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

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**EVIDENCE**

**Tuesday, November 7, 2006**

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**Chair**

**The Honourable Diane Marleau**

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Tuesday, November 7, 2006

•(1105)

[English]

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

We're happy to have you back—both sides, all sides—in this wonderfully exciting study that my committee thinks is just terrific. I must say that I'm interested, and I think it's been good so far.

Specifically to Monsieur St-Jean and Monsieur Moloney, we're anxious to hear the answers to our questions.

By the way, we're pleased to have had a copy of the PricewaterhouseCoopers study. That was very good, thank you.

Ms. Fraser, do you want to go first?

**Ms. Sheila Fraser (Auditor General of Canada, Office of the Auditor General of Canada):** Madam Chair, we hadn't planned to give an opening statement. We would just refer back to the statement we made when we appeared on September 26.

We are very pleased that the discussion is continuing.

[Translation]

**The Chair:** Mr. St-Jean or Mr. Moloney.

[English]

**Mr. Charles-Antoine St-Jean (Comptroller General of Canada, Treasury Board of Canada Secretariat):** If I may, Madam Chair, perhaps we could dive right into the subject of the meeting. My colleague will go through the presentation, and after that we can have a discussion.

David.

[Translation]

**The Chair:** You should have a copy. I have others here.

Go ahead.

**Mr. David Moloney (Senior Assistant Secretary, Expenditure Management Sector, Treasury Board of Canada Secretariat):** Thank you very much.

[English]

Good morning. Thank you to the committee for inviting us back again.

We realize there are questions left from our last appearance. We expect there will be additional questions, based on what you heard from some of the witnesses, particularly the representatives from B.

C. and Ontario. I certainly enjoyed reading the transcript of that meeting.

I'd like to take you through a brief presentation, which will hopefully move the yardstick forward in terms of our discussion.

Slide 2 outlines where we've been with the views of the financial plan. As I think I advertised last time, then we want to move to the questions around parliamentary control and what it specifically means.

I'm going to beg your indulgence and ask you to work through an example the Comptroller General put on the table last time. We used that example to work through some of the specific approaches and what, in practical terms, they would mean for Parliament, what you would vote, the means of control, and pros and cons. Then, we'll talk very briefly about next steps.

On slide 3, we have a graphical presentation. The committee I think is well briefed on this now, so I don't want to dwell on this. As we've discussed, the federal budget and the government's financial statements are prepared and shown on a full accrual basis. Assets are fully valued on an accrual basis, from heritage assets to military assets. So that issue is addressed.

The plans and actuals are addressed. I think other of your witnesses have stressed the importance of comparing apples to apples.

It is important to clarify that it is departments that make the accrual adjustments and do the accrual accounting, with the exception of certain items—for example, the public service pension costs and aboriginal claims. Most accounting is done in the departments. It is the central agencies that are collecting that information to prepare the government's summary financial information.

One way that Parliament will see that in fact is in the departmental performance reports, which are scheduled to be tabled in the House in a matter of days, I believe. You will see accrual-based financial statements in each of those departmental performance reports. These have been prepared in the departments, as I said.

Slide 4 takes that federal budget and shows graphically what the government plans to do. What Parliament votes maps into the main estimates. Planned expenses are now adjusted into planned expenditures, in accounting lingo, by department—those that are authorized under existing legislation or those that need to be authorized under annual appropriations through an appropriation act. It is the form of the appropriation act that we need to drill into here.

We'll move on to slide 5. Parliament votes on the overall fiscal plan, as embodied in the budget. Parliamentary control becomes the critical element that drives the design of the model for detailed departmental budgeting and appropriations. So the key questions are—and these have been in front of the committee for a while now—what control Parliament wants to exercise over the specific expenditures or revenues within the fiscal plan set by the budget, and what information is needed to support the controls.

The appropriations are Parliament's tool for exerting financial control over government. The standard we apply in terms of appropriations is what will satisfy parliamentarians. So among the possibilities, whether it's cash or accruals—and we're not talking about this directly here today—or annual or multi-year, gross versus net, ministry, department, or program activity level within departments, it is what Parliament will find useful and necessary.

As the slide shows, this obviously then influences the form and coverage of the appropriations, the information we put in it, and as we have discussed, how departments will actually conduct their financial management.

We have been happy to be here a number of times. With respect to the committee's discussions, I think there is pretty broad agreement on the goal we want to get to in terms of departments' abilities to make the right financial decisions to properly manage their resources. If that is the goal we all agree to, and I think it is important to underline that, how can we best increase the amount of accrual information to support that further step of improving departmental financial management?

• (1110)

Slide 6 then gets us to the example. This was in the previous deck that the Comptroller General presented.

I'm not an accountant, but I and some of my colleagues in TBS found this to be a useful example for us to be able to walk through. What would it mean?

As a reminder, this is an example of a department or an agency that is spending \$100 million to produce a piece of equipment. It will take over two years to put that in place, and so in the example, \$25 million is spent in the first year, \$75 million is spent in the second year. The equipment is put into use in three years, and will then last for ten years. So the acquisition cost, clearly summarized in the little grey bubble on the left, totals \$100 million over two years.

On a cash basis, these expenditures, as they are recorded in the fiscal accounts and as a department needs to budget for them today, as Parliament votes for them today, total \$100 million over those two years.

On the right side in the accrual column, you see that an asset is created, and then that asset is expensed. It is used up at a pace of \$10 million a year, from years three through 13, again for a total of \$100 million. By construction, the expenditure and the expense totals are the same, but the annual amounts differ, and they occur on the government's books in different years.

Immediately one of the things we see from this is, moving from an expenditure or cash base, or near cash base, to accrual, we could potentially see different amounts being charged to the fiscal

framework. As it so happens, as we look across the government today, in the last two years, the pattern of capital assets that exists, the pattern of capital spending that's taking place roughly balances out so that in the last fiscal year, 2005-06, capital acquisitions totalled \$4 billion. Amortization, coincidentally, was \$3.9 billion. The year before the difference was slightly bigger, but not that material. Acquisitions in 2004-05 were \$4.6 billion, amortization was \$3.7 billion. So the aggregate fiscal impact on the fiscal framework is not overwhelming at this point from moving from one side or the other.

Slide 7 is a bit complicated. We'll walk through it.

Looking again at tangible capital assets, and as we've discussed before—we'll come back a little later—tangible capital assets are only one of the areas where accruals and cash differ, but certainly for non-accountants it's maybe the easiest to understand. It's also one of the most important ones, just in terms of dollars and cents.

So there are four basic models, two of which you heard about from your B.C. and Ontario interlocutors.

Number 1, you see the box on the left with a little arrow down to the left bubble, the current model, vote acquisitions. That's the status quo. Model or option number 2, vote amortization expense, so that box is showing with an arrow down to the bubbles with the tens. This is a logical construction, it's really a heuristic, as I'll come to.

Options 3 and 4 are real live options that governments are using today, and you heard about two of them. Model 3 is to vote both the acquisition and the amortization. That's why there is a line down to the \$25 million and \$75 million. There is also a line down to the bubble with the tens. Model 4 is to vote the acquisition again, but to have amortization treated as an information or statutory basis only.

Each of these models has certain benefits. Each of these models has certain drawbacks. As the slide notes, we need collectively to come to a balance that gives optimal departmental asset management, transparency for Parliament and Canadians, and parliamentary control and oversight. All of this we want to do in as efficient a manner as possible. So I'm going to walk through each of these four models.

Model 1 is the status quo. We've been through the positive points and the many issues identified in great detail.

• (1115)

As for what we're going to follow on through here, there is a benefit in clear accountability for the expenditure decision, the actual cash outlay when you buy an asset.

The downsides, of course, we've been through in some detail. The Auditor General has pointed out the problems created in departmental lease-buy decisions: the difficulties of a bias against capital purchases, and rust-out problems; the annual availability of funds leading to a short-term focus. This is a model that I think we have a general agreement about. It suffers quite a few weaknesses, and we need to get past this model.

Model 2 is really just heuristic. Nobody actually does this, but it's the opposite side of the spectrum, if you like. It's worth looking at, because it's a pure accrual model. In this model, one would say, if the fiscal framework is going to essentially be charged \$10 million, why doesn't Parliament vote that, and only that?

There are some benefits. Clearly it would remove the constraint of the availability of current year funding from lease-buy decisions, for example. It would remove the constraint, in fact, of available funds completely, perhaps so much so that acquisitions would be too easy. Certainly it would deal with the problem of the complete cost of programs, because you would be voting the amortization.

What are some of the downsides of just doing this? There is a potential loss of control by virtue of losing sight of the cash information, and I believe that in the study we, your interlocutors, have been clear: cash continues to matter for a government as for any other entity.

There are particular issues around charging the amortization, taking it as the fiscal consequence of a decision. Amortization of assets is generally set by accounting standards. Managers and parliamentarians should not be arbitrarily changing the amounts that would be charged. Doing so would either incur a qualified opinion from the AG on the financial statements or might even lead to wasteful asset disposition and re-acquisition.

