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

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**EVIDENCE**

**Tuesday, June 13, 2006**

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**Chair**

**The Honourable Diane Marleau**

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## Standing Committee on Government Operations and Estimates

Tuesday, June 13, 2006

• (0900)

[English]

**The Chair (Hon. Diane Marleau (Sudbury, Lib.)):** I call the meeting to order.

I would like to say welcome back to the Auditor General. You've been to so many committees now, we won't bother giving you the drill. You know it better than we do.

So feel free to go ahead.

**Ms. Sheila Fraser (Auditor General, Office of the Auditor General of Canada):** Thank you very much, Madam Chair.

We thank you for this opportunity to discuss the contents of chapter 1 of our May 2006 report, entitled—

**Mr. Mike Wallace (Burlington, CPC):** Excuse me, Madam Chair.

We have no Liberal members. I think it's part of the rules, or we can go on—

**The Chair:** I'm a Liberal.

**Mr. Mike Wallace:** I knew that. I didn't know whether you counted or not.

**The Chair:** To be honest, I'm not sure that I do, but that's okay. In this case, I'm going to rule that I do.

Go ahead, Ms. Fraser.

**Ms. Sheila Fraser:** Thank you.

We thank you for this opportunity to discuss the contents of chapter 1 of our May 2006 report entitled “Managing Government: Financial Information”.

I am accompanied today by Mr. Doug Timmins, Assistant Auditor General, and Mr. Clyde MacLellan, Principal, who are responsible for this audit.

[Translation]

In our chapter, we noted that strong internal financial controls and complete financial information are vital if the government is to prudently manage its assets, liabilities, revenues, and expenses. And in today's environment, I think that it's crucial that financial information systems have adequate controls in place and that decisions be based on information that government knows is accurate and complete.

[English]

Effective financial controls also put federal departments and agencies in a better position to manage risk and to exercise good stewardship over their resources. We concluded that departments and agencies have been slow to take action to remedy our previously recorded internal financial control weaknesses.

We have been assessing financial control systems and processes in federal government departments and agencies since 2001. I am obviously disappointed that departments and agencies have been slow in responding to these weaknesses and that I must repeat these messages every year.

We did note, however, that the Government of Canada has made public commitments to strengthen financial management and control. We encourage the committee to ask the government exactly how it intends to do this. The government needs to ensure that departments and agencies address the weaknesses we've previously reported in internal financial controls and continue to improve the quality of their financial information systems. The committee might also wish to ask about the timeframe for doing so.

[Translation]

Another important message in our chapter, and of particular interest to this committee, has been the continued lack of progress in implementing accrual-based budgeting and appropriations. We emphasize how this inaction has impeded departments' integration of accrual-based financial information into their regular decision making.

Departments and agencies are not using accrual financial information effectively because their budgets and appropriations are largely based on the cash method of accounting. The government has responded by studying this issue since 1998 without ever establishing a clear position as to what direction it will take.

After having studied this issue for eight years, it is, in our opinion, time for the government to take a position on this matter. The Public Accounts Committee has recently urged the government to implement accrual-based budgeting and appropriations. The support of your Committee would help reinforce for the government that parliamentarians have an interest in seeing this matter resolved.

[English]

The lack of progress in resolving this important issue and the weaknesses in internal controls are the chief reasons for the unsatisfactory progress in improving financial information in departments and agencies. I believe that this lack of progress also contributed to the choice of the less cost-effective option noted in paragraphs 7.24 and 7.25 of chapter 7 on the acquisition of leased office space, which we discussed with this committee at its meeting on June 8.

In conclusion, I believe that considerable work remains to be done to improve the government's financial information. The government still has to address weaknesses in its financial systems, use accrual financial information in decision-making, and resolve the issue of accrual-based budgeting and appropriations at the departmental level.

Madam Chair, I recognize that the concepts of accrual accounting and accrual-based financial information can be difficult to understand, and for that reason, we have provided the committee with a copy of a previous presentation we gave jointly with the Treasury Board Secretariat to parliamentarians when government issued its first set of full accrual summary financial statements.

• (0905)

[Translation]

The presentation provides a brief illustration of accrual accounting, explains the benefits associated with this form of financial information and compares key differences between the government's previous method of accounting and accrual accounting. Should the Committee be interested, I would be happy to elaborate on any points included in the presentation or return at a later date to participate in a more complete discussion of the presentation.

Madam Chair, this concludes my opening statement and we welcome any questions that the Committee may have.

**The Chair:** Thank you, madam.

Does anyone want to speak? Mr. St-Jean?

I wonder why it's taking so long to correct this situation. When I was a member of the opposition, from 1988 to 1993, we were talking about doing then. At the time, we were told that it would be done. However, that is still not the case. I've heard a lot of theories on the subject, but I would find it interesting if you explained to us why.

[English]

I've heard about this accrual accounting. I know what it is. It's been talked about around this place forever.

Mr. St-Jean is next.

**Mr. Charles-Antoine St-Jean (Comptroller General of Canada, Office of the Comptroller General, Treasury Board of Canada Secretariat):** Madam Chair, thank you for the opportunity to appear before this committee.

I take seriously the findings of the Auditor General in chapter 1 of her report, which is entitled "Managing Government Financial Information". I welcome the opportunity to discuss the chapter with the standing committee.

Attending with me this morning are Mr. Bill Matthews, senior director, government accounting, policy and reporting division, Office of the Comptroller General; and my colleague Mr. David Moloney, the assistant secretary, expenditure management sector, Treasury Board of Canada Secretariat.

[Translation]

The findings in Chapter 1 can basically be divided into two categories. Those that relate to internal controls and those that relate to the use of accrual-based budgeting and appropriations at the departmental level.

[English]

My colleague, Mr. Moloney, will address the question of accrual-based budgets and appropriations. I will focus my opening remarks on action being taken to improve internal controls at the departmental level.

While the strengthening of internal controls at the departmental level is an ongoing challenge, I believe there are several initiatives under way that will help advance the file in an efficient manner. Allow me to highlight these for you.

We are in the midst of completing a review of our financial management policies and reorganizing them based on a model that includes five core policies. These new policies will clearly spell out accountabilities and responsibilities for financial management.

In particular, our new policy on internal audit will require the annual audit plan to be approved by the deputy head of each organization, and it will support an annual opinion from the chief audit executive of each department on departmental risk management, controls, and governance processes. As part of the annual reporting process, deputy heads will be required to certify the soundness of the financial reporting controls in their organization and outline the steps they have taken to assure themselves that these controls are sound and are functioning properly.

A second core policy is departmental audit committees. These committees will add one more challenge function to examine the state of the controls and financial reporting within the department. You can rest assured that unaddressed control weaknesses are exactly the types of issues that these committees will insist be addressed.

Another core policy is an audited departmental financial statement initiative. This initiative will require major departments to table annual audited financial statements no later than March 31, 2009. Preparing for these audits is a major undertaking for the Government of Canada. In doing so, departments will undergo a readiness assessment conducted by external audit firms, which will highlight control weaknesses that need to be addressed before the department is ready to sustain an efficient financial statement audit. This initiative will put a much finer lens on government financial information and key controls.

● (0910)

[Translation]

In addition to these measures, we are taking steps to strengthen the professionalism of financial management within the federal government through better recruitment and professional development. As the Auditor General mentions in her report, the number of senior financial officers and senior full-time financial officers holding professional accounting designations has increased significantly from her 2002 report. We will continue to build on this success. As announced last week, the CICA has agreed to recognize certain government departments as Approved Training Offices, allowing employees to pursue their CA designation while working in the federal government. This announcement coupled with our earlier announcement on the CMA/CIPFA designation will increase our ability to attract and develop top-notch talent in the financial management field.

In conclusion, strengthening of internal controls is important and it is my belief that the initiatives that I have outlined will lead to good progress in this area. My colleagues and I would be pleased to respond to any questions that you or committee members may have at this time.

I'm going to ask my colleague David Moloney to take over from here.

[English]

**Mr. David Moloney (Assistant Secretary, Expenditure Management Sector, Treasury Board of Canada Secretariat):** *Merci.* Thank you, Madam Chair, for inviting me back today.

As Mr. St-Jean has just noted in his remarks, I will be addressing the issue of accrual-based budgeting and accrual-based appropriations. In particular, I wish to elaborate on information provided to the committee by officials of the Office of the Comptroller General in recent appearances, including to provide some international perspective on this important issue.

As members of the committee may know, in the 1996 budget there was an announcement that the government at that time had intended to “move to full accrual accounting for budgeting and accounting purposes”. At that time, accrual accounting for the public sector was a relatively new concept, not only in Canada but in fact worldwide. Given the magnitude and implications of the change involved in implementing accrual accounting across the entire government system, the decision was taken to focus initially on implementing accrual accounting for reporting purposes.

As part of the financial information strategy project, which was completed in April of 2001, accrual accounting was implemented, albeit a year later than originally planned, and it was implemented at that time for the summary financial statements of the government in the 2002-03 public accounts. Importantly, the 2003 budget was also prepared on the basis of accrual accounting, as indeed have the subsequent 2004, 2005, and 2006 budgets.

