function. The managing of government departments embraces every area of activity normally found in industry. It follows, therefore, that the pattern of financial control required to carry out these activities is varied to meet specific departmental needs. Departments and agencies plan and carry out the programmes of the government; their senior management is responsible for establishing objectives and policies, organizing manpower resources, planning programmes and activities, and developing new programmes for submission to higher authorities, whose necessary approval must be obtained. Departments are responsible for developing and substantiating the annual Estimates and, when approved, for allocating the funds among the various levels and spending units in the department.

45 To illustrate certain statutory financial responsibilities of departments, the Financial Administration Act states that:

31. (1) No charge shall be made against an appropriation except upon the requisition of the appropriate Minister of the department for which the appropriation was made, or by a person authorized by him in writing.
32. No payment shall be made for the performance of work or the supply of goods or the rendering of services, whether under contract or not, in connection with any part of the public service, unless, in addition to any other voucher or certificate that is required, the Deputy of the appropriate Minister or other officer authorized by such Minister certifies  
(a) that the work has been performed, the

goods supplied, or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable, or

- (b) where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is in accordance with the contract.

46 Financial management has attained different degrees of sophistication in the departments of government. Some, due to their diverse activities and functions, have been forced to adopt techniques of control that have not yet become necessary in small departments. A few large spending departments have an assistant deputy minister (financial) or a financial adviser, with duties that include responsibility for preparing and supporting the Estimates, and controlling departmental expenditures. This officer is normally responsible for liaison with the staff of the Treasury Board and the Comptroller of the Treasury.

47 The Financial Administration Act classifies most of the departments, agencies, boards and corporations of the Government of Canada into four groups, each subject to various degrees of control by the Treasury Board and the Comptroller of the Treasury. Other controls or restrictions may be imposed by the acts establishing the individual agencies or corporations. Greatest freedom is given to those corporations of a commercial nature which are able to finance all or a substantial portion of their expenditures out of the revenues that they earn. Controls are more stringent over departments and agencies financed out of funds appropriated by Parliament.

48 The financial systems and procedures described in this report are primarily those of the latter group, although they may apply in a modified fashion to the other agencies. Normally, the agencies with greater freedom follow financial procedures which correspond more closely to those followed in commerce and industry. Except in those areas covered

by centrally-imposed regulations, great variations were found in the financial procedures and practices of individual departments and agencies. Examples of these variations will recur in this report, but they should not be regarded as an exhaustive description of all the patterns in use.

#### FINANCIAL CONTROL SYSTEMS IN OTHER GOVERNMENTS

49. The ensuing detailed account of financial control procedures in Canada may be usefully prefaced by a brief description of the systems employed in the United Kingdom and in the United States.

##### *United Kingdom*

50. Parliamentary control is generally similar, at least in form, to that applied in Canada. Unlike Canadian procedures, no new proposals may be submitted by any minister to the Cabinet until the financial implications have been reviewed by the Treasury. The Treasury, while maintaining some day-to-day control over expenditures, delegates to each department's accounting officer authority to incur expenditures within the limits prescribed by Treasury regulation, relying on the post-audit by the Comptroller and Auditor General to reveal irregularities or over-expenditures. Other controls imposed by the Treasury are again somewhat similar to those of the Canadian Treasury Board.

51. Departmental responsibility and accountability rests with the accounting officer, usually the permanent head of the department. He is charged with the responsibility for ensuring that public funds entrusted to his care are properly safeguarded and spent only for the purpose intended by Parliament. If he is overruled at any time by his minister, it is his duty to place on record his objections to the proposed expenditures, but the expenditure is not held up. In Canada, if the Comptroller of the Treasury objects to an expendi-

ture, no payment is made unless the matter is referred to the Treasury Board, and the Comptroller's objection specifically overruled.

52. The role of the Paymaster General is to place at the disposal of departments, on advice of Treasury, the funds required to meet their expenditures. The departments disburse these funds within the authority of the parliamentary appropriation, and within the powers delegated by Treasury.

53. The Comptroller and Auditor General, responsible to and removable only by Parliament, examines and reports on expenditures of departments. He must satisfy himself that moneys are spent by departments in accordance with the purposes intended by Parliament. His reports are referred by Parliament to the Public Accounts Committee where an accounting officer must be prepared to defend his accounts, not only as to their propriety and regularity, but also on the grounds of sound and prudent administration.

54. The United Kingdom system of financial administration places primary responsibility and accountability with the permanent heads of departments. The Treasury is not burdened with the details of administration. Commitment control, if any, is exercised by departments, although Treasury approval must be obtained for forward commitments where substantial expenditures are spread over a period of years. Broadly speaking, control is decentralized, with certain checks and balances to ensure that parliamentary and Executive wishes are observed.

##### *United States*

55. The United States system of financial control has differences that reflect the basic dissimilarities in its form of government. Four organizational groups are involved in the expenditure process.

56. Each agency or department is responsi-



ble for formulating, presenting and justifying its estimates, and its management is held accountable for maintaining expenditures within the limits of appropriations and for certifying the legality of all payments. Such agencies are thus subjected to fewer external controls over the daily management of their affairs than is the case in Canada.

57 The Bureau of the Budget, with a staff of approximately 400, reports to the President, and is responsible for the preparation of the budget, improvement of government organization and management, legislative analysis and review, and co-ordination and improvement of federal statistics. The Bureau is similar to the Canadian Treasury Board in its role of reviewing departmental estimates. However, in Canada, the Estimates presented by the Executive to Parliament are seldom changed, and then only with Executive concurrence; whereas, in the United States, Congress may and does alter substantially the amounts and the wording of appropriations, often after hearing testimony from agency and Bureau personnel. The Bureau exercises no detailed control over expenditures, once the budgets are approved.

58 The Comptroller General, appointed for fifteen years and not thereafter eligible for appointment to any public position, is responsible to Congress for independently auditing receipts and expenditures, and assisting in the establishment of accounting systems based on recognized accounting principles. The work is carried out by the General Accounting Office, which reports to him and employs a staff of approximately 5,000. This Office, at the request of the heads of departments and agencies, and of disbursing and certifying officers, renders decisions on the legality of proposed payments or transactions. Such decisions are binding on the Executive.

59 The Bureau of Accounts, a branch of the United States Treasury Department, maintains the control accounts of the government for assets, liabilities, expenditures and receipts; produces reports for the information of the President, the Congress and the public, designed to reflect the results of the financial operations of the government; and issues cheques for most government agencies through a number of field disbursing offices. Detailed accounting records, however, are maintained by the agencies themselves.

# 2

## EXPENDITURE CONTROL

### INTRODUCTION

1 The implementation of most government policies requires expenditure of money. The broad nature of these expenditures can be seen from the following analysis of the Main Estimates for 1961-62:

Table 5—ANALYSIS OF MAIN ESTIMATES, 1961-62

	<i>Amount</i> (\$ thousands)	<i>% of</i> <i>Total</i>
Administration	439,954	6.4
Operation and Maintenance	1,835,417	26.8
Capital	675,791	9.9
Grants, Subsidies, etc.	1,346,125	19.7
Pensions, Welfare, etc.*	1,409,497	20.6
Cost of Borrowings	773,124	11.3
Loans, Investments, Advances	107,188	1.6
Other	250,420	3.7
Total	6,837,516	100.0

\*Includes expenditures from the Old Age Security Fund of \$606,570,000.

2 The managements of all departments and agencies are deeply involved in spending funds in many of these categories, particularly expenditures on administration, operation and

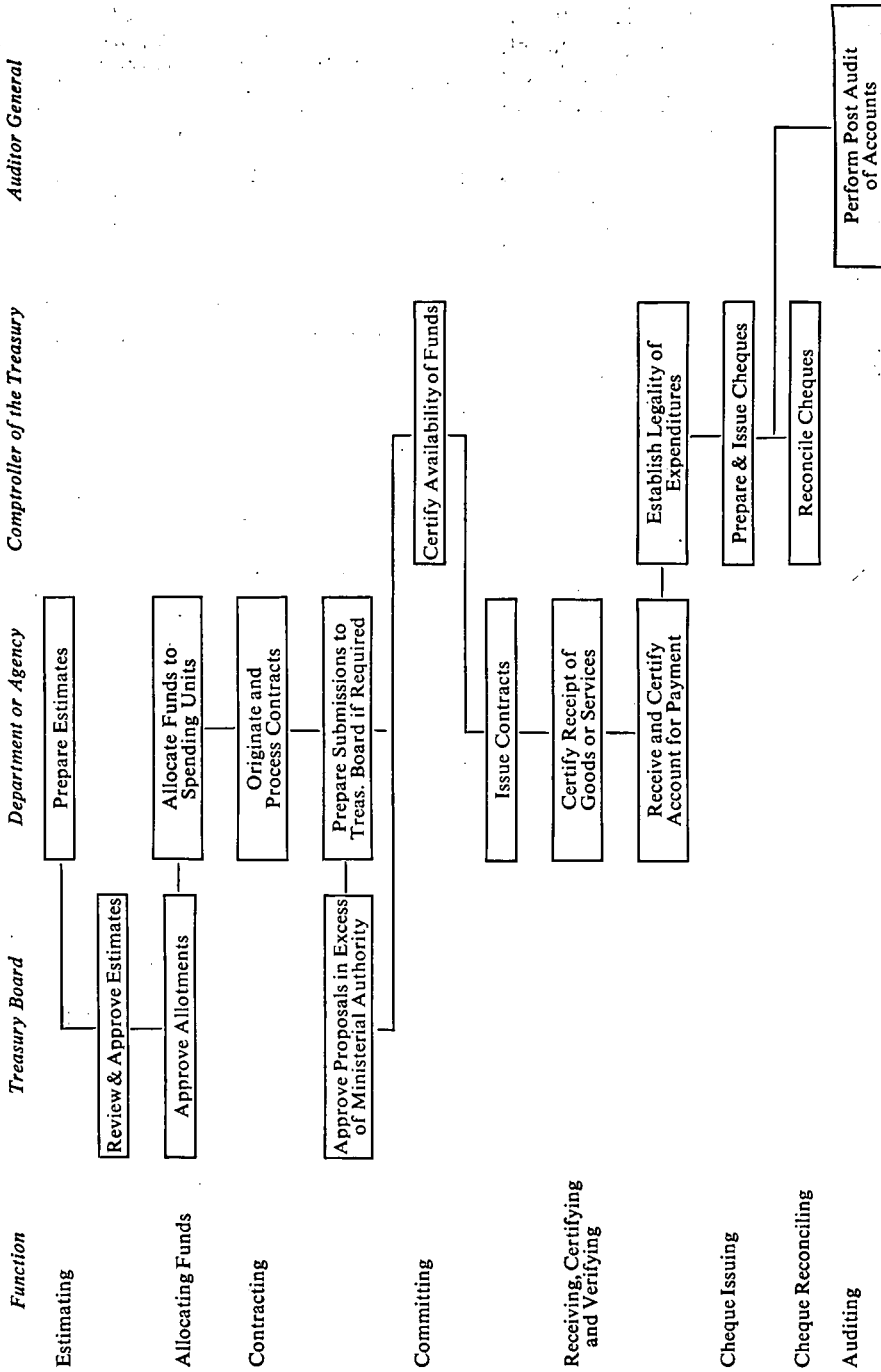
maintenance, and capital. The Executive, through the Treasury Board, is vitally concerned with controlling expenditures in order to ensure that the government's objectives are achieved.

3 Chart 5 illustrates chronologically the sequence of activities making up the expenditure process. Chart 6 shows the allocation of responsibilities for the various functions forming part of the process.

4 Four basic problems have to be weighed in considering the effectiveness with which the present process operates. First, does the management of departments have adequate authority to carry out its responsibilities? Second, is departmental management held accountable for performance? Third, does the Executive provide adequate directions to departments, without imposing controls which detract from effective management? Finally, within those areas of responsibility assigned to departments, is financial management effective? A detailed description and analysis of the expenditure process is required in order to determine the answer to these questions.



Chart 6—SUMMARY OF THE EXPENDITURE PROCESS IN GOVERNMENT



## ESTIMATING

5 The annual Estimates book is the fundamental planning document of government, and its preparation is the first step in the expenditure process. The Financial Administration Act states that:

25. All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year.
35. The balance of an appropriation granted for a fiscal year that remains unexpended at the end of the fiscal year shall lapse, except that during the thirty days immediately following the end of the fiscal year a payment may be made under the appropriation for the purpose of discharging a debt payable
- (a) during or prior to the fiscal year, or
- (b) during the said thirty days for goods received or services rendered prior to the end of the fiscal year, and such payment may be charged in the accounts for the fiscal year.

The Main Estimates contain all known programmes at the start of the year for which funds must be voted and also the financial requirements for continuing programmes authorized by statute. During the course of the fiscal year, Supplementary Estimates are prepared to provide for those financial requirements that were unforeseen when the Main Estimates were presented in the House of Commons.

6 Main, Supplementary and Final Supplementary Estimates, during the period 1951-52 to 1961-62, excluding non-budgetary loans, investments and advances, and expenditures for the Old Age Security Fund, may be tabulated as in Table 6.

### *Departmental Organization for Preparing Estimates*

7 The responsibility for preparing Estimates varies among departments. Some departments assign the primary responsibility for co-ordinating the Estimates to a senior financial or administrative officer. In other departments, responsibility is split among personnel

Table 6—CLASSIFICATION OF ESTIMATES

Year	Main Estimates	Supplementary Estimates	Final Supplementary Estimates	Total
(\$ thousands)				
1951-52	3,586.9	143.7	201.8	3,932.4
1952-53	4,298.6	77.2	74.1	4,449.9
1953-54	4,404.3	29.1	96.4	4,529.8
1954-55	4,491.8	22.0	50.8	4,564.6
1955-56	4,360.2	114.1	22.3	4,496.6
1956-57	4,526.1	153.5	89.8	4,769.4
1957-58	*4,827.6	145.3	187.6	5,160.5
1958-59	5,178.8	144.8	282.8	5,606.4
1959-60	5,595.9	86.1	116.8	5,798.8
1960-61	5,732.2	169.9	178.2	6,080.3
1961-62	6,123.8	355.8	122.8	6,602.4

\*Includes portion authorized by warrants approved by the Governor General.

at various levels of management, some of whom are relatively junior. Because of the vital importance of the Estimates, it is essential that the senior financial officer of every department be made responsible, not only for co-ordination and efficient preparation, but for development of improved estimating techniques.

8 Generally, operating and maintenance activities are first computed by line personnel in the field, and administrative and capital requirements by personnel at headquarters. However, cases were noted where departmental personnel, responsible for carrying out a programme and spending the funds, did not participate in the preparation of the Estimates. Two departments with extensive operations throughout Canada, including many remote locations, until recently prepared most of their Estimates with only limited participation by field personnel. The reluctance of these departments to delegate responsibility to field personnel apparently stemmed from a fear that over-estimating would result, since each officer would probably include a safety margin for contingen-

*Exhibit 1*—ESTABLISHMENT SUBMISSION

<i>Transport Canal Services—Operation and Maintenance</i>				
<i>Canal</i>	<i>New Year Proposed</i>	<i>Current Year Approved</i>	<i>Change</i>	<i>Strength</i>
Technical Officer.....	1	1	0	
Canal Maintenance Superintendent..	2	2	0	
Maintenance Superintendent.....	0	1	-1	
Bridgmaster.....	7	7	0	

Canalman.....	21	20	1	
Canal Craftsman.....	3	0	3	
Technician.....	0	3	-3	
	138	128	10	120

General: Net change in numbers = 10

A Canalman is required to help speed up passage of ships through the Canal. Present rate of passage does not create bottlenecks, but strong representation has been made for a speed-up in the rate of passage by the ship owners.

cies. In fact, when greater field participation was permitted, there was a reduction in the portion of their Estimates which remained unspent at the year-end. A budget is an invaluable means of directing and controlling operations. Maximum benefits can only be obtained if all levels of management are involved in the preparation of Estimates. Field management and junior levels of management at headquarters should prepare the details according to broad objectives and procedures established at top levels in the departments.

*Establishments*

9 A listing of staff positions, termed "establishments", is considered in advance of the

remainder of the Estimates. For each vote involving personnel expenditures, departments estimate the number of personnel required in each classification for the new year. The positions which were approved for the current year, the number of staff on strength at a recent date, and the reasons for proposed changes, are submitted in support of the Estimates.

10 For example, the establishment requirements for the operation and maintenance of a canal might be submitted as in Exhibit 1.

11 All establishment submissions are summarized by the staff of the Treasury Board, and a goal is set by the Board before reviews

are commenced. A target is established for each department prior to the review of the proposed establishment by an Establishment Review Committee. These Committees are chaired by a representative of the Civil Service Commission, with representatives of the department and of a Programme Analysis Division of the Treasury Board staff. A member of the Personnel Policy Division of the Treasury Board staff may also participate as an observer.

12 Normally, the Committee reviews are completed by September 15th, and within the following two weeks the reports are considered by the Civil Service Commission and forwarded to the departments. In this way, there is sufficient time for decisions to be incorporated into the later Estimates submission to the Treasury Board.

13 Generally, this review results only in small reductions compared with the number of positions requested. The targets given to the Treasury Board staff are usually expressed in absolute numbers, and a department forced to make a decision to come within the target usually chooses to retain the more expensive or senior position and drop the necessary supporting staff. Positions approved in previous years that have become redundant are seldom voluntarily omitted from the establishment proposed by the department; this practice provides a safety factor for arbitrary reductions or later increases in workload. Since the emphasis is placed on the increase rather than the total staff requirement, too often it is assumed that positions approved in the previous year are still needed.

14 Salary and wage costs should not be considered in isolation from other costs, since these often vary directly with the number and quality of the employees available for all activities. Scientific departments, in particular, state that their ability to undertake or expand programmes depends on the number of scientists authorized in this review.

Because of the emphasis on the total number of employees, the Board often imposes arbitrary reductions without singling out the specific positions to be eliminated. Accordingly, certain departments state that they can accept no responsibility for adjusting the amounts of the other costs included in their Estimates which have been based on the establishment originally submitted. Sound planning and control require the consideration of all elements, particularly manpower, in programme budgeting. Discontinuance of the review of establishments would eliminate some of the detailed control now exercised by Treasury Board, and would improve budgeting by providing more time for the consideration of programmes on a comprehensive basis.

#### *Preparation of Estimates*

15 During the review of establishments, but as a separate activity, departments and agencies prepare the information which must be submitted to the Treasury Board to substantiate the balance of their financial requirements. Only continuing programmes approved in prior years and new programmes approved by the Treasury Board prior to the submission may be included. New programmes not previously approved must be held over for another year or for supplementary Estimates in the same year.

16 The form of the Estimates submission is set forth in a manual issued by the Treasury Board. Each vote must be detailed individually. The programmes to be undertaken as a charge to the vote are described, as are the personnel and other requirements to be employed in their performance, with reasons for any increase or decrease in the total amount requested. Departments are also required to submit comparisons of past years' expenditures, lapsing balances and income associated with the vote. Each object of expenditure making up the vote is detailed separately in a similar manner.

## Review of Estimates

17 When the departmental Estimates are submitted to the staff of the Treasury Board, the appropriate officer of a Programmes Analysis Division reviews the details, and discussions take place with the senior departmental officers responsible for the Estimates. Some changes may be agreed on—items of disagreement are referred to higher Treasury Board and departmental personnel. Remaining differences are summarized, with both arguments being set forth for the Board's consideration. The ministerial head, supported by senior officials, usually attends the meeting of the Board at which the Estimates of his department are considered, and is generally heard before the final decisions are made.

18 Alterations are usually made at each review stage within the department and the Treasury Board. For example, the amounts of the RCAF Main Estimates for 1961-62 at the various stages were as in Table 7.

Table 7—RCAF MAIN ESTIMATES (1961-62)

	<i>Operating and Maintenance</i>		<i>Capital Total</i>
	(\$ Millions)		
Original Estimate by Programme Administrators	535.0	301.1	836.1
RCAF final draft	529.7	260.1	789.8
Department submission to Treasury Board	536.9	242.3	779.2
Approved by Treasury Board	536.7	241.9	778.6

19 The alterations made at different stages in the review process follow no clear-cut pattern. The quality of reviews conducted within departments, and the confidence that the Treasury Board and its staff have in the individuals conducting these reviews, both appear to have an effect. Certain departments state that they rarely have cuts imposed on them; others that, although reductions are made by the Treasury Board, programmes have seldom had to be dropped. This indicates in the latter case that, in the review at

the departmental level, safety margins were left to absorb such reductions. Certain departments have found that standards developed to justify their Estimates are not accepted by the Board's staff, and that they are subjected to the same arbitrary cuts as departments without standards. One department, which has developed priorities for a number of years, only recently communicated these priorities to the Board's staff. The department apparently feared that the Board's staff would use these priorities to eliminate all low priority projects. This resulted in waste, because projects in a poor state of preparation were often left in and carefully prepared projects deleted.

20 In summary, the review of the Estimates depends for its effectiveness on close co-operation between departmental and Treasury Board staff. The present review is excessively detailed in relation to the control exercised and the results achieved. The review is a highly subjective process both at the senior level in departments and at the Treasury Board level, because the only objective standards used are historical. The Estimates must originate with personnel spending the funds and be tested against standards properly developed. Departmental personnel should develop standards appropriate for their operations; Treasury Board staff should set standards for common application. Both groups should continuously subject the established standards to further review and refinement. The Estimates are of fundamental importance to the efficient management of government. Most of the time and effort going into other controls and checks would be unnecessary if the original estimating process were conducted more effectively.

### Long-Term Planning

21 One other aspect of Estimates preparation which requires consideration is the use of long-term plans in the formulation of annual Estimates.



22 In this respect, the Department of National Defence leads other departments surveyed. The programmes of all Services are assembled into a plan covering the current and three succeeding fiscal years. When a new programme is proposed, usually by an operating division of the Services, it is reviewed within the Service concerned by its Chief of Staff, and then by the Joint Chiefs of Staff. Approval in principle may be given at this point or, if the programme is of major importance or has political significance, approval of the Defence Committee of Cabinet may be sought. These programmes are then included in the forward planning document, together with remaining portions of other current programmes.

23 Efforts are made to assemble total programme costs in this document. For example, capital, personnel, operating and maintenance costs are estimated for current and future years by each programme. The forward planning document is first reviewed by the Chiefs of Staff Committee, and then presented to the Minister for his agreement. The Minister consults the Cabinet to ascertain how the forecast relates to the likely financial position of the country in the forthcoming year. After this preliminary review the Minister informs the Deputy Minister, in broad terms, what the defence budget should be for each Service.

24 These figures become target ceilings and are communicated to the Services. If amounts requested in the detailed Estimates which follow are in excess of these ceilings, the Service can attempt to substantiate its request but must indicate what will be given up, if necessary, to come below the ceiling.

25 In the Department of Public Works, long-range financial planning is carried out more informally. In certain instances, plans for future capital expenditures are prepared in detail but, generally speaking, these plans are not prepared or reviewed on a formal

basis. The only long-range programme which appears to be planned in the Department is a ten-year construction programme for the City of Ottawa. This programme is submitted to the Secretary of the Treasury Board and covers the needs of government departments for new buildings over a ten-year period. It is detailed by department or agency, showing the location, size and estimated cost over the period, together with information on the buildings presently occupied by each of the departments or agencies concerned. There is little liaison with other government departments in this long-range planning. Assessment of departmental priorities is left to the Treasury Board staff. Since a substantial portion of the total expenditure on buildings is on account of other government departments, the Department of Public Works should be more adequately informed of possible changes in their activities.

26 Certain other departments plan for several years ahead, but not to the same extent as in the Department of National Defence. The primary purpose of the planning is to establish priorities for major capital projects. In most departments, the number of capital projects "on the books" is substantially greater than the financial resources in sight. As a result, such projects must be reviewed continuously in order to determine which should be included in the Estimates for the forthcoming fiscal year. Certain scientific departments have long-term plans for expansion based on the anticipated availability of suitable personnel, but these are expressed in terms of personnel only.

27 More formal plans, for which departments would be held accountable, might lead them to place greater emphasis on the accuracy of their forecasts. The wide variance between the original estimate and the actual cost of major construction projects, such as the Printing Bureau and the air terminal at Dorval Airport, are well known and require no further mention.

28 Formal long-term plans do not exist for non-capital types of expenditures, such as administration, operation and maintenance. Consideration of money, manpower and other requirements is done on a year-to-year basis when the Estimates are processed. This lack of long-term planning of all aspects of a programme produces the possible situation where capital or equipment facilities may be provided, but the personnel and other operating requirements are not available to use these facilities. Such planning has been found to be essential in industry and commerce, and is required to no less extent by both the Executive and the individual departments in government.

29. At the commencement of each fiscal year or at such other times as the Treasury Board may direct, the deputy head or other officer charged with the administration of a service for which there is an appropriation by Parliament or an item included in the estimates then before the House of Commons, shall prepare and submit to the Treasury Board through the Comptroller, a division of such an appropriation or item into allotments in the form detailed in the estimates submitted to Parliament for such appropriation or item, or in such other form as the Board may prescribe, and when approved by the Board the allotments shall not be varied or amended without the approval of the Board, and the expenditures charged to the appropriation shall be limited to the amounts of such allotments.

