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Report of the  
**Auditor General  
of Canada**  
to the House of Commons

**MARCH**

**Chapter 6**  
Managing Government:  
Using Financial Information



Office of the Auditor General of Canada

*The March 2004 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.*

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Chapter

# 6

Managing Government  
Using Financial Information

*All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.*

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# Managing Government Using Financial Information

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## Main Points

**6.1** The government continues to improve financial information, including successful implementation of full accrual accounting in its 2003 summary financial statements. Making this change to the current year's summary financial statements was a significant accomplishment. The government should be proud of the results of this hard work and of the fact that the enhancements have established Canada as a world leader among national governments in financial reporting.

**6.2** However, the adoption of accrual accounting in the summary financial statements was never intended as an end in itself, but rather as part of a wider initiative to improve financial management and control in the government. More work is still needed to resolve a number of outstanding issues.

**6.3** Departments and agencies must now improve and use accrual financial information for their daily decision making and management and reporting practices; otherwise accrual accounting will be seen as something that is undertaken only to comply with initiatives or directives established by central agencies, such as the Treasury Board Secretariat.

**6.4** The Office of the Comptroller General of Canada needs to lead this change by leveraging the momentum created by recent successes and by aggressively advancing financial management and control within the government. It also needs to develop a strategy to strengthen the financial capacity of senior financial positions and ensure that a strong departmental comptrollership capacity is established in all departments.

**6.5** The government must finalize its study of accrual-based appropriations and budgeting at the departmental level. The Treasury Board Secretariat continues to state that this complex issue needs extensive study before a decision can be made, even though the government has been examining the issue for several years.

**6.6** Departments and agencies must take additional and speedier action to correct weaknesses in their internal controls. Integrated and comprehensive internal control systems play a significant role in ensuring that high-quality financial information is available. After three years of examining internal control systems within departments and agencies, we continue to observe weaknesses similar to those we first identified in 2001.

## Background and other observations

**6.7** Complete financial information and strong internal controls are vital for achieving results for Canadians. The integration of financial and non-financial information into decision making, the establishment of effective financial information systems and controls throughout government, and the establishment of strong financial policies and procedures all lead to continuous improvements of stewardship in government.

**6.8** Accrual financial information is an integral component of good financial information in government. Under accrual accounting, transactions and other economic events are recognized when they occur, rather than when cash or its equivalent is received or paid. Expenses are recorded in the period when the goods or services are consumed, revenues are recorded in the periods to which they pertain, and the multi-year economic benefits associated with capital assets are recognized in the period in which they are used.

**6.9** Accrual financial information helps users appreciate the full financial scope of government—the resources, obligations, financing, costs, and impacts of its activities, including the costs of consuming assets over time. This more complete picture enables legislators to hold the government more accountable for the stewardship of its assets, the full costs of its programs, and its ability to meet short-term and long-term financial obligations.

**6.10** Accrual financial information can also help improve decision making within departments. Managers will improve their focus on the stewardship of assets and liabilities under their control, consider the full periodic costs of providing services, and examine how the full range of costs might affect their use of public funds and assets.

**6.11** The current operating environment within government encourages managers to focus on the amount of their original allotment of money left to spend (free cash balance) and not on the full accrual cost of their programs and activities. As a result, full cost information is not considered as important as cash expenditure information. This orientation by managers arises because, among other things, the basis of accounting used in the government's expenditure management system is not accrual accounting, and it is this system and its allotments against which most departmental and agency managers still feel the greatest accountability.

**6.12** As well, the government's current model for departmental financial statements needs further improvement because it does not require recording and disclosure of some significant costs and liabilities and the valuation adjustment of some assets. In our view, without this information, departmental financial statements do not provide accurate and reliable information on departments' program costs and assets and liabilities.

**The Treasury Board Secretariat has responded.** The Secretariat has agreed with our recommendations, and its responses in the chapter describe current or planned actions to address the recommendations.



