



HOUSE OF COMMONS  
CANADA

**THE EXPENDITURE MANAGEMENT SYSTEM AT THE  
GOVERNMENT CENTRE AND THE EXPENDITURE  
MANAGEMENT SYSTEM IN DEPARTMENTS**

**Report of the Standing Committee on  
Public Accounts**

**Hon. Shawn Murphy, M.P.  
Chair**

**February 2008**



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# THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

## FOURTH REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered **Chapter 1, Expenditure Management System at the Government Centre** and **Chapter 2, Expenditure Management System in Departments** of the November 2006 Report of the Auditor General of Canada. The Committee as agreed to table this Report as follows:





## **INTRODUCTION**

A sound and effective system for managing spending is central to the government's ability to carry out its fiscal responsibilities, fund its programs, control spending, and report financial and performance information to Parliament and the public. An Expenditure Management System that works well promotes efficient, responsive, and accountable government. Without a good system, nothing that individual departments and agencies can do will result in sound overall management of government spending.

In the chapters considered by the Public Accounts Committee for this report, the Auditor General wanted to assess whether the government's current Expenditure Management System is appropriately designed and implemented to support decisions made about the allocation and reallocation of resources and to provide effective oversight of expenditures. The Auditor General also studied how the Expenditure Management System works in departments. Departments play an essential role in the Expenditure Management System because they are responsible for managing the resources allocated to them and for achieving the results expected of their programs.

The Committee agreed with the Auditor General's concern with this issue and held two meetings, 26 February 2007 and 28 February 2007, to consider the audits of the Expenditure Management System. The Committee met on both days with the Auditor General of Canada and other officials from her office: Douglas Timmins, Assistant Auditor General; Tom Wileman, Principal; Richard Domingue, Director. The Treasury Board Secretariat was represented by Wayne Wouters, Secretary of the Treasury Board, and David Moloney, Senior Assistant Secretary, Expenditure Management Sector.

## **BACKGROUND**

The Expenditure Management System is at the heart of government operations. The main components of the System are the processes and procedures by which the central agencies of government support Cabinet in allocating and managing

government spending. These processes and procedures are designed to help align resources with priorities, oversee spending, and establish the policies that departments will follow to manage and deliver their programs. Expenditure management in departments is tied to the annual budget cycle and reacts to changing priorities throughout the year.

The Expenditure Management System is made up of two elements. One deals with funding for existing programs and takes place through a process known as the Annual Reference Level Update, or ARLU. In this process, the Treasury Board Secretariat and departments examine the amounts approved by the Treasury Board for the previous fiscal year and establish the amount of funding for the next fiscal year and the following two planning years. As the Auditor General noted, this is a mechanical exercise that does not take program performance into account. In addition, the Treasury Board Secretariat does not exercise any substantive challenge to what is contained in the Annual Reference Level Update, because all of the items contained in the ARLU already obtained Treasury Board approval at some point.

The second element of the Expenditure Management System involves a process for approving new spending. A new spending proposal is first approved by Cabinet through the use of Memoranda to Cabinet. A Memorandum to Cabinet presents the new program's proposal, the reasons for it, its possible impacts, and the financial implications. The memorandum does not need to identify a source of funds: at this point, the program is only seeking policy approval or, at a minimum, approval in principle by one of the Cabinet committees. Following ratification by Cabinet, spending proposals are added to an inventory of possible initiatives for future budgets. The Minister of Finance and the Prime Minister decide which proposals will be included in the Budget, and the decision depends on available funding and priorities not yet addressed.

Once a program has been included in the Budget, the sponsoring minister makes a separate submission to the Treasury Board to request that funds be allocated to the department for the specific program. The Treasury Board submission explains how the department will carry out the proposed initiative and with what resources each year, what the department expects the initiative to achieve, and how it will monitor and assess

results. The Treasury Board may reject a submission (an extremely rare occurrence), approve it outright, or approve it with conditions. If the funding approved relates to an ongoing new initiative or a permanent expansion of an existing program, the funding becomes part of the relevant department's reference levels and gets rolled into the Annual Reference Level Update exercise discussed above.