#### ALLOCATION OF FUNDS

29 The primary financial control in government operates through the allocation of funds. Parliament allocates in the broadest sense by establishing the limit of the vote; Treasury Board approves subdivisions of votes, called allotments; and senior departmental management apportions these amounts to lower or operating levels of management by establishing further subdivisions within each allotment, called sub-allotments.

#### *Parliament's Allocation*

30 The nature of parliamentary allocation can be seen from a few examples taken from the 1962-63 Estimates of the Department of Agriculture (see Exhibit 2.). Departmental expenditures must not exceed these votes. If additional funds are required, supplementary Estimates must be presented to Parliament and the additional funds provided by another vote.

#### *Treasury Board's Allocation*

31 The Treasury Board control is governed by the Financial Administration Act, which specifies that:

*Exhibit 2—ILLUSTRATION OF VOTE WORDING*

<i>Vote No.</i>	<i>Vote Definition</i>	<i>Amount</i>
1	Departmental Administration including National Coordinating Committee on Agricultural Services.....	\$1,044,000
55	Fruit and Vegetable Division including Maple Products and Honey—Operation and Maintenance.....	1,858,000
70	Health of Animals Division —Construction or Acquisition of Buildings, Works, Lands and Equipment.....	276,200
90	Grants to Agricultural Fairs, Exhibitions and Museums in accordance with regulations of the Governor in Council; payments pursuant to agreements in force on March 31st, 1962, with Exhibitions covering the construction of buildings and other major undertakings; and a grant of \$50,000 to the Royal Agricultural Winter Fair, Toronto, and Freight Assistance on Livestock Shipments for exhibition thereat.....	981,600

32 Generally, allotments are based on the details set forth in the Estimates, known as standard objects of expenditure. Increasingly, however, departments have been permitted to control votes on a basis (other than standard objects) that more closely corresponds with operating responsibilities. The 1962-63 Esti-

mates clearly indicate two alternatives, using as an example vote 25, Department of Northern Affairs and National Resources, "National Parks and Historic Sites and Monuments—Administration, Operation and Maintenance". First, is the presentation of the Estimates, using standard objects of expenditure (see Exhibit 3):

In the details of the Estimates the same expenditures were also presented in a much more informative manner by programmes (see Exhibit 4):

The department was allowed to control this vote on the programme basis shown in Exhibit 4.

33 In a financial sense, a programme is the total of anticipated expenditures encompassing a function, activity or project to be undertaken. In determining what should constitute a programme, recognition must be given to the assignment of responsibility within the organization, to compatibility with planned objectives and, where possible, to the means of measuring physical performance.

34 The fact that a number of departments, at the beginning of the year, rearrange their Estimates from standard objects to programmes demonstrates a recognition of the need for an improved basis of financial control. Programme-based budgets facilitate manage-

Exhibit 3—ILLUSTRATION OF STANDARD OBJECTS OF EXPENDITURE

	<u>1962-63</u>	<u>1961-62</u>
Salaries and Wages.....(1)	6,343,038	5,891,907
Overtime.....(1)	133,453	128,496
Allowances.....(2)	14,895	16,580
Professional and Special Services.....(4)	121,330	78,982
Travelling and Removal Expenses.....(5)	103,883	82,478
Freight, Express and Cartage.....(6)	27,809	25,499
Postage.....(7)	9,080	7,880
Telephones and Telegrams.....(8)	39,753	33,966
Publication of Departmental Reports and Other Material.....(9)	53,040	49,890
Exhibits, Advertising, Films, Broadcasting and Displays.....(10)	18,400	13,800
Office Stationery, Supplies and Equipment.....(11)	61,275	60,184
Materials and Supplies.....(12)	629,908	602,346
Repairs and Upkeep of Buildings and Works.....(14)	242,718	242,718
Repairs and Upkeep of Roads, Bridges, Streets, Sidewalks and Trails.....(14)	293,282	295,228
Rental of Land, Buildings and Works.....(15)	1,482	2,008
Repairs and Upkeep of Equipment.....(17)	482,204	468,439
Rental of Equipment.....(18)	2,300	
Municipal or Public Utility Services.....(19)	172,484	135,498
Payments to individuals or groups in respect to Agreements entered into by the Minister pursuant to the Historic Sites and Monuments Act for the preservation and commemoration of Historic Sites.....(20)	106,000	49,000
Unemployment Insurance Contributions.....(21)	40,474	31,310
Sundries.....(22)	34,592	32,705
	<u>\$8,931,400</u>	<u>\$8,248,914</u>

ment reporting by units of responsibility, related to performance targets.

35 This concept applies equally well to votes for administration, for operation and maintenance, and for capital. There is no vote that cannot be adapted to this manner of presentation. Allotments for administrative votes should be broken down on the basis of the organizational units in the department. Operation and maintenance votes should be controlled by geographical regions or individual operational units. Capital votes should be controlled on the basis of projects.

36 Programme control will provide concise information on the total estimated cost of an activity and, when compared on a year-

to-year basis, will clearly show the increase or decrease in cost of the activity, and permit the costs to be related to benefits. Presenting programmes in the Estimates will highlight for Parliament the change in the cost of activities. Similarly, programmes properly related to activities will provide a better yardstick for assessing management within the department, and will enable Treasury Board to exercise more effective control over departmental expenditures.

37 The first and second Hoover Commissions recommended that the United States Budget be presented on a programme or performance basis rather than what was described as an outmoded object-of-expenditure classification. This recommendation was

Exhibit 4—ILLUSTRATION OF PROGRAMMES OF ACTIVITY

	<u>1962-63</u>	<u>1961-62</u>
Head Office.....	232,065	221,922
Education and Interpretive Service.....	77,560	70,300
Historic Sites.....	658,095	523,998
Engineering Services.....	697,045	650,024
Western Regional Office.....	31,360	29,696
Banff Park.....	1,854,545	1,803,344
Cape Breton Highlands Park.....	342,369	326,844
Elk Island Park.....	308,030	285,517
Fundy Park.....	244,194	233,546
Fortress of Louisbourg Restoration Program.....	137,510	
Georgian Bay Islands Park.....	53,117	53,122
Jasper Park.....	999,321	982,020
Kootenay Park.....	491,531	471,512
Mount Revelstoke and Glacier Parks.....	386,028	320,282
Point Pelee Park.....	110,541	103,350
Prince Albert Park.....	517,334	495,995
Prince Edward Island Park.....	193,088	166,609
Riding Mountain Park.....	531,080	498,605
St. Lawrence Islands Park.....	64,025	60,858
Terra Nova Park.....	210,476	197,309
Waterton Lakes Park.....	371,717	357,682
Yoho Park.....	420,369	396,379
	<u>\$8,931,400</u>	<u>\$8,248,914</u>

adopted, and all appropriations presented to Congress are now supported by details of programmes with standard object information of secondary importance.

#### *Transfers between Allotments*

38 Currently, there are approximately 1,400 submissions each year to the Treasury Board requesting transfers between allotments. Departments include in each submission a full explanation of the need for the transfer. If funds are controlled on a programme basis, the transfer is between programmes, if on a standard object basis, the transfer is between standard objects. Submissions usually are processed by the Treasury Board staff in a routine manner. Most are made in the last quarter of the fiscal year, as outlined in the following tabulation which classifies all submissions for transfers between allotments for the 1959-60 fiscal year:

*Table 8*—CLASSIFICATION OF TRANSFERS BETWEEN ALLOTMENTS

\$ Value	QUARTERS				Total
	First	Second	Third	Fourth	
Authority only	7	18	12	6	43
Under \$25	1	—	—	2	3
\$25 to \$100	—	4	5	19	28
\$101 to \$ 1,000	11	22	36	118	187
\$1,001 to \$ 5,000	15	30	71	160	276
\$5,001 to \$10,000	6	18	38	93	155
\$10,000 to \$25,000	19	38	49	107	213
Over \$25,000	67	83	109	199	458
Total	126	213	320	704	1363
% of Total	9.3	15.6	23.5	51.6	100.0

#### *Departmental Allocation*

39 Departments, in turn, control funds by apportioning to various spending units the allotments on which they are controlled. These sub-allotments cannot be exceeded without the approval of higher management within the department. The extent of allocation varies from department to department, and may also vary within a department.

40 For example, in the Department of National Defence, individual Services assign different proportions of their funds from headquarters to operating commands and laboratories. The portion so allocated in 1961-62 can be seen from the following percentages:

*Table 9*—ALLOCATION OF FUNDS OUTSIDE HEADQUARTERS (by percentages)

	Operation and Maintenance Votes	Capital Votes	All Votes
Army	49.6	1.9	34.2
Navy	20.2	1.1	9.0
Air Force	5.2	.5	3.0
Defence Research Board	73.3	48.0	67.2

41 The Royal Canadian Mounted Police controls its funds by operating divisions; however, headquarters restricts the spending authority of the divisions by requiring that certain types of expenditures be made out of imprest funds. An imprest fund is a means of delegating spending authority, the custodian of such a fund being given a fixed amount of money which he may spend without higher authority. The approval of a higher authority is only required when vouchers substantiating expenditures are submitted to headquarters in order to obtain replenishment of the moneys in the fund. The size of the fund, therefore, determines the extent of the spending authority that has in fact been delegated. Since the size of the fund is adequate for only ten days in the Royal Canadian Mounted Police, the spending activities of divisions remain closely controlled from headquarters.

42 The Department of Mines and Technical Surveys controls its funds in two ways. A portion of most votes is allocated to survey parties, the parties being responsible only for the total allocated, not for individual objects of expenditure. The balance is controlled from headquarters on the usual standard objects-of-expenditure basis.

43 Most departments surveyed make only a limited allocation of funds to regional or lower levels of management. Even where funds are apportioned, numerous restrictions are generally placed on the authority to spend without reference to headquarters. Treasury Board control on the standard objects-of-expenditure basis does hinder such delegation, since it produces a large number of categories of relatively small dollar value. Nevertheless, most departments that have taken the initiative have been permitted to control expenditures on a programme basis, over 180 votes now being controlled in this way.

44 Unimaginative division of a department's activities into too many votes can also hamper effective allocation of funds. For example, the 51 votes appearing under Transport in the 1960-61 Estimates could be rearranged and expenditures more readily controlled were they reduced to 18, as shown in Table 10:

Table 10 — PROPOSED CONSOLIDATION —  
TRANSPORT

	Number of Votes	
	Present	Revised
Departmental Administration	1	1
Marine Services	11	4
Railway and Steamship Services	12	2
Pensions and other benefits	3	—
Air Services	17	4
	—	—
Total for Department	44	11
Air Transport Board	1	1
Board of Transport Commissioners	2	2
Canadian Maritime Commission	2	2
National Harbours Board	1	1
St. Lawrence Seaway Authority	1	1
	—	—
	51	18
	==	==

45 Each vote in the suggested revision is designed to permit control to be exercised by programmes, not by standard objects. For example, the new vote for Marine Services, Administration, would be classified under eight programmes as follows:

Table 11 — PROGRAMMES OF ACTIVITY WITHIN  
ONE VOTE

Vote Description:

Marine Services — Administration \$1,972,787  
(Salaries and other administrative costs of the headquarters establishments and offices outside Ottawa)

Programmes of Activity

Marine Services Administration	\$ 125,723
Aids to Navigation	215,371
Canals	137,944
Ship Channels	236,677
Canadian Marine Service	613,551
Marine Regulations: Montreal	287,051
Pilotage	88,134
Steamship Inspection	268,336
	<u>\$1,972,787</u>

46 For departmental purposes, these programmes could be further broken down into operating units within each activity. Votes in other departments could be similarly consolidated, thereby making the definition, planning and control of programmes more effective.

47 Investigations indicated a very limited willingness in departments to delegate authority, although a marked improvement in practices in recent years was noted. Just as operating personnel must participate in the preparation of Estimates under the general direction of senior departmental management, so funds should be delegated to lower levels of management to be spent within guide-lines established at the top.

**CONTRACTS**

*Division of Authority*

48 The expenditure of funds normally originates with departmental personnel who determine the need for goods and services, and establish the specifications required. A large portion of the value of all government expenditures is for goods and services acquired under contracts which must comply with the Government Contracts Regulations established by Order in Council in December, 1954. These Regulations prescribe tendering procedures, contractual authority levels, and bonding or security deposit requirements. Contracts for the construction of buildings and works are classified in the Regulations as "Construction"; contracts for the purchase of articles, commodities, equipment, goods, materials, printing and reproduction work as "Purchase"; contracts for the furnishing or performance of services of any kind as "Service"; and contracts for leasing of space and facilities as "Lease". Whenever a contract exceeds the limit of a minister's authority, the consent of the Treasury Board is required. The maximum authority given to the minister of a department under these Regulations is \$50,000 for Construction, \$25,000 for Purchase, \$15,000 for Service, and \$5,000 for Lease. Certain contracts, even within these limits, must be reported monthly to the Treasury Board.

49 The Department of Defence Production, under the provisions of the Defence Production Act, has exclusive authority to procure the goods and services required by the Department of National Defence. This Act also establishes ministerial limits that differ from those outlined in the Government Contracts Regulations, but do not exceed \$50,000.

50 The Regulations have not been changed since 1954, although the volume and cost of individual construction and purchase contracts have increased significantly. For example, the following table compares the number

of construction projects carried out by the Department of Transport (a major department in this field) in various dollar value categories:

*Table 12*—CLASSIFICATION OF CONTRACTS BY DOLLAR VALUE

<i>Dollar Category</i>	<i>1952-53</i>	<i>1959-60</i>
\$ 15,000-\$ 50,000	93	280
\$ 50,001-\$100,000	25	84
\$100,001-\$200,000	9	52
	—	—
	127	416
	==	==

*Treasury Board Approval of Contracts*

51 The departments are required to prepare in detail a submission to the Treasury Board for each contract in excess of delegated authority. The related expenditure programmes generally will have been considered by the Treasury Board before receipt of the contract submissions. Some proposals will have received prior approval in principle. With few exceptions, financial provisions will have been included in the Estimates previously reviewed and approved by the Treasury Board. As a result, many of these submissions are processed in a routine manner by the Treasury Board.

52 Many instances were noted where the Treasury Board staff became involved in details when reviewing departmental requests for technical equipment. The Treasury Board staff approach these matters as intelligent laymen, but their vigorous questioning of technical matters is frustrating to the departmental technical and professional personnel who have been responsible for developing the specifications and negotiating the contract. It is incongruous to expect Treasury Board staff, with limited background, to evaluate effectively the need for, and reasonableness of, most items purchased under contracts. In addition, it must be realized that large-volume contracting departments, such as Public Works, Transport and Defence

Production, employ many specialists to deal with matters of a highly technical nature.

53 Currently, thirty-five per cent of the total submissions to the Board are in the categories of buildings, land and works; acquisition of ships, aircraft and supply of equipment; provision of supplies; and acquisition and provision of services. The following table lists the number of such submissions (normally involving contracts) for each year 1953 to 1960 inclusive:

Table 13—GROWTH IN NUMBER OF SUBMISSIONS NORMALLY INVOLVING CONTRACTS

Year	Number of Submissions
1953	4431
1954	4612
1955	4443
1956	4744
1957	4826
1958	5252
1959	5517
1960	5662

54 Unless contractual authority is increased to meet the increasing value of individual contracts, the Treasury Board is, in effect, involved in reviewing more contracts proportionately than at the time the present Contract Regulations were established. A reduction in the number of contract submissions will have the effect of transferring greater authority to departmental management; will save considerable time on the part of departmental personnel in preparing Treasury Board submissions; and will permit Treasury Board to devote more time to reviewing departmental programmes and submissions in principle.

55 Clearly, there must be adequate safeguards against the intrusion of patronage considerations in the letting of contracts. The first line of defence in this context is the adoption of appropriate contracting procedures by the departments. The concern of the Treasury Board then becomes not so much the as-

essment of thousands of submissions, which must in many instances be quite perfunctory, but a selective examination of those contracts which do not conform with the procedural standards laid down by the Board.

56 The basic considerations which should be taken into account, if the present Treasury Board Contract Regulations are revised, include the following:

- The experience of departments in negotiating contracts:—Major contracting departments are more likely to be strongly staffed with specialists, such as architects, engineers and contract negotiators.
- The average value of contracts for each department:—If ministerial limits are related to the average value of individual contracts issued by a department, each minister would then have authority over a comparable portion of the contracts issued within his department.
- The extent of prior approval:—Funds are provided for most contractual expenditures in the Estimates. Estimates are subjected to detailed review. Items that receive cursory treatment in this review could be made specifically subject to further referral to the Board, instead of blanket dollar limits applying equally to all expenditures.
- The form of the contract and contractual procedures:—The present Regulations set forth in considerable detail the rules which must be complied with in order to enter into a contract. Where certain procedures are not complied with, the present Regulations quite properly restrict the authority of the minister to enter into contracts. Nevertheless, even where adequate procedures have been followed, the additional authority now given to the minister is insufficient.
- The volume of contractual purchases for identical goods or materials:—Increased ministerial authority could be given for purchases acquired on a repetitive basis.



57 Even within present ministerial limits, inadequate and inconsistent delegation of contracting authority within departments has been discovered. For example, assistant deputy ministers are given authority to enter into construction contracts for previously approved headquarters projects up to \$15,000 in the Department of Public Works, and up to \$50,000 in the Departments of Northern Affairs and National Resources and of Transport. At the branch head level, authority is \$8,000 in Public Works, \$15,000 in Northern Affairs and National Resources, and \$50,000 in Transport.

58 Levels of authority for contracts categorized as purchases vary widely. Assistant deputy ministers have authority up to \$25,000 in Transport, \$15,000 in Public Works, and \$5,000 in Trade and Commerce and Veterans Affairs. Levels of authority for district or field representatives also vary—up to \$10,000 in Defence Production, \$1,500 in Public Works, and only \$200 in Veterans Affairs.

59 It is reasonable that the levels of authority should differ within departments, since some are more actively involved than others in contracting. However, the existing variations show that greater delegation of authority to field management is possible and should be encouraged, so as to conserve the time of headquarters officials and to place responsibility on the officer who has full knowledge of the requirement.

#### COMMITMENT CONTROL

60 The system of centralized commitment control, established in 1931 to ensure that funds were not overspent, was made the responsibility of the Comptroller of the Treasury. Today, many departments also maintain commitment records.

61 At the beginning of the fiscal year, as soon as the department's votes are approved by Parliament, the Treasury office attached to each department forwards to the Treasury Board a breakdown of each vote; these are known as allotments. The divisions requested by the department usually conform with the standard objects of expenditure set forth in the details of the Estimates, but authority may be given to apportion funds by programmes of activity. Accounts are then set up in the books for the divisions of the vote approved by the Treasury Board. Further subdivisions may be made to meet departmental requirements. The amount approved and available for expenditure is then entered in each account.

62 When contracts are submitted to the Treasury office for certification that funds are available, the amount of the contract is deducted from the balance authorized for the appropriate account, and the amount is recorded as an outstanding commitment chargeable to that account. When the liability is subsequently discharged, the amount is deducted from the outstanding commitment and entered as an expenditure. In this manner, the Comptroller maintains running balances for each allotment, showing the uncommitted balance, the portion committed but unspent, and the expenditures to date. He thereby ensures that no contract will be entered into for which sufficient funds are not available in the account properly chargeable. Whenever charges exceed the amount approved for an allotment, only the Treasury Board may authorize a transfer of funds from an allotment with a free balance, and then only if it is under the same vote. Upon receipt of the Treasury Board Minute approving the transfer, the Comptroller increases the amount of one allotment and decreases the other. This unique system of commitment accounting is an integral part of the accounting system of the Government of Canada.

Table 14—FORM OF COMMITMENT

STANDARD OBJECT	DESCRIPTION	FORM OF COMMITMENT		
		Spe- cific	Blan- ket	Both
1	Civil Salaries and Wages		x	
2	Civilian Allowances	x		
3	Pay and Allowances, Defence Forces and R. C. M. Police		x	
4	Professional and Special Services		x	
5	Travelling and Removal Expenses		x	
6	Freight, Express and Cartage		x	
7	Postage		x	
8	Telephones, Telegrams and Other Communication Services		x	
9	Publication of Departmen- tal Reports and Other Material	x		
10	Exhibits, Advertising, Films, Broadcasting and Displays	x		
11	Office Stationery, Supplies, Equipment and Furnish- ings		x	
12	Materials and Supplies Buildings and Works, including Land—			x
13	Construction or Acquisi- tion	x		
14	Repairs and Upkeep			x
15	Rentals	x		
16	Equipment— Construction or Acquisi- tion	x		
17	Repairs and Upkeep			x
18	Rentals	x		
19	Municipal or Public Utility Services		x	
20	Contributions, Grants, Sub- sidies, etc., Not Included Elsewhere	x		
21	Pensions, Superannuation and other Benefits	x		
22	All other expenditures, (other than Special Categories)	x		

63 It is difficult, if not impossible, for the Comptroller to commit all proposed expenditures in the above manner. No useful purpose would be served, for example, in committing for salary obligations for each pay period. Similarly, government personnel are required to purchase materials and supplies in the field, which are often of an emergency nature and of low value. In such cases, rather than reserving funds for each expenditure individually, the total of the account is committed on a blanket basis. This has the effect of transferring responsibility for avoiding over-expenditures from the Treasury office to the department. Table 14 indicates, by standard objects, the methods of committing funds normally in use.

64 Within allotments, commitment control can take any form that is specified by the department. Commitments may be prepared on the basis of organizational units, programmes, districts, payment points, time periods and individual contracts or purchase orders. Normally the commitment structure corresponds with the formula used to allot funds to regional or other spending units.

65 Adjustments to specific commitments are required when an account presented differs in amount from the original commitment; and when a blanket commitment would be over-expended if the account were passed for payment.

66 Under the present system, the Treasury office requires the department's approval in the case of an upward revision in the amount of a commitment. In some Treasury offices, departmental approval is also required for a reduction of a specific commitment. Adjustments of a major dollar amount usually need immediate departmental approval for the change, whereas adjustments of a minor nature are accumulated on a monthly basis and then approved.

## *Departmental Procedures*

67 Many departments have found it necessary to institute their own commitment control records because they believe that, since departmental personnel are responsible for spending the funds, they should be continually aware of the position of their appropriations. Others state that their departments are so decentralized that Treasury offices are unable to provide this information speedily. Such reports as are prepared are inadequate because they fail to distinguish between specific and blanket commitments. One department claimed that it could not couple centralized purchasing with decentralization of spending authority unless it maintained commitment records on a more current basis than those kept by the Treasury.

68 Departmental procedures differ from those of the Treasury in several respects. Funds are normally committed at the time the goods are requisitioned rather than when the contract is in final form. Commitment records generally are kept at branch or operating levels to correspond with the delegation of spending authority within the department, although in some departments further duplication occurs at headquarters. Some departments use commitment records as a guide only, and do not attempt to adjust except when the contract deviates substantially from the requisition.

69 Industry does not practice commitment control in the manner described above. The majority of provincial governments in Canada do not have commitment control systems. Since the entry into commitments is based on the decision of their officers, departments should be responsible for ensuring the availability of funds to meet expenditures, rather than the Comptroller of the Treasury. The establishment of centralized commitment control in 1931 met a genuine need. However, the growth of expenditures and management responsibility over the 31-year period is such

that centralized commitment control is no longer practicable. Moreover, the Comptroller's representative in departments is not part of departmental management; therefore, commitment control performed by an external control agency weakens the efficient management of departmental affairs. Departmental management should be capable of discharging this responsibility, particularly if the recommendation for strengthening financial management in departments through the appointment of Senior Financial Officers is implemented.

70 Considerable clerical duplication now exists, and would be eliminated if departments assumed responsibility for ensuring availability of funds. Furthermore, the present integration of commitment control into the government accounting system results in substantial clerical effort to process large volumes of documents for relatively small amounts. A system of memorandum records for major specific commitments and an adequate monthly reporting system, showing the unspent balances in each allotment account, would result in simplification and would prove adequate for departmental control purposes. In addition, it would facilitate greater delegation of spending authority to operating levels of management. The present integration of commitment accounting into the formal accounting records of a department tends to restrict the extent of delegation feasible. Memorandum records can be designed so that they can be understood and kept by personnel with limited accounting knowledge. The formal accounting records require a higher degree of competence and centralization.

## VERIFICATION AND APPROVAL OF EXPENDITURES

71 The verification and approval of accounts before payment is an essential procedure in both industry and government. In government language, the function of certifying accounts before payment is called pre-audit-

ing to distinguish it from the audit of accounts after payment, which is referred to as post-auditing.

*Verification by the Comptroller of the Treasury*

72 The Comptroller so interprets his statutory duties that he conducts a complete review and verification of every account before a cheque is issued. This review is primarily to determine the legality of expenditure. It involves ensuring that (a) the funds are available to meet the expenditure; (b) the contract was entered into with the proper approvals; (c) the payment is for goods or services falling within the terms of the vote as approved by Parliament; (d) the account is arithmetically correct and accurate as to detail; (e) the account is correctly coded for accounting purposes; (f) the goods or services received are in accordance with government and departmental regulations.