There's also the question of the consequence for a vote that might be exceeded solely because of an unexpected non-cash expense; for example, the need that if a building is destroyed by fire, for instance, one would have to write it off. "Blowing a vote" in this sense, which has a very strong normative impact today, would be something that could take place essentially through no fault of the manager. How would we interpret that ahead of time?

The model also potentially weakens accountability. Under such a model, current governments and managers would not be held accountable for the ongoing fiscal consequences, or the consequences in terms of a parliamentary vote, for their expenditure decisions. In contrast, current managers and governments would be held accountable for what the fiscal consequences are of past expenditure asset acquisition decisions.

Models 3 and 4 take a couple of different approaches to try to address those weaknesses.

Model 3 is what you heard the Province of British Columbia has now adopted in recent years. In this case, parliamentarians are voting on both the current year cost of acquisition and separately on the amortization of the existing stock of assets, which would be included in an operating vote.

There are significant benefits to this model. Departments and parliamentarians would both be considering the two things that

really matter here: the cash requirements and the long-term expenses of amortization. There's no loss of information associated with cash management; it would be much clearer. Should a government be in a world of needing to borrow in a period of surplus because of a cash requirement, that would be quite visible through the detailed accounts, and Parliament would be aware of it. It fosters consideration of both short-term and long-term impacts of decisions.

There's still a constraint of available current year funding, but the presence and greater familiarity with accrual information should make it easier, both at the government-wide level and in departments, to obtain necessary, more lumpy funding streams for acquisitions, because the fiscal consequences are smoother at amortization.

• (1120)

Amortization would be voted, so there are still the same questions, however, about the meaning of control of amortization as in the previous model. Would a department be, for example, forced to dispose of an asset to avoid the associated amortization expenses if a vote was reduced? We would need to work very carefully on the wording of votes or on the consequences of an amount being reduced.

The votes on acquisitions partially solve the accountability issue. Amortization would continue on, but since we have the double vote, the accountabilities would still be clearer.

Parliamentarians would have to accept voting twice on the same asset: once at purchase, and once over the entire life of the asset. That's more complicated, but if it's clear and clearly understood—and I think you've heard this—it will need to be very transparent so that it is not confusing, for the public as well as for Parliament.

Model 4 has a different take. As I mentioned earlier, model 4 is the model that Ontario has adopted in recent years. It's quite similar in that expenditures there are voted. However, amortization is not included in an operating vote, it's included in a statutory appropriation. These items are presented, as all other statutory items today are presented, in our estimates for information. The legal authority is not provided in an appropriation act.

In our case, we would likely have to amend the Financial Administration Act to provide the statutory authority for these votes. I would note, however, that for reasons that don't deal as directly with the tangible capital assets, we would probably have to amend the FAA, in any case, for model 3 as well. So that's not really a distinction; it's a direct consequence of this aspect.

This model again provides the expenditure and expense information. Cash gets managed, and short- and long-term impacts do appear. One issue that has been identified around this model is that since amortization is for information, not voted directly, will there be any de facto loss of focus by Parliament, by managers, since this is for information as opposed to an actual vote? The upside is that we do not find ourselves in the potential box of a vote being reduced, and our having the lack of clarity about what to do with the asset if the amortization was not going to be voted.

Generally speaking, models 3 and 4 are real live alternatives. Those are the ones that you will see in the study come closest to some of where the study tends to look. Those are the ones that we are looking at more closely, and as I said, other governments inside Canada and abroad are using versions of this, but there is no one clear model, to our eye at this point. There are pros and cons, as we're trying to bring out here, between models 3 and 4.

Slide 12, then, just reviews the boarder scope of the departmental model. Going forward, as I mentioned, you will be seeing departmental balance sheets: the opening balance sheet at the start of a year and the closing balance sheet at the start of a year. These are relatively standard. As we go through a year, we have statements of operations and statements of cashflows.

We looked just briefly here at just some of the issues associated with capital assets. There are other items around capital assets themselves, such as writedowns or writeoffs, not catastrophic loss, other sorts of issues that we will need to look at. The annex takes you further into how these models would treat environmental liabilities or financial assets. They are analogous, but we will need to look at them.

Overall, there is quite a scope of accrual information that will be potentially there on the books. How much we bring into estimates and how much is controlled versus information are important parameters in terms of the decisions for how we can go forward.

Slide 13 just sums up. We obviously believe that these discussions are complicated enough. The consequences are material for departments, for Canadians, and certainly for Parliament. We have gone back and looked at how such decisions have been taken in recent decades.

In the 1980s, there was a case where the public accounts committee of the day recommended that the OAG and TBS, as I understand it—I wasn't doing this then—survey individual members of Parliament.

● (1125)

In the mid-1990s the Standing Committee on Procedure and House Affairs, in its 110th report, noted that “the primary focus of any revisions to the Estimates and other related material must be on the needs of Parliament.”

Certainly that has been our guiding approach. We are trying very much here to present estimates that Parliament will find useful and that meet its needs. We recognize the need for us to carry our side of this partnership, but we do view it in that sense, as a partnership.

It's for the committee to decide how it would like to move forward in this particular case, of course. In terms of the model that seemed

to work well at that time, a parliamentary working group, as I understand it, was struck. Each party identified an individual with an interest. This working group met in camera with TBS officials, worked through some really detailed design issues, and mocked up what each of these approaches would look like. That culminated in some agreed pilots with individual departments, and this was the reform that actually broke apart what used to be called the part IIIs and created departmental performance reports and reports on plans and priorities. It culminated in a motion in the House to permanently split the part IIIs into these two documents that we now see today.

That's the end of the presentation. As we said, we believe this is a very important and, we hope, ongoing dialogue.

● (1130)

**The Chair:** Thank you.

We will go to Mr. Bains.

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

Thank you very much for coming this morning to give us the presentation. I'm glad we were able to review the various options. That was very helpful, actually.

We're in the final stages of this, the final phases, and I'm hoping there's going to be consensus on this in terms of accrual-based budgeting, specifically for appropriations. I think we've examined this issue fairly extensively. We've met with various witnesses in the past, and you've alluded to the various committees that were struck. This issue has been examined every which way possible over the past few years, and I think there's a deep-rooted desire now to come up with some recommendations and move forward.

I think your remarks also alluded, Mr. Moloney, to the idea that you had read the transcripts from when we met with representatives from British Columbia and Ontario with respect to their feedback and views of the changes that they made when they went to accrual-based budgeting. Some of the issues that emerged from our discussions with them, at least in terms of the areas that I targeted, were system changes, costs, and implementation. Those are really the three areas that I focused in on in terms of my questioning, and my colleagues did as well.

I'm a bit confused about the PWC report, because I thought the mandate was a bit different. When I actually realized what the mandate was, it was interesting, but we'll talk about that later. But based on the models that you've highlighted, and particularly model 4, which I believe you just reviewed momentarily, I believe it's probably the best, with the least amount of cons. That's just my viewpoint, and I therefore wanted your feedback.

It was brought to our attention that seven major systems are used by various departments for budgeting purposes. If we were to implement model 4, what would be the impact to the system changes, the costs associated, and some sort of implementation timeframe with those?

**Mr. Charles-Antoine St-Jean:** Thank you very much for that question. Maybe I can take the first stab at it.

You say model 4 is probably the one you would favour. I would say maybe model 3 and model 4 would be the two models that would be roughly in the zone of where it would probably be the most useful for members.

If I recall the presentation from our colleagues from B.C., they were making reference to a cost of \$5 million for training, but that was exclusive of the system costs.

You also mentioned that we have seven systems to deal with. What would be the costs of moving to this? It's very difficult to give you a hard number. PWC gave a range of between \$10 million and \$150 million—

**An hon. member:** That's a big range.

**Mr. Charles-Antoine St-Jean:** —depending on whether it's done with other activities or other changes that we're talking about. So it would take significant dollars, but that is not a bad ballpark figure in terms of how much it would cost. However, it could also be done over a number of years.

What might also be important to look into is the fact that PricewaterhouseCoopers also gave us an idea in terms of a timeline having to do with the first three years, and then doing it over five years. That's probably the way it should be done. Phase it in so that people can get used to the new way of doing business, the new information.

That number, as I say, is not a bad number to—

**Hon. Navdeep Bains:** Sorry, but what was the timeline again?

**Mr. Charles-Antoine St-Jean:** It was over five years. It was a PricewaterhouseCoopers study recommending some specific timelines in terms of what you do after year one, year three, year four, and year five. That would not be a bad model.

• (1135)

**Hon. Navdeep Bains:** In your opinion, you said the best one might be a mesh somewhere between models 3 and 4, or something along that line. Could you elaborate on that?

**Mr. Charles-Antoine St-Jean:** I like model 3 because of the transparency and visibility, but also the controls it gives to parliamentarians.

Also, one of the concerns that we all have is that somebody can play with the amortization, depending on whether you have room or not. But given that we're having our statements audited annually and one of the key accounting principles is consistency, I would say that if there were some inappropriate changes to the amortization or the depreciation policy to suit a certain need, that would be picked up. There would be a strong incentive not to go there.