## Introduction

### What is financial information, financial management, and internal control?

**6.13** Providing information is an important role of the government. The Chief Information Officer Branch of the Treasury Board Secretariat acknowledges the importance of this role in the preamble to its *Framework for the Management of Information in the Government of Canada*. It states that “all of the services that we [government] provide to citizens, to businesses, and to internal clients are about information in one way or another. The provision of information is often the service itself . . . Fundamentally, most government activities are about managing information.”

**6.14** Financial information is an integral part of the government’s activities and reflects the information arising from its financial affairs and transactions. For example, as reported in the 2002–03 *Public Accounts of Canada*, the government raised over \$190 billion in revenue, incurred expenses of over \$183 billion, and had assets of almost \$190 billion and liabilities of about \$700 billion. Knowing where this money originates and how it is used is important to government decision makers, parliamentarians, and Canadians.

**6.15** Financial management is a term that is used to reflect some of the important activities that financial and program managers in departments and agencies carry out when delivering programs and services and exercising stewardship over resources for which they are responsible. Some of these activities include the following:

- providing timely, relevant, and reliable information (both financial and non-financial) to support decision making and to support the management of risks in the organization;
- establishing control systems and procedures to manage and protect the integrity of that information;
- safeguarding resources, accounting for their use, and ensuring compliance with relevant authorities; and
- monitoring actual results by producing reports that compare actual information (both financial and non-financial) with budgeted or planned information, and taking corrective action when desired outcomes or results are not achieved.

**6.16** Internal control refers to management’s action to mitigate risks and achieve established objectives. Controls are needed to safeguard assets; reduce the risk that financial and non-financial data may be incorrect or corrupt; reduce the potential consequences of errors in financial and non-financial data; ensure proper authorization of transactions and compliance with policies, procedures, laws, and regulations; and ensure the economical and efficient use of resources.

### Financial management is a core component of government management initiatives

**6.17** In Chapter 7 of this Report, we discuss the Treasury Board Secretariat's role in the management of government. Elements of that discussion highlight the role of financial management in the Secretariat's legislative responsibilities, in past royal commissions on government operations, in *Results for Canadians: A Management Framework for the Government of Canada* (March 2000), and in other recent initiatives.

**6.18** Of particular importance has been the Comptrollership Modernization Initiative and its discussion of financial management and control. The government undertook this initiative to strengthen management capabilities in departments and agencies. Specifically, its objectives relative to financial management and control were to develop standards and practices for integrating financial and non-financial performance information into a meaningful whole, to communicate that information to those who need it, to properly assess and manage risk, and to ensure appropriate control systems.

**6.19** In its recent interim report entitled *Modern Comptrollership Initiative: A Progress Report on Government-wide Implementation*, the government recognizes that departments and agencies have further work to do before the principles of modern comptrollership are incorporated into the public service culture and management practices.

**6.20** Another key initiative in recent years was the Financial Information Strategy (FIS). The strategy was to facilitate the meaningful use of financial data, including accrual accounting information, and to more closely link costs with activities, operations, and results.

**6.21** The Financial Information Strategy had three objectives:

- Departments and agencies would select one of seven systems approved by the Treasury Board Secretariat and implement new financial information systems that would support the full accrual method of recording and reporting financial transactions.
- The government would develop new accounting policies that comply with Canadian generally accepted accounting principles for the public sector. Departments and agencies would apply these policies and take primary responsibility for the quality and completeness of detailed information. They would also produce auditable annual financial statements.
- Government managers would have access to better financial information and use it in their day-to-day decision making.

**6.22** Department and agencies have successfully installed information systems for supporting accrual accounting, and now the departments and agencies need to use the government's new accrual financial information in day-to-day decision making.

**6.23** As part of the government's reorganization plan announced on 12 December 2003, the Treasury Board Secretariat has been streamlined to

focus on comptrollership and financial management, including oversight of such matters in departments and agencies. Specifically, it will ensure that departments and agencies meet all requirements for expenditure planning, control, and oversight, and will consider policy proposals for the purposes of due diligence and value for money. There will also be a distinct Office of the Comptroller General in the Treasury Board Secretariat to enhance accountability, and the Comptroller General will be involved in selecting departmental comptrollers who will have a functional reporting relationship to the Comptroller General.