As part of implementing accrual accounting for reporting and for the budget, cabinets and the central budget agencies have since that time been managing overall decision-making on expenditures using accrual accounting information. The fiscal framework in particular, which is the multi-year framework of financial resources used for

implementing and operating government programs, and the funding of those programs, was changed at the time of the 2003 budget to an accrual basis. So in fact the Government of Canada has for some years operated on an accrual budgeting basis for the purpose of all policy initiatives, and in fact all decisions that require cabinet-level approval.

Since 1996, a few other countries besides Canada have implemented accrual approaches for reporting purposes; however, very few have implemented accrual accounting for budgeting or appropriations. Those that have are—from what they tell us—not typically satisfied with the change. In particular, Australia, New Zealand, and the U.K. have adopted forms of accrual budgeting in appropriations. The Netherlands and France each started such projects and cut them short on the basis of their concerns about complexity and cost. The United States federal government looked at the issue and decided not to proceed.

In fact, while there does now seem to be general acceptance among major governments around the world of the advantages of accrual accounting for reporting purposes, there is no international consensus when it comes to how to use accrual accounting for budgeting, control, or appropriation purposes. Canada is thus not alone in taking what I would characterize as a prudent approach to these very important issues.

Last summer, Mr. St-Jean and I engaged a consulting firm to study the issue in detail and to provide us with information needed to determine whether, and if so, how, the use of accrual accounting should be increased in budgeting and appropriations. We received the report this spring, and it concludes that while there are possible advantages to increasing the use of accrual accounting in the budget and expenditure appropriations cycle, such a change will require significant investments in training, in financial systems, as well as the development of new processes for budgeting, both at department and government-wide levels. The questions of whether and how to increase the use of accrual requires careful consideration, and in any case, according to the study, and based on our own work, it will take a number of years.

There are several specific issues that I would like to draw to the committee's attention. A key one, and this certainly draws on the experience of other countries, is the clarity of information that would be provided to parliamentarians. As a government, and we believe as parliamentarians, we must continue to track, control, and report on cash. Accrual accounting can provide excellent estimates of the costs of individual programs; however, cash is a critical element of the government's overall fiscal situation.

● (0915)

We believe Parliament needs to know if cash requirements associated with investment transactions, capital asset purchases, for example, are pushing the government into a cash-borrowing situation. In our view, parliamentarians must be able to manage both cash and accrual information. Other countries have found this complex and are re-examining their approaches to be able to better serve parliaments.

Management control, as well as Parliament control, is another issue. For example, would Parliament, under an accruals appropriation system, exercise control over acquisitions of capital assets if it is not voting on the cash cost of that asset, as is currently the case? Alternatively, if such control would be through voting on the amortization of an asset for its useful life, that raises the issue, as is the case in New Zealand, of requiring multi-year appropriations covering the life of the asset. This would be unprecedented in Canadian practice. It would also raise the important matter of determining what it would mean, what would be parliamentary practice were Parliament to choose not to approve a specific amortization vote. These issues will clearly require close consultation with you, with parliamentarians.

Control over the fiscal framework is a further issue. Under accrual accounting and reporting, the purchase of a capital asset encumbers the fiscal framework in terms of the amortization charge for the entire life of the asset. We need to be able to reflect on the government's overall financial control in fiscal planning, not just reflect but manage those encumbrances to the fiscal framework. Currently, we are able to do that because cabinet decisions taken on an accruals basis are sufficiently large that we can track them in the fiscal framework, and so can the Department of Finance. When one looks at the numbers of capital asset acquisitions across all departments, this becomes a much larger, more complicated exercise.

Finally, we would note that unlike for reporting, there are no generally accepted principles for appropriations around the world. In conjunction with the Department of Finance and the Privy Council Office, our next step is to take the information contained in the report, since we are talking about budgeting here, and develop a model of both budgets and appropriations and estimates documents, along with integrated departmental and government-wide budgeting systems and processes. This would introduce accrual concepts where appropriate and allow for proper management and control, as well as parliamentary oversight of both cash and accrual-based information.

The draft model that comes from these internal consultations will have to be approved by the President of the Treasury Board as well as Treasury Board and cabinet, notably the Minister of Finance and the Prime Minister, given the fiscal framework implications. We will also, as I mentioned earlier, need to consult parliamentarians. Any changes would need to be approved by Parliament, since we would be changing the form and nature of the estimates documents.

The consultant's study indicates to us that given the possible system process and legal changes required and the degree of readiness in departments and agencies, it would likely take some three to five years to fully implement from the time the project is confirmed, depending on the approach taken, with a cost to the government ranging from the tens of millions of dollars to something in the range of \$200 million as a top estimate of the cost. This is clearly a major change that needs to be managed and developed appropriately to ensure maximum benefits for minimum cost.

Thank you.

• (0920)

**The Chair:** Thank you.

I'm going to go to the first Liberal question, Mr. Alhabra.

**Mr. Omar Alhabra (Mississauga—Erindale, Lib.):** Good morning, and thank you, Madam Chair.

Good morning, everybody. Thanks again for coming. Most of you have been here before.

Good morning, Ms. Fraser. It's good to see you again.

I have a question, and the answer may be difficult for me to understand. You are saying at times accrual accounting is used, but the majority of the time cash accounting is used, depending on the time of year. How is it reconciled afterwards? One of the important elements of monitoring financial performance is through comparative analysis. How do you reconcile those if at one time you use accrual and another time you use cash?

**Ms. Sheila Fraser:** The way the system currently works is that the departments, on a day-to-day basis, essentially use cash or a kind of modified cash to manage, because that's the way the appropriations are done, and they take great care to make sure they track appropriations. So all throughout the year the departments work essentially on a cash basis, but because the government has adopted accrual accounting for its summary financial statements and its overall budget, at the end of the year essentially there's this big exercise to move everything to accrual, and we're saying it makes no sense.

If the government all those years ago decided to move to accrual accounting—and in fact, the Government of Canada was a world leader in this. And for a lot of really good reasons, it shouldn't be just a year-end exercise that we produce these summary financial statements on an accrual basis; they should be using this information like this all through the year, managing their receivables, managing their fixed assets. The only way that will actually happen, we believe, is if the appropriations move to that basis, because that's what managers track on a day-to-day basis.

So we kind of have two systems: one that managers use all through the year and then this big year-end exercise to move it all to accrual basis.

**Mr. Omar Alhabra:** It sounds like, at one period of the year, each department's accountants are working really hard to figure out how to translate—

**Ms. Sheila Fraser:** Like about right now, preparing the summary financial statements.

**Mr. Omar Alhabra:** I can imagine how dreadful it is for most of these individuals who are working on this.

**Ms. Sheila Fraser:** There's that, but there's also the question that you're not getting full advantage of having moved to accrual because you're not actually managing that throughout the year.

When we presented, for example, the questions of the most cost-effective options...if you're not building or purchasing buildings because the cash hasn't been voted to you, and you're picking a more expensive or less cost-effective option because the appropriation only gives you a limited amount of cash, it's affecting the way managers manage.

**Mr. Omar Alghabra:** Obviously the government decided to follow accrual accounting in its statements in 1995—

**Ms. Sheila Fraser:** It adopted it in 2002-03.

**Mr. Omar Alghabra:** —and you've been commenting on it for the last few years. What do you think is the root cause of the reluctance?

**Ms. Sheila Fraser:** I have my own personal opinions, which I probably shouldn't express in committee, but I think there is a lack of senior management desire to move to this.

They have been studying this for eight years. There have been recommendations from the public accounts committee, where the government says it's studying.... We bring up comparisons with France. France doesn't even have a set of summary financial statements. They're trying to move there. They're actually coming, I know, to see how Canada does it. So there are only a very few countries that actually produce accrual-based financial statements—England, New Zealand, and Australia being the leaders in that. They've all moved to accrual appropriation. Many of the provinces have done that.

There was a survey done by the Public Sector Accounting Board that indicated that all the provinces and territories are moving there, and yet the Government of Canada continues to study it. From what I heard this morning, I think they're still studying it, quite frankly, which I think puts in doubt the whole move to accrual accounting in the first place.

If we're going to stay on cash, we're not getting the benefits of having made the huge investment to move to accrual accounting. Big systems were put in, much more complex calculations, for example, of taxes receivable and accrual of tax revenues, and recording all the costs of all the capital assets. It was a huge exercise to do all that, and if we're not taking full advantage of it...I guess I'm perplexed as to why we don't move there.

● (0925)

**Mr. Omar Alghabra:** Do you think it's just administrative inertia, or are there true, genuine differences of opinion on the type of accounting that should be followed?

**Ms. Sheila Fraser:** I guess if there was a clear decision one way or the other, it would be easy to say. But when you continue to study, you don't really know if there was a decision made or not, and you don't know the rationale for that decision.

**Mr. Omar Alghabra:** Thank you, Madam Chair.

[*Translation*]

**The Chair:** Ms. Thibault.

**Ms. Louise Thibault (Rimouski-Neigette—Témiscouata—Les Basques, BQ):** Thank you, Madam Chair. Thanks to you and your colleagues, Ms. Fraser, and to all colleagues from the Treasury Board.