One of the main problems affecting the Expenditure Management System is that these two processes, the Annual Reference Level Update that approves old spending and the new spending proposal process, operate separately from one another. That is, there is no process for examining what funds are already being spent on similar programs that have their funding automatically approved each year through the ARLU exercise. Nor is there currently any way to assess the effectiveness of programs that automatically receive funding through the ARLU exercise: the government does not evaluate every program for effectiveness on an ongoing basis.

## **BUDGET INITIATIVES**

The current Expenditure Management System has been in place since the mid-1990s and was designed to operate when the government was in deficit. In Budget 2006, the Government of Canada announced that it was going to examine the Expenditure Management System with the intent of producing an improved system. The Budget stated that the aim of the improved Expenditure Management System is to respect the following principles:

- “Government programs should focus on results and value for money;
- Government programs must be consistent with federal responsibilities; and
- Programs that no longer serve the purpose for which they were created should be eliminated.”<sup>1</sup>

Budget 2007 highlights an improved Expenditure Management System; however, there is little detail given in the Budget Plan.

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<sup>1</sup> Government of Canada. *Budget 2006. Focusing on Priorities*, p.53. Available online at <http://www.fin.gc.ca/budget06/pdf/bp2006e.pdf>

The Committee would like to see more details about the improved Expenditure Management System and how it will lead to a more effective System. Thus, the Committee recommends that

### **RECOMMENDATION 1**

**The Treasury Board Secretariat provide the Public Accounts Committee with a detailed plan of the Expenditure Management System when it is available.**

On 23 November 2006, the Minister of Finance presented his Economic and Fiscal Update. In the Update, he indicated that the President of the Treasury Board would soon outline the Government's new Expenditure Management System. Minister Jim Flaherty stated that the new Expenditure Management System "will ensure that federal spending delivers results, is guided by clearly defined objectives and goes towards the highest priorities of Canadians."<sup>2</sup> Budget 2007 stated that the new Expenditure Management System will "fundamentally change the way government operates."

According to officials from the Treasury Board Secretariat, implementation of the new Expenditure Management System depends on when the initiative receives Cabinet approval. Wayne Wouters stated that the Secretariat "will have an implementation plan once the government decides to proceed and agrees on the individual details."<sup>3</sup> Mr. Wouters also stated that he would be pleased to make this implementation plan available to the Committee once it is finalised. The Committee looks forward to receiving this implementation plan and recommends that

### **RECOMMENDATION 2**

**The Treasury Board Secretariat provide to the Public Accounts Committee a detailed implementation plan of the new Expenditure Management System when it receives Cabinet approval; and that the Secretariat provide the Committee a status report on the implementation of the new Expenditure Management System by the end of the next budget cycle, 31 March 2009.**

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<sup>2</sup> Presentation by the Honourable James M. Flaherty, P.C., M.P., 23 November 2006.

<sup>3</sup> Public Accounts Committee. Meeting 42: 1555.

The Committee strongly endorses all of the recommendations made by the Auditor General. The Treasury Board Secretariat responded to the audits by saying that they are “in general agreement” with the recommendations made by the Auditor General. The Committee would like assurance that the Secretariat plans on adhering to the recommendations made in the audits, and as such recommends that

### **RECOMMENDATION 3**

**The Treasury Board Secretariat provide the Public Accounts Committee with an action plan detailing how it will implement all of the recommendations made in Chapter 1, Expenditure Management System at the Government Centre and Chapter 2, Expenditure Management System in Departments from the November 2006 Auditor General’s report by 30 June 2008.**

### **ROLES AND RESPONSIBILITIES OF CENTRAL AGENCIES**

The Auditor General reported on the relationship between the three central agencies – the Treasury Board Secretariat, the Department of Finance, and the Privy Council Office – and the role these three agencies play in ensuring an effective Expenditure Management System. The Treasury Board Secretariat plays a key role in managing government expenditures after Cabinet approves the allocation of funds. The other two agencies are involved in setting policy and spending priorities. The Department of Finance is mainly responsible for ensuring the integrity of Canada’s finances and the Privy Council Office is responsible for ensuring that the allocation of resources is in line with the government’s priorities.

