Chapter

8

Managing Government Financial Information

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Main Points

8.1 The government has taken some positive steps in response to our previous recommendations but, overall, we find that its progress on the use of improved financial information in departments and agencies, and improvements in its financial information systems supporting that information, continues to be very slow and, thus, unsatisfactory. However, with a commitment to strengthen financial management and control provided in recent announcements, we are optimistic that the necessary financial leadership and capacity will be developed to significantly advance our previous recommendations.

8.2 Success in these efforts will require continued leadership and commitment. With the Office of the Comptroller General of Canada re-established, the newly appointed Comptroller General can now champion this initiative by aggressively advancing the use and timely preparation of accrual financial information, promoting the importance of good financial internal controls, and working to strengthen the comptrollership capacity in departments and agencies. In addition, deputy ministers and senior department and agency financial officials also need to play a critical role in improving the use of accrual financial information and financial internal control systems.

8.3 Integrated and comprehensive internal financial control systems play a significant role in ensuring that high-quality financial information is available for decision making and financial reporting. They should be given a high priority within departments and agencies. However, weaknesses we previously reported in these systems persist, and departments and agencies have been slow to correct them. Departments and agencies must step up their efforts to correct weaknesses in their internal financial control processes.

8.4 The government must also finalize its study of accrual-based budgeting and appropriations at the department level and implement an approach for a common basis of planning, budgeting, and reporting. After several years of examining this issue, it is now time to prepare a way forward. Without definitive direction and guidance on this issue, wider use of improved financial information in decision making will be impeded.

8.5 Finally, the Office of the Comptroller General must resolve all remaining issues regarding the fair presentation of departmental and agency financial statements so that the government can achieve its objective of having all such financial statements audited within five years. Some progress has been made in addressing these issues, but more work is required.

The Treasury Board Secretariat has responded. The Treasury Board of Canada Secretariat agrees with the recommendations, and the responses in the chapter describe current or planned actions to address the recommendations.

The Treasury Board Secretariat is also pleased that the Auditor General has recognized the positive steps that have been taken in response to previous recommendations. It is confident that recent measures taken to strengthen financial management and control will provide a solid foundation for the future.

The reinstatement of the Office of the Comptroller General along with the appointment of a new Comptroller General and professionally accredited departmental comptrollers will bring renewed focus to those areas where progress is needed.

Introduction

Why is financial information and internal control important to the government?

8.6 Financial information is a key part of the government's reporting and decision making and arises from its financial affairs and transactions. For example, as reported in the 2003–04 *Public Accounts of Canada,* the government raised almost $200 billion in revenue, incurred expenses of approximately $190 billion, had assets of almost $200 billion, and had liabilities of about $700 billion. Departments and agencies use this information when monitoring the delivery of programs and services, exercising stewardship over resources for which they are responsible, supporting decisions, managing risks within the organization, and reporting on the department and agency financial and operating results.

8.7 Under accrual accounting, these transactions and other economic events are recognized when they occur, rather than when cash or its equivalent is received or paid. Expenses are recorded in the period when the goods or services are consumed, revenues are recorded in the periods to which they pertain, and the multi-year economic benefits associated with capital assets are recognized in the period in which they are used.

8.8 Accrual financial information helps users appreciate the full financial scope of government—the resources, obligations, financing, costs, and impacts of its activities, including the costs of consuming assets over time. This more complete picture helps legislators hold the government more accountable for the stewardship of its assets, the full costs of its programs, and its ability to meet short-term and long-term financial obligations.

8.9 Internal controls refer to management's action to mitigate risks and achieve objectives. Controls contribute to this goal by

- safeguarding assets;
- reducing the risk that data may be incorrect or corrupt;
- ensuring proper authorization of transactions and compliance with policies, procedures, laws, and regulations; and
- ensuring the economical and efficient use of resources.

8.10 Complete financial information and strong internal controls are vital for achieving results for Canadians. Integrating financial and non-financial information into decision making, establishing effective financial information systems and controls throughout government, and establishing financial policies and procedures all lead to improving stewardship in government.

8.11 As managers become more aware of the complete picture of their financial performance (all costs, revenues, assets, and liabilities), they are more inclined to consider the complete cost while making various decisions, such as evaluating the cost-effectiveness of in-house delivery versus contracting for services, the appropriateness of cost recovery policies, and the amounts charged to other departments for services.

8.12 Finally, improved financial information and controls should enable departments and agencies to provide, on a more timely and regular basis, parliamentarians and central agencies with a variety of financial reports that compare actual information (both financial and non-financial) with budgeted or planned information in a manner that is consistent with the preparation of the summary financial statements of the Government of Canada.

What has happened since our last Report?

8.13 Before we published our March 2004 Report, Chapter 6, Managing Government: Using Financial Information, the government presented its 12 December 2003 reorganization plan. The plan aimed the Treasury Board of Canada Secretariat's focus toward comptrollership and financial management, including oversight of such matters in departments and agencies. Specifically, the Treasury Board Secretariat will ensure that departments and agencies meet all requirements for expenditure planning, control, and oversight. As well, the reinstatement of a distinct Office of the Comptroller General within the Secretariat enhanced financial accountability as did the announced positions of departmental comptroller. The 2004 Budget and associated press releases re-emphasized these commitments to strengthen financial management and control. Specifically, the government announced that, among other things, it would

- appoint professionally accredited departmental comptrollers to sign-off on all new spending initiatives in every government department;
- establish professional certification standards for departmental comptrollers by the end of the 2004 calendar year that must be met within three years;
- reorganize and bolster the internal audit function on a government-wide basis to ensure comprehensive audit programs that are based on sound risk analysis of all department activities and that have the authority to delve into every corner of every portfolio;
- provide appropriate tools for effective scrutiny and decision making and introduce modern, timely, and enterprise-wide financial and human resource information systems to track all spending; and
- arrange for the audit of the annual financial statements of all departments and agencies within five years.

8.14 The government also embarked on several additional reviews of its management practices to ensure that performance standards are raised ever higher and that significant savings are generated from operations within four years. The reviews included consideration of matters such as the *Financial Administration Act*, corporate and administrative services, government procurement, and capital asset management.

8.15 The comptroller general is to provide leadership in the renewed area of financial management and stronger financial controls within departments and agencies. Key duties to accomplish this objective include the following:

- approving the appointment of all departmental comptrollers and providing them with advice and guidance on sound financial management and administrative practices and procedures;
- overseeing all government spending, including the review and sign-off of new spending initiatives;
- modernizing the government's financial management suite of policies; and
- managing the professional development of the financial community, including establishing accreditation and certification standards and advising on financial management modules of the public service learning curriculum.