### Why financial management and control is important to the government

**6.24** A number of developments in both the public and private sectors have continued to draw attention to financial management and control practices of organizations. Examples include our recent report on the Office of the Privacy Commissioner, reported cases of inappropriate financial practices of public servants, and increased corporate governance expectations within the private sector. Canadians expect their government to respond to such problems and issues by improving its financial practices. This includes improving internal controls, the quality and use of financial information, and the capacity of government to address these issues.

**6.25** The government has also invested considerable financial resources in improving financial information systems and introducing accrual financial information and principles of modern comptrollership. Government managers now have access to new and better forms of financial information, and they should be expected to use that information to better manage their programs and activities.

**6.26** Managers can become more aware of the complete picture of their financial performance (all costs and revenues). Managers are then more inclined to consider all of those costs in making various decisions, such as the evaluation of the cost-effectiveness of in-house delivery versus contracting for services, the appropriateness of cost recovery policies, or the amount to charge other departments for services provided.

### Focus of the chapter

**6.27** The subject of financial management and control has been a long-standing focus of the Office of the Auditor General of Canada. The Office has carried out a number of audits that have monitored the government's progress toward achieving modern comptrollership, implementing the Financial Information Strategy, and managing financial information.

**6.28** In this chapter, we continue the focus of our December 2002 Report, Chapter 5, Financial Management and Control in the Government of Canada, and further explore the government's progress in implementing accrual accounting, accrual appropriations and budgeting at the departmental level, and appropriate systems of internal control. We also examine the government's progress in providing the necessary leadership and support to change the way that financial information is used in government.

**6.29** In our approach we relied on the nature, scope, and extent of our audit of the summary financial statements of the Government of Canada. As a result, we derived our observations and findings from that audit and also from other audit work done by our Office in assessing financial management and control in the government. Further details are included at the end of the chapter in **About the Chapter**.

## Observations and Recommendations

**6.30** The Office of the Auditor General of Canada continues to recognize the federal government's many achievements in financial management and control (Exhibit 6.1). It also congratulates the government on the successful implementation of accrual accounting in the summary financial statements.

### Exhibit 6.1 Recent achievements in financial management and control

In our December 2002 Report, Chapter 5, Financial Management and Control in the Government of Canada, we recognized that the government had made progress in advancing financial management and control practices. Among the achievements noted were the following:

- The Treasury Board Secretariat developed a series of accrual accounting policies and departments implemented those policies.
- The Secretariat established a strategy for the next phase of the Comptrollership Modernization Initiative and issued guidance to departments and agencies on preparing implementation plans.
- Departments completed self-assessments on their capacity for modern comptrollership and prepared implementation plans in response to their findings.
- Departments and agencies successfully implemented one of the Secretariat's recommended information systems.

Since our December 2002 Report, the government has continued to make progress in guiding and advancing management control processes and practices. Among the more recent achievements are the following:

- The Treasury Board Secretariat developed its *Management Accountability Framework* to provide departments and agencies with guidance on implementing the principles of the government's overall management framework.
- The Clerk of the Privy Council Office's Deputy Minister performance agreements have continued to make modern comptrollership a priority.
- The Clerk and the Secretariat jointly developed and issued guidance to deputy heads that clarified their roles and responsibilities.

In the *Observations of the Auditor General on the Financial Statements of the Government of Canada for the Year Ended 31 March 2003*, improvements recognized included the following:

- implementation of accrual accounting for the 2002–03 *Public Accounts of Canada*, including the recognition of over \$47 billion in tangible capital assets;
- early adoption of the new financial reporting model for senior governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants;
- addition of budget information to the summary financial statements to enable the comparison of actual results with budgeted results; and
- inclusion of a section to the *Public Accounts of Canada* that provides an executive overview of the summary financial statements and the significant activities during the year that affected those statements.