The Auditor General noted that there are weaknesses at the Memorandum to Cabinet and Treasury Board submission stages and that these weaknesses limit the central agencies’ ability to review the merits of spending proposals and to determine opportunities for trade-offs between new and existing programs. However, when the Auditor recommended that the central agencies clarify their roles in the Expenditure Management System, the government’s response was that “the central agencies agree

that clarity of roles and responsibilities is essential.”<sup>4</sup> The Committee would like to see more explanation about how the roles and responsibilities of central agencies will be clarified to ensure that the Expenditure Management System functions as effectively as possible. Therefore, the Committee recommends that

#### **RECOMMENDATION 4**

**The Treasury Board Secretariat work with the Privy Council Office and the Department of Finance to clarify their respective roles in the Expenditure Management System; and provide the Public Accounts Committee with information on these clarified roles and explain how these clarified roles will improve the effectiveness of the Expenditure Management System by 30 June 2008.**

#### **ACCESS TO INFORMATION**

The Auditor General was unable to audit certain aspects of government operations managed by the Treasury Board Secretariat because her office was denied access to the information it needed. The Office of the Auditor General attempted to determine whether the Treasury Board Secretariat had adequately fulfilled its challenge and oversight responsibilities related to government spending. In the course of the audit, the Office of the Auditor General was denied access to the analysis conducted by the Secretariat on the basis that they were Cabinet confidences. This has since been clarified by a new Order in Council.

The new Order in Council states that the Auditor General can have access to certain information that constitutes Cabinet confidences that came into existence on or after 6 February 2006, the day the current government came into office. Specifically, the Auditor General now has access to the following information as it relates to public expenditures:

- a) a submission to the Governor in Council,
- b) a submission as presented to the Treasury Board and any explanations, analyses of problems or policy options contained in or prepared by officials in relation to the submission, but not information revealing views, opinions, advice

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<sup>4</sup> Office of the Auditor General of Canada, “Chapter 1: Expenditure Management System at the Government Centre.” November 2006, page 47: response to recommendation in 1.53.

- or recommendations presented to a Treasury Board Minister or to the Treasury Board,
- c) any explanations, analyses of problems or policy options contained in a record presented to Council, as defined in subsection 39(3) of the *Canada Evidence Act* (“Council”), for consideration by Council in making decisions but not information revealing a recommendation or proposal presented to Council by a Minister of the Crown,
  - d) a final decision of Council, and
  - e) a decision of the Treasury Board.<sup>5</sup>

The Committee is pleased to see that the situation has been clarified, and that the Office of the Auditor General can now access the information it needs to complete audits. To guarantee that the Auditor General continues to have this access, the Committee recommends that

## **RECOMMENDATION 5**

**The Treasury Board Secretariat work with new governments to ensure that the Office of the Auditor General has access to the documents it needs to fully conduct its audits as is stated in the *Auditor General Act*.**

Now that a new Order in Council is in place that clarifies the Auditor General's access to certain Cabinet confidences, the Auditor General may wish to review how the Treasury Board Secretariat fulfills its challenge and oversight responsibilities in a follow-up audit given that it has better access to the necessary documents. The Committee would look forward to an update on this issue.