So model 3 is not bad at all, because it—

**Hon. Navdeep Bains:** And that's the one British Columbia has adopted, correct?

**Mr. Charles-Antoine St-Jean:** Yes.

**Hon. Navdeep Bains:** I just have a question for the Auditor General.

Based on the models that I'm assuming, I'd just like your feedback on which model you think would be best. Should it be a matrix or a combination of models?

**Ms. Sheila Fraser:** Madam Chair, we would obviously prefer either model 3 or model 4, because those are the ones that really do deal with the accrual-based information. Models 1 and 2 are essentially—

**Hon. Navdeep Bains:** Status quo.

**Ms. Sheila Fraser:** —cash, as it is now.

Either one of those models would work, but it really would be in consultation with parliamentarians to see which one they would prefer. We don't have a particular preference between models 3 and 4.

**Hon. Navdeep Bains:** In terms of timeline, according to the PWC timeline that was indicated based on their report and what the Comptroller General has said as well, do you think five years is a fair timeline for implementation? What's your opinion?

I know we've talked about this in the past, but I just want to make sure we have clarification at the present time. Do you think that's an appropriate timeline for implementation?

**Ms. Sheila Fraser:** I don't think five years is inappropriate. I've learned that it does take time to do these things in government, even though we would always like things to happen perhaps faster than it would seem to take. I think it's important to give a reasonable timeline, but with clear milestones along the way, in order to make sure the project doesn't slip and then become a seven-year or ten-year one.

And there will be changes. Just because of the cycle of budgeting and the presentation of votes, there is a certain delay. Even if you started today, it would probably take two years to put it in. So five years would seem to be reasonable.

**Hon. Navdeep Bains:** In your opinion, with respect to the system changes, the systems that existed in British Columbia were legacy systems, so they were really outdated. There was an issue there. I believe it was Oracle that they went to as a system in terms of just managing departmental budgeting.

In your opinion, do we need to have a major system overhaul, or can we work with the current systems that we have in place?

**Ms. Sheila Fraser:** When we refer to the seven systems, those are really the systems for what we call the general ledger. Those are the ones that can produce, if you will, the financial statements. In government, though, those systems are supported by a multitude of legacy systems, some of which are very old.

We have actually started to do a lot of work on assessing those legacy systems. We probably don't want to get into all that today, but I think the government does have a major investment that it has to make in updating or replacing some of those legacy systems. Many of the challenges that government faces right now, even in its accounting, come about because the systems were never designed to give the kind of accrual information that you need.

In this committee, I think we reviewed, for example, the collection of income tax receivables. The systems in the Canada Revenue Agency were never designed to manage receivables, and we see that in other departments too. So there is a major investment and change that will be necessary over several years—much more than five years—to adapt those systems even to meet the current accounting requirements.

This has to be integrated into that and the change has to be thought out. How are they going to do this overall not just in terms of the accrual part of the appropriations, but in terms of the other management information that's going to be needed going forward?

**Hon. Navdeep Bains:** Do you recommend that we go to one system change, that we make this overhaul? I put that question to the Comptroller General as well, because obviously I asked the teams from B.C. and Ontario, and they obviously didn't have insight into it and didn't want to comment on it. But based on the preliminary analysis that you're doing on the legacy systems, is it your viewpoint that we need to make a major system overhaul and make that part of our recommendations?

**Ms. Sheila Fraser:** I would be hesitant to recommend that there be a major overhaul in those systems right now, because there was a significant investment made in 1999-2000 to move to the seven systems. A lot of departments put in these ERP, enterprise-wide systems, like SAP and Oracle, so there were hundreds of millions of dollars spent not that long ago. If government wants to take the position that we should go to a common system, I think they have thought this through and that it has to be brought in over time. I wouldn't recommend that this be done right away. In many of our audits we've also noted that the departments aren't making full use of the systems and the capacities they already have, and there has been a lot of money spent in this. I would be hesitant to recommend just going to one system.

The other consideration in this is that there are many organizations in the federal government. Some are very large and very complex, while others are very small. I'm not sure that one system could meet the needs of everyone. The very large departments obviously need these enterprise-wide systems. I'm not sure that some of the smaller organizations that have 25 or 30 people need a system of that complexity, so there may have to be some variety in the systems.

• (1140)

**Hon. Navdeep Bains:** Yes, so very quickly—

**The Chair:** We're going to go to Madame Thibault.

[*Translation*]

**Ms. Louise Thibault (Rimouski-Neigette—Témiscouata—Les Basques, BQ):** Thank you, Madam Chair.

Ms. Fraser, as I glanced through the PricewaterhouseCoopers report, I wondered about something I had never thought about before. This report talks about government expenditures. Some of these concern the provinces, while others pertain to transfers or stem from grants and contributions paid to organizations.

The current procedure must have an impact. People have to account for the way in which they spend funds. Not-for-profit organizations often talk about the burden of having to fill out forms in order to demonstrate that the funds allocated to them have been

spent properly. They must also write submissions for the next year when they have recurring funding. So I can imagine what reporting may be like for a provincial government or for Quebec.

Will the new procedure, whether option 3 or 4 is selected, have a different impact on government bodies and agencies?

**Ms. Sheila Fraser:** In my opinion, a new appropriation system will not affect reporting for transfer recipients.

**Ms. Louise Thibault:** Right, that is something important to know. Thank you.

The report talks about the readiness of departments and agencies. When such a study is carried out, it is impossible to take everything into account. The study's sample targets the following departments: Indian Affairs, National Defence, Parks Canada, Transport, the Privy Council Office, etc. I think that nine departments in all were targeted.

My purpose is not to criticize the firm that conducted this study, but is this sample representative of the machinery of government?

As far as the readiness assessment is concerned, the consultants issue some caveats, saying that these are self-assessments, that the data were not verified and the results have no statistical validity. Are these caveats cause for worry, or to be expected?

Every time a study is done, caveats are issued, along with comments to the effect that, in view of the sample used, the data obtained are only internal and that therefore the study cannot go any further. Is this a worry or not?

**Ms. Sheila Fraser:** As far as the second question is concerned, I think this is normal.

**Ms. Louise Thibault:** For the interpreters, this is found on page 202 of the French version of the PricewaterhouseCoopers report.

**Ms. Sheila Fraser:** It is pretty normal for consultants to issue such caveats. They report what the departments have told them and they are not going so far as to verify all the statements made by them. Such caveats are to be expected.

• (1145)

**Ms. Louise Thibault:** It is not just the caveat. This study must not have been commissioned with a view to getting conclusions, because it does not contain any.

**Ms. Sheila Fraser:** You would have to put this question to the representatives of...

**Ms. Louise Thibault:** I have not read the study completely; some sections caught my attention, however. In the note they gave us this morning, the researchers confirm what I had already noticed: the study does not contain conclusions.

My question is for Mr. Moloney and Mr. St-Jean. Did you not ask for the study to contain conclusions?



Mr. Moloney, page 210 of the French version talks about the central agencies. The central agencies indicated to the consultants, and I quote: "... that they could accept accrual budgeting easily ..." If I have understood correctly, you can go ahead without any problems.

But do you have any concerns about the departments? Are you confident or somewhat concerned? Is your concern implied by the suggestion that implementation be phased in over five years? It is one way of seeing things.

I have other questions, but I am going to limit myself to these.

**Mr. Charles-Antoine St-Jean:** I will answer your first question. You seem to be a bit disappointed that the PricewaterhouseCoopers report does not contain any definitive conclusions.

Under the mandate given to the firm, the purpose of the study was to survey the situation. A great deal of confusion surrounds this file. What are the various models? Should this be implemented by department or by the government all at once? Should it be done on a cash basis? There are six matrix models.

It is important to be familiar with the situation in Canada and the situation elsewhere in the world. The study was designed to gather this information and present it, and I thank the PricewaterhouseCoopers team for doing just that. The various models of page 5 of the report provide an idea of the context in which we find ourselves.

As my colleague and I mentioned earlier, we are tending towards Model 3 or 4. If we look at the package, 4E is the model we are tending towards.

**Ms. Louise Thibault:** Are you confident, Mr. St-Jean? The representatives from Ontario and British Columbia, whom we had the pleasure of receiving recently, told us about the "cultural revolution." I will summarize their comments. They think that a champion of the cause is essential, that everyone needs to understand that the decision has been made and that there is no going back.

I note a certain dichotomy on page 210 of the report. We read that significant cultural change is required within the central agencies and also that the central agencies say they are ready.

I am not trying to be funny. Are you ready, or are you saying that, even within your department, you will have to work hard to change the culture? The departments are not the only places where there will be resistance.

Do you share the same opinion as the study's authors?

**Mr. Charles-Antoine St-Jean:** Totally, but I am not traumatized by that. My colleagues in New Zealand, who carried out the same exercise 15 years ago, told me that they had to wait about ten years for people to understand what accrual accounting was, for purposes of both appropriation of funds and reporting.