Mr. Moloney, I agree with the comment you've just made. What I understood, despite the technical vocabulary—I know you're a specialist and you use that vocabulary correctly—is that there is no real will to do this. People are looking for reasons not to implement this recommendation finally and completely. In a previous life, I often heard comments like that. People talked about a lack of

consensus. I don't doubt that you've done these audits, but I can't check them myself. It would take an enormous amount of time, and I wouldn't have enough in my parliamentary life, until we achieve sovereignty, to do it.

I read the Auditor General's document stating that things have been slow and progress unsatisfactory. The vocabulary is very polished. Why are you presenting the situation to us from that standpoint? As a parliamentarian, I would have expected a few sentences such as: there has been a decision; we are heading in that direction; to date, we have completed phases 1, 2 and 3; we're experiencing some problems, but we are well underway and hope to achieve it; we are determined, etc. I heard the contrary. So I'm asking you if people really want to do it. Before you answer, I'd like to ask the Auditor General a question.

Ms. Fraser, when you read an answer like the one given you in paragraph 1.30, on page 27, "Factors contributing to slow progress, that is "reorganization as a factor that had resulted in competing priorities," it's enough to make you fall off your chair. We've been told for decades that the reorganization of the federal government will be part of our everyday lives, that change is now the rule, and so on.

Do you believe people are really motivated to head in the direction you recommend, or do you perceive a will to prove that not only will this take years, but it's not necessarily the best thing to do?

**Ms. Sheila Fraser:** After eight years, I would have thought someone would at least have made the decision whether to adopt it or not. We recommend that it be adopted, but the government may not agree. It's up to it to decide. It's complex and implementation will take time, but first you have to make a decision, and it still hasn't been made.

● (0930)

**Mr. David Moloney:** As to whether there is a will to do it, first I'll tell you about my responsibilities, which, among other things, are to ensure that the president of the Treasury Board presents budget estimates and appropriations to Parliament in a form that is comprehensible, full, valid and useful to parliamentarians. I'm also responsible for offering government advice on conducting good, even better management of its finances.

As regards timeframes, these changes were clearly complex. The government took seven years, from 1996 to 2003, to implement reporting systems and to decide how to organize and present the data in the context of the public accounts. A decision was made, that it should proceed by stages in order to better understand how to present the data, on one hand, and, on the other hand, to decide whether it was appropriate to structure appropriations based on that other accounting process. From my part, I was not working at the Treasury Board Secretariat at that time.

We want to ensure that budgets and estimates are useful and well structured, even if basic questions still arise. I've been in my position for one year, and, like Mr. St-Jean, I have undertaken to ensure that the president of the Treasury Board is able to make a decision.

**Ms. Louise Thibault:** So the decision still hasn't been made?

**Mr. David Moloney:** We haven't given the president any specific advice—

**Ms. Louise Thibault:** Pardon me, Mr. Moloney. I'm going to rephrase my question.

Notwithstanding the fact that the government has changed, senior public servants are making recommendations based on a certain number of things. I'd like to know whether the decision has been made at the Treasury Board Secretariat to implement this system in this way.

**Mr. David Moloney:** In a specific way? No, not yet.

**Ms. Louise Thibault:** Point 1.17 of the report states that the Treasury Board Secretariat should complete its study on the subject.

The decision hasn't been made—so be it—but is the study the Auditor General refers to in her report finished?

**Mr. David Moloney:** The consultants' study is complete. Now we're examining the recommendations. We're developing our own recommendations to submit them to the president.

**Ms. Louise Thibault:** Could you tell me who conducted the study?

**Mr. David Moloney:** It was PricewaterhouseCoopers.

[English]

**The Chair:** Merci, Madame.

Mr. Kramp.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Thank you, Madam Chair.

Good day to all.

This is a bit disturbing to me. It's a simple situation. I sat on the public accounts committee last term when we made the recommendation unanimously in committee to accept and endorse the principles and the progress of accrual accounting.

Once again, with no disrespect to Mr. Moloney, this almost reminds me of a Mark Twain quote: "There are three kinds of lies: lies, damned lies, and then there's statistics."

No personal reflection, sir, but you seemed to be drawing out reasons why not to implement accrual accounting. And I ask myself where this is coming from. Is this a Treasury Board decision not to implement it? Is this a decision from Mr. Charles-Antoine St-Jean not to push or focus on this, or is this simply, within the bureaucracy, a reluctance and a hesitation to move forward?

Which of those three areas would accept the main focus of my question?

• (0935)

**Mr. Charles-Antoine St-Jean:** Thank you very much for your question.

Personally, I will declare that I am biased in favour of the accrual basis of appropriation. There is no question about it. But I also remember that in one of my first discussions with the former chair of the public accounts committee, I told him that if we are moving to the accrual basis of appropriation, that probably means we will have to move to multi-year appropriation. He looked me in the eye and said, "You know, Mr. St-Jean, here we vote money year to year." I

said, "You want accrual, but you don't want multi-year appropriation."

We need to reconcile that with members of Parliament. If you move to an accrual basis of appropriation, it means you will also need to move to multi-year appropriation. That is one aspect.

The second aspect is that we also try to be extremely respectful of members of Parliament, and I'm going to give you an example to explain what I mean by this.

Last year we booked a liability in the public accounts related to AECL after a public debate or a public judgment that said that the liability for the environmental cleanup was going to be so many billions of dollars. So we booked it in the public accounts of the Government of Canada to show the financial situation. But Parliament has not yet decided if they will be paying that. This is where I say that we really need to be respectful of members of Parliament, because that \$2 billion that was declared, members of Parliament haven't said they're going to pay. We're recognizing the liabilities. We're telling it like it is, but you have not given the government the authority to pay that \$2 billion, and I would not want to see an accountant making that decision for you.

So that is the dilemma.

**Mr. Daryl Kramp:** I understand that. There are ongoing dilemmas. There are pros and cons, and we recognize that, but the difficulty I'm having with this is that when you're stuck in never-never land, and you don't have either system—you have a combination of both—you effectively are creating much more work, potential duplication, and obvious oversights, as we've seen from many, many situations, such as Place Victoria, and so on.

I note here the statement in the Auditor General's report that says, "The lack of progress in resolving this important issue and the weaknesses in internal controls are the chief reasons for the unsatisfactory progress in improving financial information...". This is a very definitive statement to me, and I just don't think we can ignore this. I don't think there is a more important issue before Parliament than the process we're going to use to evaluate our financial information.

Well, if we cannot have accurate information, we cannot make intelligent decisions. We have to get to a system. Now whether it is good, bad, or indifferent, of course, you gentlemen will bear ultimate responsibility for giving us that information. Mr. Moloney mentioned that it has taken seven years to organize data. Excuse me, but there's either an unbelievable level of incompetence or a total lack of decision-making. How can you take seven years to come up with a particular information package on a particular component of the financial structure? That just blows my mind.

Either I totally underestimate the duty and the responsibilities and the complexities—and I certainly wouldn't want to have your job, because I recognize how difficult that is.... What I am suggesting is that nothing will happen unless there's a decision, and to me—and I agree with all my colleagues around this table who have spoken before me—there does not appear to have been a conclusive decision reached by the government and/or the bureaucracy to implement accrual accounting to its fullest degree.



People say that maybe we could, but we should do another study. Study means only one thing to me: delay.

We have a great deal of expertise in-house—Mr. Moloney, Mr. St-Jean, Mr. Matthews, Mr. Timmins—and around the table. We have a tremendous wealth of talent in-house, and, gentlemen and ladies, you have a job to do. To my mind, it's your job to bring forth those recommendations and bring them to us so we can, in our own small way, at least have some input.

If nothing else, we have the vote of public opinion, which in most cases we represent a little closer tie to than you do. We generally have a better feel for what the public is thinking, because that's our domain, and that's very important too. We have to be cognizant of the mood of the country and the direction the country wants to go.

So I think our input is valid, but from a technical perspective, we need you to provide us with the information, and we seem to be stuck. We're stuck. Madam Fraser has put forth a very clear, presentable package on why we should implement accrual accounting. It has been done for years, since back in 2001, and we're still stuck. We're making incremental progress. To me, that is just not acceptable.

● (0940)

**Mr. Charles-Antoine St-Jean:** Thank you very much for the directives from this committee on that point. It will help us shape our thinking in recommendations to the government.

I really want to reiterate a point. One of the fundamental issues I'm trying to wrestle with is how to respect the will of Parliament. In the case of the \$2 billion, I don't want accountants making that decision; I want Parliament to make that decision. But if we are doing this accrual-based budgeting, then we would be appropriating it.

**Mr. Daryl Kramp:** Might I suggest, with all respect to my colleagues on all sides, that this issue is so important to the operation of Parliament that there should be a special committee meeting and/or a special set of committee meetings set aside so that we can discuss the pros and the cons and come up with a definitive direction so that we have a conclusive decision. Let's have all of our witnesses from the Auditor General's department and from the Treasury Board. Let's bring them in here. Let's convene a separate set of special meetings to deal with this issue so we can come out of this, and within this parliamentary process have a clearly defined road ahead for all of our officials, to be fair to them. They need direction as well, and they need to know that they have a government in support of their direction. So let's let them all make their case, and let's come up with a collective decision and make that recommendation to Parliament.