**6.31** Although the government has continued to make progress since our December 2002 Report, Chapter 5, the results of our most recent audit of the summary financial statements of the Government of Canada indicate that elements of financial management and control still need to be improved. This conclusion is consistent with the findings of the Treasury Board Secretariat's reviews, as acknowledged in its 2003 Performance Report.

## Challenges ahead

### Central and departmental leadership and support is still important

**6.32** Our observations arising from the audit of the government's summary financial statements and from other recent audit work in the area of financial management and control have indicated that departments continue to experience key difficulties. These include not correcting weaknesses in their internal financial control systems on a timely basis, not making accrual accounting information an integral part of their daily decision making and financial reporting, and struggling with adjusting between full accrual financial information for general reporting purposes and cash-based financial information for appropriations and departmental-level budgeting. These issues are discussed in more detail later in this chapter.

**6.33** Improving financial management and control in the government is not just a matter of recording transactions, preparing financial statements, or implementing internal financial control systems. These practices are merely the tools and processes that make improved financial management and control possible. The challenge for the government is to make these elements integral to the broader management framework of the government and incorporate them into the daily decision making and management practices of departments.

**6.34** Accomplishing this challenge will require more than integrating these concepts in the modern comptrollership framework and the modern management accountability framework and more than simply providing guidance and sharing best practices on the implementation of each of these initiatives. Significant cultural changes and strong leadership from both the central agencies and senior departmental officials will be necessary to reinforce to departments and agencies that the government is committed to improving financial management and control—not just talking about it.

**6.35** Departmental managers need to know why they should change. They will not likely change their behaviour or practices unless they perceive a benefit to doing so or a consequence to not changing. The reasons and objectives for change need to be clarified, and the tools and guidance for effecting change need to be provided to departments and agencies. This must all be balanced with effective monitoring and oversight.

**6.36** Aspects of modern comptrollership continue to be included as a priority in the Clerk of the Privy Council Office's 2003–04 Deputy Minister performance agreements. This helps to keep financial management and control matters as a high priority. As well, deputy ministers and the Comptroller General of Canada continue to regularly discuss issues related to

financial management and control, which helps to emphasize the importance of this priority to the government.

**6.37** Regular monitoring and reporting of the key government initiatives that include elements of financial management and control, as well as developing related guidance, help to ensure that departments and agencies have the necessary knowledge and tools to address these initiatives. In the past year, the Treasury Board Secretariat has issued guidance and completed several reports that include elements of financial management and control. These include the following:

- interim reviews on the evaluation and internal audit functions of government;
- progress reports on the Comptrollership Modernization Initiative and the implementation of an integrated risk management framework; and
- a Management Accountability Framework that translates the vision of modern public service management, as established in *Results of Canada: A Management Framework for the Government of Canada (March 2000)*, into a set of management expectations and thereby provides deputy heads and all public service managers with a list of management expectations that reflect the different elements of current management responsibility.

**6.38** In addition, the community of senior full-time financial officers has created a working group to explore opportunities to improve certain aspects of financial management and control.

**6.39** Although these initiatives are significant, in its 2003 Performance Report, the Secretariat recognized that “in order to sustain progress, it is necessary to consolidate achievements and progress to date, deepen commitment to management excellence and broaden the agenda to build on modern comptrollership.”

**6.40** The reorganization announced on 12 December 2003 (see paragraph 6.23) also included commitments in the area of financial management. The government announced that it would strengthen leadership, oversight, and sound management of public resources. The Comptroller General is assigned overall leadership for improving financial management and accountability, including ensuring that departments and agencies comply with Treasury Board policies on strong expenditure control and rigorous stewardship of public funds. To help achieve this goal, the Comptroller General will review and sign-off on policy proposals to ensure that expenditure plans are sound and will be involved in staffing comptroller positions in departments and agencies. These positions will have a functional reporting relationship to the Comptroller General.

**6.41** The continued leadership and support of senior management, both centrally and departmentally, is crucial to achieving the desired changes. Without it, the government’s financial management and control initiatives risk losing momentum and becoming just another passing management fad. The February 2001 Report of the Auditor General of Canada, *Reflections on*

a Decade of Serving Parliament, highlighted the danger that financial management and control could continue to be perceived as an isolated, unimportant function that senior managers can delegate to specialists and then give it little attention.