The same thing occurred when we switched from Fahrenheit to Celsius. It was not because people did not want a new system; we just have to give them the time to understand it and put it into practice.

Gradually people will adopt new work tools and habits. Little by little we will all learn to live with the new budget estimates to be presented. We are ready to go on to the next phase, but we have to make a concerted effort towards achieving our goal.

I am not particularly worried.

Ms. Louise Thibault: You have confidence.

Mr. Charles-Antoine St-Jean: Yes.

•(1150)

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

We will continue with Mr. Kramp.

[*English*]

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Thank you, Madam Chair. I can't believe we're at this point. My heavens, we're actually making some progress on this.

Madam Fraser, I can recall when this was first brought up before public accounts and, of course, a recommendation went from committee. Unfortunately, it wasn't acted upon, regretfully, and it went back to public accounts again and back to government operations here. I think I can definitely—at least I feel very confident—speak with a level of appreciation for the rest of my colleagues around this table who have, I think, come to a reasonable consensus on this, that we have to move forward, and I'm hopeful that we will come up with the suggestions that are necessary to implement this.

But building on Madame Thibault's one comment—and this takes us back to when our guests were here from Ontario and B.C.—somebody has to lead the way. Someone has to champion this, in Madame Thibault's words, to effect this positive change. Have any of our guests here given any consideration to the implementation process, whether it's an implementation office, officer, composition of that office, who should be involved with this effective transition, and what type of leader we need to be able to go forward with this? Should it have a political involvement? Should this have bureaucratic involvement? What would your thoughts be in terms of the implementation of this, and the composition of a committee and/or a leader to go forward with this?

I'd actually like to hear from both Madam Fraser as well as from the Treasury Board, through Mr. St-Jean.

**Ms. Sheila Fraser:** I can perhaps start, Madam Chair.

I think the first thing that would be really important is to have a clear indication and a clear statement that government is going this way. We're talking about studies still. I have yet to hear that government has actually agreed that they are going to move to accrual appropriations, and the form has to be worked out. I would think this has to come from a very senior political level.

When the government moved to accrual-based financial statements, there was actually a statement in the budget on that. So I would think that given the importance of this, there should be some statement from a very senior political level that government is working that way, or planning to go that way, and that it's an intention to put it in over a certain number of years.

And perhaps the committee can obviously recommend the higher-level direction that the votes could take. I think the suggestion that was made today about setting up a working group of parliamentarians who perhaps have a particular interest to work through the details of this is a good suggestion. And then I think once that's mapped out, obviously it will require resources within the Treasury Board Secretariat or the Comptroller General, and they would have to obviously define how they would want to move that project.

But there should be a specific project. This is going to be an important project that will take many years. I think there should be a specific responsibility given and clearly resources given as well.

**Mr. Daryl Kramp:** So you feel it's just mandatory that we have a defining statement from senior government officials and/or government itself and hopefully a unanimous move in the House, etc. This would send a very clear sign, and it's going to take that kind of initiative in order to be able to really instigate some serious response to this? Is that what you anticipate?

• (1155)

**Ms. Sheila Fraser:** It would certainly give a very clear indication to all that this is serious and that the government intends to move that way.

**Mr. Daryl Kramp:** Mr. Moloney.

**Mr. David Moloney:** Thank you. I'm happy to speak to that as well.

I think there's no doubt that we're talking about fundamental changes in what departments do, how they do it, and what systems they do it with. That certainly will take leadership. Whether there's one champion or a team of champions, we can work through that. However, it will not just require a senior statement to trigger such effort. There are significant needs for cabinet level decisions. Introducing legislation is a cabinet decision.

Putting money in a budget, as was the case before, will... I hope there is no doubt at all that this will require investments of some serious amount. We still need to work that out. As the Comptroller General mentioned, there is the issue of what other investments and changes to departmental financial systems or policies would be undertaken. The cost of this on its own, versus the cost of those together, obviously needs to be worked out. This will take cabinet level decisions, for both the legislative and the money aspect.

We are both here of course because there is a critical departmental financial management aspect to this. There is also our relationship—both TBS and the Comptroller General—in terms of bringing the estimates to Parliament, I dare say with lots of constructive advice from the OAG and from departments as well.

We will need interlocutors for those details from among parliamentarians as we go forward.

**Mr. Daryl Kramp:** One concern voiced by our witnesses, as well as a number of the people here today, is the difficulty at the department level of implementing this. It's great to have a grand idea, but implementing it becomes a different matter. My concern is getting over that hump. My concern is whether we do it dribble by dribble, or we do the "big bang" approach. My concern is that if we do this little by little, department by department, it will never get done. It will get lost. It won't have the focus. It won't have,

I suppose, the command. It won't have enough critical mass movement on itself to even be considered, and we'll never get the transformation process completed.

Personally, I'm a proponent. If we're going to do it, let's do it. Allocate the funds and get it done.

What are your thoughts on that?

**Mr. David Moloney:** I'll speak to that first. As we talked about with part IIIs, I can see some value in perhaps having a pilot department, or two or three. However, I don't want to bring you a mixed set of estimates—a bunch of departments on one system and a bunch of departments on the other. That won't serve you, and it will be a lot harder for us.

I mean, certainly if we're going to do this, we need to do it in a measured way, but measured in few years, not decades.

**Mr. Daryl Kramp:** There were dollar figures thrown around: \$100 million, \$200 million, \$700 million, whatever. I listened with great interest to both B.C. and Ontario and their cost estimates. Actually, I recall the one witness from B.C. saying that he thought it was going to be absolutely daunting. It didn't prove to be quite as demanding as they actually thought.

The size and scope of the federal government is a whole different matter. Do you anticipate the costs of implementation at the federal level would be relative to the cost of the provincial implementation, be it in proportion to population or departments? In other words, if we're 20 times larger, granted, in scale, would our costs go up 2,000%?

Do you understand where I'm coming from on this? Can you give me a quick response as far as capital outlay goes?

**Mr. Charles-Antoine St-Jean:** If I recall the presentation by our colleagues from B.C., they were making reference to \$5 million for training, exclusive of system costs. When we look to see what the average system cost is for financial purposes in the federal government, it's in the neighbourhood of \$300 million to \$350 million per year currently. We have to take all this into consideration. We also made reference to the fact that we must invest every year to upgrade our system to bring in new functionalities, and so on, so I'm not uncomfortable with the number that was quoted by our colleagues from PricewaterhouseCoopers when they said it could be up to \$150 million for the training and system costs. That would be the order of magnitude.

Our colleagues in B.C. didn't say \$5 million, but they didn't tell us what the amount was for the systems. Also, they have one platform. We have a different scale. If I recall, the B.C. government is at about \$30 billion, give or take. We're close to \$220 billion, and then there's a quantum leap at some point, where the complexity is such that it's difficult to just extrapolate one on one.

But that would be in the zone, based on the \$300 million per year that we spend already on systems.

• (1200)

**Mr. Daryl Kramp:** Of course, it could be offset, as well. Reconciliation costs wouldn't maybe be as high once we've implemented this system, because we're not into multiple systems.

**Mr. Charles-Antoine St-Jean:** Yes, over time those costs should go down, so there should be a payback in having accrual.

**Mr. Daryl Kramp:** I have very little time now, but in closing, I might thank the Treasury Board and our other witnesses from the Office of the Auditor General in advance for, to my mind, taking this issue very seriously for the first time.

The PricewaterhouseCoopers report was really well done. It was a great initiative on behalf of your departments, and it looks as though you've actually made a commitment to helping to steer us in this direction that has been the will of Parliament.

With your help, it's up to the committee members to now come up with a report that will hopefully sell this to the rest of Parliament, to demonstrate clearly that your work will not be in vain and that the concern of the Auditor General will not be in vain. We can now make a compelling case to go forward for the betterment of all Canadians.

Thank you very kindly.

**The Chair:** Before we go forward, just to help in the drafting of our report, one of you said the government needed to send a clear message. It seems to me that Paul Martin, when he was finance minister, said in one of his statements that the government would move to full accrual. I don't know if he used that terminology, but I just recall the time. Things moved considerably for a while, and then they seemed to stall.

When you say "a clear message", would you like us to recommend an actual timeframe? Would you like the government to come out, when it goes through cabinet or whatever, putting the real markers down so that it can be actually very specific?

I'm asking this question because I thought there had been clear statements, but maybe I'm wrong.

**Ms. Sheila Fraser:** Madam Chair, when Mr. Martin made that statement, I believe he did refer to accrual accounting, but only for budgets and financial reporting, the financial statements. The accrual appropriations weren't addressed at that point, and if I'm correct, he also put in a timeline. I think he said it was to come in by 2001 or 2002. Anyway, there was a timeline, and he had indicated five or six years. I think something like that would be good.

**The Chair:** Would you like to answer that, Monsieur St-Jean or Monsieur Moloney?

**Mr. Charles-Antoine St-Jean:** I think we were going to say exactly the same thing. At the time, Prime Minister Martin made reference to budget and reporting, not the accrual appropriations.