## **EVALUATION**

One of the stated goals of the new Expenditure Management System is to ensure that every dollar spent is well-spent. However, without an effective evaluation function, the task of making sure every dollar is spent wisely is nearly impossible. In

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<sup>5</sup> Privy Council Office, “Order directing that the Auditor General of Canada be granted access to certain information relating to public expenditures contained in a confidence of the Queen’s Privy Council for Canada.” 11 November 2006. Available online at <http://www.pco-bcp.gc.ca/oic-ddc/OIC-DDC.asp?lang=EN&txtOICID=&txtFromDate=&txtToDate=&txtPrecis=auditor+general&txtDepartment=&cboDepartment=&txtAct=&txtChapterNo=&txtChapterYear=&txtBillNo=&rdoComingIntoForce=&DoSearch=Search+%2F+List&page=2&OICKey=67438>

order to perform this type of expenditure oversight, the Treasury Board Secretariat must have access to timely, comprehensive, and reliable information on program costs and performance. The Auditor General found that the information currently available to the Secretariat and the other central agencies is weak. As Wayne Wouters stated, the evaluation function “is not at a level that is required in order to do the appropriate assessment of programs on an annual basis.”<sup>6</sup>

The weakness of the evaluation function is seen in the fact that the Annual Reference Level Update (ARLU) process, which is the mechanism through which departments have their ongoing spending approved by Parliament, is not designed to consider the performance of the programs that are seeking ongoing funding approvals. Though reviews and evaluations do take place on occasion outside the ARLU process, performance information is not integrated with this technical annual process used to renew spending for ongoing programs. Each year, the Treasury Board Secretariat recommends that the Treasury Board approve ongoing funding for programs, without assessing whether they remain effective and relevant.

Despite the fact that monitoring existing programs for their cost and effectiveness should be a standard requirement in government, the present Expenditure Management System does not require that departments and agencies submit non-financial performance information to show that they have used their funding effectively. As the Auditor General points out, this gap in information exists even though the Treasury Board Secretariat is currently modernizing the program evaluation policy and uses a considerable number of resources and effort to help departments and agencies evaluate the performance of their activities.

The Committee was pleased to hear that the Treasury Board Secretariat plans to improve the evaluation function. According to Mr. Wouters, the Secretariat would like to be in a position to evaluate every direct program’s spending over a five-year period. This lofty goal would necessitate a dramatic increase in the current evaluation capacity: Mr. Wouters suggested to the Committee that the goal of evaluating every direct program’s spending would “probably mean roughly a doubling of the number of

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<sup>6</sup> Public Accounts Committee. Meeting 42:1555



evaluators... which would be around 200 additional evaluators.”<sup>7</sup> The Committee supports this move to hire more evaluators in order to improve the information used in the Expenditure Management System. However, as the Secretariat has not provided any details on how these additional evaluators will be hired, the Committee recommends that

## **RECOMMENDATION 6**

**The Treasury Board Secretariat provide the Public Accounts Committee with an action plan to hire and train the evaluators necessary to ensure the new Expenditure Management System functions as planned by 30 June 2008; and**

**The Treasury Board Secretariat reinforce the importance of evaluation by adding program evaluation as a key requirement in the Expenditure Management System.**

## **ALIGNMENT**

Spending initiatives can involve large or small amounts of funds, an ongoing or a temporary timeframe for funding, and a changing funding profile over the years of the program. Determining the amount, the timeframe, and the funding profile is fundamental to designing an initiative or a program; all three factors are linked to the nature of the program objectives and how the program will meet its objectives.

Alignment is the extent to which the funding amount, timeframe and profile aligns with what the program requires for its implementation, delivery, and achievement of objectives. The Auditor General pointed out that the lack of alignment for new programs causes departments a myriad of problems: from seeking Supplementary Estimates for the same program on a reoccurring basis to spending funds before they receive parliamentary approval.