73 A clerical unit exists in every Treasury office to perform the above functions; in offices attached to departments in Ottawa, approximately 600 of a total staff of 1700 are involved in auditing accounts. The staff is divided into one or more units with separate responsibilities for contracts, agreements, suppliers' accounts, travel, removals, imprest accounts, or a combination of these basic types. It is their responsibility to review and process all documents presented for payment. They raise audit queries; conduct correspondence and discussions with departmental officials, other government departments and suppliers; liquidate, reconcile and balance commitment records. Much time and effort is devoted to the verification of travel and removal expenses by these units.

74 Observations are prepared on each account not deemed satisfactory for payment. These observations, with the accounts, are forwarded to departmental personnel for the correction of the account and subsequent re-

turn to the Treasury office. In every Treasury office surveyed, it was found that the accounts were reviewed in a detailed manner. No use was made of sampling techniques by account classifications, nor were accounts of different dollar value given different emphasis. Expenditures questioned ranged in value from a few cents to thousands of dollars. Departments complain that the review is largely mechanical, having little regard to the accompanying circumstances.

*Duplication by Departments*

75 The verification by the Comptroller of the Treasury is duplicated by departmental personnel to different degrees. In many departments, especially those with departmental accounting systems, a complete check and verification of the account is made. Duplication exists for a number of reasons. First, departments believe that they should certify the legality of expenditure of all accounts for which they have responsibility. Second, some departmental personnel believe that they should take pains to present a correct account to the Comptroller of the Treasury in order to obviate the need for re-processing accounts which may be rejected. Finally, some departments consider that they are more familiar with their own accounts and can perform the verification better than Treasury personnel.

76 Statutory requirements automatically cause duplication. The department that requests payment has to certify the correctness of price and satisfactory receipt of goods. Therefore, departmental personnel must look at all accounts and do some of the same basic work as the Treasury office. The 1931 legislation did not clearly define the area of departmental responsibility for certification, or the extent of the Comptroller's audit function. Moreover, the statute took effect at a time when all governments were particularly conscious of the need to curtail expenditures in every way possible. The consequence was that the Comptroller construed the parlia-

mentary direction to mean that he must make a detailed check on all departmental accounts, regardless of any verification done in the departments. The result is substantial duplication.

77 Present procedures, despite this duplication, are not necessarily effective, for little responsibility is placed on the operating personnel initiating most expenditures. Only these personnel are fully conversant with the circumstances leading to the expenditure and therefore aware of any matters not appearing in the documentation. Departmental purchasing and disbursing procedures should be so organized as to place primary responsibility for approving expenditures on operating personnel, subject to proper checks within the department by other personnel not directly involved in the expenditures. A proper system of internal control will ensure that unauthorized, improper, or incorrect disbursements are not made. Internal auditors, reporting directly and independently to senior departmental management, can confirm that such a system, once established, is operating correctly.

### *Regulations*

78 When reviewing expenditures, the Treasury office staff verifies that expenditures conform, not only with statutes, but also with the numerous executive regulations in the form of Orders in Council or Treasury Board Minutes. Because the Comptroller will reject an expenditure if it is not adequately authorized, he is the cause of many such regulations. The Board issues these regulations in an attempt to reduce the workload arising from departmental requests for specific authority. Many such requests are initiated because the Comptroller has ruled existing authority to be inadequate.

79 Treasury Board regulations usually are developed by the staff of the Board and approved by the ministers. These regulations

cover a variety of administrative subjects as shown below:

*Table 15*—TREASURY BOARD REGULATIONS

<i>Category</i>	<i>Number of Regulations</i>
Estimates and Transfers between Allotments	1
Buildings, Land and Works	5
Acquisition and Construction of Ships, Aircraft and Supply of Equipment	5
Provision of Supplies	15
Acquisition and Provision of Services	19
Pension, Annuities and Compensation Plans	9
Internal Accounting and Administrative Procedures	19
Travel, Removal and Other Expenses of Employees	25
Claims by and against the Crown	13
Remissions and Refunds, Drawbacks and Regulations under Tax Acts	4
Personnel (Civil)	98
Payments of Grants and Subsidies	13
Social Security	1
	<hr style="width: 100%;"/>
	227
	<hr style="width: 100%;"/>

80 Treasury Board regulations are generally designed to assist in achieving economies in the public service. They do not always produce economies and, in fact, can contribute to inefficient administrative practices. Departmental personnel, often in the best position to judge the reasonableness of a payment, are not permitted to do so, and must comply with regulations or prepare submissions to the Treasury Board. The cost of compliance with Treasury Board regulations may often exceed the expenditure involved.

81 Treasury Board staff will serve the Board better if they develop criteria to assist departmental judgment, and regulations which are guides, not dictates, to departmental action. In this way, departments could operate within limits which best suit their indi-

vidual situations. The right of management to make decisions would be encouraged. In addition, Treasury Board would be freed of a large number of submissions of an operating and administrative type. Departments would then develop a better sense of responsibility and take the initiative in consulting the Treasury Board when the proper course of action is not apparent, rather than having fixed lines of action determined through restrictive regulations.

#### CHEQUE ISSUE AND RECONCILIATION

82 Since 1932, the Comptroller of the Treasury has been responsible for issuing and reconciling all cheques drawn on the account of the Receiver General. Cheques are presently issued from the 28 departmental Treasury offices, 8 regional offices, 52 district offices and centrally in Ottawa by the Central Accounts Payable Division. Over sixty million cheques are annually issued by the Comptroller. In a few cases, where large numbers of payments originate in many scattered local offices and no representative of the Comptroller of the Treasury is available, the Treasury Board permits payments to be made by warrants drawn on the Comptroller of the Treasury by designated departmental officers or other authorized persons.

83 Greater delegation of authority will result from transferring the commitment control and pre-audit functions of the Comptroller of the Treasury to departments, but centralized cheque issue does not in any way hamper departmental management in performing its functions efficiently. Scarcely any departments complain of the service now being provided, and the use of high speed data processing equipment would provide even better service.

84 Additional economies will result if regional offices are established in certain large centres outside Ottawa for the issue of cheques. The Comptroller now operates

offices in twenty-five centres in Canada, excluding Ottawa. This wide distribution of offices is considered necessary to enable the Comptroller to review expenditures and control the commitments of the various departmental field units, but cheques can be issued more expeditiously from fewer, more strategically located offices. The resulting increased volume will permit better use of mechanical equipment. In a few cases, it may continue to be expedient for the Treasury Board to permit departments to make disbursements in the form of warrants drawn against the Comptroller.

85 If departments assume responsibility for commitment control and verification of expenditures, the need for Treasury offices located in departments will disappear. The Central Accounts Payable Division could be expanded to handle all cheque issuing operations now performed by the various Ottawa offices of the Comptroller attached to departments. The United States Bureau of Accounts now provides centralized cheque issuing services, but its sole responsibility is to verify that the account bears the signature of an authorized signing officer. The Bureau has no responsibility for the legality or accuracy of the payment. A similar division of responsibilities is desirable in the Canadian Government.

#### AUDITING

86 All paid accounting vouchers are made available to the Auditor General's representative. His audit of the accounts is not as detailed as the verification procedures applied to expenditures before payment by the Comptroller of the Treasury. Substantial reliance is placed on the scrutiny of accounts to reveal improper or illegal expenditures, rather than on detailed checks to turn up mechanical inaccuracies. Certain departments indicated that they rely on the Auditor General's representative to interpret regulations so that

they will not inadvertently become subject to criticism in his report.

87 The Comptroller of the Treasury is now responsible for ensuring that expenditures are made in accordance with Statutes, Orders in Council, and Treasury Board and departmental regulations. Placing responsibility on departments for the examination and verification of accounts prior to expenditure will make the examination of the Auditor General the only non-departmental scrutiny of expenditures. Since the manner in which departments exercise this responsibility will depend to a large extent on the systems of internal check and internal audit which they establish, the Auditor General should become more active in reviewing such systems and reporting on those which are inadequate. This review, similar to that of professional auditors in commerce and industry, will be necessary if he is to fulfill his statutory responsibilities without undertaking expensive and time-consuming detailed audit checks on all expenditures.

88 The Executive should not rely exclusively on the Auditor General to point out inadequate financial control, but should fulfill its own responsibility by ensuring that departmental managers are exercising properly the extensive authority which will be placed on them if the recommendations of this report are adopted.

#### CONCLUSION

89 Although many of the procedures described in this chapter find their counterparts in the expenditure process in industry, there are significant differences. Industrial budgets tend to be goals rather than ceilings. Pur-

chasing procedures are less formal and provide for greater delegation of authority. Because the budget is more flexible, industry pays little attention to a formal accounting for cash commitments, although the cash flow is carefully watched. The verification before payment, although similar, seldom challenges the authority of the officer designated to approve the expenditure. Finally, management in industry generally has authority more commensurate with responsibility and is held more strictly accountable for performance.

90 Many illustrations have been given in this chapter of the inadequate authority that is given to departmental officers in the process of spending money. As a result, it is impossible to hold departments accountable for financial results. Many external controls detract from efficient management. Nevertheless, even within those areas where responsibility has been devolved by the Executive, departments have generally failed to delegate appropriate authority to lower levels of management, either in Ottawa or in the field. Recommendations contained in this report for increased delegation of authority to departments will not produce the maximum benefits unless the senior managers of departments, in turn, delegate the authority received. Both the Executive and senior departmental management should devote more time to giving directions and assessing performance, rather than to imposing restrictive controls which tend to immerse them in detail.

91 The checks, counter-checks, delays and duplication which abound in the expenditure process described in this chapter are far more restrictive than those applied in the revenue process, which is described in the next chapter.

# 3

## REVENUE CONTROL

### RESPONSIBILITY

1 Revenues arise mainly from taxes, and it is the Minister of Finance who initiates tax legislation. Officers of the Department of Finance consider alternative means of raising such revenue, review suggestions from the public for changes, estimate the impact of various alternatives on revenues, consider the economic implications and advise their Minister. The Department of National Revenue

administers the various tax acts, advising the Minister of Finance when changes in the acts are required to facilitate collection. The effectiveness of certain audits and inspections, in ensuring collection of these taxes, will be considered in the chapter on Auditing.

2 Tax revenues, received in 1960-61, are shown in Table 16.

3 Although only two departments are responsible for determining tax measures and collecting most taxes, many if not all departments and agencies have responsibility for non-tax revenues. The purpose of this chapter is to review the effectiveness with which this responsibility is discharged. Non-tax revenues collected in the fiscal year 1960-61 are shown in Table 17.

4 The return on investments results mainly from the surrendered profits of the Bank of Canada, interest on loans to other governments, interest and dividends received from Crown corporations, and income earned on various funds and securities held by the government. The revenue of the Post Office is

Table 16—TAX REVENUES

<i>Source</i>	<i>Amount</i> (\$ millions)
Income Taxes*	3,408.9
Excise Tax*	1,281.5
Customs Import Duties	498.7
Excise Duties	344.9
Estate Tax	84.9
Total	<u>5,618.9</u>

\*includes taxes credited to the Old Age Security Fund.



Table 17—NON-TAX REVENUES

Type	Amount (\$ millions)
Return on investments	283.8
Post Office revenue	173.6
Refund of previous year's expenditures	40.5
Service and service fees	35.6
Proceeds from sales	24.0
Privileges, licences and permits	27.2
Bullion and coinage	8.5
Premium, discount and exchange	0.9
Other	7.8
Total	<u>601.9</u>

the amount remaining out of the gross income from the sale of stamps, money orders, rental of post office boxes, etc., after certain costs of operation (totalling \$28.3 million) have been deducted. The largest part of the refunds of expenditures made in prior years arises out of price and other adjustments to contracts. Bullion and coinage revenue is derived from the operation of the Royal Canadian Mint.

5 Service and service fees, proceeds from sales, and privileges, licences and permits, totalling \$86.8 million, arise from a multiplicity of services as shown in Table 18.

6 Non-tax revenue serves a number of basic purposes in the management of government operations. In certain cases, revenues enable a service to be performed on a self-supporting basis; many Crown corporations are expected to produce revenues to support their operations. Non-tax revenues are used by departments to partially offset direct expenditures, for example in the operation of veterans' hospitals. In other cases, charges are made to limit or police the use of a govern-

ment service; for example, a nominal charge is made for maps and survey reports in order to prevent indiscriminate distribution.

7 Responsibility for the management and collection of revenues is fairly broadly distributed throughout departmental management. The report on Miscellaneous Services to the Public describes many of the services being provided to specific segments of the community. Only a few of these services are now self-supporting, and that report discusses whether charges should be made for them and, if so, the basis for such charges. The purpose of this chapter is to review the existing machinery for managing such revenue, and to consider whether a financial control system geared primarily to the expenditure of funds is satisfactory for managing revenue-producing services.

8 Investigations indicated that too little attention is given to non-tax revenue within the present system of financial control. The collection of public money is regulated by various statutes. The Treasury Board also exercises some control. Departments are required to include estimates of expected revenue in their Estimates submission, but, in most cases, these estimates are on a memorandum basis only. The rates charged for a few services are developed by Treasury Board and approved by the Cabinet; for example, the rental of space in airport terminals, hangars and other buildings. Also, in reviewing the expenditure programmes of departments, the Board's staff gives some consideration to non-tax revenue.

9 The Comptroller of the Treasury may provide accounting and other services in connection with the collection and accounting of public money for a department. Actual collecting is generally being done by personnel in the middle or lower echelons of the department's organization, but this aspect of administration is often treated in a routine fashion by departmental management. In

*Table 18—ANALYSIS OF CERTAIN NON-TAX REVENUE*

<i>Source</i>	<i>Amount (\$ millions)</i>
<b>Service and service fees:</b>	
Payment for police services	10.2
Marine, canal and air service fees	9.7
Inspection, weighing and storage of grain	4.2
Services, rentals and tolls	3.9
Reimbursement from provinces re treatment of Indians	2.0
Inspection of electricity, gas, weights and measures	1.8
Supervision of race tracks	0.8
Other	3.0
	35.6
<b>Proceeds from sales:</b>	
Sale of surplus Crown assets	17.8
Materials and supplies	1.5
Publications	1.1
Meals and accommodation	0.9
Other	2.7
	24.0
<b>Privileges, licences and permits:</b>	
Aircraft landing fees and hangar accommodation	11.1
Permits, charters and concessions	3.3
Rental of public buildings and quarters	3.1
Fees, leases and royalties from oil, gas and gold	2.1
Rentals of dwellings, land and accommodation	1.7
Commercial broadcasting fees and licences	1.6
Certificates of citizenship and passport visa fees	1.1
Other	3.2
	27.2
<b>Total</b>	86.8

fact, several departments stated that they regarded the collection of revenue as a nuisance. Because departments, generally, are not being permitted to spend revenues, they lack incentive to give close attention to the amounts received. Rates are seldom related to current costs. Planning and control practices are quite inadequate. Non-tax revenues are reported only when received, since the government's accounting system is on a cash basis. Data on accounts are therefore kept in a memorandum form—an unsatisfactory procedure for ensuring collection.

10 Non-tax revenues are important as a source of funds and are an element of management's financial responsibility. Together with related expenditures, they should be brought forward for review by management in making decisions. Both senior departmental management and the Treasury Board should take a more active part in planning, managing and controlling non-tax revenue.

#### RATES

11 Some statutes stipulate the rates that may be charged for a service. Many other rates come within the purview of the Executive. The Financial Administration Act states that:

18. Where a service is provided by Her Majesty to any person and the Governor in Council is of opinion that the whole or part of the cost of the service should be borne by the person to whom it is provided, the Governor in Council may, subject to the provisions of any Act relating to that service, by regulation prescribe the fee that may be charged for the service.

12 The rates fixed often bear little direct relationship to costs. Systems for costing particular services or activities seldom exist and, as a result, cost-based charges are difficult to establish. Rates are rarely established on estimated fair market values because many services are unique to government.

13 There appears to be no policy setting out the appropriate relationship between income

and expenses attributable to a service. Little or no attempt is made to limit expenditures in instances where revenues decline. For example, municipal service levies made against residents of townships in National Parks have no apparent relationship to estimated municipal tax rates for equivalent services, or to the annual expenditure made to provide such services. Some departments stated that service charges are kept low so as not to discourage utilization.

14 There is no formal or automatic machinery for the revision of rates. The rate for policing the race tracks is statutory and pegged at one-half of 1% of the amount wagered, without relation to the cost of providing the service. At times this provides revenue in excess of expenditures and, since the rates are statutory and therefore difficult to revise, departmental policy has been to increase expenditures and provide additional services rather than attempt to obtain revision of the legislation.

15 Generally, the onus is on departments to determine and justify the need for a revision of rates. One large department, responsible for collecting a substantial amount of non-tax revenue, stated that over sixty per cent of its rates had not been revised in the past five years, despite rapidly increasing costs. The Treasury Board analyzes proposed changes, if submitted, and makes recommendations to Cabinet. Since the Treasury Board is primarily concerned with expenditure matters, the question of the adequacy of rates is often relegated to a position of minor importance. Revisions in statutory rates are difficult to effect and departmental management generally does not press for revisions.

16 Changing conditions and the good management of government operations suggest, however, that many rates for non-tax revenues should be revised, and that rates should be established for many other activities now supplied free. Rates for services provided to

a small or specific segment of the public should be increased to eliminate or reduce the subsidy provided from tax revenues.

17 There is a need to focus greater attention on non-tax revenue. Senior departmental management should be responsible for earning the optimum non-tax revenue in areas within their control. The Treasury Board should give guidance to departments in exercising this responsibility. Both departments and the Treasury Board staff should continuously assess all programmes for potential non-tax revenue.

18 Cost systems should be introduced that would automatically bring to the attention of senior management deviations between revenues and expenditures. Policies setting forth the expected relationship between costs and revenues should be established by both the Treasury Board and departments to govern the rates to be charged and to facilitate revisions as conditions change.

#### NET VOTES

19 Traditionally, non-tax revenues are deposited in the Consolidated Revenue Fund and are not associated with the related expenditures in the Estimates. However, thirty-one votes in the Main Estimates of 1961-62 permitted certain revenues to be deducted from the gross amount of the votes. In these cases, revenues were received either from other government departments or from the public. To illustrate, vote 220, Department of Mines and Technical Surveys read in part as follows:

Net Total Continuing Establishment	\$ 3,959,988
Less—Amount to be provided by Department of National Defence	90,380
Total Salaries and Wages	\$ 3,869,608

In this case, the staff of the Mines Branch performed work for National Defence, and Mines and Technical Surveys was reimbursed

accordingly. In the same Estimates, vote 456, Department of Veterans Affairs, "Treatment Services—Operation of Hospitals and Administration", read:

Estimated gross expenditure	\$61,815,346
Less recoverable costs —	
Treatment of Patients, Staff	
Meals and Accommodation, etc.	16,598,000
Amount voted	<u>\$45,217,346</u>

In this case, revenues were received from the treatment of patients, provision of laundry service, rental of staff quarters and sales of meals, market garden produce, occupational therapy, etc.

20 For a number of other votes, revenue was shown in memorandum form, but not offset or abated. For example, the presentation of vote 24, Department of Agriculture, "Plant Products Division — Operation and Maintenance" was as follows:

	<u>Expenditure</u>	<u>Revenue</u>
Fiscal year 1959-60:	\$1,719,225	\$351,741
Fiscal year 1960-61:		
Actual to Nov. 1/60	1,067,852	186,057
Est. for bal. of year	914,148	174,283
Est. total for 1960-61	<u>\$1,982,000</u>	<u>\$360,340</u>

In this instance inspection fees, seed testing charges, licences, etc., are credited to the Consolidated Revenue Fund and may not be spent by the department.

21 In departments where non-tax revenues are abated, as in the first two examples above, considerable attention is given to the accuracy of the estimate, since departments are conscious of the role of non-tax revenue in supporting the level of expenditures. The same care is not taken when revenues cannot be offset: in such instances, estimated revenues may vary by as much as fifty per cent

from actual collections. Revenue projections, where given, are usually based on the previous year's figures.

22 There is no prescribed policy for non-tax revenues in the Estimates; nor are practices consistent. This may be demonstrated by comparing the vote for the medical treatment of veterans in the Department of Veterans Affairs (where \$16,598,000 of revenue was offset) with vote 261 in the Estimates of the Department of National Health and Welfare for the care of Indians and Eskimos. In the latter case the revenues amounted to \$2.5 million but were not offset.

23 There are various alternative ways of treating non-tax revenue:

- First, anticipated revenues can be indicated by a memorandum entry in the Estimates. Although this does not provide an incentive factor for management, it does disclose to Parliament the estimated net cost of a service. Under this system, the gross amount is appropriated for departments to spend, and money collected cannot be used to meet expenditures.
- Second, the revenue can be abated against the related expenditure, with Parliament voting the net amount and the department allowed to spend up to the gross amount, provided that the estimated revenues are received. The excess of actual over estimated revenues is not available to departments to increase expenditures. Under this system, departments have little freedom to expand a service to meet demands and may, as a result, have to request supplementary Estimates. Departments, however, do have an incentive to ensure that actual revenues collected meet estimated revenue, since otherwise there will be a short-fall of expenditures.
- Third, the revenue can be abated against expenditure, with Parliament providing the net and the department permitted to spend

all revenues collected. Under this system, departments have a real responsibility for revenue and the maximum incentive to earn optimum revenue.

24 Approximately one-third of non-tax revenues surveyed are now abated against the cost of the services provided. Extension of this practice will have the effect of transferring greater authority to the management of departments. More important, it will focus greater attention on non-tax revenues and relieve the drain on tax revenues to provide services, the cost of which might more properly be borne by the beneficiaries.

25 This may appear to lessen the control of Parliament over the Executive, since departments will be free to spend funds earned and will have to request parliamentary approval only where deficits exist. However, no programme should be carried out without the inclusion of at least a nominal vote in the Estimates, supported by adequate details of revenues and expenditures. Parliament will still be able to question the Executive, and will be better informed of the true cost of providing the service concerned, particularly if the details of both revenues and expenditures are submitted by programmes of activity.

#### ACCOUNTING SYSTEMS

26 The Financial Administration Act provides that the Comptroller of the Treasury may, on request of the minister of the department and with the approval of the Minister of Finance, (a) provide revenue accounting and other services for a department, (b) examine the collecting and accounting practices applied in a department, and (c) report thereon to the appropriate minister. In practice the actual collection of moneys is done by departmental personnel, the Comptroller providing accounting and depositing services. The manual of instructions for Treasury personnel states that their concern

is not with the propriety of amounts collected, but only that they are promptly deposited.

27 Collection methods vary. Some involve government employee payroll deductions; others, billing to the public for services or goods provided, the use of mechanical turnstiles, and sundry cash collections. Most revenue received through the mails is by money order or cheque, drawn in favour of the Receiver General.

#### WRITE-OFFS

28 Statutes of limitations do not run against the Crown, and an Imperial statute of 1704, as well as constitutional usage, vest in Parliament the exclusive power to approve write-offs of debts due to the Crown. Sometimes debts, long overdue, are not collected until the distribution of the estate of a deceased debtor. Accounts of departments are cluttered with accounts receivable which are simply bad debts.

29 Billings originate with either the department or the Treasury office, depending on the location of the necessary records and information on rates. Where departments originate the billing, copies are passed to the Treasury office when the account is sent to the debtor. The Treasury office bills again at the end of thirty days and, after the third month, a registered letter is sent whenever the amount involved exceeds \$5. If the account is not paid, the Treasury refers the matter back to the department for action. When it is unsuccessful, the case is referred to the Department of Justice. If that Department decides that the account is uncollectable, it recommends that the case be submitted for deletion from departmental accounts under one of the classifications in the Treasury Board regulations.

30 The follow-up procedures appear adequate, but the subsequent handling of bad

debts is unrealistic. Legislation permits Executive action only where the amount does not exceed \$1,000. Action by Parliament (generally by an item in the Estimates) is necessary to dispose of amounts in excess of that amount.

31 The foregoing concerns accounts receivable where a service has been rendered to the individual. Another category, and it is an important one, consists of the moneys due to the Crown by reason of overpayments. Typical examples are: where an amount is owing from a civil servant who concealed real age and continued in the public service beyond legal age limits for employment; where the recipient of a veteran's allowance was overpaid for one reason or another; or where there is a loss of public money due to carelessness or fraud by a public employee. In these cases, a direction to recover is often a mere formality; petty instalments may be spread over long periods of years.

32 It has been observed that departments are prone to carry accounts receivable in the accounts far too long before initiating action. Various considerations may be involved, but the main reason seems to be that a request for action may bring to light inefficiencies in departmental administration. Few departments have adequate procedures to prevent further credit being extended to debtors already in default.

33 No departments appear to have defined the period after which it would be reasonable to take action to delete the account. Senior management of each department should develop general policies to guide personnel responsible for reviewing and collecting accounts receivable. These policies should be vigorously implemented. Internal auditors should expose and bring to the attention of departmental heads any failure to pursue approved policies.

# 4

## ACCOUNTING AND REPORTING SYSTEMS

### INTRODUCTION

1 The accounting system of the government must satisfy the needs of Parliament, the Executive, and departmental and agency management.

- First, Parliament must receive an accounting of the Executive's stewardship of the funds provided. Since Parliament provides the funds initially by approving Estimates, the form of the accounts should be such as to permit comparison with the Estimates.
- Second, the Executive, being accountable for these funds, must have an accounting system that will readily produce all information necessary to enable it to fulfill its responsibilities; this would include periodic reports of cash outgoings.
- Third, departmental and agency managements need flexible accounting systems to produce the timely information on all activities that is a requisite for sound decision-making.