**The Chair:** For those of you who are listening, in my simple little mind, it was that we were moving to accrual, and I said, "Hallelujah, it's about time." But let's just say that I wasn't following it as closely as I am now.

We will go to Madame Nash.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** My thanks to all of the witnesses for coming yet again to help us through the minefield of accrual accounting.

I want to begin with Mr. Moloney and ask a question so that I am really clear about your presentation.

I understand that the explanation of accrual accounting seems to be clearest with the purchase of tangible assets. But if the government decides to spend money by investing in some national training program, apprenticeship program, or pharmacare program, some program where the expense is not on a capital asset but rather on a service, I assume one could argue that while it's not the asset one would have with a tangible physical structure, there is an asset in terms of the development of society or a service or benefit offered. Would the actual accounting for that be similar to the model you've shown, or are there significant differences under this system?

• (1205)

**Mr. David Moloney:** I believe they are in fact quite different, and it does come down to accounting standards. But I really should defer to the government's accountant, as well as Parliament's accountant.

**Ms. Peggy Nash:** Nice answer.

**Mr. Charles-Antoine St-Jean:** These are two different things. When we were talking about accrual for fixed assets, in this presentation we gave you an example of fixed assets. But there are also some other elements, like financial assets, like loans, and so on, that would also need to be included in the actual voting.

When you look at the third box on page 12 of the presentation, where we're talking about the cashflow, there are different things that we would see Parliament voting on in the future. One would be acquisitions, which is what we talked about in fixed assets. Some would be investment activities, like the loan portfolio, investments, and some of the financing activity. The government would be voting on those elements as well—not only the fixed asset but some other financial assets.

Today we just gave you a view with a simple example, but there are a few other elements on which we would expect Parliament to vote. These would be long-term assets, like the amortization of those loans or allowance for bad debt and the like. You would also be voting those through in the estimates.

I don't know if I'm helping.

**Ms. Sheila Fraser:** Madam Chair, can I just add that under accounting standards, we only record in the financial statements the assets that are owned by the federal government. Programs that benefit society generally are not considered as assets for the government. They are generally treated as expenses each year, and there would be a vote each year for those specific programs. Going to accrual appropriations wouldn't significantly change what is currently done for programs.

**Ms. Peggy Nash:** Is there anything that would be negative toward any kind of social spending or the initiation of new programs? It would be exactly what we are doing now.

**Ms. Sheila Fraser:** It would be essentially the same.

**Ms. Peggy Nash:** It's not a capital acquisition.

**Ms. Sheila Fraser:** It wouldn't change. The major changes would be for the capital assets and long-term liabilities. Environmental liabilities are an example that was given. Those are the kinds of elements that would change, but the ongoing programs that the government carries out would not be affected by this, by and large.

**Ms. Peggy Nash:** Great.

When we heard from the provincial representatives, they talked about there being a cultural change and the necessity for training. With your experience in new initiatives that the government has undertaken—for example, the change in computers that the government brought in in the year 2000—there is a cultural change, there is training that takes place. How could this committee make a recommendation that best facilitates a smooth transition, that the appropriate training takes place, and that people are motivated to want to move to this new system?

**Ms. Sheila Fraser:** I guess the only comment I can make is that any large change initiative requires a really solid plan to get there, clear assignment of responsibilities, and sufficient time and resources to actually move it there. So I would suggest that the committee might want to ask the government to develop the plan of implementation and clearly analyze the costs, so that they're ensured to have sufficient resources to be able to carry it out well.

Oftentimes projects don't go as well as they should, not because people don't want them to, but because they don't have the resources and the skill set necessary to be able to support the change initiative.

• (1210)

**Mr. Charles-Antoine St-Jean:** If I may, my experiences with large system change is that one of the errors we very often make is seeing it as a system change. We don't take into account the change of management, the people aspect. The people aspect is training, communications, and all the tools.

This is very often an investment. They say yes, we don't need it; let's go with the gizmo, and so on. No, we have to really focus on the people aspect—so communications, training, and retraining. Probably there is also some new capacity, new skill, that we will have to acquire, and this is not an easy part of it. But we should not shortchange ourselves on this.

**Ms. Peggy Nash:** I would think this would be part of our recommendation, and I would hope that the people part of the equation is a consideration.

If I have the time, Madam Chair, I have one last question in terms of the overall costs. As I understand it, regarding the two models we're looking at in the system, we will still be considering cash accounting. Obviously we will have to take this into account in the model we finally go with.

I hope I'm interpreting the remarks properly, but I did ask the provincial representatives if they thought that over time we might end up spending more money, or perhaps they had spent more money on their accounting budget per se, because of the accrual and the cash work, which was being undertaken. I believe their response was yes, perhaps, but that the clarity of the information was worth it because we were going to be making better decisions.

Would that be your sense of this change, that in fact we might end up spending a bit more money on the accounting process, but that it's a worthwhile expenditure?

**Ms. Sheila Fraser:** I'm sure the Comptroller General can address this much better than I can, but I would say most definitely it will cost more. I don't think we should think this is going to cost less. I think it would be a mistake to think it will cost less, because it'll mean that we're not putting in the resources required to do it well. But there's—

**Ms. Peggy Nash:** Not just in the transition, but in the long term.

**Ms. Sheila Fraser:** I mean going forward. There may be some savings, but quite frankly I wouldn't count on the savings too much. I think we have to recognize that there will be costs involved in this.

But if we look at just the financial reporting side, there were significant costs to put in new systems to train people, to develop new policies on that. But now there is information about capital assets, accounts receivable, and very large sums of money that essentially weren't being really managed well before.

So it's a cost, yes, but there is better information and better information for managing what are at times very large sums of money.

**Ms. Peggy Nash:** Hopefully if we are spending that money in understanding the decisions we're making, we'll make better decisions, which will save us money.

**Ms. Sheila Fraser:** Ultimately this will save money, yes.

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

**The Chair:** Thank you.

We'll go to Mr. Alghabra.

**Mr. Omar Alghabra (Mississauga—Erindale, Lib.):** Thank you, Madam Chair.

Good afternoon to all of you. It's good to see you again.

I'm going to start with three simple questions to the officials from the department, the Comptroller General, and Mr. Moloney.

To be accurate, do you agree that accrual accounting will improve accountability?

**Mr. Charles-Antoine St-Jean:** Yes.

**Mr. David Moloney:** If done properly, yes.

**Mr. Omar Alhabra:** Do you agree that it'll improve transparency?

**Mr. Charles-Antoine St-Jean:** Yes.

**Mr. Omar Alhabra:** I'm sorry, I just want to make sure. It may seem silly, but it—

**Mr. Charles-Antoine St-Jean:** I don't mind it being on the record, yes.

**Mr. David Moloney:** Again if done properly, yes.

**Mr. Omar Alhabra:** Do you agree that it improves management of our assets and financial expenditures?

**Mr. Charles-Antoine St-Jean:** Of course. Yes.

• (1215)

**Mr. David Moloney:** Same again.

**Mr. Omar Alhabra:** I'm going to assume that Madam Fraser also agrees with this.

**Ms. Sheila Fraser:** I most certainly do.

**Mr. Omar Alhabra:** All right. That's good.

I think we have to come to terms with the fact that we need to move that way. The question is how do we do it and the best way of doing it.

I have questions about model 3, the double voting, and model 4, the statutory and voted appropriation. Could you perhaps elaborate on each of those a little? Tell us exactly what they are and what the issues are with each of them.

**Mr. David Moloney:** With respect to model 3, today we bring the main estimates, and the supply bill comes forward. Within each department there is a long series of votes, some of which are capital votes. With any entity that has more than \$5 million of capital expenditures, there is a capital vote. What this would mean is that, instead, we would have two kinds of capital votes. There would continue to be, as there is today, an expenditure capital vote. Under model 3, there would also be a capital vote in respect of the amortization on the assets that exist on that entity's book. Departments would be voting twice on capital assets, existing and new, obviously with a different timeframe in terms of moneys to be spent and moneys that have already been spent and are essentially providing services—capital assets providing services.

**Mr. Omar Alhabra:** Sorry. So we would have to vote on the acquisition of that asset and on the consumption of that asset.

**Mr. David Moloney:** That's right.

Looking at slide 7, which was the graphical representation of pulling the four.... If this was the only thing the department was doing and the only asset in question, there would be a vote for the \$25 million, a vote for the \$75 million, and then, in year three, votes

for the \$10 million. Of course, for most departments there would be a variety of assets purchased. You might be voting for the \$75 million in year two to complete the purchase of this equipment, but Parliament might also be voting, for the sake of argument, \$10 million, which is the amortization expense in respect of a piece of machinery that had been purchased, let's say, five years before.

**Mr. Omar Alhabra:** Would we vote in year one on all of these? Would we vote on the \$25 million, the \$75 million, and the \$10 million-per-year consumption in the year of acquisition of that asset? Or will we vote in year, one only on \$25 million, and then, in year two, on \$75 million, etc.?

