



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

# **PUBLIC ACCOUNTS OF CANADA 2012**

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

**David Christopherson  
Chair**

**JUNE 2013**

**41st PARLIAMENT, FIRST SESSION**



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Published under the authority of the Speaker of the House of Commons

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# **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **FOURTEENTH REPORT**

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Public Accounts of Canada 2012 and has agreed to report the following:

## INTRODUCTION

The Public Accounts of Canada presents the federal government's consolidated financial statements. It is an important accountability report of the government. These statements provide information to Canadians and parliamentarians about the government's financial performance over the previous fiscal year—its revenues, expenditures, and budgetary balance. The statements also provide a snapshot of the government's financial position at the end of the fiscal year—its liabilities, assets, and net debt.

The Auditor General of Canada provides an opinion and observations on the government's financial statements. The Auditor General examines whether the financial statements:

- present fairly, in all material respects, the financial position of the government;
- are prepared according to the government's own accounting policies; and
- apply accounting policies in a way that is consistent with previous years.

If the Auditor General concludes that these criteria are met, then he will provide an unmodified, or "clean," audit opinion. If, on the other hand, the Auditor General determines that there are enough misstatements in the financial statements that a person relying on them would be influenced to change his or her decisions, then the Auditor General will include a modification, or reservation, to his audit opinion. In addition, the Auditor General may provide observations on specific issues that he believes should be brought to the attention of Parliament, which, while important, are not considered of sufficient significance to alter the overall opinion on the statements.

Each year, the House of Commons Standing Committee on Public Accounts (the Committee) considers the Public Accounts of Canada and the Auditor General's opinion on them. This year, the *Public Accounts of Canada 2012* were tabled in the House of Commons on October 30, 2012, and the Committee held a hearing on February 14,

2013.<sup>1</sup> The Committee heard from: Nancy Cheng, Assistant Auditor General, and Louise Bertrand, Principal, from the Office of the Auditor General (OAG); as well as James Ralston, Comptroller General of Canada, Sylvain Michaud, Executive Director, Government Accounting Policy and Reporting, and Tom Scrimger, Assistant Comptroller General, Financial Management and Analysis, from the Treasury Board of Canada Secretariat; and Douglas Nevison, General Director, Economic and Fiscal Policy Branch, from the Department of Finance Canada.

## **AUDITOR GENERAL'S OPINION**

The Auditor General of Canada, Michael Ferguson, gave the federal government's consolidated financial statements for the fiscal year ending March 31, 2012 an unmodified opinion. He concluded that the financial statements fairly presented the government's financial position; were prepared in accordance with the government's stated accounting principles; and these principles were applied in a manner consistent with the preceding year. It is the fourteenth consecutive year in which the Auditor General has given a "clean," or unmodified, opinion on the government's financial statements.

Nancy Cheng, Assistant Auditor General, complimented the government on this achievement. She said:

It is a very commendable result for the Government of Canada. It speaks to the high quality of the preparation in the first instance. It also speaks to a good working relationship between both sides. Where we came across differences there was a lot of openness in discussing them and making adjustments where necessary. It is very exceptional in terms of results in comparison with other countries to have this type of audit report 14 years in a row.<sup>2</sup>

She added, "In many other jurisdictions they don't even have consolidated financial statements, let alone having clean audit opinions. For those who may have summary accounts, they may not have earned clean opinions like we have here in

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<sup>1</sup> House of Commons, Standing Committee on Public Accounts, *Evidence*, 1<sup>st</sup> Session, 41<sup>st</sup> Parliament, February 14, 2013, Meeting 77.

<sup>2</sup> Meeting 77, 1540.



Canada.”<sup>3</sup> James Ralston, Comptroller General of Canada, said a number of factors contribute to the quality of the financial statements, stating, “It’s a combination of strong policies, strong systems, and strong people doing the accounting in each department. I think we have a very impressive and robust combination of those factors that allow us to produce this result each year.”<sup>4</sup>

The Committee recognizes the achievement of fourteen consecutive years of clean audit opinions and notes the significant efforts undertaken by departmental officials to prepare the financial statements, the clear guidance provided by the Treasury Board of Canada Secretariat, and the diligent audit work performed by the OAG.

## **TRANSITION TO NEW ACCOUNTING STANDARDS**

In his observations, the Auditor General noted that during 2011-2012, many government entities made the transition to new accounting standards. Some entities moved to International Financial Reporting Standards (IFRS), while other used Canadian Public Sector Accounting Standards (PSAS) or Government Not for Profit accounting standards. Nancy Cheng explained why different accounting standards are used:

The important distinction is the accounting framework that supports that reporting entity. In the case of crown corporations, a lot of them are government business enterprises, so in the first instance they are not reliant on appropriation from Parliament. They have a business stream. They have revenues to sustain themselves. Under those circumstances the accounting standards that they should follow should be just like any other private sector firm. Therefore, they would follow the IFRS, the more normal commercial kind of financial reporting framework.<sup>5</sup>

However, as the federal government prepares its consolidated financial statements using Canadian PSAS, it is necessary to harmonize the accounting

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<sup>3</sup> Ibid.

<sup>4</sup> Meeting 77, 1655.

<sup>5</sup> Meeting 77, 1630.

standards of certain Crown corporations and to make adjustments to their respective financial statements. Ms. Cheng explained the process of consolidation:

Because some of those entities rely on the government, we tend to consolidate them line-by-line, in which case, if we're going to take part of their accounts receivable and group it with our accounts receivable, they had better be on the same accounting basis, otherwise you would be adding apples to oranges. All of those have to be converted back to the public sector standard before we add the numbers together.<sup>6</sup>

She pointed out that a one-time adjustment of \$3.3 billion was included in this year's financial statements. The adjustment includes unrealized gains and losses due to the use of financial instruments and accounting for employee benefits, such as pensions.