Focus of the follow-up

8.16 In this chapter, our objective was to determine whether the government is achieving two of its wider financial management and control initiatives:

- improving the quality of financial information produced by new financial information systems, and
- ensuring that such accrual information is used in decision making.

8.17 We also explored the government's progress in addressing accrual budgeting and appropriations at the department level and how selected departments and agencies addressed previously identified weaknesses in internal financial controls and accrual financial information.

8.18 Further details are included at the end of the chapter in **About the Follow-Up**.

Observations and Recommendations

Central and departmental leadership and capacity remain necessary to ensure success

8.19 Our previous chapters on financial management and control have highlighted the importance of leadership in improving the quality and use of the government's financial information. Further, they noted that achieving the necessary cultural change associated with the issues reported in this chapter will require more than providing extra guidance or sharing best practices among departments and agencies. Strong individual leadership from central agencies and senior departmental officials is necessary to reinforce that the government is committed to improving the use of financial information and financial information systems.

8.20 **Role of the Office of the Comptroller General.** In that respect, the recently announced re-instatement of a separate Office of the Comptroller General of Canada and the appointment of the Comptroller General presents an excellent opportunity for the Comptroller General to develop a strategy to handle his various responsibilities in a way that responds to our recommendations on

- overseeing and monitoring departments' and agencies' actions for improving their financial control systems,
- increasing departments and agencies' professional accounting capacity,
- aggressively advancing the use and timely preparation of accrual financial information in the decision making process, and
- resolving any outstanding issues pertaining to preparation of departmental financial statements.

8.21 In particular, we believe that the Comptroller General should explain fully the significance of the recent announcements regarding the role of departmental comptrollers, their accreditation, and the relationship, if any, with current senior financial officer positions. In that last regard, we understand that consultations with the senior financial community have already begun. However, several senior financial officials within departments and agencies told us that such a position already exists within their organization as do all the identified responsibilities and accountabilities announced to date within the position of the senior financial officer. They also indicated that, given the role already identified for senior financial officers and other relevant guidance, there should only be minor changes expected to that position in order to respond to the objectives announced for departmental comptrollers.

8.22 **Background and expertise of senior management team.** Deputy ministers and senior departmental financial officials also need to play a critical role in improving the use and timely preparation of financial information and the related financial internal control systems. The senior management team of a department or agency, in our opinion, needs to have the necessary backgrounds and/or professional training in all relevant disciplines, including accounting, in order to fulfil this role. This means a balance of expertise and perspectives within the senior management ranks—not just a cadre of professional financial managers.

8.23 A background and training in financial management, including accounting, helps the championing of financial management and control in departments. For that reason, and given the importance of financial capacity in departments and agencies, we updated our 2002 survey of professional accountants holding senior financial officer and senior full-time financial officer positions in 11 of the larger departments and agencies. We discovered that the percentage of incumbents that were professional accountants had increased from 33 percent to 55 percent. As a result, progress is being made but it still falls short of our 2002 comparison, where 80 percent of the senior financial officers in the 10 top revenue generating Canadian public companies were professional accountants.

8.24 The continued leadership and support of senior management, both centrally and within departments and agencies, is crucial to the government's objectives of improved financial information for decision making and improved financial information systems. Without it, these objectives risk losing momentum and becoming just another passing management fad. For that reason, we are supportive of the Comptroller General's efforts to support the professional development of the government's financial community, which include establishing accreditation and certification standards, advancing the role of internal audit, and understanding the profile and needs of financial officers within government.

8.25 **Recommendation.** The Comptroller General, in conjunction with senior financial officials in departments and agencies, should develop a vision, strategy, and implementation plan with key milestones for promoting financial management and control initiatives. The plan should also include milestones for improving the financial capacity in departments and agencies that are consistent with the government's announced support in this area.

Treasury Board Secretariat's response. Since accepting the position in June 2004, the Comptroller General has made significant progress in advancing the government's plan to strengthen comptrollership. During 2004–05, the Comptroller General will design the organization of the Office of the Comptroller General and begin staffing the new organization with high-calibre professionals so that the Office will be substantially completed by 31 March 2006 and fully completed by 31 March 2007.

At the same time, plans and activities will focus on capacity building and community development, strengthening financial accountability and financial systems across the public service, and creating capacity within the Office of the Comptroller General to conduct audits for small agencies and horizontal audits on behalf of the government.

On 18 November 2004, the President of the Treasury Board announced a multi-year initiative, being developed by the Comptroller General, to strengthen the internal audit function across the federal government. The multi-year initiative will enhance the internal audit capacity across the public sector and introduce standardized, proven audit processes.

In order to have the skilled, well-trained, and developed workforce necessary to strengthen public service management, the Treasury Board Secretariat, in partnership with the Canada School of Public Service, the Public Service Human Resources Management Agency of Canada, and functional communities, will develop a core learning framework to provide clear, consistent, and comprehensive programs to meet the common learning needs of public service managers. In 2004–05, the Secretariat began government-wide consultations on the development of professional certification standards. By the end of the year, the Secretariat plans to have defined and established the standard-setting process and developed certification standards for selected functional communities.

Specific to the financial management community, the Comptroller General has developed a draft vision and strategy for the departmental comptroller. Built around the model of a Chief Financial Officer (CFO), the position would be the single point of accountability for financial management in a department, reporting directly to the Deputy Head for overall performance and functionally to the Comptroller General for professional performance. The vision, which has been discussed with senior financial management in departments and agencies, includes the proposed roles and responsibilities of the position and its relationship with other key players in departments and the Secretariat. Experience and professional and personal attributes and competencies for the CFO position have been developed and key transition issues identified. The strategy also includes other human resource investment plans for recruiting and developing qualified financial officers to support the CFO.

Improvements in financial internal control systems are needed to support good-quality financial information

8.26 Strong financial internal controls help protect the integrity of the information used for decision making. They also contribute to the safeguarding of resources, accurate and timely reporting of results, and ensuring compliance with relevant authorities.

8.27 Since our Report in December 2002, Chapter 5, Financial Management and Control in the Government of Canada, we have continued to evaluate key financial controls governing selected computer information systems used for financial reporting of government expenses and revenues, assets and liabilities, as well as related management and monitoring controls (see Appendix A). We intend to continue these reviews over the next few years so that eventually all of the key financial systems and applications used for financial reporting in the largest departments and agencies are reviewed.

8.28 **Previously reported weaknesses remain.** In our March 2004 Report, Chapter 6, Managing Government: Using Financial Information, we prioritized those control weaknesses arising from our controls assessment work that we believed should receive particular attention (see Appendix B). While this is neither an all-inclusive list of control weaknesses nor an examination of all other operational system controls that may be present, departments and agencies need to address them, if they exist, within a reasonable period to avoid an impact on the quality and timeliness of information used for their decision making and financial reporting.