**6.42** Our recent audit of the government's summary financial statements, our other audit work in the area of financial management and control, and Chapter 7 of this Report suggest that this danger still exists; more specifically, there is a danger of an implementation gap where good ideas fail to be translated into desired improvements in management.

**6.43** As a result, the Comptroller General and senior departmental management need to take strong action to ensure that reform of financial management and control in the government takes hold. Exhibit 6.2 provides some suggestions for demonstrating commitment and leadership and advancing financial management and control issues within the government.

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**Exhibit 6.2** Examples of suggestions for demonstrating commitment and leadership and advancing financial management and control issues

- Obtain a clear commitment from senior management to the improvement of financial management and control and the use of financial information.
- Ensure that a financial management and control champion is appointed from the executive levels of management who has responsibility for establishing financial management and control.
- Ensure that the necessary resources are assigned.
- Monitor progress of financial management and control initiatives.
- Ensure that audit and management committees are engaged.
- Ensure that senior management is committed to and directly involved in financial management and control.
- Ensure that senior management sends clear messages about the importance of financial management and control to the achievement of strategic objectives.

**Comptrollership capacity in departments needs building**

**6.44** In addition to leadership from the Comptroller General and the Treasury Board Secretariat, deputy ministers and senior departmental financial officials have a particularly critical role to play in improving financial management and control in government. This includes linking financial and non-financial information and ensuring that integrated performance information is used in decision making and in reviewing, assessing, and initiating appropriate systems of control.

**6.45** Chapter 7 of this Report identifies the aforementioned issues among the key challenges facing the Treasury Board Secretariat in managing the government-wide implementation of the government's management agenda (including financial management and control initiatives). In particular, it notes that clear, visible, and active interest in and support for the



management agenda among ministers, senior officials, and parliamentarians is critical for translating the agenda into concrete results.

**6.46** Chapter 7 further notes that an important means of demonstrating support is to ensure that the Treasury Board Secretariat and departments have the people, resources, and tools to meet their management responsibilities. This conclusion is similar to that in our April 1997 Report, Chapter 3, Management of the Government's Accounting Function: A Central Agency Perspective. We stated that the government needed to assess the capability of accounting groups within departments and agencies to implement new systems and accrual accounting, and it needed to provide strong functional guidance to them, particularly during the period of transition.

**6.47** As part of the reorganization plan announced on 12 December 2003, the government recognized the importance of departments and agencies having the right people with the right skills in financial management. In establishing the comptroller positions in departments and agencies, it will ensure that candidates receive thorough training to meet the requirements of the position and will target recruitment to ensure that well-qualified candidates are hired. As a result, it is clear that a critical success factor in improving financial management and control is to ensure that the management team accountable for financial management and control has the appropriate competency and skill. In most circumstances, this will mean that a large portion of this management team should have the necessary background and/or professional training in financial management and control.

**6.48** In particular, we believe that some members of the management team would benefit from backgrounds and professional training in accounting. These qualifications would enable them to fully understand the impact of full accrual accounting on departmental decisions, such as the costing of activities and alternative delivery mechanisms, the assessment of the adequacy of revenues relative to costs in a cost recovery situation, and the analysis of capital asset acquisitions. These team members could also provide coaching and supervision to the staff charged with accurate and timely preparation of this departmental financial information and maintenance of adequate internal control.

**6.49** We acknowledge, however, that incumbents of senior management positions in government have a broad range of experience and academic credentials and that management of an organization as large as the Government of Canada requires a balance of expertise and perspectives within the senior management ranks—not just a cadre of professional financial managers. Nevertheless, we continue to believe that a background and training in financial management, including accounting, is a beneficial attribute in championing financial management and control in departments, and we support the government in its latest decision to strengthen the comptrollership capacity within departments and agencies.



**6.50** We also believe that internal audit staff and the departmental or agency audit committee can play an active role in providing the necessary support. As a result, both groups should be seen as an integral component in building the comptrollership capacity within departments and agencies.