2 The following excerpt from the introduction to the Public Accounts of Canada, 1960-61, gives an outline of the accounting

principles followed currently by the Government of Canada:

There are two generally accepted bases or systems of accounting. One is the 'cash' basis under which revenues are taken into the accounts in the period in which they are received in cash and expenditures are accounted for when the actual disbursements are made; the other is the 'accrual' basis under which revenues are accounted for when earned or due, even though not collected, and expenditures are accounted for when the liabilities are incurred whether payment is made in that accounting period or not.

Many factors must be considered in determining how the government's voluminous and varied transactions should be recorded and brought into focus in a clear and comprehensive way. In business, the accounts are usually maintained on an accrual basis. However, the prime purpose of government accounting is to serve the requirements of Parliament and more particularly to ensure effective control by Parliament over public moneys. As parliamentary control in Canada is predicated on the operation of the Consolidated Revenue Fund, which is by law a cash account, and on regulating the flow of cash receipts into and cash payments out of the Fund, it follows that the accounts of Canada are maintained basically on a cash system. However, there is provision in the Financial Administration Act for bringing into the accounts of each fiscal year expenditures relating to that year, which on a pure cash basis would be excluded, and in addition certain modi-

fications have been made to facilitate the maintenance of accounting control over certain assets and liabilities, and to provide for valuation adjustments for recorded assets in anticipation of possible losses on ultimate realization. Revenues are reported on a cash basis and consequently taxes assessed and due and other revenues receivable or accrued (including interest accrued) are not normally set up as assets on the government's statement of assets and liabilities.

On the expenditure side, under the provision of Section 35 of the Financial Administration Act, for thirty days after the end of each fiscal year, payments for the discharge of debts properly applicable to the old year may be made and charged to that year. Consequently, liabilities under contracts and other accounts payable at March 31 for which cheques are issued during the month of April are charged as expenditures in the old year and appear as current liabilities on the statement of assets and liabilities. This is a significant modification of pure 'cash' accounting, and brings into the year's transactions the greater part of those expenditures which on the cash basis would be excluded, but which on the accrual basis would be included and carried to the statement of assets and liabilities as accounts payable. In other respects the expenditure accounts reflect refinements of the cash basis. For example, discounts and commissions on loans are not charged to expenditures in the year in which they are paid, but are set up as deferred charges on the statement of assets and liabilities and are amortized or written off to expenditures during the period of the loan. Also, losses on loans and advances and on other assets are not generally charged to expenditures in the year in which the loss is sustained; instead provision has been made from time to time for a reserve for possible losses on the realization of assets to which the ultimate loss when determined may be charged by parliamentary authority.

The balance of this chapter will describe the system within which these governing principles operate and will analyze some of its shortcomings.

## PRESENT ACCOUNTING SYSTEMS

### *Accounts Kept by the Comptroller of the Treasury*

3 The Comptroller of the Treasury has primary responsibility for accounting in the Government of Canada. The Fiscal Account-

ing Division of the Comptroller's headquarters organization maintains the central accounting records of the government in accordance with the principles outlined above. These record the revenue, appropriations, expenditures, and assets and liabilities of the government. The annual Public Accounts are compiled from these records, supplemented by information obtained from departmental Treasury offices.

4 The departmental records are maintained by the various Treasury offices assigned to departments. The breakdown of the accounts corresponds, first, with the votes appropriated by Parliament and, second, with the allotments approved by the Treasury Board. Further divisions and subdivisions are made in varying patterns to meet the requirements of individual departments. The breakdown of accounts and the nomenclature are seldom consistent between departments—often even between branches of the same department.

5 The entries in these accounts are made when the funds are appropriated, when they are encumbered or committed and, finally, when the cash is disbursed. The detailed accounts show, at any point in time, the amount remaining of the appropriation, the outstanding commitments, and the expenditures to date.

6 Accounting records are also set up for revenues. The number and classification of these accounts vary among departments, only the actual moneys received being accounted for.

7 Each Treasury office prepares monthly statements from these accounts for use by the Fiscal Accounting Division in making postings to the central accounts, which are arranged in accordance with the votes.

### *Accounts Kept by Departments*

8 Some departments rely completely on the accounts kept by the Comptroller's staff;



others integrate these accounts with additional records of their own, or themselves maintain records which almost completely duplicate the records kept by the Treasury offices.

9 The Departments of Transport and Defence Production go furthest in duplicating the Comptroller's records. These Departments feel that the maintenance of their own accounting systems is essential, because of their size and specialized requirements.

10 The accounting system of the Department of Transport was established during World War II to maintain allotment control over the expenses of the Air Services Division, and has since spread to all other divisions. The Department believed that effective control could be maintained only by its own people, with their intimate knowledge of the basic data.

11 The Department of Transport had 271 staff positions approved for accounting work at the end of 1961. Many of these employees are attached to regional offices and operating units, sometimes where no Treasury office is available to service the unit. Much of the accounting information provided is similar to that provided by Treasury offices, although the staff is expected to provide more assistance to operating personnel.

12 The Department of Transport also supplements the normal cash accounting at major airports by a cost system based on accrual accounting. The regional cost accountants maintain books of original entry from data obtained from airport labour and material distribution reports, from revenue documents, accounts payable vouchers, journal vouchers, and from other normal cost documents. This information is consolidated monthly and a detailed report is prepared for distribution to airports, regional offices and headquarters. The regional cost accountant is also responsible for

maintaining supplementary cost records of mobile equipment, and for performing other cost accounting work as required on behalf of the regional offices.

13 In the Department of Defence Production, a departmental Comptroller, with an establishment of eighty-nine in 1960-61, provides accounting services for the Department and for the Canadian Commercial Corporation—a Crown corporation associated with the Department. Complete bookkeeping records are kept, based as far as possible on commercial practice. Another official, the Financial Adviser, with an authorized staff of fifty-four, advises on the financial implications of contracts and other matters affecting the Department's activities.

14 The accounting records maintained by this Department are considerably more extensive than those kept by other departments. Records kept to control assets on loan to contractors facilitate detailed administration of complex agreements with such contractors. Monthly expense statements are prepared for each director of a branch of the Department.

15 The Comptroller of the Treasury services the Department of Transport with a staff of ninety-seven in the Treasury office attached to the Department in Ottawa, and with numerous other employees located in the district or regional offices outside Ottawa. This large staff duplicates much of the work done by the departmental accounting staff. By contrast, the Treasury office attached to the Department of Defence Production has a staff of only twelve, since the duties of this office are limited to expenditure verification, commitment control, and preparation of monthly cash statements by allotments.

#### *Alterations in Responsibilities Required*

16 The experience of the Department of Defence Production illustrates that, even

under the present statutory responsibilities, some duplication can be eliminated if the Treasury office confines its activities to the duties mentioned above. However, with the exception of cheque issue, the manner in which the Comptroller of the Treasury performs even these functions fails to meet departmental requirements.

17 The Comptroller can provide complete services for all departments only if he locates his own staff wherever departmental personnel are called upon to perform duties. Instead, the Comptroller quite properly maintains offices only in those centres where large numbers of public servants are employed. Departments, faced with the alternative of using these less convenient offices, prefer to have their own employees undertake accounting functions, often as a part-time responsibility supplementing other duties.

18 Commitment control is an integral part of the departmental accounting systems established by the Comptroller of the Treasury. Since these systems are primarily designed to control funds, departments seldom have access to the information vital to efficient and effective management that is normally provided by systems employed in commerce and industry. A standardized accounting system applied to all departments is too inflexible to meet the needs of individual departments, particularly when the employees responsible for the system are not part of departmental management and act in a control rather than in a service rôle. Therefore, statutory responsibilities should be altered to place responsibility on departments for certifying to the Comptroller that expenditures will be lawful charges and that funds are available. The responsibility of the Comptroller of the Treasury should be limited to ensuring that the departmental officers providing this certificate are properly authorized.

19 The Comptroller will necessarily continue to keep the central accounts of the

government; he now posts these accounts from summaries provided by departmental Treasury offices. This method can still be used in order to make the centralized accounting entries, with the detailed accounts maintained exclusively by departmental personnel. No department or agency is so small that it cannot keep its own detailed accounts, but the Comptroller might be called upon to assist in establishing suitable and adequate accounting systems. He should also have the right to review departmental systems to ensure that the accounting data presented to him for integration into the central accounts of the government conform with his requirements.

## ACCRUAL ACCOUNTING

### *Introduction*

20 In any discussion of the relative merits of cash and accrual accounting for the Government of Canada, the differing nature of two distinct areas of need must be recognized. The over-all accounts of the government must be related to the parliamentary process, in particular the Estimates and the Budget. Parliament votes money on an annual basis and is not greatly concerned with the position of expenditures month by month. Income tax revenue is also budgeted with respect to the incomes of taxpayers over an entire year, and scrutiny of tax collections at shorter intervals has little significance for Parliament.

21 The second need for accounting in government is quite different, for it relates to the conduct of operations by departments and agencies. Here, the need is for accounting procedures which will effectively assist and control the operations of management and will provide accurate financial information on the cost of various programmes and activities for purposes of assessing performance.

22 The twentieth century has witnessed the

emergence in the private sector of the large and complex corporate organization which assembles vast quantities of capital and manpower to exploit industrial and commercial opportunities on a scale previously unknown. Many factors have contributed to this development, but one of its essential features has been the ingenuity applied to financial record-keeping so that the growing enterprise could continue to be managed and controlled. Thus, the relatively simple record-keeping processes of the last century have given way to modern accounting, specifically designed and continuously developed to facilitate management and to provide dependable reports on periodic performance.

23 At a very early stage, a mere analysis of receipts and disbursements of money was recognized to be insufficient for the needs of the growing organization. Accrual accounting was developed to portray the results of operations in a particular period based on actual transactions rather than on the moneys passing through the cashier's window.

24 Accounts kept on a cash basis record receipts and payments without regard to the fiscal periods within which the activities giving rise to such cash movements relate. Receipts of one year include moneys attributable to the preceding year's operations and exclude current year's revenues to the extent that they remain uncollected at the end of the year. Payments include the settlement of debts incurred in previous fiscal periods and ignore liabilities arising within the current year to the extent that they are unpaid at the year-end.

25 Under accrual accounting, revenues are taken into account when first determinable, not at the time they are collected; goods and services for immediate consumption are charged to current expenditures when received, not when the account is paid; materials for later consumption are charged to operations only when consumed; the cost of build-

ings and plant, which have a useful lifetime beyond the current period, is spread over operations for the periods in which they are used or consumed in service.

26 Today, except for very simple operations, accrual accounting is in general use in commerce and industry. An operation of any complexity cannot be satisfactorily accounted for in any other manner. How, then, can the operations of government be intelligently managed with records based only on cash movements? The answer is that the quality of departmental management performance is today impaired through lack of a very essential tool.

#### *Experience in Other Countries*

27 In the United Kingdom, the Exchequer accounts are kept strictly on a cash basis and can accordingly be reported at the end of the last day of the fiscal year. Appropriation accounts kept by departments are held open for several months for the purpose of discharging liabilities incurred during the fiscal year. The unused portion of cash advanced to departments by the Paymaster General and charged to Exchequer accounts is surrendered to the Exchequer at the end of the designated period. Certain departments carrying on trading operations maintain their accounts on an accrual basis. The Post Office is an outstanding example of how modern accounting techniques can be applied to a government department. Its annual report and balance sheet are completely consistent with the best reporting techniques outside the government.

28 A Committee of Inquiry examined the "Form of Government Accounts" in Great Britain in 1947. Having been formed to consider the desirability of introducing income and expenditure accounting on an accrual basis, it arrived at two conclusions:

We see no practical advantage to be secured from the adoption of an income-and-expenditure basis of accounting in respect of administrative services.

Some arrangement, such as the establishment by legislation of Trading Funds, is needed whereby the Financial results, as affecting the Exchequer, of income-and-expenditure accounting for large and permanent trading operations by Government Departments shall be embodied in the weekly returns and annual accounts of the Exchequer.

These conclusions, being in the nature of a compromise, failed to commend themselves to a large segment of the accounting profession in England, but they undoubtedly gave some limited impetus to the development of accrual accounting in various departments of the United Kingdom government.

29 In the United States, the main government accounts are kept on a cash basis, with few modifications. Departmental or agency accounts are maintained using the accrual method. Departmental records are inter-related but not integrated with the records of the government kept by the Department of the Treasury.

30 The two Hoover Commissions in the United States both examined this subject. The first Commission stated:

Accounting for appropriations is one thing—accounting for the incurrence of expenses is another. Both are necessary, the former to control the consumption of appropriations, the latter to control, among other things, the evil of year-end rushing to spend surplus balances of appropriations and the investment in supply inventories, as well.

The Task Force of the second Commission recommended:

That Government accounts be kept on accrual basis to show currently, completely, and clearly all resources and liabilities and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.

That, as a general policy, reliance be placed upon appropriate accrual and cost accounting techniques as a primary means for aiding the effective management of Government activities.

### *Central Accounts of the Government*

31 The apologia for the accounting procedure of the Government of Canada, as set out in the Public Accounts, 1960-61, has already been quoted. Under what is termed a modified accrual system, the cash accounts are kept open for a month after the end of the fiscal year to permit the settlement of outstanding liabilities, thus bringing into account most expenditures on goods and services applicable to that year. No one, apparently, has been concerned with inconsistency to the point of objecting to the absence of similar treatment for revenues uncollected on the last day of the fiscal year.

32 Nevertheless, your Commissioners believe that, for the purposes of the Estimates, Appropriations, and Public Accounts of the government as a whole, the present arrangements, imperfect and illogical as they may be, should be continued. At some future date, this subject should be reviewed and a conclusion reached as to the desirability of placing such over-all accounts on an accrual basis. In the meantime, the essential need is for consistency of procedure from year to year. Although the present accounts fail accurately to portray the results of the fiscal year on any basis, they do show a rough equivalent of the results for a fiscal period not far removed in time from the fiscal year.

### *Departmental Accounts*

33 Because of the needs of management, because true costs are necessary, and because meaningful, periodic statements are essential to the establishment of accountability for performance, departments and agencies should maintain their own accounts, making the fullest use of accrual accounting. Just as no standard system can be applied indiscriminately to all types of activity in the private sector, so in government the departmental systems must be designed to meet the needs of each operation.

34 Administratively, the greatest gain will be the escape from the present cumbersome system of keeping track of commitments. Commitment control, as presently practised in the government, represents a very costly and inefficient means of remedying one of the basic deficiencies of cash accounting; that is, its failure to protect against over-spending by not recognizing transactions until they result in movements of cash. In this area alone, important savings will result from scrapping all the present laborious procedures and relying on the basic accounts, recording transactions as they occur, to protect against over-spending.

35 The more significant benefits to be realized through the adoption of accrual accounting lie in the realm of management. In terms of enlightened performance, of close control of operations by units and branches, and of accurate cost information, the change should bring about very important improvements. Not only should large sums of money be saved, but the skill and despatch with which government business is conducted cannot but be materially bettered.

36 There is no basic inconsistency between these conclusions. The over-all records of the government on a cash basis and departmental records on an accrual basis can be correlated without difficulty. Both provide useful information, but for different purposes.

#### ALLOCATION OF COSTS

##### *Introduction*

37 Almost all investigating teams found public servants unconcerned about the cost of the services that they provide. An accounting system, capable of facilitating decision-making by management, should provide complete costs of activities. The present government accounting system does not provide cost information readily because accounts, coded on a standard object-of-expenditure

basis, do not provide statements showing costs by programmes, and cash accounting does not produce cost information for the period during which the costs were incurred. Finally, not all costs of operations are paid for by the department concerned.

38 Where common services are provided to departments and agencies by other departments, the supplying departments are responsible for planning, providing and controlling the common services, and the necessary funds are voted by Parliament to the supplying department. The following table sets out some of the principal common services, lists the supplying departments, and shows the amounts voted by Parliament for the fiscal year 1961-62:

*Table 19—COST OF COMMON SERVICES VOTED BY PARLIAMENT*

<i>Service</i>	<i>Supplying Department</i>	<i>Amount</i> (\$ thousands)
Accommodation	Public Works	44,794
Furniture	Public Works	2,944
Superannuation	Finance	47,668
Unemployment Insurance	Finance	1,100
Medical and Hospital Insurance	Finance	8,130
Telephone	Finance	1,563
Employees Compensation	Labour	2,100
		108,299

39 Other services provided free of charge to departments and agencies, but not covered by specific votes, are franked mail services by the Post Office, legal services by the Department of Justice, interest on working capital by the Department of Finance, certain accounting services by the Comptroller of the Treasury, and translation service by the Secretary of State. Inconsistently, certain other services are supplied but charged for; for example, stationery and printing services sup-

plied by the Department of Public Printing and Stationery, and transportation services supplied by the Department of Transport.

40 The Department of Public Works builds, operates and maintains the majority of government buildings, and supplies office furniture, free of charge, to user departments and agencies. The Department of Finance is responsible for disbursing funds on certain items of payroll costs, including superannuation payments. The same Department also provides at its own expense telephone services in Ottawa for all departments, although a decision has been made recently to charge user departments and appropriate machinery is being established. The Department of Labour bears the cost of compensating government employees injured at work.

#### *Memorandum Allocation of Costs*

41 In April, 1961, officers of the Department of Finance proposed to the Standing Committee on Public Accounts that the value of major services provided free of charge to each department be included in memorandum form in the Estimates. The presentation to the Committee read as follows:

A criticism of Canadian Estimates in the past has been that the total cost of a particular service or a departmental area is difficult to assess because the estimates for them do not contain provision for common services which are performed by other government agencies and provided to them free of charge.

To assist in arriving at a reasonable picture of total cost without the introduction of costly accounting practices, there could be included in the Details of Services for each departmental or other Class of Estimates (i.e., for each area identified in the over-all Summary in the front of the Blue Book) a list of the major services provided free of charge to that department and their estimated costs.

In the preparation of these lists, the following practices are suggested:

- 1 To distribute only the costs of those services whose total annual costs exceed \$2 million.

- 2 In determining the cost of accommodation:
  - (a) to limit coverage to buildings in use;
  - (b) for Crown-owned buildings, to use a square foot cost based on
    - (i) the relevant year's element of amortized capital cost,
    - (ii) a factor for grants paid to municipalities in lieu of taxes,
    - (iii) a factor covering lighting, heating and furnishing (if provided free of charge);
  - (c) for leased accommodation, to use the actual rentals paid plus the cost of cleaning and maintenance in cases where such services are provided free of charge.
- 3 Direct the providers of common services to include in the cost they allocate to others a fixed percentage of their costs to represent the value of common services they themselves receive.

42 This proposal met with the approval of the Committee and, accordingly, memorandum costs were incorporated in the 1962-63 Estimates. Exhibit 5 illustrates the form used.

43 Although a step in the right direction, the proposal fails to meet an essential need. The amounts are recorded for the department as a whole with no breakdown by votes or programmes.

#### *Importance of Total Costs*

44 Total programme costs are essential to ensure effective management of government operations by the Executive and departments.

- First, greater cost-consciousness will be created. A management directly responsible for total costs of a programme will have incentive to secure maximum utilization of personnel and facilities.
- Second, decision-making at all levels of government will be facilitated, since management will be better able to choose between alternative programmes, objectives and methods. The information necessary to establish proper rates for revenue-producing services, and to decide whether to "make or buy", will be readily available.

- Third, better evaluation of performance will be possible, since total costs provide a better yardstick for measurement than partial costs.

45 Supplying departments are best equipped to administer a common service because of the advantages of specialization and other economies of scale. Regulations establishing common criteria should continue to be developed by the Treasury Board in conjunction with supplying departments. However, user departments will not be properly accountable for the efficiency with which they utilize common services unless the costs are reflected in their accounts.

46 Funds for most common services are now voted by Parliament to the supplying departments. For example, funds for operation and

maintenance of most government buildings are voted to the Department of Public Works. Responsibility for the efficiency of space utilization rests, therefore, with that Department. Building superintendents periodically inspect public buildings and, during these inspections, consider the efficiency of space utilization. This is necessary since there is no guarantee that departmental management will report to the Department of Public Works unnecessary or misused space. Cost allocation would provide departments with an incentive to report promptly space not required.

*Effect on Parliamentary Control*

47 With the adoption of the principle of full allocation of costs, Parliament should control by programme and vote funds to

*Exhibit 5—ILLUSTRATION OF MEMORANDUM FORM FOR ALLOCATING COSTS*

DETAILS OF SERVICES				
Positions (man-years)		Approximate Value of Major Services Not Included in the Estimates	Amount	
1962-63	1961-62		1962-63	1961-62
			\$	\$
		Accommodation (provided by the Department of Public Works).....		
		Accommodation (in this Department's own buildings).....		
		Accounting and cheque issue services (Comptroller of the Treasury).....		
		Contributions to Superannuation Account (Department of Finance).....		
		Employee surgical-medical insurance premiums (Department of Finance).....		
		Employee compensation payments (Department of Labour).....		
		Carrying of franked mail (Post Office Department).....		

meet the true cost of each programme. The present practice of voting funds to the supplying departments, showing allocated costs as memoranda, does not achieve this objective. It would be equally unsatisfactory to include the costs of common services only in user department votes, because Parliament would then have no control over the operations of supplying departments.

48 The solution is to treat the costs of common services as charges to user departments and credits to supplying departments. The Estimates of user departments should include the cost of common service requirements, to be justified to the Treasury Board and to Parliament, and funds voted accordingly. The Estimates of supplying departments should provide for the gross amounts required for their operations, for the purpose of control by the Executive but, since at least part of the necessary funds will be recovered from user departments, the funds to be voted by Parliament will be abated to that extent. If all costs are to be recovered, a nominal vote of \$1 would afford the opportunity for parliamentary review.

49 This method of allocating the costs of common services has two advantages. Supplying departments, which must be responsible for the efficient provision of services, would have effective control of all the necessary expenditures, and their performance would be assessed by the Executive on that basis. User departments, responsible for the proper use of the services provided, would take a more cost-conscious approach to their requirements if they have to justify proposed expenditures to the Treasury Board and to Parliament.

#### *Method of Accounting*

50 The systems and procedures involved in allocating costs need not increase clerical costs. The system of billing by the service department and paying by the user depart-

ment can be achieved either by a voucher cheque, or by a journal voucher system with charges compiled and billed on a yearly, quarterly or monthly basis. The system for distributing the allocated costs within the user department can be designed to meet the needs of the particular department.

51 The data for distributing costs for superannuation, medical insurance, compensation and other costs related to personnel, are presently available, and could be charged against departments with an insignificant amount of extra work. The Department of Public Works has data on the utilization of space and withdrawals from furniture stores, and the monthly billing operation would be a simple task. Records of telephone installations are available, and charges are in the process of being computed with the intention of charging user departments.

52 The Department of Public Works now tabulates quarterly all direct and supervisory costs incurred for operating and maintaining each building within its jurisdiction. Funds to cover these costs, including heating, cleaning, repairs, supervision, etc., are voted to the Department of Public Works, as are rents paid for leased accommodation. In short, current disbursements to operate and maintain departmental accommodation in buildings within the jurisdiction of the Department of Public Works are now known, and could be billed to user departments with little additional work.

53 For the purposes of the 1962-63 Estimates, the Treasury Board required that the cost of accommodation of each department be calculated. The calculations include amortization of capital cost, although this is most difficult to ascertain in the case of older structures. The resulting total cost estimates are, therefore, viewed with reserve.

54 For the reasons previously set out, no recommendation is made to change the sys-



tem of modified cash accounting now employed for the government's over-all accounts. There is little to gain and some confusion would be created if non-cash costs in the form of either amortization of capital cost or economic rent were to be included in billings by the Department of Public Works to user departments. Moreover, the resulting inflation in space billings to departments would provide the Department of Public Works with revenue in excess of the actual operating costs of that Department, and the over-run would probably end up as an offset to the capital construction costs of the current year. Your Commissioners have therefore concluded that accommodation charges billed to departments should only reflect current costs of operation and maintenance, including the cost of leased premises and grants made in lieu of taxes.

55 For the purposes of departmental management, however, and in particular where trading activities are carried on, the non-cash costs of accommodation cannot safely be ignored. Amortization of actual capital costs is of limited relevance in view of the wide variation in the age of structures, but some assessment of the economic value of accommodation should be available to each user department for purposes of developing trading costs and meaningful financial reports. The Department of Public Works should therefore provide to all user departments estimates of the economic value of the accommodation utilized by them.

56 Your Commissioners' recommendation that the cash costs of the major common services be charged to user departments is made after careful investigation and discussions with the departments supplying the services. It is concluded that, without embarking upon any costly or complex accounting procedure, a more meaningful picture of total departmental costs can be readily obtained.