**Mr. David Moloney:** In this particular model, you would only vote for the \$25 million. We have actually referred to that as a weakness of all these approaches, unless Parliament is willing to provide multi-year voting authority. The fact is that for this department, in year one, you are voting \$25 million, and the department is now on a train to spend \$75 million next year. But Parliament has not voted that. In principal, one could be left with \$25 million of disbursement. If the \$75 million doesn't follow through, that \$25 million may not have as much disposal value. But that is how Parliament currently votes—year by year—and not all assets can be purchased in one year. You would vote the \$25 million, then vote the \$75 million.

**Mr. Omar Alhabra:** Is that the same issue we currently have? If we're spending \$25 million this year and \$75 million next year, this year we only vote \$25 million. So we have the same problem with our existing model. Is that correct?

**Mr. David Moloney:** This is an existing problem, and this particular initiative would not resolve that.

**Mr. Omar Alhabra:** Okay. What about model 4?

**Mr. David Moloney:** In today's estimates, you see votes, and you see items that I believe are displayed with an (S), which means statutory. So for the information of Parliament, certain amounts will be spent by a department pursuant to statutory authority in this year. It's in the estimates. It's not actually in the appropriations bill, because Parliament has already given ongoing authority under very precise circumstances.

In model 4, Parliament would vote the \$25 million in year one and the \$75 million in year two. In year three, for information, it would see the \$10 million, and then in years four through thirteen....

• (1220)

**Mr. Omar Alhabra:** That would be as statutory?

**Mr. David Moloney:** It would be as statutory, meaning that it's for your information. There is a fiscal consequence. It's being shown to you, but you don't actually vote on it, which means, among other things, you can't actually make a decision in respect of that asset without changing the legislation somehow.

**Mr. Omar Alghabra:** Currently we do have a statutory portion of our votes, which is the core expenditure of the department. Is it currently considered statutory?

**Mr. David Moloney:** The Comptroller General spoke of \$224 billion as being the government spending, with \$132 billion of that amount statutory, major statutory in debt service and transfers to persons and provinces, and then so-called minor statutory for another \$11 billion. So in fact Parliament votes for only around \$80 billion of the \$224 billion in spending.

**Mr. Omar Alghabra:** Would it be possible to consider, under model 4, the second quotient of the acquisition if Parliament had made a commitment the year before, as in our example, for the \$75 million? Could it be considered statutory since Parliament had already approved the overall project but was spending only \$25 million in the first year and \$75 million in the second year?

**Mr. David Moloney:** That I would consider not to mean so much in accrual appropriations but in multi-year appropriations, which is a direction that certain governments have gone—not many—and it's certainly one in which issues of accountability and parliamentary control are raised quite a bit further.

**Mr. Charles-Antoine St-Jean:** I think we would all agree that would be helpful. There's no question about it.

**Mr. David Moloney:** Madame Fraser, do you have any comment on that?

**Ms. Sheila Fraser:** I would just agree with the Comptroller General that I think that multi-year appropriations are an issue that should be looked at. I think when you get into it, many projects span over more than one fiscal year. It's hard to imagine that you're going to start to build a building and halfway through it you're going to say that you're not going to complete it.

I think it would certainly help managers as well in managing and knowing they can continue on and not have to go back through the process. Does the committee want to expand its scope of work a bit?

**The Chair:** You're setting up an asset. You say you're going to buy or build a building for \$100 million. When you make that decision, would there be a way for us, when we're voting, to be voting on the \$25 million but to have a statement saying this is the contract that has been signed, and this is the projected cost, and that we're asking you for \$25 million this year? Then you would know that the next year you would have to go with the \$75 million without calling it statutory.

Is there some way that can be done? I don't know how Ontario does it.

**Ms. Sheila Fraser:** I'm sure there's a way to do it. I would think that government officials are probably... But if you look at the example even that's given of the environmental liability, essentially there's a recognition of a liability that's only going to be paid several years out. It's analogous. It's always a liability rather than an asset, but there's an economic decision being made. How the cash then flows can be quite different from the actual timing of that decision. The parliamentary votes, of course, are now all based on cash, but I think you can miss some of these large decisions that are being made if you're only focusing on the cash. So in the case of the environmental liability, if there's a commitment made to fund a project or something in two or three years from now, the

commitment has been signed, but the cash may not flow immediately.

•(1225)

**The Chair:** It's the same thing for assets.

**Ms. Sheila Fraser:** Parliament, at a minimum, should certainly be made aware of that. I think there must be a way to resolve that.

**The Chair:** Thank you. We're going to go to Mr. Warkentin.

Mr. Moloney, did you want to add something?

**Mr. David Moloney:** Can I very briefly speak to that?

In principle we could bring forward capital plans for departments that would in essence do, I believe, what you're saying. The real point I wanted to make, though, was that of course the fiscal planners in government, through the budget, are very careful to not allow a department to be in a position, unless Parliament should choose so, for the \$25 million to be incurred without the \$75 million being there.

We of course only give multi-year approvals for such major purchases, and there is a question of bringing that level of approval to a department's ongoing capital plans within its own as we move to accrual. If we have the accrual information, we should be able to potentially look at bringing that forward, but we are not, in a major situation, likely to end up where you are in that problem because the budget took care of it.

However, if Parliament disagreed, then it would be in that position that we'd get stuck. In that situation we could be stuck with the \$25 million spent, and a useless hole in the ground or whatever.

**The Chair:** That's why I'm saying it should come ahead of it, so you're not stuck like that. We wouldn't want that.

Mr. Warkentin.

**Mr. Chris Warkentin (Peace River, CPC):** Thank you, Madam Chair.

Thank you to all of you witnesses for coming. It's nice to see so many of you returning. We like you too, so come back again sometime.

Certainly there are a number of questions with regard to standards, and so if you'll allow me, I want to ask some questions with regard to standards. With regard to model 3 and model 4, in model 3 it's a double voting system, a situation where the government would determine how fast something would be amortized, obviously within guidelines—generally accepted accounting principles—or the government could simply say, with historical references, that certain things last a certain length of time and then we'll amortize it over that many years.

The federal government has the luxury of looking at past data and assessing it that way. Now, could you make a recommendation? Would it be wiser for us to look at historical data to assess and set in place our amortization duration?

**Ms. Sheila Fraser:** Could I start and then the Comptroller General will add to it.

The government does set its own policies for amortization of assets. In most cases, when we're talking about computers or automobiles or desks, people will look at the average life of those assets. There can be particular assets that, depending on the situation, can last for a very long time. I'm thinking particularly about military assets. If you're training here at home or if you're involved in overseas activities, the amortization period could be very different.

For most assets, you will take into account the general usage and you can look back historically, but then in particular cases you will have to look at what those assets are going to be used for, and the amortization policy, even if you have one, may have to be modified, given the particular circumstances.

**Mr. Chris Warkentin:** You probably draw attention to the problem with model 4 then, specifically with regard to military equipment. If we had the opportunity to vote, would you see any problem with accelerating the amortization if the asset had been depreciated significantly in that particular year? That would probably be the benefit of the double voting.

Is that right? Am I understanding correctly?

**Ms. Sheila Fraser:** With whatever model, there would have to be some ability to adjust, depending on the circumstances within the year.

**Mr. Chris Warkentin:** Yes, because at first sight, probably a number of us would go toward the statutory amortization simply because generally things are amortized over a certain length of time, and we don't want governments starting to manipulate the numbers and having the flexibility to massage things. I think that's the concern, that if we don't go to statutory, governments might have the flexibility, but if we do go to statutory, then we might not be able to get a clear picture of the amortization situation.

• (1230)

**Mr. Charles-Antoine St-Jean:** I would not be overly concerned with this aspect, for the simple reason that our statements are audited, and we're also moving to departmental financial statements.

One of the key accounting principles is the consistency of the accounting, the depreciation of the amortization, so I would not be overly concerned with that. As the Auditor General said, whatever, model 3 or 4, the depreciation amortization must be minus the economic reality of the usage of the asset. So some assets in certain theatres might be depreciated at 30% as a decline balance. Some others will be depreciating at 100% per year, because of the circumstances.

Whatever method, it will need to be backed up by the economic reality behind the use of the assets.

**Mr. Chris Warkentin:** The question was broached here by somebody else, the question being if there was a way we would be able to move toward a statutory or a multi-year system. Then in certain circumstances, if there was an isolated event such as a war or a situation where a building burned down, the government would have some flexibility to intervene and say that the reality was a little different that year.

Is there any other jurisdiction that uses that type of model?

**Mr. Charles-Antoine St-Jean:** Ontario does it that way, the statutory approach. B.C. is a model 3. So I can see both sides of the debate.

**Mr. Chris Warkentin:** Keeping on the theme of standards, we had a witness here by the name of Ronald Salole from the Canadian Institute of Chartered Accountants. I believe I asked him specifically about infrastructure liabilities and environmental liabilities. His concern was that we not bring those liabilities onto the books until we have made a commitment to spend the dollars—and not that we've made the commitment a political decision, but actually assigned a contractor to do the work. It was his belief that within the standards that was accepted generally.

My concern is that many people on this committee want us to be able to see more clearly the reality out there, the liabilities we might have out there. I'm sensing and realizing that we may not be able to do that with accrual accounting.