**6.51 Recommendation.** The Comptroller General of Canada should develop a strategy and implement an action plan for promoting financial management and control initiatives and for improving the financial capacity in departments and agencies.

**Treasury Board Secretariat's response.** Various activities are already underway to promote financial management and improve capacity in departments and agencies.

The Treasury Board Secretariat developed the Management Accountability Framework (MAF) to provide deputy heads and all public service managers with management expectations, indicators, and measures that reflect the different elements of current management responsibilities and accountabilities, including financial management. The MAF is being used by departmental management and the Treasury Board Secretariat to assess and to identify areas for improvement in management practices.

Improved financial management is also being promoted through the requirement for both cash-based and accrual information in Treasury Board submissions and memoranda to Cabinet. The requirement forces development of the capacity to prepare, assess, and attest to accuracy of the information.

The recent establishment of the Comptroller General and Departmental Comptroller functions provides a unique opportunity to further strengthen management practices, controls, and accountability in the public service. The Comptroller General is committed to working with the senior financial community and to supporting all managers in achieving this goal. The addition of skilled departmental comptrollers in departmental management teams will improve the financial capacity in departments. Through the co-ordinated work of the financial, internal audit, and evaluation communities, departmental audit and evaluation committees, and the Auditor General's Office, the Comptroller General of Canada will put particular emphasis on improving departmental financial management and control.

#### **Need to complete the study of accrual-based appropriations and budgeting**

**6.52** The Office of the Auditor General of Canada continues to be concerned about the pace of progress in addressing the implementation of accrual-based appropriations and budgeting at the departmental level. Also, as noted in our December 2001 Report, Chapter 1, Financial Information Strategy: Infrastructure Readiness, many departments suggested that unless the government moves to accrual-based appropriations and budgeting, managers will not focus on accrual-based information. Departments were virtually unanimous in asking that all financial information be produced on an accrual basis.

**6.53** We recognize that a department's annual cash requirements will continue to be important information for Parliament. In our view, however, Parliament would be better served if it also received full program cost information based on accrual accounting as part of the estimates and appropriations process. This approach would ensure that Parliament received information comparable with the accrual-based information to be included in the *Public Accounts of Canada* and the government-wide budget. Furthermore, the information that managers and Parliament use in their decision making for appropriations would be on the same basis as these other aspects of government operations.

**6.54** The Standing Committee on Public Accounts has continued to support our recommendations concerning accrual appropriations and budgeting (see Appendix) and has repeatedly urged the Treasury Board Secretariat to act on this issue.

**6.55** In its April 2003 Report, the Standing Committee on Public Accounts repeated its recommendation from its December 2002 Report. Thus, it did not specify new target dates. The government's response continues to be that the issue is complex, of far-reaching impact, and without international consensus, and that it needs to be considered carefully. Meanwhile, the government continues to study the matter extensively and hold consultations with departments and agencies. It has recently developed a potential approach for further consideration and study, as well as a few interim measures for introducing accrual information in Treasury Board submissions for the management of capital resources. The reality, however, is that the government has not met any of the Committee's suggested target dates for resolving this issue.

**6.56** Although this matter may indeed be a complex issue and may need to be considered carefully, other domestic and international jurisdictions have successfully addressed the issue of accrual-based budgeting and appropriations in the context of their own environments. After years of studying this issue and planning the 2003 government-wide Budget on an accrual basis, we would expect the government to have made more progress on the issue.

**6.57** Until government-wide and departmental budgeting, financial reporting, and appropriations are put on a common basis, it is our opinion that effective use of financial management information in the government will not be achieved.

**6.58 Recommendation.** The Treasury Board Secretariat should promptly complete the study of accrual-based appropriations and budgeting at the departmental level and present the proposed approach for a common basis of planning, budgeting, and reporting, along with an implementation plan, to the House of Commons Standing Committee on Public Accounts.