8.29 As a result, we expected that a subsequent assessment and review of the progress made by departments and agencies in addressing these control weaknesses would show significant improvements. We also expected that any additional control assessments undertaken by this Office would no longer identify the significant weaknesses previously reported. However, in our most recent reviews we continued to identify the same weaknesses that we reported in our two previous chapters.

8.30 To demonstrate the progress made by departments and agencies in addressing the financial control weaknesses we had previously reported, we reviewed the results of their actions taken in response to the previously identified weaknesses where we had performed the original financial control assessments in 2001 and 2002. The level of progress achieved in the departments and agencies reviewed varies (Exhibit 8.1). While some departments made significant progress in a timely manner, others made limited progress even though many departments and agencies had indicated that they had plans to address these issues.

Exhibit 8.1 Progress made by selected departments and agencies in addressing financial control weaknesses previously identified

These ratings reflect the progress made by a department or agency in addressing the weaknesses identified in our original control assessments that were completed in 2001 and 2002. They are not intended as a comparison of progress between entities, because of the differing quantity, nature and complexity of weaknesses. The ratings are not intended as an overall assessment as to effectiveness and efficiency of internal controls within a particular financial system of a department or agency, nor of the relative manner in which the various system implementations are designed. (See Appendix A for additional details.)

Financial systems for reporting expenses incurred

Departments and agencies	Financial systems	Controls			
		Electronic security	Monitoring	Manual processing	Control features optimization
Agriculture and Agri-Food Canada	SAP	●	●	●	●
Public Works and Government Services Canada	Regional Pay System	no weaknesses reported (NWR)			
	Common Departmental Financial System (CDFS)	●	●	NWR	N/A
Canadian Heritage	SAP	◓	◓	◓	◓
Veterans Affairs Canada	Free-Balance	●	●	NWR	NWR
	General IT Environment	◓	◓	◒	NWR
	Client Service Delivery Network (CSDN)	◒	●	◒	N/A
Canada Revenue Agency	SAP–Corporate Administrative System (CAS) expenditure system*	◒	◓	●	◓

*This financial system at Canada Revenue Agency is a larger installation of SAP that also integrates a human resource module

Financial systems for reporting tax revenue

Agency	Financial systems (revenue reporting systems)	Controls			
		Electronic security	Monitoring	Manual processing	Control features optimization
Canada Revenue Agency	IT environment for the mainframe	◒	◒	◓	N/A
	SAP–revenue ledger (pre-implementation review)	◒	◓	●	◓
	T1 assessment/accounting	◒	◓	●	N/A

Other financial control processes identified in our financial audit of the Public Accounts

Departments	Controls			
	Monitoring	Manual processing	Payroll	Authorities
Agriculture and Agri-Food Canada	NWR	NWR	NWR	●
Canadian Heritage	NWR	NWR	●	◒
Public Works and Government Services Canada	◓	●	NWR	◒
Veterans Affairs Canada	●	◒	◓	◓

● **Significantly addressed.** Most of the original significant audit findings have been fully addressed.

◓ **Satisfactory progress.** Substantial progress has been made in addressing the original audit findings, but some additional action is still required.

◒ **Some progress.** Some progress has been made in addressing the original audit findings, but considerable additional action is still required to achieve the desired results.

○ **Unsatisfactory progress.** Progress has not been made in addressing the original audit findings, and action remains outstanding.

NWR: No weaknesses were reported for this category to the department or agency

8.31 After first identifying the control weaknesses in 2001 and 2002, we expected departments and agencies would have significantly addressed these weaknesses. We are aware, in evaluating the extent of progress achieved, that the control weaknesses identified for each entity differ in terms of quantity, nature, and complexity. Also, the nature, size, and complexity of the systems influence the level of progress achieved. For example, addressing financial control weaknesses related to the financial reporting of tax revenues on an accrual basis at the Canada Revenue Agency can be a significant challenge because agency officials must also consider the impact on many tax assessing sub-systems and be responsible for the entire volume of tax revenue transactions within the government.

8.32 During our review of these control assessments, a senior financial official indicated that one of the key factors contributing to their financial control weaknesses was that the systems and the applications were introduced without a corresponding re-engineering of operating processes within their department. As departments and agencies proceed with the implementation of new systems or substantial upgrades to existing systems, this past experience and our identification of common control weaknesses should be considered.

8.33 We also found that certain departments and agencies that successfully addressed some of the identified weaknesses had done so by improving some of their quality assurance functions. These functions review selected transactions to ensure accuracy and their compliance with significant authorities. For example, Agriculture and Agri-Food Canada is using a process that systematically identifies higher-risk transactions for review prior to payment. As well, samples of lower-risk transactions are selected and reviewed to confirm the adequacy of control processes.

8.34 When we first identified these control weaknesses, we noted that, in our opinion, most of the weaknesses could be resolved in a reasonable period. Thus, we expected more progress to have been achieved. However, certain entities have failed to make addressing these weaknesses a priority, because these systems do not generate the management reports used as the basis for management decision making. Instead, the information is exported to other applications and tools to produce the necessary reports. However, the Canada Revenue Agency has shown significant advancement in this area; it has integrated various corporate administrative systems with its financial expenditure systems. This integrated capacity links finance, administration, and human resource information; provides for the single capture of most data; and produces almost all management financial reports.

8.35 The government's challenge is to ensure that all departments and agencies focus on the different types of control weaknesses and how to effectively implement the changes in their management processes so that their financial information is improved.

8.36 **Importance of internal audit.** As we stated in our November 2004 Report, Chapter 1, Internal Audit in Departments and Agencies, the internal audit function is an important element in enabling deputy heads to ensure that their departments have an effective internal control system. Internal auditors conduct risk-based audits and identify, where necessary, improvements in an organization's risk management strategy and practices, in its management control framework, and the integrity of the information systems it uses for decision making and reporting. As an example, in our controls assessment work with the Canada Revenue Agency, we conducted our review of key controls jointly with the Agency's internal audit function.

8.37 **Recommendation.** The Office of the Comptroller General, in co-operation with departmental and agency management, internal audit groups, and audit committees, should ensure that departments and agencies identify and address the internal control weaknesses in financial information systems within a reasonable period.

Treasury Board Secretariat's response. The Office of the Comptroller General is following up with those departments and agencies reporting significant weaknesses in the financial control assessments done by the Office of the Auditor General.