The Committee notes that the Auditor General indicated in his observations that he was satisfied the government's consolidated financial statements adequately reflect the adoption of new accounting standards. The Committee encourages the government to continue ensuring that the recording of financial transactions under the different accounting standards adopted by its various entities are consistent and comparable.

## **NATIONAL DEFENCE – NON-FINANCIAL ASSETS**

The Department of National Defence's inventories account for \$6 billion of the government's total \$7 billion in inventories. Its asset-pooled items, i.e. repairable spare parts, have a net book value of \$3.7 billion.

Since 2003, the Auditor General has reported on the Department of National Defence's difficulties in the proper recording and valuation of its inventory and asset-pooled items. Each year, these difficulties have resulted in hundreds of millions of dollars in adjustments to the government's consolidated financial statements. The problems relate to pricing, verification of quantities, and timely recording of transactions.

According to the Auditor General, the Department has several initiatives underway to address this problem, including a new resource management system, a

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<sup>6</sup> Ibid.

new stocktaking policy, a contract to provide national stocktaking assistance, and the development of financial control frameworks for business processes. The initiatives have various milestones with completion target dates extending to 2016. Nancy Cheng told the Committee that, “we're highlighting the fact that we really need to put more focus on it and make sure that we don't fall back, and make sure that these initiatives do get carried out so that we can improve the reporting on inventory, on the asset-pooled items, and on tangible capital assets.”<sup>7</sup>

As the Department of National Defence's difficulties with its inventory and asset-pooled items have existed for a number of years and its proposed initiatives will take several more years to put in place, the Committee would like to ensure that the Department has a firm plan against which progress can be assessed. It recommends:

### **RECOMMENDATION**

**That by September 30, 2013 the Department of National Defence provide the Standing Committee on Public Accounts with a plan, including specific initiatives and timelines, of how it intends to improve the proper recording and valuation of its inventory and asset-pooled items.**

### **ACCRUAL-BASED APPROPRIATIONS**

In 2003, the federal government adopted accrual-based accounting principles for the preparation of its consolidated financial statements and the budget. Under accrual-based accounting, transactions are recorded when they have been earned or incurred; whereas, cash-based accounting reports transactions when cash is received or paid out. The main and supplementary estimates continue to be prepared on a modified cash basis.

Using different accounting bases for the estimates and the financial statements can make it difficult to compare planned spending to actual spending. The Public Accounts includes a reconciliation between the two accounting methods. Additionally, departments and agencies may not fully realize the benefits of accrual accounting, as

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<sup>7</sup> Meeting 77, 1550.

they continue to manage their operations on a cash basis and subsequently adjust their books at year end to comply with accrual accounting principles.

The Auditor General has encouraged the government to make a decision with respect to the adoption of accrual-based appropriations. In past reports, the Committee has recommended that the government adopt accrual-based appropriations and provide a timeline for implementation.<sup>8</sup> More recently, the Committee recommended that the Comptroller General complete a study of accrual-based appropriations and determine whether they will be adopted for use in the government's financial management system.<sup>9</sup>

The government responded by indicating that it is undertaking a step-by-step approach to accrual-based appropriations, including using accrual budgeting in forward looking financial statements and requesting a study of the issue to be completed by March 31, 2013. James Ralston told the Committee that, "We've committed to provide our response to the committee by the end of March, and I understand we will meet that deadline."<sup>10</sup>

The Committee acknowledges receipt of a letter on accrual appropriations from the President of the Treasury Board, Tony Clement, on April 16, 2013.

## **CONCLUSION**

The Public Accounts of Canada provide important information to parliamentarians and Canadians about the government's financial performance over the previous fiscal year and its financial position at the end of the fiscal year. It is essential that the financial statements be prepared fairly and in accordance with the relevant accounting policies. For this reason, the Committee is pleased to note that for the

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<sup>8</sup> House of Commons, Standing Committee on Public Accounts, *Public Accounts of Canada 2006*, Twelfth Report, 1st Session, 39th Parliament, December 2006; and *Public Accounts of Canada 2008*, Sixth Report, 2nd Session, 40th Parliament, March 2009.

<sup>9</sup> House of Commons Standing Committee on Public Accounts, *Chapter 1, Financial Management and Control and Risk Management, of the 2011 Status Report of the Auditor General of Canada*, Fifth Report, 1st Session, 41st Parliament, April 2012.

<sup>10</sup> Meeting 77, 1550.

fourteenth consecutive year, the Auditor General has provided a clean audit opinion on the government's consolidated financial statements.

Nevertheless, there is still room for improvement, and the Committee expects that the various government entities will record financial transactions under different accounting standards in a consistent and comparable manner, and that the Department of National Defence will continue its work in resolving difficulties in the proper recording and valuation of its inventory and asset pooled items.

# APPENDIX A LIST OF WITNESSES

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<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Department of Finance</b> Douglas Nevison, General Director, Economic and Fiscal Policy Branch	2013/02/14	77
<b>Office of the Auditor General of Canada</b> Nancy Cheng, Assistant Auditor General Louise Bertrand, Principal		
<b>Treasury Board Secretariat</b> Jim Ralston, Comptroller General of Canada Tom Scrimger, Assistant Comptroller General, Financial Management and Analysis Sylvain Michaud, Executive Director, Government Accounting Policy and Reporting		

# REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (41st Parliament, 1st Session: [Meetings Nos. 77 and 91](#)) is tabled.

Respectfully submitted,

David Christopherson

Chair