## MANAGEMENT REPORTING

### *Current Practices in Industry*

57 Accounting reports are vital aids to management. In industry, as actions take place, an accounting is made of resultant costs and revenues. Industrial management uses this accounting information in the form of management reports to determine results for a given period of time—usually monthly. These reports compare results with the budget or estimates, analyze the reasons for differences, determine what actions should be taken, and thereby permit the necessary decisions to be made. An effective system of management reporting requires that reports be provided to all persons responsible for controlling a phase of an activity and having some responsibility for expenditures. In industry, it has been recognized that the effective use of the greater part of corporate funds lies in the hands of foremen and departmental heads. Reports are directed to them so that they may use available resources to the best advantage. They are usually expressed in terms of money, showing results by the month and for the year to date compared with the budget, which has usually been accepted as a target by the departmental head.

58 The financial management process in industry relies on the continuous review of results for effective use of resources. The activities under the responsibility of foremen or departmental heads are reviewed by them, explanations developed, and then reviewed by the next level of management. This process continues in a pyramid fashion to the point where the senior executive is given, in a series of statements, a concise view of operations which enables him to check current progress against the budgets for the year. He uses analyses and commentaries prepared by his senior financial assistants to evaluate results and to determine the changes that may be required in long-range plans.

Exhibit 6—ILLUSTRATION OF TYPICAL MONTHLY ALLOTMENT STATEMENT

DEPARTMENT OF PUBLIC WORKS

ALLOTMENT STATEMENT FOR THE TEN MONTHS ENDING JANUARY 31, 1961

FISCAL YEAR 1960-61

<i>Part I</i>	<i>Estimates</i>	<i>Allotment</i>	<i>Net Expenditure</i>	<i>Unliquidated Encumbrances</i>	<i>Unencumbered Balance</i>
<i>Minister of Public Works—Salary and Motor Car Allowance (\$)</i>					
Salary.....	15,000.00	15,000.00	12,500.00	2,500.00	.00
Motor Car Allowance.....	2,000.00	2,000.00	1,666.60	333.40	.00
TOTAL.....	17,000.00	17,000.00	14,166.60	2,833.40	.00
Gratuities to Families of Deceased Employees.....	1,778.32	1,778.32	1,778.32	—	.00
Refunds of Previous Year's Revenue.....	2,788.85	2,788.85	2,788.85	—	.00
<i>General Administration—Vote 327</i>					
Headquarters					
Administrative Branch.....	1,512,360.00	1,647,360.00	1,343,691.79	292,953.55	10,714.66
Property and Building Management Branch.....	330,825.00	355,825.00	282,301.34	73,523.66	.00
Building Construction Branch.....	837,100.00	887,100.00	717,071.25	170,028.75	.00
Harbours and Rivers Engineering Branch.....	434,370.00	484,370.00	376,610.79	102,599.21	5,160.00
Development Engineering Branch.....	588,160.00	588,160.00	443,287.30	144,689.70	183.00
District Offices.....	6,081,722.00	6,121,722.00	4,864,575.86	1,208,162.65	48,983.49
Supplement as approved (Transfer from Fin. Vote 121).....	300,000.00				
TOTAL.....	10,084,537.00	10,084,537.00	8,027,538.33	1,991,957.52	65,041.15

## *Current Practices in Government*

59 Few financial management reports are produced for the information and guidance of ministers, deputy ministers, and senior administrative and executive officers. The main financial statement prepared by the Comptroller of the Treasury is the Monthly Allotment Statement. An illustration of such a statement, in this instance for the Department of Public Works, is shown in Exhibit 6. Almost without exception departments stated that they make little use of these reports. Departments in which mechanized equipment is used may be provided with a similar daily or weekly statement. Reports are prepared monthly or quarterly for some departments, classifying the accounts by region, district, etc. These are distributed to lower levels of departmental management.

60 In addition, there are subsidiary and special purpose statements prepared by departmental accounting staff. Some typical examples of present practices can best be illustrated by describing the reporting arrangements in a few departments:

- *Department of National Defence*

Financial reports for the four divisions of National Defence—Army, Air Force, Navy, and Defence Research Board—are prepared by both the Treasury office and departmental accounting units. Statements prepared for the individual Services have little in common with each other in terms either of the information provided or the techniques and procedures used in their preparation.

The Air Force has a more elaborate reporting system than either of the other Services, and provides a good example of properly planned reports. Information is first accumulated in detail and progressively summarized so as to conform with organizational responsibilities. The following pertinent extracts from a memorandum issued

within the Service describe the financial statements used:

In keeping with the best techniques of financial reporting the statements have been built on the pyramid principle with the amount and scope of detail increasing in each succeeding section. This makes the highlights and significant features readily available 'up front' in capsule form as an aid to the busy executive while at the same time providing support detail for more casual review when his time permits. Thus the time one needs to devote to the report is directly proportioned to the amount of detail he wishes to extract from it.

The new style report incorporates an additional feature—that of providing separate statements for the primary or primaries administered by a given branch. This allows a 'selective' distribution system and statement packaging by area of budget responsibility. Branch Heads, Directors and Sub-Division Chiefs will receive personal copies containing only the information on their own areas of responsibility, uncluttered and unbiased by reports on other people's business. Each statement shows its own particular distribution. By this means we hope to increase interest in the report and move the responsible parties to the action the report indicates.

- *Department of Public Printing and Stationery*

Statement preparation in the Department of Public Printing and Stationery illustrates the duplication which occurs between Treasury and departmental accounting units. The Treasury prepares a monthly allotment statement which follows the standard form found in most other government departments. The statement prepared by the Department, although similar, is more up-to-date and is usually available three days in advance of the similar Treasury statement. This Department also prepares cost statements, based on cost centres and units of production for the principal function, i.e., printing. These statements are based, however, on historical standards rather than technically derived standards, and they fail to give a full picture of the costs involved

in the operation since only labour, material and other direct costs are included. The extent of detail in some of these reports is excessive.

- *Department of External Affairs*

The Treasury office attached to this Department prepares a trial balance statement, showing costs for each post abroad, which is poor in form. This statement takes excessive time to prepare; it is manually posted and recorded to the last cent; and because of its size it is almost impossible to reproduce. Nevertheless, the Department uses this statement as the principal means of financial control over expenditures of the posts abroad.

- *Royal Canadian Mounted Police*

The ten financial reports produced monthly are bulky, confusing forms which contain insufficient summary material. Senior officers generally do not wade through the mass of detail presented and there is little analysis of these reports before submission to management.

### *Responsibility Reporting*

61 This term is often used in industry to describe management reporting systems directed towards controlling costs at basic supervisory levels. In these systems, responsibilities are grouped and defined within an organization structure, with the object of determining and controlling costs and assigning them to appropriate levels and activities. Decentralization of management authority and responsibility will necessitate the development of such a responsibility reporting system in government for each level of management.

62 The present hierarchial pattern of organization in government departments and agencies readily lends itself to a system of respon-

sibility reporting. The pyramiding of data, in the fashion described by the Air Force and referred to earlier in this chapter, illustrates the basic objective that should be sought.

### *Reporting by Exception*

63 An associated technique of reporting embraces the principle of management by exception, which is designed to enable senior managers to concentrate on activities that require improvement. This approach stresses the use of variance analyses, that is to say, a system of measuring reported results against a predetermined plan or yardstick. The efficiency of the month's performance can, accordingly, be quickly analyzed and management action focussed on the trouble spots so revealed. All actual expenditure and revenue data are compared with budgets. Major variances from budgets are highlighted for quick reference. Thus, the considerable effort involved in preparing the annual Estimates has a special value when Estimates are used in conjunction with monthly reports.

### *Other Requirements*

64 Reports that include only partial costs of a programme are inadequate for management purposes. Costs of free services need to be included to show the true costs of operation. Within departments, overhead, as an indirect cost of operation, should also be allocated. Accrual accounting should be fully used to record activities of an operational nature.

65 Financial reports should be timely, concise and easily understood. Most monthly allotment statements are now produced around the fifteenth of the month following. The earlier receipt of reports by management would permit corrective action to be taken more promptly. Accounting and financial personnel should transform all reports into a narrative that will be more meaningful to operating management.

# 5

## THE ESTIMATES AND PUBLIC ACCOUNTS

### INTRODUCTION

1 The Estimates and the Public Accounts are the principal financial reports laid before Parliament by the Government of Canada. The Estimates present financial requirements for the forthcoming fiscal year, and the Public Accounts report the spending of funds provided. The form of the Estimates governs that of the Public Accounts. Both documents aid Parliament in controlling the public purse but, of the two, the Estimates are of prime importance.

2 In chapter 2 the present form of the Estimates is examined from the management viewpoint. Major revisions are suggested there to make the Estimates of greater use to Parliament, the Executive and departments, with programme budgeting recommended to provide standards or goals against which performance may be measured.

3 The present form of the Estimates, despite substantial detail, makes it difficult to determine the uses to be made of the funds requested. The various "objects of expenditure", such as overtime, postage, materials

and supplies, are presented systematically in great detail, but the activities of government giving rise to the expenditures are seldom shown. A statistical summarization of the objects on which funds are to be expended can permit arbitrary ceilings to be imposed on total expenditures, but does not provide an adequate basis for assessing marginal activities of departments. Parliament requires information on expenditures by programmes if it is to make any intelligent appraisal of the Executive's spending plans.

4 The parliamentarian is confronted with the same problem when he approaches the Public Accounts. He can find a plethora of details on individual expenditures, but can seldom ascertain the full and complete cost of any activity of government.

5 As the main financial documents issued by the Government of Canada, the Estimates and Public Accounts should conform with the highest standards of financial reporting. The activities of government are now so complex that it is difficult to achieve simplicity in any accounting given to Parliament. How-

ever, this complexity makes it all the more imperative to devise accounting forms that will provide Parliament with the information necessary for effective control over public spending.

## THE ESTIMATES

### *Introduction*

6 The Main Estimates for a number of years have had three major sections:

- A general summary of the Estimates, in total, for each department and agency.
- A section presenting the amounts and the legal description of the votes of each department and agency. Statutory expenditures, those not requiring annual parliamentary approval, are forecast and presented individually under the section of the appropriate department or agency.
- A details section which sets forth under each vote the objects on which the funds requested are to be spent.

In addition, a tabular summary by standard objects of expenditure is presented at the end of the Estimates book.

7 Before proceeding to an analysis of the several deficiencies in the Estimates book, the changes incorporated in the Main Estimates for 1962-63 on the recommendation of the Standing Committee on Public Accounts of the House of Commons (1961) merit consideration. These revisions reduced the number of pages from 610 to 470, and the details section for each department or agency is now located immediately behind the listing of the votes of the department or agency concerned, rather than, as in previous years, being grouped in a separate section for all departments. The summary of the departmental Estimates was clarified by revising the presentation of payments to be made out of the Old Age Security Fund. Permanent vote numbers are assigned to each departmental vote, and are

used in both the votes section and the details section.

8 Two major changes were made in the details section. The listing of staff positions under each vote has been simplified by grouping the staff under broad descriptive classifications and showing only the total dollar cost for each vote. Secondly, the approximate value of major services provided free of charge to user departments by other servicing departments is shown in memorandum form—although only by totals for each department or agency.

9 The Committee recognized that there were other possible changes, some of a fundamental nature, but was of the opinion that the implementation of those recommendations upon which there was full agreement should not be delayed. The changes agreed upon are sound, but further revisions would furnish Parliament with more informative details on the government's expenditure programme and, at the same time, assist the Executive in the allocation and control of public funds.

10 The fundamental principle underlying the alternative form of presentation suggested in this chapter is the recommended change from budgeting based on standard objects of expenditure to budgeting based on programmes of activity. Other recommended changes are secondary.

### *Summary Section*

11 A one-page summary at the front of the Estimates book shows for each department the funds to be voted in the Estimates and the total authorized by statutes. These two amounts are totalled and compared with an amount indicated as being comparable for the previous fiscal year, the increase or decrease being set forth in separate columns. The totals for each of these items for all departments are summarized and described as budgetary expenditures. Loans, investments

and advances are shown below, in total, with no breakdown by departments; they are not regarded as budgetary expenditures, although they require parliamentary approval for the funds to be advanced from the Consolidated Revenue Fund. The Old Age Security Fund does not form part of the Consolidated Revenue Fund and the estimated statutory expenditures are accordingly shown separately at the foot of the summary, with a comparison with the previous year.

12 The present form of the summary could be improved in several ways. For example, in the 1962-63 Estimates, the comparative statistics shown for 1961-62 are not as reported in the previous Estimates book, but are revised to include supplementary Estimates to the latest date available. No comparison is made with the actual expenditures for the last completed fiscal year, in this case 1960-61, or with estimated expenditures for the fiscal year then current, 1961-62. This latter information is not given in summary form, even though the details section presents an estimate for most votes based on actual expenditures for seven months and estimated expenditures for the remaining five months.

13 The 1962-63 Estimates would have been more useful if the 1961-62 figures used for comparison had reflected the government's latest forecast for that year. This would mean that, in addition to the Estimates included in the figures now used for comparison, estimated additional supplementary Estimates not yet tabled in Parliament would have to be forecast, as would also the estimated lapsing balances. Lapsing balances, but not anticipated supplementary Estimates, are now forecast for most votes. The final supplementary Estimates often include the deficits of Crown corporations, such as the Canadian National Railways and Trans-Canada Air Lines. These deficits are forecast monthly by the corporations concerned. Both the Executive and Parliament should be aware of these and other supplementaries in review-

ing the Main Estimates for the succeeding year, even though exact forecasts may not be possible. Meaningful comparisons between forecast expenditures for the current year and the Estimates requested for the forthcoming year would be well worth the little extra work involved in the change.

14 In the present form of the summary, expenditures on capital account are not segregated from those on current account. Capital expenditures are often segregated in separate votes, but no summary by department or in total for the government is readily available. This information could be provided in two additional columns. It would be for information only, since no change from the present cash method of budgeting for capital expenditures is recommended. The distinction between capital and current expenditures might be limited to capital items with, say, more than ten years useful life and a value in excess of \$50,000. The cost of some equipment involving substantial expenditures might be charged to a revolving fund and pro-rated over its useful life, where this practice would provide more meaningful information.

15 Since the summary is for information only, the presentation would be simplified by expressing the amounts to the nearest thousand dollars. To illustrate the proposed changes, the suggested form of the "Summary by Departments" is presented in Exhibit 7.

16 Neither the summary now in use, nor that illustrated in Exhibit 7, classifies estimated expenditures on a functional basis. The addition of two tables would provide this useful information. The first table, "Summary by Functions", would have the same columnar headings as the "Summary by Departments", but would classify expenditures under eight major functions and several sub-headings, showing the amount and the percentage of each function in relation to total expenditures. For purposes of the illustration

given in Exhibit 8, the 1961-62 Main Estimates were reclassified, although not on a net basis.

17 The Table "Summary by Functions" could be usefully supported by breaking down each function into the departmental votes making up the total functional cost. Exhibit 9, "Summary by Functions and Services", illustrates the way in which this would be done in connection with the votes which come under the "Transportation and Communications" sub-heading of the "Trade and Industry" function.

#### *Vote Section*

18 The vote section of the Estimates sets forth the legal wording and amounts of each vote, compares the estimate with the previous year (computed by following the procedure described in the previous section), and shows the increase or decrease. The wording and the amounts used in the appropriation acts, as approved by Parliament, usually correspond exactly with those used in this section.

19 The wording and form now used in the vote section of the Estimates is illustrated in Exhibit 10 which shows a sample page of the Estimates of the Department of Transport.

20 At the top of the sample page shown in Exhibit 10, a statutory vote, marked (S), appears. Since this outlay has previously been approved by statute on a continuing basis, it is presented for information only, and Parliament does not vote the amount indicated.

21 The division of votes between "Administration, Operation and Maintenance" and "Construction or Acquisition of Buildings, Works, Land and Equipment" is typical of a practice and wording followed throughout the Estimates of many departments. Although, in a few instances, additional words are used to provide authority which might not be provided by this omnibus wording, the description gives only a very limited idea

of the services provided by the vote.

22 The use of a vote to provide authority contrary to other legislation is illustrated by Vote 40 in Exhibit 10. The wording of this vote permits the department to enter into contracts even when there are not sufficient unencumbered funds in a vote already approved or before the House of Commons. Section 30 of the Financial Administration Act would otherwise limit the ability of a department to make contractual commitments requiring expenditures in subsequent fiscal years.

23 Another use of the Estimates for legislative purposes can be seen by referring to a vote in the supplementary Estimates for 1961-62. Vote 546 of the Estimates of the Department of National Defence reads:

To authorize the Treasury Board to make regulations respecting the counting as pensionable service, for the purposes of the Canadian Forces Superannuation Act, of any period not otherwise countable as such . . . \$1.

This authority could have been given alternatively by amending the appropriate Act, instead of including it in the Estimates. In some instances, this practice is convenient and reasonable, although it may make difficult the presentation of the Estimates in a manner which expedites their review and approval.

24 It is recommended earlier in this report that the number of votes be reduced to facilitate programme budgeting. The votes of the Marine Services Division of the Department of Transport illustrate the simplification that is possible. The eleven votes in Exhibit 10 could be combined into four, as illustrated in Exhibit 11.

25 The revised wording produces a less voluminous, simpler, clearer presentation and yet, when taken in conjunction with the revisions in the details section proposed next, no less informative.



Exhibit 7—SUGGESTED FORM FOR SUMMARY BY DEPARTMENTS

MAIN ESTIMATES FOR 1962-63 COMPARED WITH FORECAST EXPENDITURES FOR 1961-62—SUMMARY BY DEPARTMENTS			
Main Estimates 1962-63		Main Estimates 1962-63	
Ordinary	Capital	To be voted (Net)	Forecast for 1961-62
Department		Statutory	Total
(thousands of dollars)			
—	—	—	—
—	—	—	—
Agriculture.....		—	—
Atomic Energy.....		—	—
Increase or (Decrease)			

—	—	—	—
Veterans Affairs.....			
—	—	—	—
Totals of above.....			
—	—	—	—
Canadian National Railways deficit.....			
—	—	—	—
Trans-Canada Airlines deficit.....			
—	—	—	—
Agricultural Commodities Stabilization Account.....			
—	—	—	—
Total Budgetary Expenditures.....			
—	—	—	—
Loans, Investments and Advances.....			
—	—	—	—
Old Age Security Fund.....			
—	—	—	—
Total Expenditures.....			
Reconciliation of Forecast for 1961-62 (thousands of dollars)			
Main Estimates.....			
Supplementaries previously tabled.....			
Estimated additional supplementaries.....			
Estimated lapsing balances.....			
Total Forecast.....			

## Exhibit 8—SUGGESTED FORM FOR PRESENTING SUMMARY BY FUNCTIONS

## MAIN ESTIMATES FOR 1961-62—COMPARED WITH FORECAST EXPENDITURES FOR 1960-61—SUMMARY BY FUNCTIONS

Main Estimates 1961-62			Main Estimates 1961-62			Forecast for 1960-61	Increase or (Decrease)	
Ordinary	Capital	Function No.	To be voted (Net)	Statutory	Total			
(thousands of dollars)								
1,229,295	389,131	01	NATIONAL SECURITY:					
22,690	—		Defence Services.....	1,555,031	63,395	1,618,426	1,564,274	54,152
			Other.....	22,690	—	22,690	26,764	(4,074)
1,251,985	389,131		Sub-Total	1,577,721	63,395	1,641,116	1,591,038	50,078
20.8%	54.0%		Percentage of Total	44.1%	2.0%	24.4%	24.6%	
86,792	1,242	02	INTERNATIONAL AFFAIRS.....	87,998	36	88,034	92,496	(4,462)
1.4%	.2%		Percentage of Total	2.5%	—	1.3%	1.4%	
284,091	6,469	03	VETERANS PENSIONS AND BENEFITS.....	287,860	2,700	290,560	290,852	( 292)
4.7%	.9%		Percentage of Total	8.0%	.1%	4.3%	4.5%	
1,283,426	—	04	HEALTH AND SOCIAL WELFARE:					
343,792	—		Aid to individuals.....	—	1,283,426	1,283,426	1,249,132	34,294
13,315	438		Shared costs and grants.....	73,792	270,000	343,792	252,243	91,549
71,449	192		Health research, promotion and development.....	13,753	—	13,753	11,877	1,876
5,659	5,331		Welfare and employment services.....	71,641	—	71,641	64,222	7,419
			Other.....	10,990	—	10,990	7,332	3,658
1,717,641	5,961		Sub-Total	170,176	1,553,426	1,723,602	1,584,806	138,796
28.6%	.8%		Percentage of Total	4.7%	49.3%	25.6%	24.5%	
416,156	176,009	05	TRADE AND INDUSTRY:					
3,676	551		Transportation and communications.....	526,076	66,089	592,165	543,336	48,829
107,326	32,764		Industrial Services.....	4,227	—	4,227	3,681	546
110,021	—		Conservation and development of natural resources.....	140,048	42	140,090	120,095	19,995
91,126	23,990		Aid to primary industry.....	47,841	62,180	110,021	155,953	(45,932)
14,820	1,429		Research.....	115,116	—	115,116	108,945	6,171
			Other.....	16,172	77	16,249	14,919	1,330
743,125	234,743		Sub-Total	849,480	128,388	977,868	946,929	30,939
12.4%	32.6%		Percentage of Total	23.7%	4.1%	14.6%	14.6%	
773,124	—	06	DEBT CHARGES.....	—	773,124	773,124	797,456	(24,332)
12.9%	—		Percentage of Total	—	24.6%	11.5%	12.3%	
543,354	—	07	GENERAL GOVERNMENT:					
24,700	—		Subsidies to provinces.....	6,000	537,354	543,354	533,420	9,934
84,830	11,017		Unconditional grants to municipalities.....	24,700	—	24,700	24,450	250
103,638	16,472		Protection of persons and property.....	84,964	10,883	95,847	85,205	10,642
79,103	30,810		Recreational and cultural activities.....	120,110	—	120,110	111,254	8,856
294,528	24,087		Northern and Indian Affairs.....	108,350	1,563	109,913	102,462	7,451
			Administrative and other.....	260,311	58,304	318,615	285,220	33,395
1,130,153	82,386		Sub-Total	604,435	608,104	1,212,539	1,142,011	70,528
18.8%	1.4%		Percentage of Total	16.9%	19.3%	18.0%	17.7%	
22,836	654	08	OTHER EXPENDITURES.....	4,083	19,402	23,485	22,685	800
.4%	.1%		Percentage of Total	.1%	.6%	.3%	.4%	
6,009,742	720,586		TOTAL	3,581,753	3,148,575	6,730,328	6,468,273	262,055
100.0%	100.0%			100.0%	100.0%	100.0%	100.0%	
ADD: Transportation and communications:								
			Canadian National Railways Deficit.....	—	—	—	67,842	
			Trans-Canada Airlines Deficit.....	—	—	—	2,607	
							70,449	
Conservation and development of natural resources:								
			Agricultural Commodities Stabilization Account.....	—	—	—	69,504	
			TOTAL EXPENDITURES.....	3,581,753	3,148,575	6,730,328	6,608,226	

Exhibit 9 — SUGGESTED FORM FOR PRESENTING SUMMARY BY FUNCTIONS AND SERVICES

MAIN ESTIMATES FOR 1961-62 COMPARED WITH FORECAST EXPENDITURES FOR 1960-61 — SUMMARY BY FUNCTIONS AND SERVICES

Main Estimates 1961-62		TRADE AND INDUSTRY — TRANSPORTATION AND COMMUNICATIONS		Main Estimates 1961-62		Forecast for 1960-61		Increase or (Decrease)	
Ordinary	Capital	Page No.	Services	To Be Voted (Net)	Statutory	Total	1960-61	(Decrease)	
(thousands of dollars)									
Department of Transport:									
3,384	12		Departmental administration.....	3,396	—	3,396	3,057	339	
34,571	28,821		Marine services.....	63,392	—	63,392	48,372	15,020	
25,321	7,031		Railway and steamship services.....	32,352	—	32,352	30,562	1,790	
114	—		Pensions and other benefits.....	114	—	114	102	12	
77,808	77,551		Air services.....	155,359	—	155,359	137,395	17,964	
551	—		Air Transport Board.....	551	—	551	592	(41)	
18,338	—		Board of Transport Commissioners.....	6,249	12,089	18,338	23,277	(4,939)	
6,636	—		Canadian Maritime Commission.....	6,636	—	6,636	6,744	(108)	
200	5,990		National Harbours Board.....	6,190	—	6,190	800	5,390	
960	163		St. Lawrence Seaway Authority.....	1,123	—	1,123	2,143	(1,020)	
167,883	119,568		Sub-Total.....	275,362	12,089	287,451	253,044	34,407	
Post Office Department:									
2,174	—		Departmental administration.....	2,174	—	2,174	2,073	101	
118,936	2,104		Operations, including administration.....	121,040	—	121,040	113,807	7,233	
64,031	150		Transportation — movement of mail by land, air and water, including administration.....	64,181	—	64,181	63,000	1,181	
185,141	2,254		Sub-Total.....	187,395	—	187,395	178,880	8,515	
Department of Public Works:									
—	6,027		Construction, acquisition, major repairs and improvements etc. — public buildings.....	6,027	—	6,027	7,775	(1,748)	
7,794	36,297		Harbours and rivers engineering services.....	44,091	—	44,091	38,153	5,938	
55,338	11,863		Development engineering services.....	13,201	54,000	67,201	65,484	1,717	
63,132	54,187		Sub-Total.....	63,319	54,000	117,319	111,412	5,907	
416,156	176,009		Total.....	526,076	66,089	592,165	543,336	48,829	

Exhibit 10—PRESENT FORM OF VOTE SECTION OF THE MAIN ESTIMATES

ESTIMATES, 1962-63

TRANSPORT

No. of Vote	Service	1962-63	1961-62	Change	
				Increase	Decrease
		\$	\$	\$	\$
<b>A—DEPARTMENT</b>					
(S)	Minister of Transport—Salary and Motor Car Allowance (Details, page 399).....	17,000	17,000		
1	Departmental Administration (Details, page 399).....	3,703,400	3,443,285	260,115	
<b>MARINE SERVICES</b>					
5	Marine Services Administration, including Agencies (Details, page 400).....	1,150,600	1,032,610	117,990	
Aids to Navigation—					
10	Administration, Operation and Maintenance including fees for membership in the International Organizations listed in the Details of the Estimates (Details, page 401).....	6,410,300	6,380,090	30,210	
15	Construction or Acquisition of Buildings, Works, Land and Equipment (Details, page 402).....	6,870,000	5,290,000	1,580,000	
Canals—					
20	Administration, Operation and Maintenance (Details, page 402).....	2,571,700	2,398,550	173,150	
25	Construction or Acquisition of Buildings, Works, Land and Equipment including payments to Provinces or Municipalities as contributions towards construction done by those bodies (Details, page 403).....	2,210,700	1,850,230	360,470	
St. Lawrence and Saguenay Rivers Ship Channels—					
30	Administration, Operation and Maintenance (Details, page 403).....	1,151,600	1,062,255	89,345	
35	Construction or Acquisition of Buildings, Works, Land and Equipment (Details, page 404).....	4,850,000	4,952,000		102,000
Canadian Marine Service—					
40	Administration, Operation and Maintenance including authority, notwithstanding section 30 of the Financial Administration Act, to make commitments for the current fiscal year not to exceed a total amount of \$23,394,000 (Details, page 405).....	22,222,500	20,097,522	2,124,978	
45	Construction or Acquisition of Ships and Equipment (Details, page 406).....	16,500,000	14,500,000	2,000,000	
Marine Regulations including Pilotage and Marine Reporting Services—					
50	Administration, Operation and Maintenance including grants and contributions as detailed in the Estimates (Details, page 406).....	3,281,800	3,602,617		320,817
55	Construction or Acquisition of Buildings, Works, Land and Equipment (Details, page 409).....	1,449,800	2,229,000		779,200
		68,669,000	63,394,874	5,274,126	

Exhibit 11—SUGGESTED FORM OF VOTE SECTION OF THE MAIN ESTIMATES

ESTIMATES, 1962-63 TRANSPORT							
<i>Main Estimates 1962-63</i>		<i>Vote</i>	<i>Page</i>		<i>1962-63</i>	<i>1961-62</i>	<i>Increase or</i>
<i>Ordinary</i>	<i>Capital</i>	<i>No.</i>	<i>No.</i>	<i>Services</i>	<i>Estimated</i>	<i>Forecast</i>	<i>(Decrease)</i>
\$	\$				\$	\$	\$
—	—	401	4	Marine Services:			
				Administration	—	—	—
—	—	402	6	Operation and Maintenance	—	—	—
—	—	403		Capital	—	—	—
—	—	404		Grants, Contributions and pensions	—	—	—

*Details of Services Section*

26 The details now shown for a typical vote, not of a capital nature, are illustrated by the example in Exhibit 12 which was taken from the Main Estimates, 1962-63, of the Department of Transport. These details, based on standard objects of expenditure, are primarily valuable for statistical purposes. It is doubtful whether this information is necessary in the Estimates but, if so, a tabulation at the end of each departmental section would be more concise and equally useful.