I see that we're still using environmental liability, so obviously there is some way we can bring that in if the contractor has been signed up to do the work. But what are your thoughts on this?

**Ms. Sheila Fraser:** The environmental liabilities are recorded, but only at the time the federal government acknowledges a responsibility and that there will be a cost incurred. For example, in this country there are certain sites that could be provincial or municipal jurisdiction. The federal government would have no responsibility. There would be no liability for that. There can also be a site where the government decides that no remediation will occur, and it will simply cap it or leave it as it is. There would be no real costs incurred going forward to remediate that site, so no liability would be recorded for that and it wouldn't require a contract.

He may have been saying that the government has to recognize that it has a responsibility to do something and there will be a cost incurred.

**Mr. Chris Warkentin:** He was very specific. I got into the whole question then about federally owned buildings. There's a \$4 billion liability that's generally accepted throughout the civil service, and I think most parliamentarians have heard that.

His assessment on both the environmental side and the infrastructure side was that we should not document with accrual accounting within generally accepted standards until there has been a contract with somebody to spend the money. That was his testimony.

I'm wondering if you would differ with him on that testimony.

**Mr. Charles-Antoine St-Jean:** There might be a misunderstanding there. What's important is that the liability be recognized by the government and that you have sufficient evidence to be able to determine the amount of the liability. So a contract isn't necessarily in place, but at some point you have enough information.... I'm trying to remember what is the certainty or—

•(1235)

**Ms. Sheila Fraser:** That might be the case more with infrastructure and buildings. We might look at a building and say that if you want to bring it back to grade A condition it will cost you  $x$  dollars. But until the government decides to do that and signs a contract, there is no liability, because it has the choice of simply letting the building deteriorate even further.

In the case of infrastructure, there has to be a contract in place to record a liability generally, whereas environmental is somewhat different. There has to be a recognition of responsibility and, as the Comptroller General said, the ability to estimate how much the costs will be.

**Mr. Chris Warkentin:** Is there some type of assessment required to establish the actual dollar value right now with—

**Ms. Sheila Fraser:** On environmental liabilities, the government has done a very good job. On the Treasury Board website there is a listing of all the sites and the estimation of the costs to deal with the environmental liability. That work was carried out three or four years ago and is updated every year. So a significant amount of work has gone into estimating the environmental liability. It is recorded in the financial statements of the government.

**The Chair:** Mr. Bains.

**Hon. Navdeep Bains:** I'll pass.

**The Chair:** Mr. Alghabra.

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

On the actual way of voting, I'm not sure why we would be voting \$25 million, for example, in the first year if we agreed to adopt accrual accounting and we know that the project costs \$100 million. Why wouldn't we vote \$100 million in the first year, since that's what the project is going to cost, even though it's only going to cost us \$25 million in the first year and \$75 million in the second year?

**Mr. David Moloney:** I wouldn't want to give explanations for why not, but it is a long-standing approach to parliamentary authority and control of spending that it is voted on year by year. Even though the government's books overall are on accrual now, or even if they were on cash, there's a multi-year reality in a cash world and in an accrual world. We're certainly not saying we wouldn't want to go there. In fact, it is one of the things that departmental managers identify to us often as being a problem for them because of the reality. You can't spend the \$25 million only in this example; the \$75 million is coming. Why wouldn't you just have the multi-year appropriations and not have to come back? Well, Parliament might want to see it. We would have to present that \$75 million for information, then, in a second year, so there'd be a further degree of complication.

I think traditionally, in many governments, both the government and the Parliament might have been concerned about uncertainty in the fiscal situation and the government's wherewithal to actually pre-commit very large amounts of money. So there's a materiality aspect to it. We have very sound finances, happily, now. So perhaps there was a reluctance in the past that was not necessarily appropriate.

This really does go to the heart of parliamentary control and how much freedom Parliament wants to give to departments and ministers to spend.

**Mr. Omar Alghabra:** I understand that, but we are taking it for granted that the actual depreciation, or amortization, or consumption is going to become statutory if we decide to go that way. So it's an automatic approval for Parliament if we go that way, because once the government has committed to purchase that project or that program, the consumption is an automatic thing.

I'm still at a loss. If the government made a commitment for that \$100 million, I know the program has to be implemented over a period of two years, but the consumption will be taken over a period of 10 years after that. Why couldn't we just approve the project at that year?

To me it seems if we're going to accrual, the essence of accrual is that we take into account the overall costs of the project the minute we commit to that project. If we claim to take accrual but still vote on a cash basis, we're really still not using the accrual system.

•(1240)

**Mr. David Moloney:** I guess the one distinction here would be that the amortization amounts do not kick in until the full cash disbursement takes place. So in this example, if it was just \$25 million and then amortization, then we'd vote once, and then.... It's the fact that we won't actually have the series of 10 amounts—10 years of \$10 million—without actually having the two votes, the \$25 million and then the \$75 million.

Whether that's good financial management or good planning of the government's resources overall is a different question. They're logically separable. We're only trying to flag that it's a significant departure. It would improve the ability of departments to have the certainty that they can manage a project well, no question.

**Mr. Omar Alghabra:** I understand the necessity for Parliament to examine the expenditure every year, but Madam Fraser, I'm interested in hearing your thoughts. If Parliament gives approval for this project—and again, let's take the \$100 million—why couldn't we ask Parliament to vote for the approval for that project? Calling it multi-year may raise some flags, and that's why maybe labels here are the issue. The issue is whether or not we should vote for this project—do we want this project or not?—and leave the reality of the implementation up to the department.

**Ms. Sheila Fraser:** I think, Madam Chair, that the member makes eminent sense, and when I think about it, it would actually improve accountability. If a government of the day has made a commitment to buy a building, shouldn't they be accountable for that before Parliament rather than just for the amount of cash that goes out each year? Especially if we talk about very large purchases, of military equipment or other, which can go out over several years, the decision, really, to carry out those contracts is made in that particular year.



I haven't thought it all through. There may be downsides, but I think the tradition has always been that Parliament has controlled the cash. However, if we do move into a new world of accrual appropriations, I certainly think it's something worth looking at.

[Translation]

**M. Omar Alghabra:** Mr. St-Jean.

[English]

**Mr. Charles-Antoine St-Jean:** I agree. As I said before, multi-year appropriation would be helpful. It's also very important for Parliament and the government to control the cash position. When you do the multi-year appropriation you should also be very clear in which years you expect to see the cash dispersed, because you also have to pace yourself. If you're going to be approving \$1 billion over 10 years, there's a difference in cash position if it's going to be over 10 years or one year. You need to have both, but multi-year would be helpful, thank you very much.

[Translation]

**The Chair:** Thank you.

Mr. Nadeau.

**Mr. Richard Nadeau (Gatineau, BQ):** Thank you, Madam Chair.

Ms. Fraser, gentlemen, in the light of the study we have consulted or the ideas you have put forward, we gather that you are strongly suggesting that we go for accrual accounting.

Correct me if I am mistaken, but we are told that at present, in the government machinery, there are a total of seven different accounting systems and that we have to come up with a single system. Is that the idea?

**Ms. Sheila Fraser:** I do not believe that the government has announced that we have to come up with a single system. As I indicated earlier, I would have some reservations concerning the adoption of a single system. Clearly this would be quite a complex system all the same, in view of the size of some departments. Many small agencies would not need a very complicated or very complex system. So we would need at least two.

**Mr. Charles-Antoine St-Jean:** We must not have a single, one-size-fits-all system. I am not much in favour of that. Furthermore, having just one system for an organization as large as the Canadian government would make me a bit uncomfortable, since the government could be held hostage by a single provider.

• (1245)

**Mr. Richard Nadeau:** I see.

That being said, there must still be one that is preferred. We want to develop a system, a way of doing things, a more transparent approach, etc., where accounting is concerned, which would also be simpler to consult for anyone who wanted to take an interest in it.

How far along the road are we?

The possibility of five years was mentioned. How far are we from reaching this reality?

We have seen that Ontario has one way of doing things, as does British Columbia. Some suggestions have been made, but for the

ordinary layperson, what are the major phases to be completed so that we can say, in five years—let's hope—we will have reached our goal?

**Mr. Charles-Antoine St-Jean:** Unfortunately I only have the English version of the PricewaterhouseCoopers report here. On page 7, there is a timetable in the diagram showing the implementation of the approach. A number of elements should be changed, including the reference levels. That would be the first element. There are also other elements to put in place. This is the new way of presenting information when we speak of three-way financial statements: the statement of financial position, the statement of operations and the statement of utilization. This is what we were planning here for the second year of the pilot project. Then, from the second to the fourth year, we would work on implementation of Parts I and III of the financial statements.

So a number of things must take place sequentially. As Madam Auditor General mentioned earlier, in view of the current cycle of budgets and budget estimates, only two years will be necessary to get the machine up and running. Here you have a diagram of the major phases to be completed to reach the goal.

The whole thing should take more or less five years.