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

Madam Fraser wanted to add something.

**Ms. Sheila Fraser:** Maybe it's telepathy, but I was just going to suggest that if the committee wanted to take on a special study in this, we would certainly be willing to support that. It might also be interesting for you to bring in representatives from other countries who have adopted it, or not adopted it, so we could hear from them first-hand how it works.

At times in the discussion we tend to make it overly complex, I think, and overly complicated. Other parliamentarians can say how

they found this. So it might be worth structuring something, perhaps for the fall, to give a more comprehensive—

**The Chair:** You did say that most, if not all, of the provinces have moved to this kind of accrual accounting.

**Ms. Sheila Fraser:** Yes—British Columbia; Manitoba, I believe; Saskatchewan; Quebec I think has announced that it's going to go there; the Northwest Territories has done it; Nunavut, I believe; Ontario.... The majority of them are either there or are moving there. So you could even bring in provincial colleagues if you don't want to bring in international ones.

**The Chair:** I will go to Ms. Nash.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** Thanks very much.

Welcome again, Madam Fraser, and to all of your colleagues. Thank you for coming.

As most people, I'm not an expert in accounting systems; we do rely on your expertise. I appreciate the passion of Mr. Kramp in arguing for clarity around the accounting system. I guess you've been through this discussion with this committee before. But I'm new to it, so I welcome the opportunity to learn what we can today.

I was interested in Mr. Moloney's comments. I read the documents ahead of time, and the indication seemed to be that moving to this new system was desirable but we just haven't gotten there yet. It was unclear why we haven't gotten there yet.

Mr. Moloney, I sensed from you that it wasn't just that we were delayed in getting there. It sounded to me as though you had actual concerns about the system and that you were looking at the experience of other countries that had begun to embark on this but had then decided not to. So it does sound as though there is more of a debate than I had thought there would be.

Could you maybe describe what the debate has been about in other countries and why they made the decision not to go forward?

● (0945)

**Mr. David Moloney:** Thank you for the question. I can provide the information I have, which is only partial. We may need to pursue it more afterwards.

What's important, and the point I'm trying to get across, is that in our view the question is how far through the system of budgeting and then into appropriations to recommend going. There's a clear commitment on the part of the government to use accrual accounting approaches to the maximum extent possible. It's also obviously important that we present consistent information to Parliament.

The balance that has been struck so far is that cabinet-level decisions—the larger financial decisions, if you like—are taken explicitly and completely on an accrual budgeting basis. The large biases against cash purchases, for example, that were implicit in a pure cash or even modified cash accounting such as we had in the past have been removed for the government's large decisions, those that feature in budgets or are large enough to require cabinet decisions. In terms of budgeting, we're talking, generally speaking, about the smaller departmental-level decisions.

The next step, though, is to ask how we can push it further and increase the consistency of what we present to Parliament. It is certainly true that the Minister of Finance comes to Parliament with a budget and a fiscal framework on an accruals basis, and yet parliamentarians are voting on something close to cash. That is not an ideal situation; we certainly recognize that.

What we are trying to make sure is that, when we come to Parliament to consult on how to improve the situation, we have very robust models to suggest to you and we are clear. As the Comptroller General has just mentioned, it is a practice in other countries, and I think likely to be the case, that we would need to consider carefully the possibility of moving to multi-year appropriations. It's certainly the experience in New Zealand, which is the pioneer in accrual appropriations, that in order to be able on the one hand to vote on amortization and on the other hand to allow managers to purchase assets, they would need access to future years' amortizations that in a sense have been voted through in initial cash but are still in future years' appropriations. That is a step the Parliament of Canada has not taken in the past.

We want to be able to come to Parliament and say with very considerable confidence, because we, or certainly I, view the robustness and quality of the main estimates as being a key deliverable for the President of the Treasury Board and for me—it's one of my key responsibilities. If we're going to change those, we need to be able to come to you and say that to make progress, we will need to change the estimates form and nature in the following ways.

We want to make sure it's a robust statement. So we've not taken the decision to go slow; we've taken the decision to come with confidence. I think all parts of the secretariat and the Comptroller General's Office are united in the desire to give you robust, reliable information.

Other countries have been concerned about the fact that by the very nature of things we will have to continue to look at both cash and accrual information. That is the view of all jurisdictions I've encountered, certainly, and it seems correct. It is inescapable. We would be looking at voting on an appropriations basis and yet keeping track of cash. Structuring that in a way that parliamentarians find useful is part of the equation as well.

● (0950)

**Ms. Peggy Nash:** Thank you.

**The Chair:** You have some more time. Go ahead.

**Ms. Peggy Nash:** I want to ask you, Ms. Fraser, in your concern about the delay in moving forward, what your appreciation is of the kinds of challenges Mr. Moloney has raised around making the transition from one system to the other and always having to

maintain some duplication of systems in order to function effectively.

**Ms. Sheila Fraser:** Our main concern is that there has been no decision. If government was to say, yes, we believe this is the way and this is the decision, and yes, there are issues that have to be resolved and it will take three years, or five years, or however many years, then fine, at least there would be a decision that that's the way. Or if there was a decision that, no, we're not going to go that way because of this and that, then again there would be a decision. But we have, for now, for eight years, studied this thing and there is still no decision.

**Ms. Peggy Nash:** Who makes the final decision?

**Ms. Sheila Fraser:** It would be the Treasury Board, I believe, but even the secretariat hasn't made a recommendation, to my knowledge. The secretariat itself hasn't come up with a position on this.

So what we're saying is, enough already with the study. There needs to be a decision. Then if the decision is to go ahead with this, yes, there will be issues that will have to be dealt with and there will have to be much dialogue with parliamentarians before embarking on what would be a fairly significant change. But it's crucial that there be that decision point.

**Ms. Peggy Nash:** Thank you.

**The Chair:** When the government made the announcement that they would move to accrual accounting, that wasn't a decision; that was a directive. Am I correct?

**Ms. Sheila Fraser:** It was an announcement in the budget, actually.

Well, whether it was a decision or a directive, yes, there was a clear point at which there was a direction given.

**The Chair:** Correct me, but don't the departments already work in a form of managing their cash?

Let's say you make a decision that you're going to lease a building. You only account for the cash of the cost of the lease, but you've made that decision. You know it's going to cost you this much for the next 30 years. How do you handle that? Is it just cash managed?

On the other hand, for instance, CIDA makes a decision that we're going to invest \$100 million in Afghanistan, let's say. Well, they're not going to spend that amount this year. It may take five years or it may take three. You're saying, do they actually book the \$100 million at the time of the announcement, or do they only book that part of cash that they actually spend?

In a sense, the government is already doing things of that nature. Maybe you could explain a little bit how they actually do this. They don't call it accrual, but I'm convinced that there's a form of that ongoing. Am I correct, or am I just guessing here?

**Mr. Charles-Antoine St-Jean:** It really depends on the various votes or various decisions. When there's a program that is approved, a multi-year program, the funds are voted year by year. That's what I'm coming back to, the comment made by the former chair, when he said, "Mr. St-Jean, we vote money year by year". So a program can be announced, but you cannot appropriate it on a multi-year basis.

It really depends. When you're working, for example, with CIDA, if you're working with a third party, if you're working with an arm's-length kind of organization, you might be making a payment this year and recording the expense this year, if it's no longer under your control. This is all the debate about foundations. So it's complex.

• (0955)

**The Chair:** That's why I'm asking the question about whether there's some form of accrual. You're using it in some way now, I'm sure.

Madam Fraser.

**Ms. Sheila Fraser:** I'd just like to make the point that even if the government ever did move to accrual appropriations, that doesn't mean there would be no attention paid to cash any more. Cash is, of course, important, and you obviously have to control levels of debt and all the rest of it. But we can make an analogy with the private sector. The private sector works on accrual accounting and accrual budgets, but the cashflow statement is critical.

**The Chair:** That's right.

**Ms. Sheila Fraser:** So you have to manage both, and that's what we're saying. It shouldn't only be the cash all through the year and then accrual just at the year-end.

**The Chair:** That's correct.

I throw these things in because I've been around this place for a long time and I have a good idea how it works.

**Mr. Mike Wallace:** It's still part of your eight minutes, right, Madam Chair?

**The Chair:** No, I'm the chair and I can decide how much time I take. Sorry.

This is a particular interest of mine.

Mr. Bains.

**Hon. Navdeep Bains (Mississauga—Brampton South, Lib.):** Thank you very much, Madam Chair.

When I listen to the remarks made by all members here, basically the issue is not one of accounting. I know we can discuss accrual versus cashflow, and there's an acknowledgement that both are important. So it's not that we'll adopt accrual accounting on the notion that we'll eliminate cashflow analysis. Those are both very important to the analysis of how we spend our money and how we make our decisions.

But I think the root cause or the root issue here has to do with the decisions that are made on behalf of the taxpayers being the most economic and viable decisions. I think the Auditor General alluded to it when she talked about the Department of Public Works and Government Services, a department that has I think \$13 billion or \$14 billion in discretionary spending.