27 The same vote, including other administrative costs now spread over other votes, could be presented as illustrated in Exhibit 13. An operating vote could be presented in the form illustrated in Exhibit 14.

28 Turning now to capital votes, an example of the current uninformative type of presentation can be seen by reference to Exhibit 15: No further information on this vote is provided. Furthermore, if the estimated expenditures for 1961-62 (\$4,000,000) are set against the figures used for comparative purposes in

1961-62 (\$5,290,000), the present inadequacies can be clearly appreciated.

29 An example of a better, but still not sufficiently informative, presentation of the details of a capital vote can be taken from the Estimates of the same department, as shown in Exhibit 16.

30 Considerable improvement in the presentation could be achieved if all the capital votes of Marine Services were combined in one vote and shown in the manner illustrated in Exhibit 17.

31 Where large projects are included in capital votes, but only a portion of the total cost is requested in the vote before the House, more supporting detail is necessary. Total estimated cost, past expenditures and future anticipated expenditures should be noted as in Exhibit 17.

32 Exhibit 18 shows the manner in which the details of the new vote for grants, contributions and pensions might be presented.

Exhibit 12—PRESENT FORM OF DETAILS SECTION OF THE MAIN ESTIMATES—NON CAPITAL VOTE

ESTIMATES, 1962-63				
Positions (man-years)		Details of Services	Amount	
1962-63	1961-62		1962-63	1961-62
<b>MARINE SERVICES</b>				
<i>Vote 5—Marine Services Administration, including Agencies</i>				
Salaried Positions:				
Administrative and Professional:				
1	1	Senior Officer 3 (\$16,500–\$18,000).....		
1	1	Senior Officer 1 (\$14,000–\$15,000).....		
2	1	(\$10,000–\$12,000).....		
8	9	(\$ 8,000–\$10,000).....		
22	10	(\$ 6,000–\$ 8,000).....		
Technical Operational and Service:				
1	1	(\$ 8,000–\$10,000).....		
4	2	(\$ 6,000–\$ 8,000).....		
29	28	(\$ 4,000–\$ 6,000).....		
35	35	(Under \$4,000).....		
Clerical:				
77	79	(\$ 4,000–\$ 6,000).....		
70	67	(Under \$4,000).....		
2	2	(Part Time).....		
252	236			
(251)	(235)	Continuing Establishment.....	1,062,075	950,890
(1)	(1)	Casuals and Others.....	2,700	2,700
(252)	(236)			
		Salaries and Wages.....(1)	1,064,775	953,590
		Overtime.....(1)	6,000	5,000
		Allowances.....(2)	1,800	1,620
		Travelling and Removal Expenses.....(5)	23,000	16,000
		Freight, Express and Cartage.....(6)	1,325	900
		Postage.....(7)	6,600	6,000
		Telephones and Telegrams.....(8)	22,000	22,000
		Office Stationery, Supplies and Equipment (11)	17,000	17,000
		Materials and Supplies.....(12)	5,000	5,000
		Rental of Buildings.....(15)		2,400
		Municipal or Public Utility Services.....(19)	2,125	2,125
		Sundries.....(22)	975	975
			1,150,600	1,032,610
<i>Expenditure</i>				
		1959–60.....	\$ 837,681	
		1960–61.....	998,400	
		1961–62 (estimated).....	1,080,000	

MAIN ESTIMATES FOR 1962-63  
 COMPARED WITH FORECAST EXPENDITURES FOR 1961-62  
 SERVICES—TRANSPORT

Vote No. 401

Marine Services—Administration (to be voted)..... \$ \_\_\_\_\_  
 Salaries and other administrative costs of the headquarters establish-  
 ments and offices outside Ottawa.

<i>Details</i>	<i>1962-63 Estimate</i>	<i>1961-62 Forecast</i>	<i>Increase or (Decrease)</i>
	\$	\$	\$
<i>Programme by Activities—</i>			
Marine Services Administration.....	—	—	—
Aids to Navigation.....	—	—	—
Canals.....	—	—	—
Ships Channels.....	—	—	—
Canadian Marine Service.....	—	—	—
Marine Regulations—Montreal.....	—	—	—
— Pilotage.....	—	—	—
Steamship Inspection.....	—	—	—
<b>Total Programme Cost.....</b>	<b>—</b>	<b>—</b>	<b>—</b>
<i>Consisting of—</i>			
Salaries and Wages.....	(—) —	(—) —	(—) —
Other Expenditures.....	—	—	—
<i>Less: Recoveries from other departments or agencies.....</i>	—	—	—
<i>Less: Associated revenues.....</i>	—	—	—
<b>Total Programme Cost.....</b>	<b>—</b>	<b>—</b>	<b>—</b>

N.B.—The amounts shown in brackets represent the number of staff positions authorized, expressed in man-years.

Exhibit 14—SUGGESTED FORM OF DETAILS SECTION OF MAIN ESTIMATES—OPERATION AND MAINTENANCE VOTE

MAIN ESTIMATES FOR 1962-63 COMPARED WITH FORECAST EXPENDITURES FOR 1961-62—SERVICES—TRANSPORT

Vote No. 402

Marine Services—Operation and Maintenance (to be voted)..... \$ \_\_\_\_\_

Aids to Navigation is responsible for operation and maintenance of lighthouses, lights, lightships, fog alarms, buoys and beacons for coastal areas and the inland and Great Lakes waterways. Aids maintained consist of 4 lightships; 3022 lights of various types, 1259 light and signal buoys; 428 fog signals, 10,449 other miscellaneous floating aids.

Provision is made for the daily operation and continued running maintenance of the various Canals comprising the Secondary Canal System, which includes 110 locks and associated structures, such as supply and waste weirs; buildings; roads; 109 movable bridges; numerous fixed bridges; docks; wharves; and reaches. This comprises the Rideau, Trent, Murray, Carillon-Grenville, Chambly, Ste. Anne, St. Ours, Canso and St. Peters Canals.

<i>Details</i>	<i>1962-63 Estimate</i>	<i>1961-62 Forecast</i>	<i>Increase or (Decrease)</i>
<i>Programme by Activities—</i>	\$	\$	\$
Aids to Navigation:			
Removal of Obstructions.....	—	—	—
Repairs to Wharves.....	—	—	—
Agencies.....	—	—	—
Canals			
Nova Scotia.....	—	—	—
Quebec.....	—	—	—
Rideau.....	—	—	—
Trent and Murray.....	—	—	—
Pilotage Districts			
St. John's, Nfld.....	—	—	—
Labrador.....	—	—	—
Total Programme Cost.....	—	—	—
Consisting of—			
Salaries and Wages.....	(—) —	(—) —	(—) —
Other Expenditures.....	—	—	—
Less: Recoveries from other departments or agencies.....	—	—	—
Less: Associated revenues.....	—	—	—
Total Programme Cost.....	—	—	—



Exhibit 15—PRESENT FORM OF DETAILS SECTION OF MAIN ESTIMATES. CAPITAL VOTE

ESTIMATES, 1962-63				
Positions (man-years)		Details of Services	Amount	
1962-63	1961-62		1962-63	1961-62
			\$	\$
		<i>Vote 15—Aids to Navigation—Construction or Acquisition of Buildings, Works, Land and Equipment</i>		
		Construction or Acquisition of Buildings, Works and Land.....(13)	7,233,500	5,418,850
		Construction or Acquisition of Equipment.....(16)	952,620	730,360
			8,186,120	6,149,210
		<i>Less: Anticipated Lapses.....(34)</i>	1,316,120	859,210
			6,870,000	5,290,000
		<i>Expenditures</i>		
		1959-60.....\$ 3,965,422		
		1960-61.....2,630,403		
		1961-62 (estimated).....4,000,000		

Exhibit 16—PRESENT FORM OF DETAILS SECTION OF MAIN ESTIMATES—MORE DETAILED  
CAPITAL VOTE

ESTIMATES, 1962-63				
Positions (man-years)		Details of Services	Amount	
1962-63	1961-62		1962-63	1961-62
		A—DEPARTMENT (Continued)	\$	\$
		MARINE SERVICES (Continued)		
		<i>Vote 45—Canadian Marine Service— Construction or Acquisition of Ships and Equipment</i>		
		Light Icebreaker, Lighthouse Supply and Buoy Vessel for service in the Maritimes (Estimated Cost \$5,000,000).....	575,000	
		Triple Screw Icebreaker (Estimated Cost \$15,000,000)	1,500,000	1,320,000
		Cable Repair Vessel and Icebreaker (Estimated Cost \$9,000,000).....	2,400,000	2,100,000
		Lighthouse Supply and Buoy Vessel, Sorel, Quebec Agency ("Vercheres" replacement) (Estimated Cost \$1,000,000).....	525,000	1,140,000
		Lighthouse Supply and Buoy Vessel, Prescott, On- tario Agency ("Grenville" replacement) (Esti- mated Cost \$2,100,000).....	908,955	1,960,000
		Workboat, Prescott, Ontario Agency (Estimated Cost \$500,000).....	300,000	160,000
		Workboat, Prince Rupert, British Columbia Agency (Estimated Cost \$900,000).....	600,000	320,000
		Workboat, Mackenzie River, Northwest Territories (Estimated Cost \$310,000).....	279,000	187,500
		Two Weatherships, West Coast (Replacements for "Stonetown" and "St. Catharines") (Estimated Cost \$18,000,000).....	4,800,000	2,800,000
		Depot Ship for Northern Transportation (Estimated Cost \$3,000,000).....	2,200,000	1,450,000
		Eight Marine Service Cutters, 2 each for service on the East and West Coasts, and 4 on the Great Lakes (Estimated Cost \$4,217,000).....	2,205,000	2,785,000
		Lightering Equipment for Northern Re-supply Operations.....	50,000	50,000
		Plans, Specifications, Research and associated Pro- fessional Services for ships to meet future require- ments.....	350,000	200,000
		Provision for commencing of construction of two ships as replacements or additions to the Fleet....	500,000	
		Construction or acquisition of Equipment.....	150,000	150,000
		Items not required for 1962-63.....		767,500
			17,342,955	15,390,000
		Less—Anticipated Lapses.....	842,955	890,000
		(16)	16,500,000	14,500,000
		<i>Expenditure</i>		
		1959-60.....	\$ 16,015,748	
		1960-61.....	5,044,260	
		1961-62 (estimated).....	4,095,970	

MAIN ESTIMATES FOR 1962-63  
 COMPARED WITH FORECAST EXPENDITURES FOR 1961-62  
 SERVICES—TRANSPORT

Vote No. 403

Marine Services—Capital (to be voted)..... \$ —

Aids to Navigation includes provision for construction of lighthouses, lighthouse piers, lightkeepers' dwellings, fog alarm buildings, breakwaters, seawalls, beacons, access roads and similar capital items required by the Lighthouse Service. Many of the Agency Depot establishments are very old and inadequate to handle present day needs for docking facilities for Departmental Ships, and Agency Stores, Shops and office requirements. The Department has a programme of major reconstruction of Agency Depot-facilities and this includes the construction of permanent type wharf and dock facilities and the construction of modern office Stores and Shops buildings. There is also a programme for constructing major Lightstation piers to replace Lightships that are presently in service. This will not only provide more reliable aids to navigation but will result in a considerable reduction in operational costs. Provision is made for new machinery and shop equipment buoys, cranes, motorboats, tools and other movable equipment. The Department has a programme of bringing the marking of Newfoundland waters to the standard of other Canadian waters.

Details	1962-63 Estimate	1961-62 Forecast	Increase or (Decrease)
	\$	\$	\$
<i>Programme by Activities—</i>			
Aids to Navigation:			
Agency Depots—Wharves and Buildings.....	—	—	—
Dwellings.....	—	—	—
Lighthouse Piers, Lights, Towers and Ranges....	—	—	—
Other.....	—	—	—
	—	—	—
Canals:			
Lock Structures.....	—	—	—
Bridges.....	—	—	—
Other.....	—	—	—
	—	—	—
Ship Channels:			
Channel Dredging—St. Lawrence and Saguenay Rivers.....	—	—	—
Hydraulic Model of the Non-Tidal section of the St. Lawrence River.....	—	—	—
	—	—	—

Exhibit 17—SUGGESTED FORM OF DETAILS SECTION OF MAIN ESTIMATES—CAPITAL VOTE—*Conc.*

Marine Regulations—Steamship Inspection			
Marine Haul-out and Wharf.....	—	—	—
Total Programme Cost.....	—	—	—
Consisting of—			
Other Expenditures.....	—	—	—

<i>Forward Commitments</i>	<i>Total Estimated Cost</i>	<i>Expenditure to 1961-62</i>	<i>Estimate 1962-63</i>	<i>Future Years</i>
	\$	\$	\$	\$
<i>Aids to Navigation</i>				
Charlottetown Agency Depot—Re- construction.....	—	—	—	—
Dartmouth, N.S. Agency Depot— Wharf extension.....	—	—	—	—
Saint John, N.B. Agency Depot— Reconstruction.....	—	—	—	—
Quebec Agency Prince Shoal, P.Q.— Lighthouse pier.....	—	—	—	—
Quebec—Wharf reconstruction.....	—	—	—	—
Prescott Agency Depot—Office, stores and shops building.....	—	—	—	—
South East Bend Pier and range lights.....	—	—	—	—
Beauharnois Canal—Pier lights.....	—	—	—	—
Prince Rupert Agency Depot— Reconstruction.....	—	—	—	—
Miscellaneous projects whose total estimated cost is less than \$250,000	—	—	—	—
<i>Less: Services which may not be carried out during the year.....</i>	—	—	—	—
	—	—	—	—
<i>Canals</i>				
Trent Canal—Big Chute and Swift Rapids Navigation Facilities.....	—	—	—	—
Miscellaneous projects whose total estimated cost is less than \$250,000	—	—	—	—
	—	—	—	—

<i>Marine Regulations—Steamship Inspection</i>			
Miscellaneous projects whose total estimated cost is less than \$250,000	—	—	—
Total Programme Cost.....	—	—	—

*Exhibit 18*—SUGGESTED FORM OF DETAILS SECTION OF MAIN ESTIMATES—GRANTS, CONTRIBUTIONS AND PENSIONS

MAIN ESTIMATES FOR 1962-63  
 COMPARED WITH FORECAST EXPENDITURES FOR 1961-62  
 SERVICES—TRANSPORT

*Vote No. 404*

Marine Services—Grants, Contributions and Pensions (to be voted)..... \$ —

Courses in navigation, engineering and seamanship are provided on a shared-cost basis with provincial authorities to prepare candidates for examinations leading to certificates of competency as first and second mates, masters and marine engineers.

Grants are made to organizations at coast and inland ports for the maintenance of welfare facilities for seamen. These missions or hostels provide recreation facilities, meals and lodging, at nominal cost, and otherwise assists seamen during the navigation season. These organizations are non-denominational and provide an essential service in Canada.

The object of subsidizing a salvage company at Montreal is to ensure that a sufficiently efficient plant is maintained to render prompt and effective aid to vessels in distress in the St. Lawrence River and on the East Coast of Canada. The contractor undertakes to maintain efficient modern salvage vessels and equipment and competent personnel in constant readiness from immediately after opening of navigation in the River and Gulf of St. Lawrence until immediately before the close of navigation.

A nominal amount is provided annually for awards to crews of lifeboats, and others for the saving of life from vessels in distress on the coasts of Canada.

Membership fees of minor amount cover the department's participation in the International Association of Lighthouse Authorities and the permanent International Association of Navigation Congresses both of which are of benefit to departmental marine engineers.

<i>Details</i>	<i>1962-63 Estimate</i>	<i>1961-62 Forecast</i>	<i>Increase or (Decrease)</i>
	\$	\$	\$
<i>Programme by Activities—</i>			
Courses in Navigation, Engineering and Steamship—			
Provincial Education Authorities:			
Province of Newfoundland.....	—	—	—
Province of Nova Scotia.....	—	—	—
Province of Quebec.....	—	—	—
Province of British Columbia.....	—	—	—
	—	—	—
Institutions Assisting Sailors.....	—	—	—
Salvage Subsidy—Foundation Maritime Limited.....	—	—	—
Pensions to former pilots.....	—	—	—
Miscellaneous.....	—	—	—
Total Programme Cost.....	—	—	—
Consisting of—			
Other expenditures.....	—	—	—

Exhibit 19—PRESENT FORM OF ALLOCATING INTERDEPARTMENTAL COSTS

TRANSPORT				
Positions (man-years)		Details of Services	Amount	
1962-63	1961-62		1962-63	1961-62
		<b>A—DEPARTMENT</b>	\$	\$
		<i>Approximate Value of Major Services Not Included in These Estimates</i>		
		Accommodation (provided by the Department of Public Works).....	1,750,000	
		Accommodation (in this Department's own build- ings).....	5,300,000	
		Accounting and cheque issue services (Comptroller of the Treasury).....	890,200	
		Contributions to Superannuation Account (Depart- ment of Finance).....	3,807,800	
		Employee surgical-medical insurance premiums (Department of Finance).....	408,000	
		Employee compensation payments (Department of Labour).....	245,500	
		Carrying of franked mail (Post Office Department)..	166,600	
			12,568,100	

Exhibit 20—PRESENT FORM OF SHOWING ASSOCIATED REVENUES

	<i>Expenditure</i>	<i>Revenue</i>
1959-60.....	\$5,911,916	\$889,732
1960-61.....	7,497,815	972,615
1961-62 (est.).....	6,527,275	975,000

33 Services provided by other departments at no charge to the users are now presented at the beginning of the details section, without any further identification with the vote or activity of the department using the services. An illustration from the Department of Transport Estimates is shown in Exhibit 19.

34 Where revenues are derived directly from the services provided, as shown below in the sample illustration from the vote for "Aids

to Navigation", revenue figures for the current and two preceding years are presented alongside the expenditure (see Exhibit 20).

35 Programme budgeting requires that services now provided free be charged to the user departments, and that revenues directly derived from an activity of government be offset against its costs. Therefore, the above information would no longer be required in the form now in use. Instead, the gross cost of the

services authorized by the vote would be disclosed in the details of each vote, with salaries and wages being segregated from all other costs. The numbers of staff positions related to the estimate of salaries and wages would also be shown. Recoveries from other departments and agencies, together with associated revenues which the department is permitted to offset, would be set out separately. The resultant net cost would correspond with the total programme costs estimated. Exhibit 13 depicts the way in which these amounts could be presented.

### Conclusion

36 The standard objects of expenditure, on which the present form of the Estimates is based, are of almost no value for financial control, and the proposed presentation by programmes would better serve this purpose. As now presented the Estimates tell Parliament only where the money is going; the recommended revision would also show why the money is needed. All activities of government would be disclosed as separate programmes. Programmes of like nature would be grouped under one vote. Votes of a similar functional nature would be consolidated in the "Summary by Functions and Services", and the total would be presented in the "Summary by Functions". Thus the parliamentarian would be in a position to analyze the Estimates, proceeding progressively from informative detail on each programme to meaningful global totals.

### PUBLIC ACCOUNTS

#### *Public Accounts for 1960-61*

37 In 1961, the Standing Committee on Public Accounts reported that it had reviewed the form of the Public Accounts "from the standpoint of clarity, conciseness, and attractiveness of presentation" and "from the standpoint of the necessity or relative importance of the material and the advisability

of including it in the Public Accounts rather than in other documents such as annual departmental reports to the House of Commons". Changes recommended by the Committee have been incorporated in the Public Accounts for 1960-61. For the first time the Public Accounts were presented in three volumes, as follows:

	<i>No. of Pages</i>
Vol. I Summary Report and Financial Statements	246
Vol. II Details of Expenditures and Revenues	926
Vol. III Financial Statements of Crown Corporations	146
	1,318

38 The Public Accounts were improved by the changes, but acceptance of the proposed new form of the Estimates would make further improvements possible. However, the explanatory sections for each vote in the Estimates would not need to be repeated in the Public Accounts.

39 Furthermore, excessively detailed listings are now given of payments to members of the Senate and the House of Commons, to civil servants receiving \$8,000 or more per annum, and to suppliers and contractors paid \$5,000 or over (\$25,000 in the case of National Defence). This parochial practice is expensive and has outlived any usefulness.

40 Details of items not shown separately in the Estimates should be presented only to explain significant variations between appropriations and expenditures, or between revenues forecasted and realized. Unless the following information is sufficiently important to be detailed in the Estimates, it should be deleted from the Public Accounts:

- (a) Allotments maintained solely for operating purposes
- (b) Construction and other contracts
- (c) Purchases of land
- (d) Grants and other assistance payments
- (e) Listings of other payments, including salaries,

travelling expenses, professional fees, educational leave, names of suppliers and contractors.

41 In 1961, it was estimated before the Public Accounts Committee that the compilation, typing, editing, proof reading and translation of the Public Accounts represented 34,000 man-hours of work, or roughly 17 man-years at an estimated cost of about \$93,500; in addition the cost of printing was over \$62,000.

42 The Public Accounts is not a control document, but a means of reporting to Parliament on the financial stewardship of departments and the Executive, and on the essential facts about the national finances. The incorporation of much of the detail now included cannot be justified on the grounds that the publication of such information acts as a restraint on individuals in the public service. The remedy lies in a revision of existing internal controls. The Auditor General's report on extravagance and abuses within the public service is more likely to be effective.

43 The form of the Public Accounts should be clear and uncluttered. Details should not be permitted to obscure matters of real importance. The present form lays such stress on details that it is exceedingly difficult to separate the wheat from the chaff.

44 The annual reports of departments and agencies include financial statements, but these do not often duplicate the Public Accounts since they reflect the natural divisions of departments. The statements of many agencies and at least one department are prepared on an accrual basis. These annual reports often have narrative and statistical detail supporting the financial information in order to explain the department's programmes.