A major cause of the alignment problems cited by departments is the inflexibility of the Expenditure Management System. Specifically, departments note that the funding profiles for new programs approved in the Memorandum to Cabinet phase were

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<sup>7</sup> Public Accounts Committee. Meeting 42:1555.

not aligned with planned or actual spending. Funding profiles change constantly because a program's requirements can change constantly, often due to circumstances beyond the department's control. For example, if a program faced delays related to third-party activities, the approval process could take longer than expected and more of the funding would need to be shifted to later years. The inflexibility of the Expenditure Management System means that departments have difficulty changing a funding profile that was set out in a Memorandum to Cabinet to match the new realities facing the program.

The inflexibility of the Expenditure Management System is seen in the fact that the funding profile of a program that is established at the Memorandum to Cabinet phase cannot be changed at the Treasury Board submission phase. The Auditor General identified this as a major cause of alignment problems. If, as a Treasury Board submission is being prepared, the circumstances surrounding the implementation of the program change, there is no way to adjust the funding profile in the Treasury Board submission. Departments that need to adjust the funding profile must submit the request during the reprofiling exercise that takes place with the Annual Reference Level Update process. The Committee believes that the setting of funding profiles should be flexible enough to adapt to changing circumstances. Therefore, the Committee recommends that:

#### **RECOMMENDATION 7**

**The Treasury Board Secretariat work with the Privy Council Office to allow the funding profile of new programs to be altered at the Treasury Board submission phase to better reflect the needs of these programs.**

#### **EXPENDITURE MANAGEMENT INFORMATION SYSTEM**

The Expenditure Management Information System (EMIS) is a new system by which the Treasury Board Secretariat will gather information from departments in order to bring together the various pieces of financial information that go into the Estimates documents. The EMIS is actually a collection of systems, applications, databases and government-wide business processes that support the Secretariat in fulfilling its

expenditure management role. The outputs of the EMIS will include the Main and Supplementary Estimates.

The EMIS will function using the information provided to the Treasury Board Secretariat under the Management, Resources, and Results Structure (MRRS) policy which came into force in 2005. Under this policy, each department is required to align both financial and non-financial resources to the various outcomes that they have identified for their department. The MRRS policy is intended to provide departments, central agencies and parliamentarians with the framework needed to support results-based management practices across the federal government, demonstrate value for money, and provide key stakeholders with the information necessary to support decision-making. The Treasury Board Secretariat's goal is to have the EMIS be the common information database in which all information gathered under the MRRS policy will reside. In addition, the new EMIS will be used as an information base for decision-making.

The new EMIS will replace the seven existing legacy systems that are now outdated. The original projected cost of the EMIS was \$16 million: the cost currently stands at \$53 million. The increase in cost was due to TBS modifying the system to gather both financial and non-financial information and to link this to results.<sup>8</sup>

According to David Moloney of the Treasury Board Secretariat, the seven existing legacy systems are scheduled to be replaced by the new integrated system that will be in operation and fully tested by November 2007.<sup>9</sup> The Secretariat still plans to maintain the legacy systems on a parallel basis for the balance of the next estimates year. However, Mr. Moloney stated that the status of the legacy systems is precarious and the new EMIS will be used to produce the 2008-2009 Main Estimates documents.

The Committee was pleased to hear that when the Treasury Board Secretariat puts the EMIS in place over a couple of years, the Secretariat will finally be able to align spending with performance information using the data that comes in under the MRRS policy.

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<sup>8</sup> More information on problems with the Expenditure Management and Information System can be found in: Office of the Auditor General of Canada, "Chapter 3: Large Information Technology Projects" November 2006.

<sup>9</sup> Public Accounts Committee. Meeting 42: 1615.