**Mr. Richard Nadeau:** Perhaps this is an historical question, but does the fact of using seven systems at present adapt well to the process that has been outlined?

**Mr. Charles-Antoine St-Jean:** We have seven systems. At the beginning, I think we used to have 36 or 40. So we are down to seven. Later we would probably like to bring the number down to two or three. These are all systems that can facilitate the approach.

**Mr. Richard Nadeau:** Right.

**Mr. Charles-Antoine St-Jean:** The approach will be facilitated by several systems.

**Mr. Richard Nadeau:** Thank you.

**The Chair:** Mr. Poilievre.

[English]

**Mr. Pierre Poilievre (Nepean—Carleton, CPC):** Thank you.

I think Mr. Alghabra asked some good questions, and I'd like to follow up on them.

What I don't understand is how amortization can be the subject of a vote, because amortization is not a choice. It happens; assets get old and die. There is nothing that, as parliamentarians, we can vote to change. So it makes sense to me that if you're going to amortize, and you're going to move to accrual accounting, you would have that booked statutorily.

The only argument against this is that some assets might amortize more quickly, because if Public Works buys a bus and the bus drives into the Ottawa River, it's gone. Is it not reasonable in those situations to leave some discretion to our officials, who come under the watchful eye of Ms. Fraser and of our Comptroller General, to accelerate amortization where exceptional circumstances warrant, and assume that other amortization is just statutory?

What are your thoughts on that?

**Mr. Charles-Antoine St-Jean:** As I said, I have been moving from models 3 and 4. I think the Auditor General has also been saying model 3 or 4 would be in the zone. I like model 3 because it gives more visibility to parliamentarians, so you make that conscious decision. I like model 4 in the sense that it will standardize and prevent—I think we used the expression—massaging the amortization number. So either way, I can live very easily.

The third model would need a bit more vigilance on the part of parliamentarians. But I'm sure the Auditor General and my office could make sure that we maintain consistency in the amortization. So I would say it's a preference at this point.

● (1250)

**Mr. David Moloney:** As an additional comment—not instead of the Comptroller General's comments—from the point of view of parliamentary control, Parliament may wish to allocate the tax resources available to it differently, and voting amortization does allow Parliament to essentially remove the ability of the government to continue to own an asset. So the wording of the votes would have to be crystal clear as to what not providing the amortization means, but governments can dispose of assets.

Part of the question here is, does Parliament wish to have the ability to essentially force this by not voting automatically for amortization, as you said? It's this point, in terms of expenditure management and oversight, that we want to have.

**The Chair:** Yes, Madam Fraser.

**Ms. Sheila Fraser:** I'll approach this perhaps from a different perspective.

Currently parliamentarians vote on operating expenditures as one number. Going forward, were this to be adopted, you have operating expenditures that would be cash, most of the program expenditures going out would be cash, and then you would have non-cash expenditures, of which amortization would be one. But also if you take the case of provisions for environmental liabilities, those would be non-cash.

Now, you could almost see a world where you might have a mix in how non-cash expenditures were dealt with. Regarding the amortization of fixed assets, you might say yes, that's statutory; we've voted on the acquisition of the assets, and that just follows through. But on an environmental liability, parliamentarians might want to say no, we just don't want to be informed of that; we want to actually vote on it.

So I think the models are not necessarily exclusive, one of the other. Depending on the nature of the expense, you might say that there are some we accept, because we've voted on them previously and the amortization follows as the consequence, whereas others, environmental liabilities, provisions for lawsuits, and so on—

**Mr. Pierre Poilievre:** Things that are actually within our control.

**Ms. Sheila Fraser:** Yes, that's right—that parliamentarians could actually decide, no, we don't agree with this or that decision.

**Mr. Pierre Poilievre:** Right.

**Ms. Sheila Fraser:** Then you might say no, those we want to vote on.

So you can almost think of a mixed model, in a way.

**Mr. Pierre Poilievre:** I think where we differentiate between the two is that one is in our control and the other is not. For example, if Public Works buys this bus—which I've talked about earlier—and presumably it doesn't drive into the Ottawa River, the bus is going to last 10 or 20 years, or however long a bus lasts. Parliament can't vote to give it an extension of life.

**Ms. Sheila Fraser:** No, that's right.

**Mr. Pierre Poilievre:** So why would we vote on it? You can't say, actually, no, we decided today that it has not amortized by \$50,000, that it did not occur this year, and we think the bus is in pretty good shape after all. It just amortizes. It just happens.

You pointed to situations where we actually have some control. I think we need to find a solution that fixes statutorily amortization that is inevitable into a schedule that's realistic, with provisions for our officials to accelerate that amortization where extraordinary circumstances necessitate them to do so. Then in a separate category we'd have those matters that actually are within our control.

I don't know if I've fallen into model 3 or 4 here.

**A voice:** Maybe 3.5.

**Mr. Poilievre:** Great, 3.5.

I'll open up the floor to any comments you might have on that. Then I think Mr. Warkentin as well has some questions.

**Mr. David Moloney:** Let me just very briefly respond.

I guess the issue is whether Parliament would like to have the ability to decide that the bus should be sold—not whether a coat of paint has extended the life but whether the government shouldn't have that bus, should sell it, or we should not be changing them. So the balance sheet of the country should change.

If you vote the cash, you are voting for the amount that affects the government's balance sheet. If you don't vote the amortization, Parliament is not ever voting for the amounts that eventually affect the bottom line, in that sense. You're only voting the cash, not the actual fiscal consequence.

If we're clear enough about it, it's not...and that's the issue of the transparency. I'm not saying it's not doable, but you don't have that further level of control on an ongoing basis.

● (1255)

**The Chair:** But don't you think a government has the right, when they're in power, to make a decision to say, for instance, we're thinking of selling off the Parliament Buildings? They may not be able to sell them, of course, but they could make that decision and the consequences would follow, period.

I think the government always has that power. Parliament has the power to approve the expenditures and the amortization. If they have numbers enough in the opposition, they can say, no, we don't want you to sell Parliament. But that comes as a separate thing to Parliament.

**Mr. Pierre Poilievre:** When does Parliament actually get involved in voting on the disposal of assets?

**Mr. David Moloney:** Well, it doesn't today. But if we're moving into a world where we are explicitly taking account of the use of assets to deliver government services, which is precisely what this is about, Parliament now actually has the option, should you want it, of giving yourself that extra degree of control. Model 4 doesn't pick that up. Model 3 does.

**The Chair:** We thank you very much. Now the job for our researchers and the rest of the committee is to get together on the report and make some recommendations. Hopefully they'll be good. I think you'll get a good report from the committee.

A short question, Mr. Alghabra.

**Mr. Omar Alghabra:** I just want to go on the record as saying that if we still vote \$25 million and \$75 million, it's not really accrual. It's still cash. Models 3 and 4 are both still talking about cash.

The way I see it is that if we want to go to accrual, we vote \$100 million in the first year. If Parliament doesn't want to continue with the project, they vote minus \$75 million the year after. That's how I see it. Maybe we need to attach cashflow statements with the accrual accounting if that's relevant. I see models 3 and 4 as still not fully accrual accounting.

Thank you.

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

Let me tell you that if Parliament decides to vote down an expenditure after they've signed the contract, I hope they realize there are huge costs attached to that as well.

**Mr. Omar Alghabra:** They'd still have to sign the contract anyway.

**The Chair:** Oh, I remember that one.

Madame Thibault.

**Ms. Louise Thibault:** Do you have any idea of the total...? I agree with Madame Fraser that.... I mean, I can understand that it's going to cost some money, and it's going to be recurring and all that....

[Translation]

Why am I speaking English? Someone is going to scold me this afternoon!

Seriously, about how much will the total cost be of implementing this improved system over five years? I am not asking you to consult a crystal ball, but I would like the Canadian public to be informed by means of our report.

**Mr. Charles-Antoine St-Jean:** PricewaterhouseCoopers said it would not be more than \$150 million.

**Ms. Louise Thibault:** That is how much it would be?

**Mr. Charles-Antoine St-Jean:** It could be.

**Ms. Louise Thibault:** Then, can you tell us how much more, in your opinion, it is going to cost each subsequent year, depending on whether model 3 or 4 is selected? In order for it to work, we should expect there to be expenditures of a certain order, in both the central agencies and the departments, small and large, all procedures combined. Can we get a figure?

**Mr. Charles-Antoine St-Jean:** An order of magnitude for this.

• (1300)

**Ms. Louise Thibault:** Yes.

**Mr. Charles-Antoine St-Jean:** As I mentioned earlier, the annual cost of the financial management of the Canadian government is on the order of some \$800 to \$900 million a year, or \$300 million for systems and \$600 million for people. Those are the current costs.

What would the marginal costs of this system be? This is hard to estimate, but there would not be a quantum leap. There might be a certain...

**Ms. Louise Thibault:** Would it be reasonable?

**Mr. Charles-Antoine St-Jean:** It would be a reasonable order of magnitude.

**Ms. Louise Thibault:** Thank you.

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

Thank you very much.

The meeting was adjourned.





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