The Office of the Comptroller General will also communicate to all departments and agencies that have not yet been assessed, information on the weaknesses that have been found to be common to many of the assessed departments. The Office will strongly encourage departments and agencies to be proactive in addressing these weaknesses.

As an initial step, the Office of the Auditor General was invited to brief all senior full-time financial officers on the objectives and common findings of their control assessments at a recent conference.

Advancement of the accrual budgeting and appropriations issue is critical

8.38 Previous chapters on financial management and control have highlighted the lack of progress in addressing accrual-based budgeting and appropriations at the department and agency level. The Standing Committee on Public Accounts has continued to support our recommendations on accrual budgeting and appropriations (see Appendix C) and has repeatedly urged the Treasury Board Secretariat to act on this issue. After several years of studying this issue, we expected the Treasury Board Secretariat to have developed and begun implementing an appropriate action plan.

8.39 **Other jurisdictions have moved forward.** As outlined in this chapter, our interviews with senior financial officials confirm that the lack of accrual-based budgeting and appropriations creates a disincentive for departments to use accrual-based financial information as part of their regular decision-making processes. As a result, we examined the practices of other jurisdictions. We found that Australia, New Zealand, the United Kingdom, and several Canadian provinces and territories (namely British Columbia, Alberta, and the Northwest Territories) have studied the issue, developed a position, and implemented an accrual budgeting and appropriations process that was appropriate for their particular needs.

8.40 **The federal government continues to study implementation.** However, the federal government still has not yet concluded its study of accrual budgeting and appropriations even though it has advanced various elements of that study since our last Report. For example, it has consulted with departments and agencies to obtain their perspectives on possible implementation strategies and has explored the impact of implementing accrual budgeting and appropriations for capital assets and the annual reference level update exercise. Progress, however, has been very slow and few resources have been assigned to the task.

8.41 We recognize that there are challenges with accrual budgeting and appropriations and that a department's annual cash requirements will continue to be important information for Parliament, but we cannot understand why the government has not moved beyond the study of this issue. We also understand that there is no international consensus on this issue, but other jurisdictions seem able to conclude on this matter and, in our opinion, Parliament would be better served if it also received full program cost information based on accrual concepts as part of the estimates and appropriations process. This approach would ensure that Parliament received information comparable with the accrual-based information included in the *Public Accounts of Canada* and the government-wide budget. Furthermore, the information that managers and Parliament use in their decision making would be on the same basis as other external financial reporting of government operations.

8.42 As previously stated, we believe that until government-wide and departmental budgeting and financial reporting are put on a common accrual basis, the government will not achieve its objective of having improved accrual-based financial information used in its decision making.

8.43 **Recommendation.** The Treasury Board of Canada Secretariat should promptly complete its study of accrual-based budgeting and appropriations at the department level and implement an approach for a common accrual basis of planning, budgeting, and reporting.

Treasury Board Secretariat's response. Because the impacts of adopting accrual budgeting and appropriations are major and far-reaching, the Secretariat continues to believe that a prudent and thorough approach to introducing changes in budgeting or appropriations is the most appropriate approach. Although the rate of change is slower than the Office of the Auditor General would like, progress is being made in the area of accrual budgeting.

The Secretariat has recently completed, and will soon present to the Treasury Board, its study of capital asset management. A specific recommendation of this study is to introduce the application of accrual budgeting to capital planning and management. Contingent upon the quality of the long-term asset plan and departmental performance, selected pilot departments would be provided non-lapsing asset funding over a three- to five-year time frame. Eligible departments must have a long-term asset plan conforming to a new long-term asset management policy and display the resources on an accrual and a cash basis

The Treasury Board Secretariat is currently examining the feasibility of running next year's Annual Reference Level Update exercise on an accrual basis as well as the cash basis on which it is presently based. Achievement of this objective would represent the most significant step yet taken toward across-the-board implementation of accrual budgeting. A specific objective would be for the Treasury Board to approve reference levels for all departments and agencies on an accrual as well as a cash basis. This should represent substantial movement to address the Office of the Auditor General's specific concern that expenditure authorities provided solely on a cash basis are an impediment to departments' full incorporation of accrual information into their financial planning and management.

Accrual financial information must become more than a year-end exercise

8.44 The implementation of new financial information systems and improved financial information within departments and agencies was never intended solely for the purpose of preparing year-end financial results and the summary financial statements of the Government of Canada. Although such information has been incorporated in the preparation of the government-wide budget and periodic monitoring of government-wide results, we expected departments and agencies to have integrated such information into their normal decision-making processes and interim financial reporting activities. In other words, we expected that accrual financial information would be used by departments and agencies throughout the year.

8.45 The Treasury Board Secretariat's response to our March 2004 chapter supported that expectation. The Secretariat noted that Treasury Board submissions and memoranda to Cabinet required both cash-based and accrual information. The accrual information would, in the Secretariat's opinion, have to become part of the process of preparing these documents and, therefore, considered in decision making.

8.46 **Accrual information remains largely a year-end exercise.** As a result, we discussed the role of accrual financial information with senior financial officials in departments and agencies that we selected for examination (see **About the Follow-Up** at the end of the chapter). We reviewed a selection of internal interim financial reports prepared for those officials as well as a sample of Treasury Board submissions prepared by those departments and agencies. We concluded that those departments and agencies use accrual financial information mostly at year-end when preparing financial information for inclusion in the summary financial statements of the government.

8.47 Senior financial officials within those departments and agencies supported our conclusion and our similar concerns from previous chapters. Without a consistent use of accrual financial information throughout all aspects of government financial operations, they saw little need for that type of information other than as part of the year-end summary financial statement reporting process.

8.48 Other comments received from members of the senior financial community in departments and agencies that may explain the limited use of accrual financial information included the following:

- Accrual accounting was largely implemented as an accounting exercise and not a management exercise; therefore, accrual financial information was not a priority for anyone other than financial managers and then, only at year-end.
- There is a learning curve because many operational managers do not understand the benefits of accrual accounting. Although they may know many of the theoretical concepts, they need additional training and practice to apply the concepts within their department or agency.
- Other than year-end financial reporting for the summary financial statements, ongoing operations of departments and agencies are not managed on an accrual basis. Managers' concerns and, thus, their measure of success in most situations is ensuring that budget information is properly input into the expenditure management system of the government, that expenditures against that budget are properly authorized and recorded, and that regular reports demonstrate a department's or agency's total expenditures against its budget—information that is mostly cash-based and primarily adjusted to an accrual basis at year-end.
- Many departments and agencies are largely responsible for only employee salaries and a selection of grants and contributions programs. The impact of accrual accounting in such situations is minor and limited largely to which period to record year-end transactions. Accrual financial information in those cases is not particularly revolutionary.
- Accrual financial information is seen as most helpful to those departments and agencies with large numbers of capital assets—those in which it is frequently important, for example, to consider whether to purchase or build a particular asset.