The Committee strongly believes that an Expenditure Management System can only be effective if it uses the necessary information to base funding decisions. However, given the problems in the implementation of the new EMIS, the Committee is concerned that the Treasury Board Secretariat will not be in a position to support a renewed Expenditure Management System. To ensure that the Secretariat makes every effort possible to successfully implement the EMIS, the Committee recommends that

### **RECOMMENDATION 8**

**The Treasury Board Secretariat provide the Public Accounts Committee with an update on the implementation of the Expenditure Management Information System by 30 June 2008.**

### **MONITORING CONDITIONS**

The Treasury Board may attach conditions to the approval of a funding submission. One sort of condition that the Treasury Board can use is a special purpose allotment that restricts the use of a portion of funds to a specific purpose. However, the Treasury Board Secretariat does not review the use of special purpose allotments to provide assurance to the Treasury Board that departments and agencies are using the funds for the specified purpose. The Secretariat believes that departments are responsible for ensuring that the special purpose allotments are only used for their specified purpose. At the end of the year, departments provide the Treasury Board with expenditure information that shows how they used the special purpose allotments which is published annually in the *Public Accounts of Canada*.

In some cases, funding is approved with non-financial conditions attached. For example, departments may have to fulfill evaluation requirements or complete staff accommodation studies before they can access all of the funds being requested in the Treasury Board submission. The Treasury Board can control how departments access funds by creating “frozen allotments” that limit the full spending authority provided by Parliament in a particular vote. Frozen allotments can be set up pending a department’s fulfillment of outstanding conditions set by Treasury Board. The Treasury

Board Secretariat is responsible for ensuring that those conditions are met before they recommend that frozen allotments be released to the department or agency. However, the Auditor General found that the Secretariat has a limited capacity to monitor departments' compliance with the conditions they place on spending.

The Committee notes that the Auditor General found that departments have adequate procedures in place that allow them to comply with and track the compliance of Treasury Board conditions. It is surprising, then, that the Treasury Board Secretariat itself does not have the capacity to track compliance. The Committee believes that the Secretariat should follow the non-financial conditions it places on departments. By doing so, the Secretariat would be in a better position to strengthen the Expenditure Management System. The Management Accountability Framework affords an excellent opportunity to monitor departmental compliance with Treasury Board conditions, since it is an annual exercise that allows the Treasury Board Secretariat to assess departmental performance in key management areas. Therefore, the Committee recommends that

#### **RECOMMENDATION 9**

**The Treasury Board Secretariat ensure that it has the capacity to monitor departments' use of special purpose allotments and compliance with non-financial conditions and improve this capacity if necessary; and**

**The Treasury Board Secretariat monitor departments' use of special purpose allotments and compliance with non-financial conditions using the Management Accountability Framework beginning with the next round of assessments.**

#### **SUPPLEMENTARY ESTIMATES**

During the fiscal year, there is inevitably a need for public funds that were not anticipated when the Main Estimates were put together in the fall of the previous year. The government seeks authority for these unanticipated funds through Supplementary Estimates, which are also used to transfer funds between votes and to write off debts or adjust loan guarantees. Supplementary Estimates are usually tabled twice a year, in the late fall and in March, though they can be tabled more often if necessary.

The traditional purpose of the Supplementary Estimates is to finance unanticipated spending by the government. However, as the Auditor General has noted, these Estimates have now become a vehicle for new spending announced in Budgets. The deadline for inclusion of items in the Main Estimates is usually months in advance of the Budget.

In recent years, a rising proportion of spending has appeared in Supplementary Estimates, rather than Main Estimates. This means that the Main Estimates show a less than complete picture of planned spending for the coming year. The Auditor General noted that during the fiscal years from 1997-1998 to 2004-2005, the Supplementary Estimates appropriations averaged 10.5 percent of the total appropriations, up from an average 4.5 percent in the previous eight years. Wayne Wouters confirmed for the Committee that the reason for the large increase in the percentage of appropriations from the Supplementary Estimates was because the government went from being in a deficit to a surplus position. Mr. Wouters stated that though it is the desire of the Treasury Board Secretariat to have as much planned spending listed in the Main Estimates as possible as opposed to using Supplementary Estimates, it is inevitably up to the government to decide what to do with extra funds when in a surplus situation. As he said:

If [the government] decides that instead of reducing the debt or reducing taxes they are going to spend, than that spending will need to be reflected through supply in Parliament. What [the increase in Supplementary Estimates shows] is the overall growth in spending year over year, which has largely been announced in the Budget and therefore not reflected in the Main Estimates.<sup>10</sup>

The time lag between Treasury Board authority to spend and Parliamentary approval to spend can cause major problems for departments. The Auditor General found that after Treasury Board approval, departments often begin spending money on a program or activity before the funding has received parliamentary approval because several months can elapse between the initial approval of funds requested in a Treasury Board submission and the subsequent approval by Parliament. As the Auditor General noted, this time delay leaves departments with two choices: they can wait for parliamentary approval before they spend money on a program, or they can start

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<sup>10</sup> Public Accounts Committee. Meeting 43: 1550.

spending if they think they can manage the risk that parliamentary approval may not come. The latter approach, called “cash managing”, can be a risky activity as departments could face a supply problem should Parliament reduce or negative a vote. In addition, spending funds before they receive parliamentary approval undermines parliamentary control because money is spent before Parliament has examined and approved the spending.<sup>11</sup>

The Committee accepts the Auditor General’s statement that this cash managing generally occurs for existing programs where there already is authority to spend. However, it is extremely concerned that departments believe that they can override parliamentary authority when they see fit by cash managing funds before approval is given to access and spend these funds. The Committee wants to reaffirm the importance of the Parliamentary control framework of spending by stressing the need for parliamentary approval before spending funds requested in the Supplementary Estimates.

In discussing the practice of departments spending prior to parliamentary approval, David Moloney of the Treasury Board Secretariat stated that the Secretariat has no way to judge how many departments cash manage for an existing program before the funding is approved by Parliament. As he stated, the Secretariat has no information on the daily, weekly or monthly use of spending authorities and therefore cannot gauge whether departments are spending money before approval has been given by Parliament.

The Committee was shocked to learn that the Treasury Board Secretariat has no means to gauge whether or not a department internally cash manages to cover the needs of a program before it receives approval of their Supplementary Estimates by Parliament. The Committee believes that a rigorous Expenditure Management System should be able to track this sort of practice. As such, the Committee recommends that

## **RECOMMENDATION 11**

**The Treasury Board Secretariat use the Management Accountability Framework to determine the amount of cash management that happens in**

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<sup>11</sup> Public Accounts Committee. Meeting 42: 1530.

**departments and report the results of this tracking publicly beginning with the next round of assessments.**

Spending authority often lapses at the end of each fiscal year for almost all departments and agencies. To encourage good management practices, departments are allowed to carry forward unused funds of up to five percent of their operating and capital budgets into the next fiscal year. These operating budget carry-forward amounts need Parliament's approval annually. Carry forward funds are accessed through the Supplementary Estimates.

In a recent report, the Committee recommended that "departmental carry forwards be presented to the House of Commons in a separate Supplementary Estimate and be subject to a separate vote."<sup>12</sup> This recommendation was in part based on the Auditor General's statement that so doing would provide more clarity to what is being voted on in the Supplementary Estimates. The government responded that the carry forward has been separately identified in the Supplementary Estimates for some time: since the 2004-2005 Supplementary Estimates, all departmental operating budget carry forwards have been separately profiled at the beginning of these Estimates in the summary of horizontal initiatives. For these reasons, the government stated that it "does not believe at this time that a separate Supplementary Estimates subject to separate votes are necessary in order to highlight the use of operational budget carry forwards."<sup>13</sup>

Although the government is unwilling to create a separate Estimates document for operating budget carry-forwards, it is creating a new vote. The 2007-2008 Supplementary Estimates (A) state that in May 2007 the Treasury Board approved the creation of a departmental Operating Budget Carry Forward Vote. When these Supplementary Estimates are approved by Parliament, the new vote will "provide the authority to consolidate these routine departmental transactions into one Vote, thereby

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<sup>12</sup> Standing Committee on Public Accounts, *Report 5 - 2006-2007 Estimates and Performance of the Office of the Auditor General of Canada*. Adopted by the Committee on June 13, 2006; Presented to the House on June 16, 2006, recommendation 2.