When they make their decisions—I want clarification on this—is it based on accrual accounting or cashflow analysis or cash accounting? Based on the discussion here, my understanding is that predominantly that takes place on a cashflow basis. Is that correct?

**Ms. Sheila Fraser:** When they do the analysis of the various options, they do it essentially on an accrual basis, because they look at the cost over the long term and they do that analysis.

In many cases, the purchase option was the most cost effective. We asked why they didn't pick that, and they said because they didn't have enough money in their appropriation to do it. The cash, which is essentially the appropriation that is available in a year, is driving those decisions.

What we're trying to argue is that if there was kind of a capital appropriation, and you can say, yes, you have enough money to buy this building over the term, that might change behaviour and people might take the more cost-effective option. It's the funding that's available to them in a given year that is making them take an option that is more expensive in the long term.

**Hon. Navdeep Bains:** When you conducted your audit and took a sample, looking at maybe a few leases, and you asked questions such as why they picked option A versus option B when option B is more viable economically.... Are you able to extrapolate that information on an overall departmental level to see how much money taxpayers might have ended up losing in terms of poor economic decisions? Do we have any dollar figure associated with that?

**Ms. Sheila Fraser:** No, we haven't done that. It would obviously be tens of millions of dollars. Just in that report, in the few examples we had, there was over \$100 million.

I think the deputy minister, when he appeared before the committee, indicated that he too supported accrual appropriations, and he believed it would change the decision model.

**Hon. Navdeep Bains:** My understanding, based on what you've said, is that according to your estimation it's in the hundreds of millions of dollars, possibly, that we lose out on poor decision-making because of the accounting methods we use.

**Ms. Sheila Fraser:** As you said, there could be other factors where one would want to lease rather than purchase. We were simply looking at it on strictly a cost basis. Just on the examples in our report, it was over \$100 million.

**Hon. Navdeep Bains:** To implement accrual accounting across the board, what would the cost entailed in that be? At the end of the day, there's an economic factor. If you want to bring about overall change...I know you've been studying the matter, and I know that this process has been taking place for years, but there's a cost element associated with bringing about new information systems, training people, making sure management understands the information. Taking all that cost into account versus the economic loss due to the fact that we are not using accrual accounting, is there a trade-off?

We lose possibly hundreds of millions of dollars due to the fact that we don't use accrual accounting. How much would it cost to implement accrual accounting?

•(1000)

**Mr. David Moloney:** The study that PricewaterhouseCoopers prepared for us suggested that the cost to implement would range from a few tens of millions to as much as \$200 million, so in the same order as the potential offsetting loss as estimated.

**Hon. Navdeep Bains:** The thing is, implementation will take place in a year or two years—is that correct?—if there was a decision made, which I guess is another issue altogether. Once a decision is made, how long will it take to implement? I know that timeline hasn't been given and there's been confusion with respect to that. In your best estimate, how long would it take to implement if a decision was made?

**Mr. David Moloney:** The study mentions three to five years.

**The Chair:** Would it be possible for you to table that report with us?

**Mr. David Moloney:** The President of the Treasury Board has not yet been briefed on the study. We hope to be able to do so very soon.

**The Chair:** When was this study completed?

**Hon. Navdeep Bains:** That's a good question. When was the report published?

**Mr. David Moloney:** It has not been published; it was received on March 31.

**Hon. Navdeep Bains:** Of this year. I thought it was done a couple of years ago and it was three to five years. Based on a couple of months ago, the analysis indicates that it will take three to five years to implement accrual accounting.

In closing, my view is that this is a no-brainer: we need accrual accounting. There's overwhelming evidence to support that it is the best methodology for accounting treatment to make the best economic and viable decisions. My only concern is that there seems to be a reluctance in terms of a decision to be made on the implementation, based on the studies that have been conducted. We've reached a point where we all acknowledge that.

My view, based on the discussions that have taken place, is that the implementation costs are far less than the overall savings the government would encounter for years to come due to the fact that we have accrual accounting. I think the case has been made very clear, and I want to go on record as saying I'm as concerned as Mr. Kramp is, as he has indicated in his remarks, that we should now make a decision, that we have to find a way to do it. If it's a special committee, if further analysis needs to be done, or if you need direction from this committee, we should have that take place as soon as possible.

At the end of the day, there is really no debate. Everyone seems to be in agreement that accrual accounting is important and that it needs to be used to make the best viable economic decisions on behalf of taxpayers. I just wanted to conclude by saying that.

**The Chair:** Mr. Wallace is next.

**Mr. Mike Wallace:** Thank you, Madam Chair.

I'm not sure it's quite as black and white as the previous speaker has said.

Madam Fraser, you've been beating this drum for a while now. If the government's decision is not to proceed in the direction you're looking for, from a policy point of view, can you give it up?

**Ms. Sheila Fraser:** If the government clearly makes that decision, yes.

**Mr. Mike Wallace:** You do agree it's a policy decision. You'd really like to see the government make a decision, one way or the other.

**Ms. Sheila Fraser:** Quite frankly, after eight years of study there should be a decision. I would find it very unfortunate if the decision was to not proceed with this. I would hope there would be a rationale and valid reasons, but if that decision is made, then that decision is made.

**Mr. Mike Wallace:** The report that was talked about here has been received, but not presented to the President of the Treasury Board. You, Mr. Moloney, gave us some hints of what's in that report earlier in your presentation.

Is that an accurate statement—that what you said to us earlier in your presentation was some of the results of the PricewaterhouseCoopers report, which hasn't been briefed to the Treasury Board yet?

**Mr. David Moloney:** Those were precisely the results.

**Mr. Mike Wallace:** Would it be fair to say that study is not as conclusive as Ms. Fraser is on the accounting item?

**Mr. David Moloney:** The study is not conclusive in terms of the point at which.... Let me start again. The study suggests there is value in increasing the use of accrual. The study is not conclusive as to the point to which one should proceed.

•(1005)

**Mr. Mike Wallace:** I know business uses accrual accounting, and it certainly helps for depreciating assets, tax purposes, and financial management, but they are able to plan longer.

Let's be honest. We're in a political environment that happens to change on occasion, fortunately. That is part of the dynamic here; that's part of the issue. It's not just about....

I've been on a municipal council where we debated issues. We had a ten-year forecast that we approved as a council. We actually committed future councils to expenditures, and so on. Since I'm new here, does that really happen? When we pass the budget, are we really...? What's the difference here in terms of assets, and so on?

I want to use the example you used with the environmental piece. The government has not actually approved spending that money on the cleanup. You book the cash—you book the liability—waiting for an answer from here. If we were in the other method, you would have actually taken the charge right now on that, whether or not the government had decided to clean it up or take it to court or whatever. Is that correct?

**Mr. Charles-Antoine St-Jean:** Yes, to a large extent that is correct. In the books of the Government of Canada we have statutory appropriation. The expense is recorded—again, the statutory appropriations enable us to book it in the financial statement—but there's no authority yet to pay the amount. It is for Parliament to make that decision in the budget.

**Mr. David Moloney:** I will add that we are extremely rigorous in reminding departments that they cannot spend a penny without Parliament's having voted in the year, so even when a government makes an announcement of an intention to spend within the year—let alone in future years—unless those funds were specifically provided in the main estimates, departments must wait until the supplementary estimates. Multi-year budget plans are just that: they must be voted year by year.

**Ms. Sheila Fraser:** Two points of clarification: under the accrual accounting reporting, the environmental liabilities are recorded. There are cases—for example, the Sydney tar ponds—where there is a formal agreement between the Government of Canada and the Province of Nova Scotia as to what costs the Government of Canada will assume to clean that up. It's not simply that Parliament will decide whether you want to pay this or not. There is a formal commitment and a formal agreement that the government will pay  $x$  dollars to clean that site up.

Parliament will vote on the cash, so next year the government will spend, say, \$10 million. Parliament votes yes, you'll spend \$10 million, but there's a formal commitment for \$200 million, so that \$200 million is booked as a liability. But you are only actually seeing the \$10 million cash; you don't see the \$200 million that has actually been committed. If you move to accrual appropriations, there would be some form of seeing that actual commitment. I think you'll have to pay that, unless you somehow go into breach of contract.

There are many commitments like that. They are formal commitments. There are, obviously, a lot of programs that are ongoing but could be stopped, I guess, year to year, but there are already many commitments that have an impact over several years. I think this is the point the chair was trying to get at earlier.

**Mr. Mike Wallace:** One final piece, Madam Chair, that is unrelated—and I know there's a motion around that I'd like to speak to when we get to the end.

I was slightly surprised that on page 30 of chapter 1, at 1.38, you say of the 11 large departments and agencies, you found that 16 of the 22 senior financial officers and senior full-time financial officers now have accounting designations, up from eight in 2002. I cannot understand why they all would not have.... How do you get the job without having a....?

**Ms. Sheila Fraser:** This is progress, though. There has been progress made.

**Mr. Mike Wallace:** That's like putting me in charge, which wouldn't necessarily be progress. I actually do not understand how part of the job description isn't...if you're a senior financial officer for a department, I don't understand why some sort of CGA, CAA, some sort of accounting designation, is not required.

