



**HOUSE OF COMMONS
CANADA**

PUBLIC ACCOUNTS OF CANADA 2007

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

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

March 2008



The Speaker of the House hereby grants permission to reproduce this document, in whole or in part for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

If this document contains excerpts or the full text of briefs presented to the Committee, permission to reproduce these briefs, in whole or in part, must be obtained from their authors.

Also available on the Parliamentary Internet Parlementaire: <http://www.parl.gc.ca>

Available from Communication Canada — Publishing, Ottawa, Canada K1A 0S9

PUBLIC ACCOUNTS OF CANADA 2007

Report of the Standing Committee on Public Accounts

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

March 2008

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CHAIR

Hon. Shawn Murphy

VICE-CHAIRS

Jean-Yves Laforest

David Sweet

MEMBERS

David Christopherson

Brian Fitzpatrick

Mark Holland

Hon. Charles Hubbard

Mike Lake

Marcel Lussier

Pierre Poilievre

John Williams

Borys Wrzesnewskyj

CLERK OF THE COMMITTEE

Justin Vaive

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Alex Smith

Lydia Scratch

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

ELEVENTH REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the Public Accounts of Canada 2007. The Committee as agreed to table this Report as follows:

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered the *Public Accounts of Canada, 2006-2007* and has agreed to report the following:

INTRODUCTION

Every fall, the federal government publishes the Public Accounts of Canada, a three-volume set of documents that provides substantial detail on the government's financial operations over the previous fiscal year. The financial statements are prepared under the joint direction of the President of the Treasury Board, the Minister of Finance, and the Receiver General for Canada in compliance with governing legislation.

The Office of the Auditor General of Canada audits the summary financial statements of the Public Accounts of Canada in accordance with public sector accounting standards and issues an opinion as to whether they are fair and consistent. The Public Accounts of Canada also typically include a section called "Supplementary Information: Observations of the Auditor General on the Financial Statements of the Government of Canada," where the Auditor General raises "matters of concerns" which, while important, are not considered of sufficient importance to alter the overall opinion of the statements.

For the ninth year in a row, the Office of the Auditor General has said the federal government's financial statements "fairly" reflected its overall financial situation, that the statements contained no "material misstatements," and that the government's accounting policies were applied consistently.¹

The Committee held one meeting on the *Public Accounts of Canada, 2006-2007* on 20 November 2007. The Committee met with Sheila Fraser, Auditor General of Canada, and several officials from her Office: Douglas Timmins, Assistant Auditor General, Marion McMahon, Principal and Michael Pickup, Principal. The Interim Comptroller General of Canada, Rodney Monette appeared with John Morgan, Assistant Comptroller General and Bill Matthews, Acting Executive Director, both from the Financial Management and Analysis Sector of the Office of the Comptroller General. In addition, Paul Rochon, Assistant Deputy Minister, Economic and Fiscal Policy Branch represented the Department of Finance.

FINDINGS

Through the course of the hearing on the *Public Accounts*, several issues were raised that concerned the Committee, namely the status of departmental financial statements and the tax revenue estimation methodology used by Canada Revenue Agency.

¹ *Public Accounts of Canada, 2006-2007*. Volume 1, p. 2.4.

I. Departmental Financial Statements

It was announced in 2004 that all annual financial statements of departments would be audited as part of the government's plan to transform and strengthen public sector management. The first step to implement this initiative was to focus on 22 large departments. In 2005-2006, the Office of the Comptroller General requested that these departments undergo audit readiness assessments. The intent of these assessments was to identify key areas of improvement and to address any already identified weaknesses.

In her observations on the *Public Accounts, 2006-2007*, the Auditor General concluded that many departments have a long way to go before achieving the goal of readiness for an efficient audit of their financial statements. Her Office found that only 12 of the 22 departments have prepared detailed action plans to address the issues raised in their readiness assessments. The rest of the departments are either still waiting to have their assessments completed or are still preparing action plans. The Auditor General stated in her observations that she would have expected to see an action plan in place by now for each department so that the status could be monitored by the Office of the Comptroller General.

The Auditor General found that the Office of the Comptroller General needs to assume a more proactive role in assisting departments in achieving this initiative. The Office of the Comptroller General had committed to monitoring the results of the readiness assessments. However, as discussed in her Observations, in meetings between the Office of the Auditor General and departments, the Auditor General heard that departments would like to have more involvement by the Office of the Comptroller General.

The Committee does not understand the delay in the implementation of the departmental audit readiness assessments, especially given that the policy came into place in 2005. Given that audited financial statements will improve the accountability of departments, the Committee recommends that

RECOMMENDATION 1

The Office of the Comptroller General work with those departments who have not yet completed their departmental audit readiness assessments so as to ensure that these assessments are completed by 30 September 2008.

II. Estimating Tax Revenues

Accrual accounting for tax revenues is intended to ensure that tax revenues are recognized in the period when the taxable activity occurs, rather

than when the government receives the cash. Because tax revenues are the largest and most significant management estimates affecting the government's financial statements, it is important that the government regularly monitor the reliability of its estimation process and modify the process when necessary. The Office of the Auditor General has regularly stated the need to do this monitoring since the introduction of accrual accounting in 2003.

The Auditor General has found that the Canada Revenue Agency continually understates its tax revenues when the estimates are compared to actual results, particularly in the area of corporate tax revenues. Despite having four years of experience with this form of modelling tax revenues, the Canada Revenue Agency has not modified the methodology to improve the tax revenue estimation.

The Auditor General did not find this issue significant enough to conclude that the financial statements do not fairly present the government's financial position in her Observations; however, she does believe that the government needs to address this weakness in the tax financial reporting process. During her appearance before the Committee, the Auditor General stated that the Canada Revenue Agency and the government should try to refine the model used to estimate revenues.² The Committee agrees with this and, therefore, recommends that

RECOMMENDATION 2

The Canada Revenue Agency modify its tax revenue estimation methodology by 30 September 2008. If this cannot be done by this date, the Canada Revenue Agency should explain to the Public Accounts Committee the reasons for the inability to meet this deadline and provide the Committee with a date by which this modification will be done.

CONCLUSION

The Committee is pleased to observe that for the ninth year in a row, the Auditor General of Canada has issued a "clean" opinion on the consolidated financial statements of the Government of Canada. The Committee recognises that the Public Accounts of Canada are a valuable accountability tool and commends the work of both the Office of the Auditor General and the Office of the Comptroller General for their efforts in assuring Canadians that the government has presented fairly its financial position.

² Meeting 3, 945.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Finance Paul Rochon, Assistant Deputy Minister, Economic and Fiscal Policy Branch	2007/11/20	3
Office of the Auditor General of Canada Sheila Fraser, Auditor General of Canada Marian McMahon, Principal Michael Pickup, Principal Douglas Timmins, Assistant Auditor General		
Treasury Board Secretariat Bill Matthews, Acting Executive Director, Financial Management and Analysis Sector, Office of the Comptroller General Rodney Monette, Interim Comptroller General John Morgan, Assistant Comptroller General, Financial Management and Analysis Sector, Office of the Comptroller General		

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* ([Meetings Nos. 3, and 18 including this report is tabled](#)).

Respectfully submitted,

Hon. Shawn Murphy, M.P.
Chair