**Treasury Board Secretariat's response.** The Treasury Board Secretariat recognizes that progress on accrual budgeting is slower than the Office of the Auditor General would like, but continues to believe that a prudent and thorough approach to examining and introducing accrual budgeting is

appropriate. Progress has been made and continues to be made in examining and testing accrual budgeting options and monitoring accrual budgeting developments in other jurisdictions—both for those that have elected to introduce accrual budgeting and those that have not. As well, concrete steps have been taken to require accrual information for key parts of the government’s decision-making process—specifically in memoranda to Cabinet and Treasury Board submissions dealing with incremental resources. With completion of phase I of the accrual budgeting project, a specific work plan has been put in place for phase II, based on four key elements: interim arrangements (broadening the provision of accrual information in departmental transactions with the Treasury Board Secretariat beyond incremental resource submissions); Treasury Board Secretariat capital management policies (renew and update current Treasury Board Secretariat capital policy instruments in an accrual context); capital accrual budgeting pilots (testing the implementation of accrual capital budgeting in a range of departments); and ministerial/parliamentary consultations.

#### **Need to improve and use accrual financial information for daily decision making**

**6.59** As described in the *Observations of the Auditor General on the Financial Statements of the Government of Canada for the Year Ended 31 March 2003*, fully adopting accrual accounting required the government’s summary financial statements to include certain items, for the first time. These items include tangible capital assets, inventories, environmental liabilities, taxes receivable and payable, prepaid expenses, employee future benefits other than pensions, and a liability for estimated Aboriginal claims. As a result of these changes, tens of billions of dollars of assets and liabilities were recognized that had not been previously valued and recorded in the government’s summary financial statements.

**6.60** The observations also noted that the adoption of accrual accounting was never intended as an end in itself, but rather as part of a wider initiative to improve the government’s financial management and control. For example, the recording of tens of billions of dollars of assets and liabilities should lead to better management of these items. The government’s new accounting policies and its new financial information systems were only two elements of its Financial Information Strategy. They are essential building blocks supporting the third element of this strategy: providing government managers with access to better financial management information for their day-to-day decision making (see *Accrual accounting—An initiative to improve decision making*, page 14).

**6.61** With the recognition of these additional accrual amounts and the implementation of the information systems supporting accrual accounting, departments and agencies now have the information and tools to enable them to provide accrual financial information. This will enable them to reflect a more complete picture of the full costs of their operations and program activities and stewardship of their assets and liabilities.

### Accrual accounting—An initiative to improve decision making

Accrual accounting can help improve decision making within departments, for example, as follows:

- Managers increase their focus on the stewardship of assets because all assets are recorded in the financial accounts of the department. Managers become more aware of the assets under their control and the need to consider such issues as maintenance requirements, replacement policies, the identification and disposal of excess assets, risks such as loss caused by theft or damage, and the full impact of assets on service delivery.
- Managers increase their attention to the management of liabilities under their control because existing and potential liabilities are recognized. Managers become more aware of their responsibility for these liabilities and the need to develop plans for managing them, including identifying the impact of existing liabilities on future resources. If liabilities are not recognized, there is less reason for managers to consider certain issues and effectively manage those liabilities.

**6.62** The challenge for the government is now to use this new accrual information effectively in its management decision making and ensure that this new basis of accounting is fully implemented in departments and agencies; otherwise the government will have invested a considerable amount of time and funds and will not have benefited from improved decision making in departments and agencies. Instead, full accrual information will be seen as something that is undertaken only to comply with initiatives or directives established by central agencies, such as the Treasury Board Secretariat.

**6.63** Our recent audit of the government's summary financial statements, including observations reported in the 2002–03 *Public Accounts of Canada*, offers some examples of the need for departments and agencies to make accrual accounting an integral part of their management systems and practices and thereby improve their decision making. In each case, making this transition will require a greater degree of precision for the accrual financial information than is needed at the summary financial statement level.

### National Defence needs to improve costing practices for its inventory

**6.64** Of the \$6.1 billion in government inventories, the largest amount belongs to National Defence and includes such items as ammunition and consumable supplies (for example, uniforms and machine tools). Historically, the Department had inventory systems that concentrated primarily on maintaining a record of quantities. The cost of that inventory was not emphasized because an ongoing valuation was not required. Inventory purchases were simply expensed when purchased.