• (1010)

**Mr. Charles-Antoine St-Jean:** Again, I'm very much unbiased, but to make sure our senior financial officers have a professional designation doesn't mean it's very popular by asking for it, but I've been pushing for it and I'll keep pushing for it.

I'm also reminded that last year—and it's not helping my case, but let's be very candid—the CFO of the year in Canada was an MBA who didn't have his professional certification. They are throwing all this back at me, so I'm pushing for it and we're making progress. I'd

like all of them to have this; I've announced the CIC program and the CMA/CIPFA program to bring that further. It's been thrown back at me. Last year the CFO of the year was not a professional accountant.

**Mr. Mike Wallace:** Thank you for that.

**The Chair:** Mr. Alghabra.

**Mr. Omar Alghabra:** Thank you, Madam Chair.

I want to ask Mr. Moloney the question I asked Ms. Fraser earlier. I think I got some of it from the other discussions, but can you tell me, personally, your professional opinion, are we dealing with administrative inertia here or are there legitimate, genuine disagreements about the types of practices we want to implement?

**Mr. David Moloney:** I'm not an accountant, so I don't have a professional accounting opinion on this. I believe it's fair to say that it is not a case of administrative inertia. In fact, we've been talking about very large changes. Included in the long story here have been large investments required in departmental financial systems. That accounted for some of the delay. Are there legitimate disagreements? There are legitimate concerns. I think I would put it that way. We have taken it as.... I view it as incumbent on myself.... My colleagues certainly view it as incumbent on all of us to make sure we understand what the best practice is.

Since a very small number of countries have moved in this direction, we have wanted to talk to them. Certainly, their experiences have been mixed. It is also very important to note that even though they are parliamentary democracies, and Westminster-type parliaments, they have very different budgeting procedures, very different estimates and appropriation procedures, and a very different organization of their financial structures and so on.

We cannot simply take any one of those models and import it. It simply doesn't work. Nor are any of those three countries, at this point, of the view that they've got it quite right. As the Auditor General did note, we were an early mover in reporting for accounting purposes. These are still early days in terms of the public sector worldwide. We should try to be a leader. We want to be a leader. We want to do it right.

It's a question of legitimate concern as to how to get it done. The fact that we commissioned the study last summer was, in part, testimony to our commitment to make sure we were doing it right. We came forward with robust advice. That continues to be our view. It is now a definite priority in the Comptroller General's organization, and in my sector, to come forward with that advice.

We have a new government. Ministers have many new priorities. There are a great many issues that we have yet to brief the President of the Treasury Board on. This is only one on a long list, simply because it is a new government. This is on our priority list to take forward to the president. Equally, as I said before, the Minister of Finance and the Prime Minister will also have to be apprised of this before we go to parliamentarians. We are strongly committed to consultations with Parliament as well.

•(1015)

**Mr. Omar Alhabra:** I assume that when the government of the day, in 2002, made a decision to go to accrual accounting, it had done a lot of the evaluation of the pros and cons and a decision had been made to move to accrual accounting. It seems to me that these studies are now coming after a decision had been made. Why is that?

**Mr. David Moloney:** If I could quote from the 1996 budget, "the government intends to move to full accrual accounting for budgeting and accounting purposes". It did not mention appropriations, and it did not specify anything beyond that.

So somewhat belatedly, we did move on a reporting basis, and we did move on a budgeting basis overall. Where we have not moved is on some of the departmental level financial decisions and in terms of appropriations. Those are the two areas, which, as the Auditor General has quite correctly pointed out, go fully together.

We have moved beyond the 1996 commitment. The question now is how to move beyond that. There's not a specific announcement of an intention to do something beyond that.

**Mr. Omar Alhabra:** Thank you.

I just want to clarify a point Mr. Wallace made.

If we follow the accrual accounting in appropriations, and a government changes, even though the previous commitment had been booked, the new government can cancel it, depending on the contract. They'll also have the option of cancelling that agreement and reclassifying those commitments, from an accounting perspective. Is that true? Is that an accurate statement?

**Mr. Charles-Antoine St-Jean:** The Parliament is supreme.

**The Chair:** Madame Thibault.

[*Translation*]

**Ms. Louise Thibault:** Thank you, Madam Chair.

The more I listen to what's being said, the more convinced I am that it would be good for us to agree to study these matters in depth in the fall.

Mr. Moloney, you referred to exemplary practices. You mentioned a few countries, but, as regards Canada, you referred to provinces and territories. I say "you", but I mean your organization and your colleagues, of course. I don't mean you personally.

Did you speak to your colleagues from the other provinces? Did you ask them whether they had any success stories to tell you? I, of course, prefer success stories to accounts of failures. When people seek success, there's a chance a fire is burning within them and encouraging them to succeed. Moreover, even though I know that a government is still a government and is therefore different from a business, I'd like to know whether you discussed this matter with any large businesses and, if so, which ones.

I'd like you to answer very briefly, since I only have five minutes, and I'd also like to ask Ms. Fraser a question.

**Mr. David Moloney:** As regards your question on large businesses, the answer is no. We have direct access to private sector expertise. Last week, I attended a meeting of senior budget officials from the OECD which was held in Australia. This specific subject

was addressed there. I had the opportunity to put questions to my counterparts from New Zealand, Australia and the United Kingdom.

The senior official from New Zealand said that parliamentarians in his country had found this system was too complex. For almost a decade now, if my memory serves me, the Treasury of the United Kingdom has been conducting a study. These people aren't satisfied with the way budgeting has been implemented at the departmental level. That representative was supposed to leave Australia to go to New Zealand in order to see in greater detail how it would be possible to do things better.

•(1020)

**Ms. Louise Thibault:** Did they mention the fact that that decision had been made and that direction taken?

**Mr. David Moloney:** For the moment, no, but they want to find a way to improve the system.

**Ms. Louise Thibault:** Ms. Fraser, I'm surprised by this reluctance, indeed this resistance. I know you're not expressing your personal opinion, but I'd like to know whether the audits you've conducted at the management level have enabled you to determine what's causing this reluctance or resistance.

Are we poorly informed? Are people reluctant at the novelty because they are too attached to their good old ways of doing things? We are often very comfortable in our old habits. Is there one reason that explains the reluctance to adopt this new system better than any others?

As for the reasons why you're in favour of it, I'd say that we can hardly be opposed to virtue. This is about Parliament, taxpayers, an improved system and so on. So how is that this doesn't result in something else than the present situation? This is a complex system—that's the way it is—but there are other complex things in life. We've managed to go to the moon, among other things. By that, I don't mean we should go back.

**Ms. Sheila Fraser:** The word "reluctance" is very appropriate. The adoption of accrual-based accounting has been a fairly complex operation requiring a sizeable effort. Among other things, all assets had to be inventoried, costs had to be stated and liability analyses had to be conducted. The departments had to work very hard to do that, and I think they should be congratulated on that. Canada was really a leader at the time.

Of course, the decision hasn't been made, but the fact is we're no longer seeing the same kind of commitment. We have to get the commitment of senior officials for a project like this to be moved forward. We sense there's a lot of reluctance.

**Ms. Louise Thibault:** A little earlier, you referred to the fact that, when the Deputy Minister of Public Works came to testify, he was in favour of this. I'm aware of the fact that he felt the difficulties were less significant.

Let's talk about the senior public service. When you meet with these senior officials in the context of your audits, are the management committees generally in agreement on this? Are they in favour of this?

**Ms. Sheila Fraser:** I won't speak for senior management, but the managers who handle finance, the senior financial officers, have been telling us for years that managing two systems causes difficulties. They tell us they would like a decision to be made so that they could move forward. I believe the people who work in that area would like this to move forward. My comment might seem negative, but I would say that, if Mr. St-Jean and Mr. Marshall, who come from the private sector, are in agreement, I'm not sure the other senior executives—

**Ms. Louise Thibault:** Should we have them take the training course and an internship in the private sector so they can come back convinced?

**Ms. Sheila Fraser:** I'm not sure they're as sensitized to this issue. They may have other priorities. In any case, there's a genuine reluctance in this regard.

• (1025)

**Ms. Louise Thibault:** Mr. St-Jean, do you want to say anything?

**Mr. Charles-Antoine St-Jean:** I asked my New Zealand colleagues how much time it had taken for them to put their accrual-based accounting system in place. They answered that it had taken them 15 years to successfully change attitudes. In fact, it's a bit like switching from the imperial system of measurement to the metric system. It's another working model. It's not something that happens with a snap of the finger, even though we'd like it to have been done yesterday. You have to educate people.

The members should use multi-year appropriations. Perhaps less emphasis should be placed on money and more on resources. We'll all have to head in that direction. My colleagues always have reservations about money.

**The Chair:** Mr. Albrecht, the floor is yours.

[*English*]

**Mr. Harold Albrecht (Kitchener—Conestoga, CPC):** Thank you, Madam Chair, and thank you again to all of you for being here.

One of the things that's become crystal clear to me is the complexity of this issue. In fact, one of my concerns is that I'm going to leave here with a complex.