8.49 Our review of certain interim financial reports prepared by the departments and agencies that we selected for examination confirmed many of our concerns about the limited use of accrual financial information. Most of the reports were largely comparing cash expenditures with cash budgets without any information that addressed expenses and accrual budgets.

8.50 Our review of Treasury Board submissions and related documents was somewhat more promising. However, we found that accrual financial information was only used in new proposals, as required by the Treasury Board Secretariat, if the accrual information was or would be different than cash-based information.

8.51 While our audit work identified limited use of accrual financial information within departments and agencies, we did discover some good examples of its use that we believe demonstrate how it can help improve information for decision making (see case study, How accrual financial information improves information for decision making).

How accrual financial information improves information for decision making

National Defence. National Defence manages a significant number of tangible capital assets including armoured vehicles, naval vessels, aircraft, and helicopters. All of these assets contribute to the defence of Canada and Canadian interests. The original cost of these assets is recorded in the Public Accounts of Canada at approximately $44 billion. After years of amortization, the net book value of the assets is approximately $26 billion.

Accrual accounting gave the Department, for the first time, complete financial information on the cost and estimated amortization of its tangible capital assets. Consequently, it allowed National Defence to analyze the effect of this information on its overall goals, objectives, and costs of service.

National Defence is now comparing its original investment and its annual amortization and related operating costs with

- those of defence organizations in other countries, and
- the cost of replacing related assets and the operating and amortization costs of the newer assets.

The Department has a better understanding of the cost of maintaining its assets and can decide whether it should repair and maintain assets, replace the assets, or take some out of service.

Veterans Affairs Canada. Veterans Affairs Canada provides veterans and their dependants with compensation for disabilities and lost economic opportunities, and with health and social programs that honour the sacrifices of veterans.

The introduction of accrual accounting required the Department to change the way benefits to veterans were recorded in order to be consistent with the accrual accounting approach for pensions and other employee future benefits. The full cost of veteran benefits is now recognized in the year in which the benefit is earned or changed and not when it is paid in cash.

Recently, the Department amended the benefits it provides to veterans' survivors. It analyzed the cost of these amendments by considering the impact on its future cash flows and by evaluating the impact of those future cash flows on an accrual basis of accounting (i.e. the discounted cash flow of all future benefits). Initial results indicated that the cost of amending the benefit would be a substantial expense for the year in which the change was made and not fully consistent with other government fiscal objectives.

To address this cost issue, Veterans Affairs, in conjunction with other stakeholders, examined other veterans' benefits that had been identified for revision and highlighted savings by amending or modifying admissibility requirements for those benefits. It examined the future savings and found that the savings were similar to the incremental costs of amending survivors' benefits. By making both changes, the net impact of the changes was limited to approximately $50 million, as outlined in Note 6 to the summary financial statements of the Government of Canada, and the amendments were undertaken for the benefit of veterans and their survivors.

The Department and government had a better understanding of the costs of these programs and the components of the related liability—the full cost was considered as opposed to just the annual cash flow impact.

8.52 In addition, our audit of the government's summary financial statements further supported our observations that accrual financial information remains largely a year-end exercise. We identified several errors in the application of the government's accrual accounting policies. We also found instances of departments and agencies failing to consider aspects of accrual accounting concepts for their assets and liabilities that they didn't correct until quite late in their financial statement preparation processes: for example, expenses recorded in the wrong fiscal period and the impact of the removal of assets from service.

8.53 Although none of these latter matters was sufficient to affect our conclusion on the fair presentation of the summary financial statements, they illustrate that departments and agencies are not yet considering accrual financial information as part of their routine management information practices but rather as part of the year-end exercise of preparing financial submissions for the summary financial statements of the Government of Canada. More timely and thorough reviews of the financial information produced by the underlying systems within departments and agencies need to be carried out so that management can address these issues before the year-end and so that financial information available for decision making and external financial reporting to Parliament can be accelerated.

Specific challenges related to financial reporting of accrual financial information still need to be addressed

8.54 As part of our audit of the summary financial statements of the Government of Canada, we continue to report the need for improvements in the financial information and financial reporting at the Canada Revenue Agency and the Department of National Defence as it relates to their respective responsibilities for the financial reporting of tax revenues/ receivables and inventories on an accrual basis of accounting (see Canada Revenue Agency needs to improve financial reporting practices for tax revenues and receivables and National Defence needs to improve inventory costing practices).

8.55 While the implementation of accrual accounting for tax revenues/ receivables and inventory was a significant and challenging task for the government and still requires a significant effort by the respective agency and department, both situations continue to highlight the need for all departments and agencies to continue to improve the quality of their accrual financial information and to make the preparation of such information a part of their regular periodic financial reporting practice and not simply a year-end exercise.

Canada Revenue Agency needs to improve its accrual financial reporting practices for tax revenues and receivables

The Canada Revenue Agency manages $56 billion in federal receivables, $33 billion in payables, and an estimated allowance of $7 billion for receivables that will likely be uncollectible (doubtful accounts). With these figures, the Agency also manages the revenues that the Canada Border Services Agency receives from customs and border operations.

The Agency primarily determines the tax accrual figures based on tax assessment information derived from various tax program systems and then supplements that information with estimates of tax revenue earned in the period based on payments made by taxpayers. These taxation systems, however, were never designed as accounting systems for the accrual of tax revenues. Extensive data manipulation, manual processing, reconciliations of information from various sources, and analysis of tax collectability are needed to prepare the tax revenue information for inclusion in the summary financial statements. Properly reporting tax revenues and receivables and making an allowance for doubtful accounts each year is important for assessing the amount of federal revenues to be reported and the cost of managing all of the government's tax receivables.

During our audit of the government's 2002–03 summary financial statements, we first noted that for some types of tax revenue, there were significant differences between the amounts in the Agency's summary financial records and the totals of individual detailed records from underlying tax program systems constituting that balance. Following analysis of these differences, the Agency decided to make an adjustment to its summary financial records. Unexpected differences such as those, however, are usually an indication of a problem with financial reporting practices. As a result, although these adjustments were made, we remained concerned that significant differences could recur each year.

We also noted in that audit that the Agency was not consistent in the way it evaluated the allowance for doubtful accounts. At the time, the Agency re-evaluated the estimate of the allowance for doubtful accounts, and we were able to conclude that the allowance was fairly presented, in all material respects, in the summary financial statements.