45 In the Public Accounts, greater use should be made of tables, with explanatory notes where necessary, to aid interpretation.

### *Statement of Assets and Liabilities*

46 The Public Accounts include "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as, in the opinion of the Minister, are required to show the financial position of Canada as at the termination of the fiscal year". The Statement as at March 31, 1961 is shown in Exhibit 21.

47 This Statement corresponds to the balance sheet of a commercial undertaking, but it is not a true balance sheet for the following reasons:

- (a) Many current assets are not included, such as accounts receivable, arrears of assessed taxes, interest receivable, equipment, stores and materials, except to the extent that these form part of advances or loans or revolving funds.
- (b) Fixed assets are carried at a nominal value of \$1.00.
- (c) The liabilities include deferred revenues from the sale of Crown-owned land, buildings, machinery and equipment, and offsetting credits to other asset accounts; also, the undisbursed balances of appropriations to special accounts, e.g. the \$67.5 million in the Colombo plan fund at March 31, 1961.
- (d) The Statement balances only because of the insertion of a balancing item which is termed Net Debt, represented by the excess of liabilities over net assets.

48 Net Debt has come to be regarded by the public as a significant figure. However, in arriving at the Net Debt, the assets deducted from liabilities include deferred expenditures such as the "unamortized portion of actuarial deficiencies" in superannuation funds, and assets which are not fully self-supporting or realizable: for example, loans to the National Capital Commission on which interest is paid out of appropriations made expressly for that purpose. Further, the assets include advances to the Canadian National Railways, which in 1961 had a deficit before the payment of fixed charges. Since legislation directs that the deficit is to be paid by the government, it follows that these advances are dubious assets.



THE GOVERNMENT OF CANADA

STATEMENT OF ASSETS AND LIABILITIES AS AT MARCH 31, 1961

(with comparative figures as at March 31, 1960)

ASSETS

	March 31, 1961	March 31, 1960	Net increase or decrease (-) during 1960-61
1. Current assets—			
(a) Cash, schedule A, page 102.....	\$ 486,759,770	\$ 565,436,461	\$ -78,676,691
(b) Departmental working capital advances and revolving funds, schedule B, page 102.....	171,082,579	196,010,004	-24,927,425
(c) Securities held for the securities investment account at amortized cost.....	101,453,744	77,862,926	23,590,818
(d) Other current assets, schedule C, page 108.....	25,051,644	22,837,203	2,214,441
	784,347,737	862,146,594	-77,798,857
2. Advances to the exchange fund account—(value of investments from advances on basis of closing exchange rates: March 31, 1961, \$1,869,957,821; March 31, 1960, \$1,746,305,381).....	2,024,000,000	1,960,000,000	64,000,000
3. Sinking fund and other investments held for retirement of unmatured debt, schedule D, page 108.....	17,017,981	85,272,230	-68,254,249
4. Loans to, and investments in, Crown corporations, schedule E, page 109.....	3,627,733,196	3,446,661,546	181,071,650
5. Loans to national governments, schedule F, page 117.....	1,378,196,197	1,414,527,922	-36,331,725
6. Other loans and investments, schedule G, page 118—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	631,126,992	605,174,878	25,952,114
(b) Loans to provincial governments.....	84,827,019	90,396,788	-5,569,769
(c) Veterans land act advances (less reserve for conditional benefits).....	166,092,206	151,626,032	14,466,174
(d) Miscellaneous.....	140,059,590	87,273,714	52,785,876
	1,022,105,807	934,471,412	87,634,395
7. Securities held in trust, schedule H, page 133.....	30,042,201	30,611,723	-569,522
8. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....	326,300,000	326,300,000	
Public service superannuation account.....	276,661,000	139,000,000	137,661,000
(b) Unamortized loan flotation costs, appendix No. 7, page 232.....	130,741,328	150,993,027	-20,251,699
	733,702,328	616,293,027	117,409,301
9. Suspense accounts, schedule I, page 134.....	136,101	33,300	102,801
10. Capital assets.....	1	1	
11. Inactive loans and investments, schedule J, page 134.....	94,824,381	93,539,317	1,285,064
TOTAL ASSETS.....	9,712,105,930	9,443,557,072	268,548,858
12. Less: Reserve for losses on realization of assets.....	-546,384,065	-546,384,065	
NET ASSETS.....	9,165,721,865	8,897,173,007	268,548,858
13. Net debt, represented by excess of liabilities over net assets, schedule K, page 134.....	12,437,115,095	12,089,194,003	347,921,092
	21,602,836,960	20,986,367,010	616,469,950

The notes appearing on page 100 are an integral part of this Statement of Assets and Liabilities.

K. W. TAYLOR,  
Deputy Minister of Finance.

H. R. BALLS,  
Comptroller of the Treasury.

LIABILITIES

	March 31, 1961	March 31, 1960	Net increase or decrease (-) during 1960-61
14. Current and demand liabilities, schedule L, page 135—			
(a) Outstanding treasury cheques.....	\$ 251,740,839	\$ 228,768,468	\$ 22,972,371
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	221,396,476	245,099,099	-23,702,623
(c) Non-interest bearing notes payable to the international monetary fund, the international bank for reconstruction and development, and the international development association.....	383,660,444	381,828,500	1,831,944
(d) Maturity debt outstanding.....	31,872,131	20,067,997	11,804,134
(e) Interest due and outstanding.....	66,776,824	57,690,734	9,086,090
(f) Interest accrued.....	154,015,640	137,622,473	16,393,167
(g) Other current liabilities.....	38,098,891	27,979,624	10,119,267
	1,147,561,245	1,099,056,895	48,504,350
15. Deposit and trust accounts, schedule M, page 137.....	239,667,315	242,673,334	-3,006,019
16. Annuity, insurance and pension accounts, schedule N, page 149.....	3,955,509,445	3,565,375,649	390,133,796
17. Undisbursed balances of appropriations to special accounts, schedule O, page 152.....	104,492,701	96,619,964	7,872,737
18. Deferred credits, schedule P, page 154.....	79,073,348	83,961,190	-4,887,842
19. Suspense accounts, schedule Q, page 156.....	8,617,992	8,528,175	89,817
20. Unmatured debt, schedule R, page 158—			
(a) Bonds.....	14,132,914,914	13,765,151,803	367,763,111
(b) Treasury bills.....	1,935,000,000	2,125,000,000	-190,000,000
	16,067,914,914	15,890,151,803	177,763,111
TOTAL LIABILITIES.....	21,602,836,960	20,986,367,010	616,469,950

Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,  
Auditor General.

Exhibit 22—EXTRACT FROM PUBLIC ACCOUNTS SHOWING CONTINGENT LIABILITIES

SUMMARY OF INDIRECT DEBT OR CONTINGENT LIABILITIES AS AT MARCH 31, 1961 AND MARCH 31, 1960			
(in millions of dollars)			
	Amount outstanding March 31		Increase or decrease (—)
	1961	1960	
Securities of government-owned enterprises—			
Guaranteed as to principal and interest—			
Canadian National Railways and predecessor companies.....	1,672.6	1,430.0	242.6
Guaranteed as to interest only—			
Grand Trunk Railway.....	0.1	0.1	
Other guarantees—			
Bank loans to Canadian Wheat Board.....	125.6	109.4	16.2
Bank loans under the Prairie Grain Advance Pay- ments Act.....	35.8	20.2	15.6
Bank loans under Farm Improvement Loans Act..	46.8	38.3	8.5
Chartered bank deposits in Bank of Canada.....	656.3	619.9	36.4
Export Credits Insurance Act.....	109.9	97.5	12.4
Insured loans under National Housing Act, 1954..	3,024.9	2,678.3	346.6
Sundry other guarantees (excluding indeterminate amounts).....	0.6	1.4	—0.8
	5,672.6	4,995.1	677.5

49 Neither the assets nor the liabilities include guaranteed bonds or other contingent liabilities: for example, the government's investment in the Canadian National Railways at March 31, 1961 is shown at \$1.1 billion, the amount of direct advances and loans, and does not include the investment in excess of \$1.6 billion represented by bonds, debenture stocks and equipment obligations guaranteed by the government. The total of these contingent liabilities is not even noted on this Statement. That the amounts are significant can be easily seen from Exhibit 22 which has been extracted from another part of the 1960-61 Public Accounts.

50 From an accounting point of view, Net Debt is a meaningless and misleading concept which has neither validity nor significance. The gross outstanding debt is significant and does not require interpretation.

51 The present Statement of Assets and Liabilities should be replaced, preferably by a statement accounting for outstanding debt, both direct and indirect, with no reference to Net Debt. Liabilities should be shown first, followed by a list of assets and expenditures showing the purposes for which monies obtained through direct borrowings or guarantees have been expended. The term

"Net Debt" should be dropped. The balancing figure should be designated as "Net Charges to Capital, Other Non-Active Accounts and Consolidated Deficit Account from July 1, 1867 to .....", (the date of the statement).

### *Conclusion*

52 The recommended elimination of material from the Public Accounts is not designed to withdraw useful information from parliamentary review, but rather to reduce the bulk of the document so that an accounting can be rendered in a clear, concise manner that conforms to the highest standards of financial reporting. Furthermore, by eliminating unnecessary detail, more useful information might be added which would be of value to Parliament and would provide a better accounting in areas now inadequately covered.

53 For example, many departments carry on operating activities, and the appropriation accounts kept on a cash basis do not adequately reflect the financial results of these activities. This has been partially corrected in some instances by the use of revolving

funds, which are described in the next chapter, but these funds usually record only direct costs with no provision for departmental overhead or the amortization of capital costs.

54 In this report your Commissioners have recommended the adoption of accrual accounting for departmental purposes but it is not recommended that the government's accounts be altered from the present cash basis. Therefore, the appropriation accounts will continue to be reported on a cash basis in the Public Accounts.

55 However, the costs of individual activities can now seldom be determined from the Public Accounts. The adoption of programme budgeting and accrual accounting, and the inclusion of the costs of services now provided free by other departments, will permit financial results to be presented in a manner similar to that followed in commerce and industry. The form of such statements is clear, concise and widely understood. Presentation of departmental accounts in this form will provide Parliament with information of far more value than any of the material that your Commissioners suggest be deleted.

# 6

## CASH CONTROL

### CASH MANAGEMENT

#### *Cash Float*

1 A large portion of the cash of the Government of Canada is held either by the Bank of Canada or by the chartered banks. The total in these accounts is regarded as the "cash float".

2 The cash float is rarely less than \$40 million — the average of two days' outgo. It fluctuates widely throughout the year for a number of reasons. Sufficient cash must be available at all times to meet contingencies. The amount will increase if the government issues new securities prior to the time when the cash is actually required, to take advantage of favourable market conditions. The receipt of large sums on the issue of bonds and the expenditure of large sums on redemption, will cause substantial fluctuations in the cash float. An increase may be necessary if a substantial deterioration in the cash position is forecast.

3 Chartered banks must maintain certain minimum cash reserves against their deposit liabilities. Government funds on deposit with

the banks while forming part of these liabilities, also affect the amount of the cash reserves. Therefore, the Canadian dollar operating account with the Bank of Canada has to be maintained at a level which permits transfers to and from the accounts with the chartered banks as required by central banking policy.

4 No precise dollar figures can be selected as the minimum amount needed to meet the operating requirements of the Government of Canada, both budgetary and non-budgetary, and to meet the requirements of central banking policy.

#### *Other Bank Accounts*

5 Canadian dollars are also held in the Exchange Fund Account by the Bank of Canada and in various departmental banking accounts by the chartered banks. Segregated balances for departmental purposes are necessary when it is desired to give authority to local management to make disbursements for specified purposes without incurring the delays caused by processing disbursement requisitions through the usual channels. These depart-

mental bank and other cash balances are usually not very large.

6 In only one instance, the Gander Airport Account, was the balance found to be larger than warranted. Acceleration of both the frequency and the processing of replenishment requisitions might well permit a reduction of the balance in this account. The present balance represents approximately one month's requirements; two weeks' requirements would be more appropriate. The auditing of vouchers submitted in support of replenishment requisitions could be made subsequent to the issue of the replenishment cheque without serious loss of control. Adjustments necessitated by audit findings could be made on issue of the next replenishment cheque.

7 Foreign currencies, mainly United States and United Kingdom currencies, are also held by the Bank of Canada, both in the Exchange Fund Account and in other accounts, and in accounts with the chartered banks. Certain foreign currencies are held by the government to facilitate payment of obligations payable in these currencies; other currencies less prominent in international trading are bought as required.

#### *Responsibility*

8 The Minister of Finance manages all Receiver General bank balances. The Financial Administration Act empowers him to establish, in the name of the Receiver General, accounts with such banks and fiscal agents as he designates for the deposit of public money. Normally, no money may be borrowed except with the consent of Parliament, and the practice is to insert in appropriation acts a round-sum amount which the Minister may borrow. However, to make certain that the government is always in a position to pay accounts coming for payment, the Financial Administration Act provides that:

44. Where it appears to the Governor in Council that the Consolidated Revenue Fund will be

insufficient to meet the disbursements lawfully authorized to be made from it, the Governor in Council may authorize the Minister to borrow, at such rate of interest and on such terms and conditions as the Governor in Council may approve, for a period not exceeding six months, an amount not exceeding such amounts as he deems necessary to ensure that the Consolidated Revenue Fund will be sufficient to meet those disbursements.

9 The Cash Management Division under the Comptroller of the Treasury is responsible for the accounting and forecasting of Receiver General balances. A staff of eight prepares the following reports:

Daily	—Receiver General cash adjustment sheet —Statement of Receiver General bank balances —Comparative statement of cash receipts
Monthly	—Forecast of changes in cash positions and accompanying explanatory memorandum
Every six months	—Letters setting out recommended interest rates to be levied on loans, including advances to Crown corporations
Periodically, as required	—Statements of estimated revenue and expenditures and related changes in cash position for budget purposes

This group also arranges with the Bank of Canada for the purchase and transfer of funds; authorizes banking facilities for various government departments and agencies; and computes accrued interest, amortization and other schedules of the public debt, and tables of interest and principal due to the government on advances to foreign and provincial governments, and to Crown corporations.

10 This Division collects data from other offices on the status of bank balances, and communicates significant information to the

Minister and the Deputy Minister of Finance. The various Treasury offices advise the Cash Management Division whenever cheques of \$1,000,000 or over are issued. The Cheque Adjustment Division of the Comptroller of the Treasury notifies the Cash Management Division each day of the amount of cheques processed. Each department submits a daily statement of receipts, which is reconciled with the receipts reported by the Bank of Canada. These form the basis of a daily comparative statement of cash receipts prepared and issued by the Cash Management Division.

11 The forecasts of budgetary revenues from direct and indirect taxes are prepared from information provided by the Taxation Division of the Department of Finance. This information is normally included in the cash forecast without modification.

12 The Treasury office attached to each department submits a forecast of budgetary expenditure in April, July, October, and monthly thereafter to the end of the fiscal year. Except for the reports submitted in the final months of the fiscal year, all are in standard form. The report shows, by vote, the actual expenditure for each preceding month and the forecast of expenditures for each succeeding month to the following March. Towards the end of the fiscal year, additional columns covering the first few months of the subsequent fiscal year are included in the reports, so that the forecast usually covers at least six months.

13 There is some duplication in the records maintained by the Bank of Canada and the Cash Management Division. Since the Bank of Canada is the fiscal agent of the government, elimination of this duplication would not lead to any undesirable reduction of control. As fiscal agent, the Bank should be able to supply the Minister of Finance directly with a large part of the information which he requires.

## BANKING ARRANGEMENTS

### *Use of Chartered Banks*

14 The cash deposited with the chartered banks is distributed among them on the basis of a percentage allocation established by agreement between the banks and the Department of Finance.

15 This allocation is based primarily on a determination of the work done by each bank on all types of government business. On the first and fifteenth day of each month, the Receiver General balance maintained with each chartered bank is normally adjusted to the prevailing formula-allocation for that bank, although there are some exceptions to this rule.

### *Interest Received*

16 The Bank of Canada is prohibited by statute from paying any interest on amounts deposited with it. However, the Bank's profits are annually paid over to the Receiver General and credited to Consolidated Revenue Fund.

17 Under present arrangements, the chartered banks allow interest on Receiver General balances deposited with them, at the weekly average accepted Treasury bill tender rate for three months' Treasury bills, less 10 per cent. Calculations are based on the minimum weekly balances in excess of an aggregate of \$100 million and interest is paid quarterly.

18 An analysis of actual interest payments in the fiscal years 1959-60 and 1960-61 shows that, in most weeks, interest was paid by all chartered banks. For over eighty-five per cent of the time the minimum weekly balances on deposit with the chartered banks were in excess of the aggregate of \$100 million. The results of this analysis are summarized in Table 20 on the following page.

Table 20—ANALYSIS OF INTEREST PAID BY THE  
CHARTERED BANKS

	Fiscal Year	
	1959-60	1960-61
Number of weeks during which interest paid by all banks	44	44
Number of weeks during which interest paid by some but not all banks	4	2
Number of weeks during which no interest was paid	4	6
	52	52

### Bank Charges

19 The Bank of Canada and the chartered banks are prohibited by statute from making any charge for processing cheques issued by or payable to the government.

20 Although no direct charges are permitted, the effect of the agreement between the Minister of Finance and the Canadian Bankers' Association is that interest not paid on \$100 million serves to reimburse the banks for at least a portion of their costs. In addition, although no direct charges for the above services are levied by the Bank of Canada, the Bank benefits from the use of the funds on deposit.

### Banking Arrangements of Crown Corporations

21 The appropriate sections of the Financial Administration Act governing the banking arrangements of Crown corporations are as follows:

81. (1) A corporation may, with the approval of the Minister of Finance, maintain in its own name one or more accounts in the Bank of Canada or in such bank in Canada or financial institution outside of Canada as the Minister of Finance may approve.
- (2) The Minister of Finance may, with the concurrence of the appropriate Minister, direct a corporation to pay all or any part

of the money of the corporation to the Receiver General to be placed to the credit of a special account in the Consolidated Revenue Fund in the name of the corporation, and the Minister of Finance may pay out, for the purposes of the corporation, or repay to the corporation, all or any part of the money in the special account.

- (3) . . . where the appropriate Minister and the the Minister of Finance, with the approval of the Governor in Council so direct, a corporation shall pay to the Receiver General so much of the money administered by it as the appropriate Minister and the Minister of Finance consider to be in excess of the amount required for the purposes of the corporation, and any money so paid may be applied towards the discharge of any obligation of the corporation to Her Majesty, or may be applied as revenues of Canada.
20. (2) . . . interest may be allowed and paid from the Consolidated Revenue Fund . . . in accordance with and at rates fixed by the Minister with the approval of the Governor in Council.

22 The bank accounts of all Crown corporations, other than the National Harbours Board, are maintained with the chartered banks. Because the Comptroller of the Treasury is required by statute to account for the receipts and expenditures of the National Harbours Board, all of its banking accounts are with the Receiver General of Canada and are included in the Consolidated Revenue Fund. In some instances, funds of Crown corporations are in excess of immediate requirements, and the excess is deposited in interest-bearing accounts in the chartered banks or invested in government securities. Year-end balances (1960) of non-interest bearing bank accounts operated by Crown corporations amounted to \$17.2 million, and deposits bearing interest to \$15.9 million, as set out in Table 21.

23 There is no consistent policy with regard to interest and non-interest bearing accounts, as the following illustrations reveal:

- *Atomic Energy of Canada Limited*:—Monies received by the company through fi-

Table 21—BANK ACCOUNTS—1960 YEAR-END  
BALANCES

	Non- Interest interest Bearing Bearing		Total
	(thousands of dollars)		
Canadian Arsenals Limited	—	6,154	6,154
Canadian Commercial Corp.	523	1,949	2,472
Northern Canada Power Comm.	—	2,892	2,892
Canadian Overseas Telecommunication Limited	—	1,594	1,594
National Capital Commission	1,150	94	1,244
Central Mortgage and Housing Corp.	—	1,060	1,060
Canadian Broadcasting Corp.	1,457	404	1,861
Farm Credit Corporation	1,873	100	1,973
Others (under \$1 million)	266	2,974	3,240
	5,269	17,221	22,490
Short-term deposits	10,662	—	10,662
	15,931	17,221	33,152

financial transactions during the normal course of business are deposited in a special savings account and are transferred to the general bank account as required. Interest is paid on the balance in the savings account at the rate of 1¾% per annum.

- *Canadian Arsenals Limited*:—All moneys are deposited in bank accounts on which no interest is earned. In 1958–59, the total amount on deposit did not fall below \$1,150,000 and, in 1959–60, the total did not fall below \$5,700,000.
- *Canadian Broadcasting Corporation*:—All receipts are initially deposited in a savings account, from which transfers are made to operating accounts as required. The minimum book balance in the savings account in 1958–59 was \$978,178 and, in 1959–60, it was \$1,456,771. Interest on the balance in this account is paid at the rate of 2¾%.

- *Central Mortgage and Housing Corporation*:—The Corporation may have book overdrafts but actual bank overdrafts are avoided. Advantage is taken of the time required to clear cheques under the Canadian banking system, although at year-end sufficient money is deposited to cover all cheques issued and outstanding at that date, including those cheques issued by field offices.

- *Farm Credit Corporation*:—Under the existing banking arrangements, no interest is earned on the first \$100,000 on deposit, interest being paid on the balance at the rate of ½ of 1% per annum. Notwithstanding this low interest rate, the Corporation earned bank interest of approximately \$12,000 in 1960.

- *National Capital Commission*:—Interest at the rate of 1¾% is earned on only one bank account. Moneys supplied by the Government of Canada for the operations of the Commission are deposited in this account and are transferred to a general account as required.

The present inconsistencies merit attention. Greater use of the provision in the Financial Administration Act that permits surplus funds to be deposited with the Receiver General should be considered.

#### *Investment of Surplus Funds of Crown Corporations*

24 The Crown supplies a large portion of the funds of Crown corporations. This may take the form of an investment in their capital stock, interest-bearing loans or non-interest bearing advances. The Receiver General is authorized by votes included in the annual Estimates to advance these funds out of the Consolidated Revenue Fund. The Statement of Assets and Liabilities as at March 31, 1961, shows an amount of \$3,627,733,196 as loans to, and investments in, Crown corporations.

25 Many of these corporations also derive



Table 22—INVESTMENT OF SURPLUS FUNDS OF GOVERNMENT CORPORATIONS

Corporation or Agency	Free Cash and Liquid Assets				Segregated Cash and Securities		
	On Deposit with Rec. Gen.	On Deposit with Banks	Treasury Bills	Gov't Bonds	Cash	Gov't. Bonds	Other
(\$ Thousands) (1959 or 1960 Financial Year Ends)							
Atomic Energy of Canada..	3,000	648	2,000	—			
Canadian Arsenals Limited	—	6,154	—	—			
Cdn. Commercial Corpor- ation.....	—	3,275	2,691	186			
Nat. Capital Commission..	—	1,209	—	20			
Nat. Harbours Board.....	3,321	—	592	3,864	426	59,986	
Northern Canada Power Comm.....	—	2,892	—	499			
Cdn. Overseas Tel. Corp...	—	1,594	3,985	—	—	—	780
Cdn. Broadcasting Cor- poration.....	—	1,861	—	1,457			
Central Mortgage and Housing Corp.....	—	1,060	—	—	1,994	63,275	366
Eldorado Mining and Re- fining Ltd.....	9,000	8,174					
Export Credits Insurance Corp.....	—	409	1,487	13,717			
Farm Credit Corp.....	—	1,973					
Northern Transportation Co.....	—	1,772					
Custodian of Enemy Pro- perty.....	—	218	—	4,000			
Other.....	625	1,913	74	102	6	33	
	15,946	33,152	10,829	23,845	2,426	123,294	1,146

SUMMARY—

<u>Particulars</u>	<u>Free</u>	<u>Segregated</u>	<u>Total</u>
		(\$ Thousands)	
Cash—			
On deposit with Receiver General.....	15,946	—	15,946
On deposit with banks.....	33,152	2,426	35,578
Treasury Bills.....	10,829	—	10,829
Bonds.....	23,845	123,294	147,139
Other assets.....	—	1,146	1,146
	<u>83,772</u>	<u>126,866</u>	<u>210,638</u>

funds from retained earnings and from reserves set up as charges against earnings but not requiring the expenditure of funds; for example, depreciation reserves.

26 Although these funds are normally available for corporate purposes, in two major instances funds have been segregated by the corporation concerned. The National Harbours Board segregated almost \$60 million and invested this amount in government bonds at the end of 1959 as security against the reserves for replacement of capital assets, fire and general insurance, workmen's compensation, and special maintenance. The Canadian Overseas Telecommunication Corporation segregated a lesser amount and placed it in the hands of a trustee in order to provide for actuarial deficiencies in certain pension funds.

27 Funds may also be derived from charges to the public which are excluded from earnings. For example, Central Mortgage and Housing Corporation charges insurance fees on most mortgages and sets them aside in special funds invested in cash, bonds or guaranteed by the Government of Canada, mortgages and real estate.