I really appreciated this summary of accrual accounting. While it helps me a lot, I've got a long way to go, and I think we could say in general that members of Parliament are generalists; they're lay people who can't be expected to understand all the details and the complexity of accounting. That to me would underline the need you point out in paragraph 1.38 on page 30 of your report for the CEOs or the people in these management positions to have this professional accounting designation.

I respect the exceptions. There are always exceptions, people who can outperform someone who has those designations. Is there a reason we have been unable to attract this calibre of person? Have salary caps or some other issues made a barrier that makes it difficult for us as a government?

**Ms. Sheila Fraser:** I could start, and then Mr. St-Jean can talk more about his projects.

There was, for a certain time in government, a bit of an attitude in human resources that people should be generalists. You would move

people around and they would do different positions. I don't think it was recognized that certain areas really required more specialized skill, be it human resources management, be it financial management, be it internal audit.

We saw a lot of people in these positions who maybe were good managers in programs but who really didn't have the knowledge and the skills—the base—to be able to do those specialized jobs. I think that is changing, and I think Mr. St-Jean is putting in more requirements for some of these positions. But there was a general idea that people who were generalists could do anything, and that was—

**Mr. Harold Albrecht:** I may be jumping to conclusions, but I imagine some of the people with this designation could do far better in the private sector in terms of salary, so I want a clear answer on the salary. Is that an issue or isn't it? Is it a perceived one?

**Mr. Charles-Antoine St-Jean:** There's no question it is. The compensation is an issue not only in terms of attracting the right people with the right skills, but also in terms of repositioning the financial officers in the senior management cadre of departments.

Coming from the private sector, normally the CFO will be number two, number three, number four in the organization. In departments, they're number five, number six, number seven, number eight... number ten. That's not exactly the right profile to attract high performers. So we have to rebalance the organizational design in the departments to give more profile to the financial officers and give them a richer role in terms of what they can do. It's a complex issue; we're working on it.

**Mr. Harold Albrecht:** Thank you.

I'll share my time with my colleague, if there's still time left.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you.

Thank you for letting me be here. It's a pleasure to be able to sit in on this committee. I'm speaking in terms of having a business and moving to a new system. I understand the reluctance to do that, because it's often very difficult. It's going to take some time and effort.

A few things have popped into my mind. It's pretty hard to hide things in either the former or current system, and I think you've done a good job, Ms. Fraser, in finding some things that were hidden, but I'm suggesting it's more difficult in the accrual. In business there are rules and guidelines that accountants...for instance, we talk about statements, claim statements, statements that aren't.... In our business we always tried to make sure we had a good understanding, but is there a danger a government could tamper?

I know accountants are concerned with numbers, but businesses are more concerned with profit, and I think you can make the switch in government too. But is there a possible danger that we may start to see some things hidden, or the public doesn't understand because they're put into accruals or things of that sort?

•(1030)

**Ms. Sheila Fraser:** I've always felt accrual-based information is much better information. It gives you a more complete picture of assets and liabilities—for example, the fact that environmental liabilities and liabilities for veterans pensions are now being recorded. Those were never on the books of Canada before, all the fixed assets, the accounts receivable. We talked about the Canada Revenue Agency and its reported \$18 billion of accounts receivable; those were never on the balance sheet. Now they are.

If they are on the balance sheet, people will manage them. They're more visible. Obviously, they're very big numbers, and things can go wrong and it is very difficult at times to make good estimates around things. Environmental liabilities are a good example. Government has gone through inventories and tried to make estimates. Will those be the actual numbers spent? In all likelihood not, but at least there's an attempt to quantify it.

So accrual information gives you much better information, and I think it gives parliamentarians and Canadians a more complete picture of the financial situation of government.

**Mr. Dave Van Kesteren:** Last, is it possible that a government leaving office could tamper with things and leave a picture for the next government that isn't clear?

**Ms. Sheila Fraser:** I think it's more difficult now, because the financial accounting standards are more complete. There are very few areas left where government has a lot of discretion to report certain things. I would think the Comptroller General and the people working there should be adopting the same principles year after year, so I would think not.

Policy decisions could affect a financial situation if there are a lot of transfers or a lot of money is given, but those would be obvious in the financial statements.

**The Chair:** I understand Treasury Board really keeps a running... almost does that budgeting. It doesn't put it out anywhere, but they have a very good idea of year-over-year needs for the next four or five years. That's my understanding, that they do have some—

**Ms. Sheila Fraser:** Budgets used to be presented on a five-year basis. I think recently it's been two years, but they were on a five-year basis.

**The Chair:** But they were always known. There's a base. They have a good idea of where they're going; the bureaucracy will bring it forward, and you know those amounts are being thought of and they're there. So in a sense, you're almost there in many ways, I would think.

Mr. Bains.

**Hon. Navdeep Bains:** Thank you very much, Madam Chair.

I have a very quick question in light of the discussion that's taking place. In the past, I indicated my strong desire for us to really accelerate the process and adopt accrual accounting, but I want to understand the other side of the equation.

We deal with a legislative mandate here, and it's a bit more complex than in the private sector. Are we aware of any companies or institutions that deal with the amount of money that we do in government, billions of dollars, that do not have accrual accounting?

For curiosity's sake, I want to know if you're aware if they deal with that accounting.

**Ms. Sheila Fraser:** I could add that the private sector is essentially on accrual-based accounting—

**Hon. Navdeep Bains:** Okay, and with no exceptions.

**Ms. Sheila Fraser:** What is different in government is the appropriations, and that, of course, doesn't exist in the private sector. That's where we're saying this part of it needs to change. Many governments are still not on accrual accounting. Canada, as we said, is a world leader. There is a handful of countries around the world that have adopted accrual accounting for reporting purposes.

**Hon. Navdeep Bains:** I wanted to get at that, because I know the last time my comments were skewed one way. I wanted to get the balance and make sure there is an understanding that there is a legislative framework to deal with, and appropriations as well.

**Mr. Charles-Antoine St-Jean:** As my colleague, Mr. Moloney, said, there are essentially only three or four countries that do appropriations on an accrual basis. For everybody else, including our American friends, it's on a cash basis. Their financial reporting is on accrual, but the appropriations are in cash.

•(1035)

**Hon. Navdeep Bains:** Thank you.

**The Chair:** Mr. Alghabra, did you want to take up the rest of his place?

**Mr. Omar Alghabra:** Thank you, Madam Chair.

I'd like to propose a motion to the committee. There's an apparent consensus on the issue of the direction for the accounting that the government should take. The motion, if I may read it, says that the committee report to the House that it calls on the government to implement accrual-based budgeting before 2009.

I know there is typically a 48-hour notice, but I'd like to ask for unanimous consent to waive it so that we can discuss this today.

**Mr. Daryl Kramp:** I appreciate the spirit of the motion, and I agree with the general text of it. The difficulty I have right now with that motion is I don't believe it's complete enough, in that, of course, appropriations are not even mentioned in it, and this is a very serious dilemma. I also believe it's premature. I don't think it's inaccurate, and I do think we need it, but I think it is premature.

I really do believe we should take another motion at some particular point, maybe at the next meeting or whatever, that will deal with a process to put in a very stringent timeline for this committee to complete a separate, exhaustive study on this, with both pro and con forces here, so that we can come up with a conclusive direction after some very serious, in-depth study, and then put forth a motion that will be accurate, that will be complete, that will have factual data, and that will actually be something that Parliament would find very difficult not to accept.

The premise of your motion and where we are going with it is relatively harmless, but I don't think it's full, complete, and pertinent to this point.



**The Chair:** From what I can see, we don't have unanimous consent to deal with that motion today. What I would suggest is perhaps you work with Mr. Kramp and see where we can go with this.

**Mr. Omar Alghabra:** Then I will give notice of it and perhaps amendments can be made.

**The Chair:** Mr. Warkentin wanted to ask a question.

**Mr. Chris Warkentin (Peace River, CPC):** We'll proceed with the witnesses, if that's all right.

Thank you very much for coming in. We appreciate all of the hard work that you have undertaken thus far in terms of moving the accounting system. I never went for my professional designation because I was so frustrated with accrual accounting. That may bring some light. I fully understand the complexities. However, having then moved into the business world in the business I took over, we very quickly moved to move everything into accrual accounting. I understand the benefits of it, and I think the entire committee would agree there are benefits.

There was an example of the \$2 billion with regard to environmental allocation. My understanding is that there would be some way we could bring that number into the books, and then we could always change things. The books could be changed. My understanding is there wouldn't be a problem there, but it would be the best method within the accrual system to allocate that and that the possibilities are there that the money might be spent.

**Mr. Charles-Antoine St-Jean:** The example of that \$2 billion is one I use with my colleagues very often to try to crystallize the issue here. It's in the books. We record it in the books as a statutory liability of the Government of Canada; however, as the Auditor General mentioned, the money to pay for it has not been allocated, because it's a decision of our parliamentarians to say this year we have \$10 million for this, or \$10 million for Afghanistan. This is your decision.

So if we were moving to accrual-based appropriations, the moment that liability now gets recorded against an appropriation, we don't need you, we have to pay it, which I don't think is where members of Parliament would like to go.

**Mr. Chris Warkentin:** Okay. So what could we do with that, in a situation like that, within the accrual parameters? There has to be a mechanism to deal with that.