Our recent audit of the government's summary financial statements noted that the Canada Revenue Agency had implemented several improvements. The Agency completed a detailed review of the underlying causes of the differences in tax revenue amounts that supported its preliminary conclusion from the prior year and developed a multi-year plan to introduce accounting sub-ledgers for each of its tax revenue streams. The Agency also increased the extent that it reviewed the estimates of the allowance for doubtful accounts, improved the communication and training used to evaluate the allowance for doubtful accounts, and improved the consistency with which it evaluated collectibility.

However, our current year's audit work continued to identify differences between the summary and detailed records of some types of tax revenue. Further reviews of these differences by the Agency indicated that they resulted from causes that had not previously been identified. The Agency made corrections for these errors during the current year and reduced the overall amount of the unexplained difference, which enabled us to conclude that the tax revenue figures were fairly presented in all material respects in the summary financial statements of the Government of Canada. Still, the adjustments were made as a part of the year-end exercise of finalizing the financial accounts of the government. The regular financial management practices of the Agency did not identify or rectify these problems.

National Defence needs to improve inventory costing practices

Inventories at National Defence account for the largest part of the government's $6.1 billion in inventories. They include such items as ammunition and consumable supplies like uniforms and machine tools. Historically, the Department's inventory systems were designed to maintain a record of quantities and not regularly determine the monetary value of the inventory. Inventory purchases were simply expensed when purchased.

During our audit of the 2002–03 summary financial statements, we found that National Defence's inventory systems and costing practices did not provide accurate cost information on its inventory items. As a result, the Department could not independently support the prices of its inventory.

In our audit of the summary financial statements and our observations in the 2003-04 Public Accounts of Canada, we noted that the Department had instituted the following improvements:

- reviews of some of its older costs for items such as munitions and the required corrections,
- improvement of the controls that detect errors when inventory is recorded,
- establishment of an interdepartmental committee to discuss ongoing challenges in improving inventory records, and
- improvement of the information system that monitors inventory inflows and outflows.

However, we continue to note errors in the way the inventory is valued; for example, some of the costs of the inventory were not properly supported and current year transactions (purchases, usage, and obsolescence) were not properly recorded. Most of these errors were corrected by National Defence, and we were able to conclude that the inventory figures were fairly presented, in all material respects, in the summary financial statements of the Government of Canada. However, these corrections were largely made as part of the Department's year-end effort to prepare its financial submissions and not as part of its regular financial management practices.

8.56 **Recommendation.** The Office of the Comptroller General, in conjunction with department and agency deputy ministers, should ensure that departments and agencies have strategies, where applicable, for improving the quality and use of accrual financial information that supports their regular financial reporting, analysis, and decision-making process.

Treasury Board Secretariat's response. Accrual financial information is being used throughout the year, from the preparation of the monthly Fiscal Monitor to the requirement, as noted in the chapter, for accrual information in memoranda to Cabinet and Treasury Board submissions for new funding. Departments and agencies are required to submit monthly financial information on an accrual basis in trial balances sent to the Receiver General. Senior financial management in departments and agencies must attest to the completeness and accuracy of the financial information in these monthly trial balances, and the Receiver General issues reports on the data quality.

The requirement for departments and agencies to provide accrual financial information is being expanded. The Treasury Board Secretariat is currently working with the Department of Finance and the Privy Council Office on the guidance needed for the inclusion of accrual financial information in all memoranda to Cabinet and Treasury Board submissions, not just those for new funding. As well, the Treasury Board Secretariat is examining the feasibility of requiring departments to provide financial plans on both a cash and accrual basis for the 2006–07 Annual Reference Level Update exercise.

Accrual accounting, implemented as part of the Financial Information Strategy, was not promoted as a year-end exercise. Much effort was spent working with managers in departments and agencies promoting the use of accrual financial information in decision making. However, an understanding of the importance and benefits of accrual financial information in the departmental decision-making process is a significant cultural change.

Central agency requirements for accrual financial information create the need to develop the capacity in departments and agencies to provide that information and foster a greater understanding of the importance and benefits of the information in the decision-making process. As evidenced in the case study in the chapter, there are signs that departmental management is beginning to understand the importance of accrual information. Other indications are that some departments are introducing quarterly financial statements for internal management purposes.

Improved departmental financial statements can advance the use of improved financial information

8.57 Part of the Treasury Board Secretariat's accounting policy framework requires departments and agencies to prepare auditable annual financial statements. Such financial statements, if prepared on an accrual basis of accounting, support improved financial management because they fully and accurately report the financial affairs of departments and agencies. For several years, some departmental corporations and most separate agencies have had their financial statements prepared on an accrual basis of accounting and subsequently audited. However, a large number of departments have not, in our opinion, reached the point of having financial statements prepared on a basis that would withstand an independent audit.

8.58 Senior financial officials said that auditing departmental financial statements would confirm the accuracy and completeness of the accrual financial information that is provided to senior management and might advance the use of accrual financial information for decision making. Therefore, there is clear support within departments and agencies to advance this issue as quickly as possible.

8.59 **Audited financial statements for departments within five years.** Given the importance of departmental financial statements and because the government announced in March 2004 that within five years all departments will have their annual financial statements audited, we expected that the government would have accelerated its resolution of any related outstanding issues and developed an approach to implement this initiative. We reviewed a sample of the unaudited departmental financial statements to assess whether they contained the elements that we considered necessary for fair presentation. We also discussed the preparation of these financial statements with senior financial officials within selected departments. Finally, we met with the staff of the Office of the Comptroller General of Canada to assess their plans to enable all departments and agencies to have audited financial statements within five years.

8.60 Our audit work identified several improvements:

- the transfer of several balances to departments and agencies that were traditionally controlled by central agencies; for instance, allowances for certain loans, investments, and advances;
- updated guidance to departments and agencies on improving their financial statements; and
- the publication of financial statements in departmental performance reports where the department or agency had satisfied all elements necessary for fair presentation.

8.61 Despite these improvements, the unaudited financial statements still do not provide accurate and reliable information on program costs and overall financial position because certain significant items still remain under the control of central agencies, including provisions for severance liabilities, contingent liabilities, and environmental liabilities. As a result, users of these unaudited financial statements do not get a complete picture of the department's or agency's costs of activities, assets, and liabilities and are, therefore, making decisions without complete information.

8.62 The Office of the Comptroller General understands that despite the improvements achieved, additional information is required to ensure that these financial statements are complete.

8.63 **Recommendation.** The Office of the Comptroller General should promptly resolve any outstanding issues regarding departmental financial statements and develop a plan to achieve the commitment of having audited financial statements within five years.