28 Certain corporations are required by their incorporating acts to remit all or a portion of their earnings to the Receiver General of Canada, after provision has been made for specified reserves. Otherwise the provisions in the sections of the Financial Administration Act set forth in paragraph 21 govern the disposition of surplus funds. Table 22 illustrates the amounts of free or segregated cash and other assets, at the end of the 1959 or 1960 fiscal year-end of the corporation concerned.

29 The practice of investing surplus funds, whether segregated or not, in bonds or guaranteed by the Government of Canada is of questionable wisdom. Funds on deposit with the Receiver General would provide the

same security and even greater liquidity, since fluctuating market values would have no effect. Provided the rate of return allowed by the Department of Finance is comparable to that which could be earned on bonds, no loss of income would be suffered. Furthermore, since greater centralization would eliminate the present segregation of responsibility for investing these assets, better debt and cash management would be possible, and the public debt of Canada would no longer be overstated.

#### *Cash Management*

30 Management of the debt of Canada requires special skills, centrally applied. Nevertheless, although corporate agency managements in most cases are not likely to be specialists in investing funds, they should be able and be expected to manage the cash needed for their current operating requirements.

31 Investigations indicated, however, that only some Crown corporations use cash budgets which project month-end cash positions. This deficiency should be remedied if the corporations are to utilize their cash efficiently. All cash, surplus to these operating requirements, should be placed on deposit with the Receiver General at a reasonable rate of interest, or be utilized to reduce advances on loans made by the government to such corporations.

#### DEBT MANAGEMENT

32 Responsibility for managing the debt of Canada is shared between the Department of Finance and the Bank of Canada. Printing, promotion and distribution costs of new issues of bonds are met by the Department of Finance out of an appropriation. The Bank of Canada is recompensed for the cost of redeeming coupons, but the costs of the Debt Service Division are absorbed by the Bank itself. The salary cost of the Division amounted to \$1.2 million in 1961.

33 There is considerable variation in the costs of borrowing through bonds, treasury bills and otherwise. Canada Savings Bonds are undoubtedly the most costly of the forms of borrowing by the government. Experience has been that, being redeemable at par at the option of the holder, over half the bonds sold are turned back for redemption within two years of their issue. The costs of selling, registering and redeeming these bonds plus the interest paid thereon add up to an unreasonably high cost for what is in effect mainly short-term money. The principal justification for the issue of such securities is the encouragement of thrift, but your Commissioners believe that the extra costs of raising funds in this manner should be calculated and objectively appraised.

## REVOLVING FUNDS

### *Introduction*

34 A revolving fund is a means of providing cash to finance a cycle of operations. Initially, the fund is established through a cash appropriation, a non-budgetary transaction. The amounts expended from the fund are restored thereto, either out of earnings from operations or by transfers from other funds, so that the original capital of the fund is kept intact.

35 A revolving fund is similar to an imprest account but differs in that the balance does not need to remain at a fixed amount. If a \$5,000 imprest account is set up, the amount of vouchers, cash, etc., on hand at any time always totals exactly \$5,000. The balance in a revolving fund varies from day to day but is usually subject to a statutory limit.

36 Revolving funds are authorized through an appropriation act or other statute, and the original advances are authorized through the Estimates. All revolving funds, except the Royal Canadian Mint revolving fund, are restricted in size by statute. In the accounts of

Canada, specific revolving funds are described in a variety of ways, such as: accounts, revolving funds, reserves, working capital advances, advances.

### *Operating Funds*

37 Some revolving funds, which might more appropriately be termed working capital funds are established to take care of an operation which is self-sustaining in nature. Operating profits are usually transferred to budget revenues or retained as additional working capital; losses are usually voted from budgetary appropriations. The principal requirement is that the fund should be kept intact, being represented by cash, receivables, or inventory.

38 The following funds come within this description:

- Agricultural Commodities Stabilization Account
- Agricultural Products Board Account
- Agriculture Revolving Fund
- Canteen Revolving Fund—Penitentiaries
- Customs and Excise Revolving Fund
- Fisheries Revolving Fund
- Gold Purchase Account
- National Film Board Operating Account
- Post Office Revolving Fund
- Public Archives Revolving Fund
- Queen's Printer Advance Account
- Revolving Fund—Manufacture of Remembrance Day Poppies
- Royal Canadian Mounted Police Revolving Fund
- Silver Bullion Purchase Account and Various Coinage Accounts

Operating statements for these funds are included in the Public Accounts in various ways. The year-end balances are listed, but some are prepared on a cash basis and others on an accrual basis, including accounts receivable and payable. The extent of the detail given for transactions during the year also varies.

### *Perpetual Inventory Accounts*

39 These funds are designed to finance inventories and, accordingly, annual profits or losses are not usually developed. The follow-

ing revolving funds may be classified as perpetual inventory accounts:

- Blank Bond Reserve
- Industrial and Stores Account—Penitentiaries
- Maritime Marshland Rehabilitation Administration—Stores Account
- Prairie Farm Rehabilitation Administration—Stores Account
- Stores Account—National Parks
- Stores Account—Transport

All transactions in these accounts are recorded at cost. Statements are included in the Public Accounts, except for the Blank Bond Reserve, although the detail and manner of presentation vary.

#### *Advance Accounts*

40 These revolving funds are made up of the total of advances of a specified type, outstanding at any particular date. The following come within this category:

- Board of Grain Commissioners—Canadian Government Elevators
- Veterans Land Act Housing Account
- Working Capital Advances—Posts Abroad;  
Departments of Citizenship and Immigration, External Affairs, and Trade and Commerce (3 funds)

No details of transactions in these accounts are given in the Public Accounts, although the contents of the year-end balances in the “Working Capital Advances—Posts Abroad” accounts are provided.

#### *Defence Production Revolving Fund*

41 The Defence Production Revolving Fund cannot be classified as an operating fund, a perpetual inventory account, or an advance account. Although purchases and sales are recorded in the Fund, profits or losses are seldom recorded in the open account. The profits are accumulated in a separate account, “Reserve Arising from Trading Operations,” which is not included in the Public Accounts. The balance in the Revolving Fund is said

to represent net expenditure but, as at March 31, 1961, this included both inventory items and advances to Canadian Arsenal Limited.

42 A statement of the transactions in the Revolving Fund is not included in the Public Accounts, although details are prepared from accounts maintained on an accrual basis to show the standing of the Fund as at the year-end. The information provided in the Public Accounts is in comparative form.

#### *Control over Revolving Funds*

43 In Canada, the only information on revolving funds appearing in the Estimates relates to changes in the maximum permitted balances, changes in the purposes of the funds, or the introduction of new funds, i.e., where circumstances necessitate an appropriation of funds or a change in statutory authority. If Parliament and the Executive are satisfactorily to appraise the activity carried on within revolving funds, the Estimates should include budgets for each operating fund.

44 The Public Accounts should present the results of transactions in revolving funds in a consistent manner, preferably, where applicable, on an accrual basis in comparative form.

#### *Advantages of Revolving Funds*

45 Greater use of revolving funds for operating activities would be advantageous. First, a clear presentation of profit or loss would be provided. Business-type budgeting and reporting, including balance sheets, are natural corollaries of an operating fund system. Second, the extent to which the operation is financed from general taxation would be more readily determined. Third, management would tend to become more cost-conscious. Fourth, since only the net cost is controlled, there would be greater flexibility in operations. Finally, receipts and expenditures would not be distorted, since the re-

volving fund expenditures are stated on a net basis in the budget totals. With a revolving fund arrangement, the actual cost of an operation or a service would be stated in the budget.

46 Greater use of revolving funds to finance inventories would also produce better accounting for such inventories. Estimates control would be improved, since inventories would not be available to absorb fluctuations in cash requirements. One scientific department with inventories valued at \$3.5 million (compared with annual appropriations of \$40 million) has not established a revolving fund. Therefore, there may be significance in the statement of this department that it has never had to abandon a programme because of reductions made by the Treasury Board in its Estimates' proposals.

47 Revolving funds would also simplify certain problems now created by annual appropriations. Departments could not rush to spend funds remaining at the year-end on inventories, if charges to appropriations were made at the time such supplies were consumed rather than when they were paid for. Departments operating in the north now have to commit funds in the old fiscal year so as to order materials in time for delivery after the spring break-up. However, these funds may lapse because delivery often cannot be made until after the thirty-day period allowed for charges to the old fiscal year has expired. Many other advantages would be derived from greater use of such funds and better control would be obtained, particularly if improved and consistent procedures were developed for reporting the transactions within such funds in the Public Accounts.

# 7

## AUDITING

### INTRODUCTION

1 Government audits fall into two main categories: external and internal. External audits consist of an examination of records at the office of a taxpayer or member of the public. Such audits are made to ensure compliance with legislation and regulations, and to verify the correctness of claims. Generally, any person designated by the minister for a purpose related to the administration or enforcement of an Act has the power, at reasonable times, to examine the necessary books, records and supporting documents maintained by any individual or corporation.

2 Internal audits involve an examination of records maintained by government employees, and are made to verify the accuracy and credibility of government records, and to appraise the efficiency of methods and procedures. The authority of an internal auditor to examine the records and supporting documents of a department is given by the minister and is not set out in any statute. Internal audit groups normally report to officers who, not being directly responsible for the maintenance of accounting records,

can make an independent assessment of the report.

3 The range of the work carried out by government auditors varies widely from relatively routine inspections of records, requiring limited experience, to complex audits and investigations which necessitate a high degree of technical knowledge and proficiency.

### EXTERNAL AUDITING

#### *Departments Responsible*

4 External Audits are conducted mainly by the following departments and agencies:

- *Department of National Revenue (Customs and Excise Division)*

The Excise Tax Audit Branch examines the records of all firms paying sales and excise taxes. The staff of 460 employees, operating from 21 district offices, performs periodic inspections of the records of approximately 40,000 businesses and verifies the accuracy of the tax liability reported monthly by each firm.

The Customs Drawback Branch has 130 employees in 12 district offices verifying claims submitted by taxpayers entitled to a drawback of customs duties paid on goods used in the production of goods for export or for exempted uses within Canada.

- *Department of National Revenue (Taxation Division)*

The 30 district taxation offices employ approximately 2,300 assessors across Canada. These verify returns of income, gift and estate taxes. Some returns are first examined on a mechanized basis at the Taxation Data Centre in Ottawa; the returns which are not routine are reviewed by a desk audit and by field examination of the taxpayer's records.

Seventy-five employees, located in district offices, verify the accuracy and regularity of remittances made by employers who are responsible for withholding and remitting taxes deducted from the salaries and wages of their employees.

- *Unemployment Insurance Commission*

The Audit Branch with 600 employees, working in 131 offices, conducts regular investigations of the payroll records of 400,000 employers in order to verify the accuracy and payment of the liability, of both employee and employer, for unemployment insurance.

- *Comptroller of the Treasury*

The Audit Services Division audits cost contracts, special agreements and cost-sharing programmes, both as a service to departments responsible and as part of the duty of the Comptroller to verify and approve expenditures. Many of the 300 auditors are located in district offices across Canada.

- *Other Departments, Boards and Commissions*

The following boards and commissions

perform external auditing: Air Transport Board, Board of Transport Commissioners, National Energy Board, Canadian Maritime Commission, Dominion Coal Board, and the Departments of Insurance and of Labour. Their activities touch only a small segment of the public. The work carried out includes an examination to ascertain either that prescribed regulations in regard to standard accounting systems are being adhered to and that the resulting financial information is correct, or that claims for subventions are correctly calculated. Examinations are conducted on a regular basis for those in the first category, and on a claim basis for the latter. The size of the audit groups in these agencies varies. With the exception of the Department of Insurance, which has 22 examiners, and the Department of Labour, which has 18 officers, there are not more than five in any of the other organizations.

### *Training*

5 Training programmes vary among the major audit groups. Approximately one-third of the assessors of the Income Tax Division of the Department of National Revenue and almost one-half of the auditors in the Audit Services Division of the Comptroller's office have professional accounting degrees. The staff of other audit groups may have extensive experience, but few are professionally trained.

6 Many audit groups have instruction manuals and are provided with circulars which interpret the various statutes and regulations to be enforced. Most departments provide some supervised practical experience before the auditor conducts an audit on his own. Only a few conduct formal training courses at the time of recruitment or provide later review courses to bring their staff up to date on new legislation or new developments in auditing techniques.

7 The auditors in all departments are rated on their knowledge, performance and other related factors at the end of the probationary period and annually thereafter, as a basis for salary increases and promotions. However, there is no proper assessment of their technical knowledge, and in many cases salary increases are granted as a matter of routine. Examinations, conducted as an integral part of training, and review courses would help remedy this deficiency. Furthermore, the majority of auditors work independently, and many have had little or no previous experience as external auditors. A high degree of specialized knowledge, in both the administrative application of the statutes to be enforced and in proven audit techniques, is necessary if a productive audit is to be obtained.

#### *Techniques*

8 Present day auditing is based on test checks of the records of a business, since it is usually impracticable to carry out a complete verification of all transactions. Consequently, it is essential that tests be properly determined and recorded for subsequent evaluation.

9 Professional auditing relies on properly designed audit programmes to guide an auditor on the type and extent of tests, the areas to be covered, and to ensure that important areas are not inadvertently overlooked. The written programme facilitates the work of subsequent auditors, and makes it possible for a supervisor to assess the quality of the audit conducted. Audit programmes are used widely in the profession, regardless of the past experience of the auditor, because they provide a base upon which the good auditor can rely in attempting to improve the examination.

10 Programmes are generally in use by audit groups in government. However, the Income Tax auditors place little reliance on

formal programmes, and the programme of the Excise Tax auditors, prepared in 1944, is extremely general. Because of the limited professional training of many government auditors, all groups should place greater emphasis on the use and improvement of such programmes so that all taxpayers will be subject to effective and comparable examination.

11 No standard set of working papers can be prescribed for recording the knowledge gained in the audit. However, like the audit programmes, their preparation is beneficial both to the reviewer and the succeeding auditors. Many government audit groups were found to be deficient in the quality and extent of their working papers.

12 Time control is another device used by the professional auditor to ensure effective utilization of an auditor's time. Formal time budgets, based on previous audits and the nature and size of the activity, should be prepared in order to effect a proper distribution of time and effort. Time control was only on a general and informal basis in all groups surveyed.

13 All audit groups prepare reports on the completion of their examination, but no supervisor can conduct a proper review of the quality of the audit without adequate programmes, working papers and time budgets. Furthermore, no adequate assessment of the quality of the auditor and his competence for further advancement is possible.

#### *Interdepartmental Committee*

14 Responsibility for improving present training and procedures must vest with individual departments. However, present audit groups vary greatly in the quality of their staff and techniques. Within each group there are procedures of value to other groups.

15 Formation of an interdepartmental committee would provide many benefits and lead



to greater cross-fertilization of the best practices of all groups. Such a committee could call on recognized professional groups to assist it, and could take the lead in spreading new ideas. It could also improve the present inadequate communication and co-operation among the various audit groups.

#### *Combination of Audit Groups*

16 Advantages will flow from the combination of various external audit groups only if both the inconvenience to the taxpayer and the cost to the government can be reduced.

17 However, there are certain difficulties in combining audit groups. The auditing work carried out by the major government departments, particularly for income and excise taxes, requires a great deal of specialized technical knowledge. This is not readily acquired for, in addition to practical experience, a thorough and continuing study of the applicable statutes and case law is necessary.

18 The frequency of visits to taxpayers by government auditors varies. Income Tax audits are irregular and are usually based on the results of a preliminary review of the tax return at the tax office, whereas excise tax audits are made regularly. The co-ordination of examinations would, therefore, be a difficult task. There is a close relationship between revenue administration and audit work in all departments, involving interpretation, policy and collection. Divorcing the two would create administrative problems and delays, and would subject the auditors to control by several authorities. The training of auditors in the complexities of several statutes would be a major problem requiring a lengthy period of time. Staff turnover would become an even more expensive factor. Moreover, the taxpayer is more often inconvenienced by the delay in audits which may leave him in a situation of uncertainty. Audits delayed too long may require the taxpayer to

produce explanations and records dating back several years.

19 There is one area where a combination of auditing duties would appear beneficial. This is in the field of payroll audits by Income Tax and Unemployment Insurance Commission auditors. At the present time, these auditors work independently of each other. The function of the Income Tax payroll auditor is to visit employers and ascertain that all tax deductions at source are being correctly made and properly remitted to the government. The Unemployment Insurance auditor verifies the accuracy and payment of the liability, of both employer and employee, for unemployment insurance.

20 Essentially, these two groups are concerned with verifying that proper deductions are being made from employees' pay and promptly remitted to the government. This involves a check of the accuracy of deductions; a reconciliation of the deductions with the remittances to the government; and an examination of other records to ensure that all employees are subject to deductions. The technical knowledge required in each of these fields is comparable and not as complex as in other major auditing groups. It should also be pointed out that employers who are not remitting income tax payroll deductions are probably in the same position with respect to unemployment insurance deductions. Since both the Income Tax payroll auditors and the Unemployment Insurance auditors are examining the same records for fundamentally the same purpose, a combination is desirable.

21 The Unemployment Insurance auditors are the larger group and already visit all employers. They should assume the responsibility of the payroll tax auditors. During their regular examination, their audit work should be expanded to include a test of tax deductions and remittances. In addition, it would seem beneficial to include an examination of

problem areas, such as employee benefits. This examination could probably best be done on a discovery basis, with the results passed to the Taxation Division for assessing or determining whether any further specialized audit work is necessary.

#### *Auditing of Excise Duty*

22 Excise officers are responsible for verifying and collecting all Excise Duties, imposed mainly on distilled spirits, beer and tobacco products. Control is also maintained over all factories which use alcohol as an ingredient of their products. Verification is performed by means of control over the manufacturing or production processes, but might be accomplished more easily using normal audit methods.

23 The extent of control is dependent on the product involved; distilleries are subject to the greatest control, and breweries and tobacco manufacturers to the least. The control in distilleries involves numerous volume, weight and strength tests, physical inventory control during the maturing process, and supervised bottling and storage until sale. The main checks in a brewery are of the strength and volume of the product. Tobacco production is controlled by quantity and weight tests.

24 These checks are conducted during the actual production or manufacturing process by almost 400 Excise officers who, in most cases, are located in the plant. However, the tests are not used to verify the company's records. Instead, Excise officers maintain independent records of all transactions involving taxable products at each plant. These records, required by regulations, are very detailed and, in most cases, duplicate most of the detailed production information which the company itself maintains. The Excise records are used to verify independently the duty calculations and the regular operating returns made by each licensee. A large

proportion of the time of Excise officers is involved in maintaining these records.

25 Excise officers outside the plant at collecting points also keep records of each licensee's operations. These records are mainly of inventory volumes and are for reference if the records maintained at the plants are destroyed. They are also used to check the operating returns prepared by the licensee. Essentially the same records are again maintained by the Excise Check Branch in Ottawa.

26 This somewhat archaic method of control over Excise Duty is unique, and should be changed. It was instituted many years ago when businesses subject to tax were operating on a relatively small scale, and attempts to evade tax were often encountered. The control is greater than that exercised over most other forms of tax revenue, although Excise Duty amounts to less than six per cent of total government revenue. Since much of the Excise officers' time is required to maintain books of account, their function in many cases is little more than that of bookkeepers.

27 It is difficult to justify the need for maintaining independent records of each licensee's operations. All tests should be verified directly to the licensee's records. This could easily be done by marking the source document at the time of count, weight or measurement, and subsequently checking the entry to the records of the taxpayer. The operating reports prepared by the licensee could be checked directly to the accounts which have already been verified. This would result in a reduction in the number of Excise officers and the elimination of many records maintained by them.

28 The similar records maintained by Excise officers at the collecting ports and by the Excise Check Branch are costly and of limited value. There is little need to check information which has already been completely

verified. The chance that company accounts may be destroyed by an explosion or fire is slight. Neither eventuality justifies the expense of maintaining multiple sets of control records.

29 The Distillers Association has submitted a brief to the government, outlining a system which would alleviate the need for record-keeping by Excise officers. This system is being tested on a trial basis and, if implemented, should reduce substantially the work of the Excise officers with no loss of control to the government.

#### *Access to Bonded Warehouses*

30 Another questionable checking procedure involves the bonded warehouses which are used by private individuals or companies to store imported goods pending the payment of import taxes. The maximum period for which payment of duties may be deferred by reason of storage in such warehouses is two years. The warehouses are privately owned and operated, and the owners are bonded. All access points are controlled by dual locks so that entry may be made only in conjunction with a Customs officer. In addition, complete records of all goods in bonded warehouses are maintained in the various Customs offices.

31 The payment of customs duties is effectively and adequately controlled, for the owners of the warehouses are bonded and the government has a record of all goods in storage. The requirement that a Customs officer be present whenever a bonded warehouse is entered is an additional control which does not seem to be warranted.

#### INTERNAL AUDITING

##### *Present Internal Audits*

32 Internal auditing activities are carried out in a number of departments and agencies

of government. Internal audits in the Post Office Department and the Canadian Broadcasting Corporation were reviewed in making the separate studies of these bodies. Certain of the other major auditing activities are described below.

- *The Department of National Revenue (Taxation Division)*

The Inspection Branch provides an independent internal audit of the operations performed by each of the district taxation offices. Regular examinations, based on audit programmes, are conducted at each office. These consist of a financial review, as well as an investigation of administrative practices and procedures. Reports are prepared on each examination. There are 18 members of the Branch operating from a central headquarters in Ottawa.

- *The Department of National Revenue (Customs and Excise Division)*

The Inspection Branch conducts annual examinations at each customs port by means of audit programmes which comprise a review of financial operations and administrative procedures. Reports are prepared on each audit. There are 65 officers in the Branch, located at nine district offices throughout the country. The general administration of the Branch is conducted from headquarters in Ottawa.

- *The Unemployment Insurance Commission*

The Inspection Branch conducts regular examinations of all Commission offices. The investigations are mainly of an administrative nature, since benefit payments are controlled by Treasury offices. Examinations are based on questionnaire-type programmes and reports are prepared on the results of each investigation. There is a staff of 20, operating from headquarters at Ottawa.

- *The Department of Transport*

The Inspection and Audit Section, formed in 1960, has responsibility for the majority

of departmental revenue audits which were previously conducted by the Comptroller of the Treasury, Audit Services Division. This change was considered advisable because the departmental travelling inspectors who visited most of the offices covered by the Audit Services Division were duplicating the work of that Division. It was also felt that faster service could be obtained from this change. Examinations, based on inspection and audit guides, cover financial aspects as well as a review of systems and procedures. A report is prepared on each audit.

• *The Department of National Defence*

The Chief Auditor's Branch, with a staff of 83 at headquarters and in nine regional offices, is staffed with civilians, and reports directly to the Assistant Deputy Minister charged with financial responsibility for the Department. This audit group reviews, on a test basis, the units of the various Services, the laboratories of the Defence Research Board and the accounts of certain contractors working on defence contracts.

The Services also have their own auditors, working under military supervision, who inspect and audit stores, examine pay and allowances, and audit non-public funds.

• *The Comptroller of the Treasury*

The Audit Services Division, originally formed to conduct the complex cost audits previously described under External Auditing, now carry out revenue and other internal audits at the request of departments.

*Duplication in the Department of National Defence*

33 The Chief Auditor's Branch conducts between 450 and 500 audits each year. Generally speaking, this group is looking for uneconomical operations, inadequate control, faulty provisioning, wasteful and improper expenditures and unauthorized transactions of any kind. The methods follow those of a profes-

sional auditor in commercial practice. Tests are performed to establish that the system is working properly. Copies of most reports are sent to the Auditor General.

34 The audits performed by Service auditors often duplicate those of the Chief Auditor's Branch. The Service auditors tend to subject stock records and vouchers to a 100% verification.

35 Steps have been taken recently by the Services to reduce the extent of verification where satisfactory systems of control are in effect. They are aware of the duplication and are now attempting to integrate their work with that of the Chief Auditor's Branch. This integration should be proceeded with as quickly as possible.

*Need for Internal Audits*

36 Certain departments have found that internal audit services provided by the Comptroller of the Treasury are unsatisfactory because the staff of the Audit Services Division is primarily concerned with its complex cost audit assignments. In any event, internal audit groups should be part of the departmental team if they are to operate as an arm of management.

37 The use of internal auditing is an important part of effective management control in industry. Control over accounting records and other related financial aspects of a business may be possible by an elaborate process of checking and re-checking all transactions. While this might be effective, the cost would be prohibitive. A better procedure is to make use of good internal control systems and verification by test audits conducted by competent internal auditors. This provides maximum control at minimum cost.

38 Present day administration, whether in government or industry, faces many complex problems. Due to the magnitude of opera-

tions, management may be able to do little more than formulate policies and procedures, provide the machinery for carrying them out, and review the results. This means that management must delegate responsibilities; controls must be formulated to safeguard this delegation of authority; and reporting procedures must be instituted so that management is aware of what is happening at the point of operation.

39 Internal audit groups are an invaluable aid to departmental management in reviewing the reliability and utility of financial and

statistical data; the effective use of personnel and facilities, and the safeguards against waste and loss; and in appraising employee performance to ensure that it complies with policies and procedures established by management.

40 In the light of your Commissioners' recommendations for delegating increased authority to departments and agencies, internal auditing assumes importance as one of the essential tools for enabling departmental managers to use their authority effectively.