<sup>13</sup> Government of Canada, *Government Response: Fifth Report of the Standing Committee on Public Accounts, "2006-2007 Estimates and Performance of the Office of the Auditor General of Canada."* Presented to the House on October 16, 2006.



reducing the number of line items in the Supplementary Estimates.”<sup>14</sup> With this change, instead of having to wait until the Supplementary Estimates are approved, departments will be able to request and receive their operating budget carry-forwards as soon as they are approved by the Treasury Board.

Though the Committee is pleased that the Treasury Board Secretariat still provides a detailed list of departmental operating budget carry-forwards in a separate Treasury Board central vote in the Supplementary Estimates, it is concerned that this information is being lost in the Supplementary Estimates. Showing the carry-forward only as a Treasury Board central vote will make the Supplementary Estimates a less transparent document. In light of this move away from transparency and clarity, the Committee again recommends that

#### **RECOMMENDATION 12**

**The Treasury Board Secretariat present departmental operating budget carry- forwards to the House of Commons in a separate Supplementary Estimate and thus have these carry-forwards be subject to a separate vote.**

The Committee believes that some of their concerns with the Supplementary Estimates could be assuaged by a better description of why a certain item is being included in the Supplementary Estimates instead of the Main Estimates. So doing would allow parliamentarians to better understand the need for Supplementary Estimates. For this reason, the Committee recommends that

#### **RECOMMENDATION 13**

**The Treasury Board Secretariat improve the transparency and clarity of Supplementary Estimates documents by including an explanation of why the items a department is seeking approval for need to be funded through the Supplementary Estimates rather than the Main Estimates.**

#### **CONCLUSION**

Because the Expenditure Management System is at the heart of the operation of government, the Committee was appalled to discover that the current System does not

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<sup>14</sup> Government of Canada, *Supplementary Estimates (A)*, 2007-2008, p. 7.

assess new program funding against ongoing program funding, nor does it have any real capacity to evaluate programs for their effectiveness. Despite years of management improvements and policy initiatives that have attempted to align program spending with reviews of a program's effectiveness and value-for-money, the central agencies still do not have the capacity provide the oversight necessary to assist government with the allocation of funds.

The Committee is growing weary of the numerous commitments to align resources to results. Although the government has recently pledged to improve the effectiveness of the Expenditure Management System in both the 2006 and 2007 Budgets, the Committee remains sceptical that real change will occur. The Committee believes that good management begins with good financial information. As the examination of the Auditor General of Canada's chapters on the Expenditure Management System shows, there can be little confidence in the financial information that informs government spending decisions. In order to establish an effective Expenditure Management System that will equip parliamentarians with the information they need to make the best spending decisions possible for Canadians, the Committee recommends that

#### **RECOMMENDATION**

**The Government appoint a Blue Ribbon Panel to examine the financial information systems that generate management information with the goal of improving the spending decisions of the Government.**



## APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<b>Office of the Auditor General of Canada</b> Richard Domingue, Director Sheila Fraser, Auditor General of Canada Douglas Timmins, Assistant Auditor General Tom Wileman, Principal	2007/02/26	42
<b>Treasury Board Secretariat</b> David Moloney, Assistant Secretary, Expenditure Management Sector Wayne Wouters, Secretary		
<b>Office of the Auditor General of Canada</b> Richard Domingue, Director Sheila Fraser, Auditor General of Canada Douglas Timmins, Assistant Auditor General Tom Wileman, Principal	2007/02/28	43
<b>Treasury Board Secretariat</b> David Moloney, Assistant Secretary, Expenditure Management Sector Wayne Wouters, Secretary		



## REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meeting No. 15 including this report is tabled](#)).

Respectfully submitted,

Hon. Shawn Murphy, M.P.  
*Chair*