Treasury Board Secretariat's response. As noted in the chapter, the financial statements of agents of Parliament and those of most departmental corporations are currently audited and published. As well, the remaining departments and agencies are preparing annual financial statements on an accrual basis.

Each year since the implementation of the Financial Information Strategy on 1 April 2001, the Treasury Board Secretariat has devolved certain centrally recorded items to departments and agencies for inclusion in their financial statements. For the 2004–05 fiscal year, the Treasury Board Secretariat is devolving the recording of the allowances on additional loans, investments, and advances, as well as the accounting for environmental liabilities, only recently required to be reported in the summary financial statements of the Government of Canada.

In each case, the Treasury Board Secretariat must co-ordinate with the Receiver General and the specific department or agency to ensure that the initial accounting to devolve the balance is done accurately, and that the department or agency has the processes and capacity in place to continue accounting for the item in a timely and accurate fashion.

Of the centrally recorded items not yet devolved, the Treasury Board Secretariat has identified those items for which devolution is appropriate. Over the next few months, the Treasury Board Secretariat will meet with the Office of the Auditor General to discuss its plans as well as the capacity of the Office of the Auditor General to audit the statements of all departments and agencies.

Conclusion

8.64 Although the government continued to make progress in advancing the use of improved financial information in departments and agencies and in improving the quality of the systems supporting that information, we are disappointed that more work is still needed to resolve several outstanding issues.

8.65 The Office of the Comptroller General needs to actively advance the use of accrual financial information and promote good financial internal controls within government by

- monitoring and influencing departmental use of accrual-based financial information,
- developing a strategy to increase the representation of professional accountants in the senior financial positions within departments and agencies, and
- developing a plan to resolve any outstanding issues regarding departmental financial statements so as to achieve the commitment of having audited financial statements within five years.

8.66 Departments and agencies must improve their use of accrual-based financial information so that it becomes more than a year-end exercise that they undertake to comply with directives for preparing the summary financial statements of the Government of Canada. Departments and agencies must also strengthen their financial internal control systems, paying particular attention to electronic security controls, monitoring practices, and the integration of manual and electronic processing controls.

8.67 Finally, it remains essential that the government resolve the issue of accrual budgeting and appropriations at the department level. Although this complex issue needs to be considered carefully, the government has been studying it for many years and has made little progress. In our view, until government-wide and departmental budgeting and financial reporting are put on a common basis, the government will not be able to make the most effective use of its financial information. Departments and agencies will continue to see their performance measured against a cash budget and a cash appropriation and, therefore, will have little motivation to fully utilize accrual financial information as part of their regular management decision-making and reporting processes.

About the Follow-Up

Objective

The objective of this follow-up was to determine whether the government has made progress in achieving two of its wider financial management and control initiatives: improved financial information used in decision making along with improved quality of that information through the introduction of new financial information systems.

Scope and approach

The scope of the follow-up includes the larger departments and agencies[1] for which we reviewed financial information systems as part of our financial audit of the summary financial statements of the Government of Canada and for which we had completed a follow-up of those reviews. These departments and agencies included the following:

- Canadian Heritage,
- Agriculture and Agri-Food Canada,
- Veterans Affairs Canada, and
- Public Works and Government Services Canada.

In addition, our audit scope included the Treasury Board Secretariat where considerable responsibility for government wide financial accounting, management, and control issues rests. The Canada Revenue Agency and National Defence were included in our audit scope but only to the extent of monitoring significant issues related to the implementation of accrual accounting that had previously been reported: for example, the accounting for tax revenues and consumable inventories respectively and the follow-up of any financial information systems reviews.

This chapter includes issues that arose during our audit of the summary financial statements of the Government of Canada. Consequently, our audit approach relied on the nature, scope, and extent of that audit work. The audit of the summary financial statements was conducted in accordance with Canadian generally accepted auditing standards. We assessed whether the summary financial statements were fairly presented in accordance with the government's stated accounting policies. The procedures we followed included testing of transactions and account balances, performing analyses, confirming year-end balances with third parties, reviewing significant internal controls as necessary, and discussing matters with government officials.

In addition to the audit work performed for the summary financial statement audit, we conducted interviews with senior officials regarding the use of accrual financial information, reviewed documents that contained financial information used to support financial decisions within government, and reviewed other audit work done by the Office of the Auditor General of Canada in the area of financial management and control in the government

Criteria

In respect of those departments and agencies selected for examination, we expected, where applicable, the following:

- Departments and agencies would have improved their internal financial control systems and addressed all significant weaknesses we identified in 2001 and 2002.
- Departments and agencies would have integrated accrual financial information into their regular decision making.
- Departments and agencies would have increased their professional accounting capacity, when appropriate, and developed appropriate plans to implement the new oversight responsibilities of the departmental comptroller.

1. Departments and agencies—Refers to only the specific department's or agency's operations as identified in the Government's Expenditure Plan and Main Estimates and not all of the other agencies or entities that may report to the selected department or agency through the government's reporting processes.

- The Treasury Board Secretariat would have developed a strategy to oversee and monitor actions within departments to improve financial control systems, professional accounting capacity, the use of accrual financial information, and the preparation of departmental financial statements.
- The Treasury Board Secretariat would have concluded its study of accrual-based budgeting and appropriations and developed an implementation plan.
- The Treasury Board Secretariat would have finished developing the approach to implement the remaining accrual accounting policies for departments and agencies and transferred the remainder of the central accounting processes that will allow for complete departmental financial statements.

Audit team

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Appendix A Scope of controls assessment work

Since our December 2001 Report, Chapter 1, Financial Information Strategy: Infrastructure Readiness, we have continued to evaluate certain financial controls governing selected computer information systems, along with the related management and monitoring controls. Our objective was to determine the extent to which the selected financial internal controls of various departments and agencies were sufficient to contribute to the safeguarding of assets and the accuracy, completeness, and proper authorization of financial information related to our audit of the summary financial statements of the Government of Canada. However, the scope of our audit work was neither designed nor sufficient to express an opinion as to the effectiveness or efficiency of all internal controls within the selected departments and agencies nor to compare one entity's progress against another. The scope of our audit also may not identify all matters that might be of interest to management.