• (1040)

**Mr. Charles-Antoine St-Jean:** There might be. I've been looking at some ways—and I have not been able to discuss it with my colleagues from the Auditor General's office or my colleagues from Treasury Board Secretariat—of maybe how to record these kinds of liabilities separately on the balance sheet. Those could be liabilities that are voted appropriations, liabilities that are statutory appropriations, and liabilities that would be with no appropriation. So we would be disclosing those on the balance sheet. Then that would trigger a discussion in the estimates in terms of, "Tell us, please, ladies and gentlemen, what is this line here, what is the composition of it, and what are you going to be doing about it?" That way, you could make an informed decision in terms of discharging that liability or not.

**Mr. Chris Warkentin:** I think we've maybe come up with a solution that would actually elevate the ability of parliamentarians to access this, to know that money hasn't yet been put forward but it is a possible liability if we do head down that road.

I can see that there are solutions to many of the problems we can identify. I realize it's going to take time and some cooperation from Parliament in order to make this work, but my sense is that it can happen and that it would happen.

As Ms. Fraser knows, I have some questions about the federal government's ownership of property and just how we allocate the liability of the work that needs to be done on it. I think this might be another method we can use to ensure that the debt is documented.

I'm just wondering whether anybody has done any figuring as to what it is costing the federal government, on a yearly basis, to move the numbers from the cash accounting to accrual-based accounting. There has to be a significant dollar value. So whether we're talking about tens of millions or maybe even \$200 million, over a number of years, I can imagine that money must be spent anyway.

**Mr. Charles-Antoine St-Jean:** At the risk of error—

**Mr. Chris Warkentin:** At the risk of error.

**Mr. Charles-Antoine St-Jean:** —because it's very complex.

**Mr. Chris Warkentin:** And this constant year-by-year basis.

More and more, I'm convinced that we have to do this, and as soon as we possibly can. It's important. So I'll just add my voice to that of most people around the table, that we have to go into an in-depth study of this and see if we can't make some of this happen sooner rather than later.

**The Chair:** Thank you. I happen to agree with you. I think it would be very appropriate.

Madame Thibault.

[*Translation*]

**Ms. Louise Thibault:** Mr. Moloney, could you tell me how much the PricewaterhouseCoopers study cost? Half a million dollars?

**Mr. Charles-Antoine St-Jean:** No. Approximately \$350,000 or \$400,000.

**Ms. Louise Thibault:** Is it finished now? Is that amount inclusive?

**Mr. Charles-Antoine St-Jean:** That's the study to March 31, which includes the report's findings.

**Ms. Louise Thibault:** I have a question for you, Mr. St-Jean.

On page 32 of her report, which you must know by heart, the Auditor General states her assessment of the progress made and whether it's satisfactory or hasn't been achieved. She refers to two unsatisfactory points in the case of your office. However, I have to admit that there are also two satisfactory points. Ultimately, that gives you a mark of 50 per cent.

Can you give us an explanation about the first two points, in view of the time that has since elapsed? Where do you stand more than one year later?

**Mr. Charles-Antoine St-Jean:** Thank you for your question, madam.

I started my term two years ago. When I arrived at the Office of the Comptroller General, I had a group of approximately 65 or 70 individuals. I put in place a plan to restore the group to the size it was in 1993, that is more than 200 persons. I started rebuilding the Office of the Comptroller General by introducing a number of initiatives, conducting an internal audit—and the discussions were quite heroic—developing models to resolve the issue of departmental comptrollers, rebalancing the organizational model and reviewing the various financial management policies.

There were various financial management instruments, which, at times, were called policies, and, at others, guidelines or directives. It was very confusing. We prepared an inventory of all those instruments and established a model.

That model, a kind of reference framework for financial management, comprises five basic policies. Four of them have already been redrafted and the fifth should be complete at the end of June. This financial management framework will be reviewed by the committee that the president has announced and it will consist of a certain number of deputy ministers and two private sector finance directors. They'll give us the directives that will enable us to determine whether that's the direction we want to take.

Is the process quick enough? No, I'd like to go much faster.

• (1045)

**Ms. Louise Thibault:** You've partly developed that framework. Was that because of a need to reorganize or because you didn't have the necessary staff at the Office of the Comptroller General?

Going back to the phenomenon of reluctance, you aren't acting in isolation. What are the terms of your cooperation with the various partners?

**Mr. Charles-Antoine St-Jean:** The study on budget allocations, which was conducted mainly with my colleague from the Treasury Board Secretariat, David Moloney, and his predecessor, isn't easy. There are various quite fixed view points. We have to inform people and see what the potential solutions are.

We decided to conduct that study jointly with my colleagues from the Expenditure Management Sector and the Office of the Comptroller General in order to get an idea of the situation and to determine potential solutions. We received the findings two months ago.

We're cooperating and we're making headway, not fast enough, but we're making headway.

**Ms. Louise Thibault:** I'm going to quote the third recommendation that appears in the recommendations table to make sure we're talking about the same thing.

The Office of the Comptroller General, in cooperation with departmental and agency management, internal audit groups, and audit committees, should ensure that departments and agencies identify and address the internal control weaknesses...

Why wasn't that done within a reasonable period, since the workload has resumed? You have to ensure that departments and

agencies identify their weaknesses, but it's not up to your office to do so, is it? I hope you're not a sprawling organization.

How can we ensure that the departments and agencies have done this work, as they are required to do? It's up to you to ensure that they have. I'm not much in favour of coercion, but can you verify whether the work has been done for employment contracts or performance bonuses, for example? If work should be done and isn't, someone must be responsible for that lack of action. Perhaps I'm oversimplifying, but I don't understand how this kind of thing can be implemented within the allotted time, in view of the various stakeholders involved.

**Mr. Charles-Antoine St-Jean:** That's quite a complex question. We can receive directives from the centre to do this or that. I can apply them to 125 government organizations, but there aren't enough hours in a day to do that.

Instead I'm trying to put in place a form of governance in each of the departments that will make it possible to monitor them. That's why we want to put departmental comptrollers in place. It will be up to them to establish internal controls within the department and to report to the deputy minister. There will also be audit officials. Their work will be to give the deputy minister assurances that the internal controls that the departmental comptrollers must put in place have indeed been put in place. I'm introducing a system of governance, in addition to establishing audit committees—

**Ms. Louise Thibault:** Pardon me for interrupting, Mr. St-Jean.

What I don't understand is that the people who are in place, be they finance directors, managers, and so on, have duties and responsibilities. These are intelligent people, who have a certain discipline.

You referred to governance. I understand you have a role to play and that you want to inspire the departments and so on. But the departments must also have governance responsibilities and objectives. That has to fit together at some point, or there will be a lack of understanding. But I don't believe the lack of understanding is total. How is it that this isn't being implemented?

• (1050)

**Mr. Charles-Antoine St-Jean:** There is a question of lack of understanding.

When I speak with my deputy minister and other colleagues, I tell them that, within a few years, they will be signing an internal control statement. They don't jump for joy. However, that's what is asked of private sector executives. Senior managers and finance directors sign internal control statements. That's going to come. It will be a reality. That's what that means.

Go and see what the English record on their statements on internal control. Go and see what accounting officers declare every year about their weaknesses. They report their own weaknesses. They're told what they have to confirm each year. So the answer isn't always clear in terms of internal control.

Even the Auditor General and I are used to that. We've always been around it. However, some of my colleagues who work in other departments may not understand things in the same way. My work is to try to educate them, to put instruments in place so that things are clearer and more visible, and to push them to do things. That's what the Auditor General and I are trying to do.

**The Chair:** Thank you.

[*English*]

I think this committee will be moving forward on some kind of a study of this. I'm seeing all the scurrying going around.

**Mr. Mike Wallace:** There is a notice of motion.

**The Chair:** That's fine.

I think we'll also call a subcommittee meeting to discuss a plan so we're ready for it.

Before we go ahead into this, I'd like to make sure that we will have access to the report on the study that was commissioned. So might I suggest that the people from the Treasury Board Secretariat try to move that forward to the minister, so we can then have access to this kind of information before we go into a full study of the issue? I think that would be important. It's just my guess at this point that we're going in that direction, but I think it's a pretty good guess.

Yes, Madam Fraser.

**Ms. Sheila Fraser:** Madam Chair, I'm was wondering, too, if the committee would want to have briefings on accrual accounting. I realize not everyone knows this stuff.

**Mr. Mike Wallace:** I'm so excited.

**Ms. Sheila Fraser:** We could have briefings on accrual appropriations.

**The Chair:** I think that would be very good.

**Ms. Sheila Fraser:** Another suggestion is that I suspect the public accounts committee is probably going to be interested in this as well, given their long interest, so you might want to do a joint project perhaps.

**The Chair:** We'll have to decide who does what.

The challenge would be the appropriations and the estimates, I would think. Is that the problem?

**Ms. Sheila Fraser:** Actually, I see that the chair of the committee is behind me.

**The Chair:** Yes, that's right.

We'll have a discussion and we'll come back. You'll hear from us, I'm sure.

Thank you very much. *Merci beaucoup.*

I'll call the meeting to an end.

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