	Selected financial information (FIS) strategy system reviewed			Legacy systems[1] to be reviewed	
Entity	Year of initial assessment	Number of systems	Year of follow-up	Year of initial assessment	Number of systems
Agriculture and Agri-Food Canada	2001	1	2004	2004 2005	2 1
Canada Revenue Agency	2001 2002	2 2	2004	2003 2004 2005	2 2 2
Canadian Heritage	2001	1	2004	2003	1
Public Works and Government Services Canada	2002	2	2004	2004	3
Veterans Affairs Canada	2002	2	2004	none	
Department of Foreign Affairs and International Trade	2002	1		2005	1
Indian and Northern Affairs Canada	2002	1		2002	2
Transport Canada	2003	1		2004 2005	2 3
Citizenship and Immigration	2003	1		2005	2
Health Canada	2003	1		2005	2
Industry Canada	2003	1		2005	2
National Defence	2004	1		2004 2005	3 6
Fisheries and Oceans Canada	2004	1		2005	6
Canadian International Development Agency	2004	1		none	
Royal Canadian Mounted Police	2004	1		2005	1
Correctional Services	2004	1		none	
Human Resources Development Canada[2]	2004	1		2004 2005	2 2

[1]Legacy systems are existing systems made up of centralized processing systems. Usually, they are older mainframe and minicomputer information systems that have been running for many years.

[2]HRDC was divided into two entities, Social Development Canada and Human Resources and Skills Development Canada. Both still operate with the same systems and applications as before the reorganization but are now managed within Social Development Canada.

Appendix B Common weaknesses found in many internal financial control systems that need particular attention

Financial systems and processes	Weaknesses	Explanation and implications
Electronic security controls	• User access rights and privileges reflect incompatible duties. • Super user accounts are not sufficiently controlled. • Users have wider system access than required. • Generic user IDs are used, impairs accountability. • Best practices for key security parameters are not being enforced.	Electronic security controls are used to control user access rights and privileges within an electronic financial information system. Lapses in or inadequate electronic security controls could lead to unauthorized access, which can then allow for accidental or intentional corruption or loss of information. This can also result in the integrity of system tables and structures being compromised or in erroneous reports being produced by the systems.
Monitoring controls	• Security administration function does not follow best practices. • Reconciliation of accounts is not being done on a timely basis. • Review of clearing and suspense accounts is not timely. • Policies and procedures for monitoring accounts are not always in place—for example, review of unusual or high-risk transactions and review of key performance measures such as "receivables aging."	The security administration function is shared among many users and not controlled. There are no formal policies and best practices in place, leaving this position at risk. Monitoring controls engage senior management in analyzing the reasonableness of financial information. Differences identified or matters observed must not only be highlighted but investigated and analyzed with corrective action taken. A lack of monitoring controls allows errors to go unnoticed, thereby compromising data accuracy and validity as well as increasing the risk of loss and/or corruption of data.
Control features optimization	• Many controls features inherent in the new financial systems are not being used.	Not taking full advantage of these financial control features results in lost opportunity to increase efficiency and effectiveness of the operations. Options not optimized include functionalities to ensure each payment is matched to a requisition and evidence of receipt of goods/services and report generation. Not using built-in controls could reduce the consistency of the application of the controls. Also new financial systems are often used to simply compile results produced from existing systems. In some cases, two or more systems are operating where integration may be possible. This approach adds to the complexity and cost of maintaining financial information. There is also additional room for error if separate systems are maintained.
Manual processing controls	• Segregation of duties is inadequate. • Documentation on policies and procedures is not being prepared/reviewed. • Quality assurance of the account verification process is limited.	Modern control frameworks should allow for proper integration of manual processing controls within an electronic framework. Manual controls are less systematic and less comprehensive in their application than electronic controls. Bypassing the electronic framework increases the risk that data values will remain unchecked, be omitted, or result in duplicate information or other errors.

Financial systems and processes	Weaknesses	Explanation and implications
Selected authorities controls	Payments are being certified without • documentation of having received the goods, • proper delegation of signing authority, and • authorization.	Section 34 of the *Financial Administration Act* requires that proper authorization be obtained and that goods or services are received prior to any payment made. Section 33 of the Act requires that proper authorization be obtained prior to any requisition for a payment out of the Consolidated Revenue Fund and the subsequent charge against appropriations. Without proper controls, the government does not have assurance that payments are made only for goods or services that have been received.

Appendix C Standing Committee on Public Accounts: Recommendations on accrual appropriations/ budgeting and the government's response

Report date	Recommendation	Government response
December 1998	The Treasury Board Secretariat should complete its consultations with its stakeholders as quickly as possible in order to determine the best possible options to move the appropriations (supply) process to full accrual basis.	Progress is slower than anticipated. Response to a consultation paper is expected by 10 March 2000, from which recommendations to the government will be made in the following two or three months.
March 2000	The Treasury Board Secretariat should complete its consultations with departments and agencies on moving to accrual appropriations. Once the consultations are completed, the Treasury Board Secretariat should inform Parliament and the Public Accounts Committee in writing of its final decision and recommendations to the government on moving to accrual appropriations.	Responses to the consultation paper have been received and are being compiled and analyzed. Completion of the analysis is expected by September 2000, although further review of accrual-based budgeting and its relationship with appropriations may be required.
March 2001	The Treasury Board Secretariat should complete its consultations with parliamentarians aimed at determining the best possible options to convert the appropriations (supply) process to a full accrual basis and report the results to the House of Commons by 31 March 2002; the Government of Canada should move to an accrual-based system of appropriations (supply) by 1 April 2003.	The subject of accrual-based appropriations is very complex and requires careful review and consultation. Any decision made will have tremendous impact and consequences for government. This strongly underlies the need for very careful, rigorous, and exhaustive study before making any decisions in the area.
May 2001	The Treasury Board Secretariat should undertake and complete the required studies and consultations on full accrual-based appropriations, and it should prepare a set of proposals and alternatives to be presented to the House of Commons Standing Committee on Public Accounts, no later than 31 March 2002.	The subject of accrual-based appropriations is very complex and requires careful review and consultation. The decisions made respecting any contemplated changes to our budgeting and appropriations practices will have tremendous impact and consequences for government. This strongly underlies the need for very careful, rigorous, and exhaustive study before making any decisions in the area.
December 2002	The government should adopt the integration of full accrual-based budgeting and appropriations into the Canadian Expenditure Management System and advise the Public Accounts Committee when the decision has been made. Once the decision is made to move toward full accrual-based budgeting and appropriations, the Treasury Board Secretariat should immediately prepare an action plan together with an implementation timeframe and table both these documents with the Public Accounts Committee.	Adopting the integration of full accrual-based budgeting and appropriations into the Expenditure Management System could have far reaching implications for government and for Parliament. Unlike accrual accounting, there is not international consensus on the adoption of accrual budgeting. Those countries that have implemented accrual budgeting have adopted specific accrual tools to suit their specific need and to help them implement much broader reforms. Moreover, some countries have indicated that their accrual budgeting frameworks are not yet proven and may be subject to change in the context of lessons learned. We intend to learn from their experience.

Source: Adapted from reports of the Standing Committee on Public Accounts