**6.65** With the full introduction of accrual accounting, the Department was required to validate the value of its inventory. During our recent audit of the government's summary financial statements, we found that the quality of National Defence's information systems and costing practices supporting its inventory systems did not easily provide accurate historical cost information

related to inventory items. As a result, it was difficult for the Department to independently support the prices associated with its inventory.

**6.66** Extensive additional work by National Defence as well as our audit work enabled us to conclude that the inventory figures were fairly presented, in all material respects, in the summary financial statements of the Government of Canada. National Defence, however, uses its inventory for more than simply financial reporting. It uses it to fulfil its departmental objectives of defending Canada and Canadian interests and values while contributing to international peace and security. As a result, National Defence requires information on the cost of its inventory for departmental decision making so that the Department can accurately forecast or report the costs of individual programs and activities. These activities are measured at a far less aggregated level than the summary financial statements of the Government of Canada.

**6.67** The Department has begun to use accrual financial information in decision making (for example, analysis of the depreciation of capital assets) and has agreed to implement appropriate controls. These controls will ensure that the costs of future purchases in its inventory system relieve the costs of old inventory over time as the inventory is used. The controls will also enable the Department to properly monitor use and determine ongoing adjustments to reflect the obsolescence of inventory items. This improved approach to inventory costing will allow National Defence to better understand the value of its inventory at any time and provide the opportunity to consider an optimal value of inventory to be maintained.

**6.68** Although National Defence has committed to making these improvements to its inventory practices, we remain concerned about the quality of its inventory costing. The Department faces a major challenge and it may be many years before its inventory records are suitable for improving management decision making.

#### **Canada Customs and Revenue Agency tax receivables not consistently estimated**

**6.69** One of the most challenging and pervasive aspects of the government's changes related to accrual accounting was the accrual of tax revenue. As reflected in the summary financial statements, this change in accounting policy resulted in the recognition, for the first time, of tax receivables of about \$43 billion, tax payables of about \$33 billion, and an estimated allowance for doubtful accounts of \$7 billion (the government's estimate of those receivables that will likely be ultimately uncollectible).

**6.70** The Canada Customs and Revenue Agency is responsible for the management of these receivables and payables as part of its strategic goal of ensuring that Canadians comply with tax, trade, and border legislation. The allowance for doubtful accounts and the related annual provision for such losses is an important ingredient in assessing the cost of managing the government's portfolio of tax receivables. Pursuant to its agreements with the provinces and territories, the government absorbs 100 percent of the cost of

any loss on collection of those receivables while being entitled to retain interest and penalties collected on those receivables.

**6.71** Although the Canada Customs and Revenue Agency stated that it was reasonably confident in the process that it had followed in determining the accrual estimate for tax revenue, including its allowance for doubtful accounts, our audit of the government's summary financial statements identified problems with the estimate of the allowance for doubtful accounts.

**6.72** Specifically, the Agency had its collection officers evaluate a sample of individual taxpayer accounts and estimate the amount, if any, of likely loss on collection. The Agency then used the summation of all of these estimates as its allowance for doubtful accounts. Our initial review of the Agency's estimate highlighted some inconsistencies in how Agency collection officers evaluated the collectibility of tax accounts. The Agency then undertook to redetermine the estimate of the allowance for doubtful accounts.

**6.73** This additional work by the Agency and our extensive audit work enabled us to conclude that the tax accrual figures, including the allowance for doubtful accounts, were fairly presented, in all material respects, in the summary financial statements of the Government of Canada. The Agency uses this information in its financial reporting on the government's portfolio of tax receivables, and it represents the amount of tax loss that will likely be assumed by the federal government. This information is not only used for reporting in the government's summary financial statements but also in measuring the results of managing the government's portfolio of tax receivables.

**6.74** The Agency has indicated that it will take additional corrective action to improve its assessment of the collectibility of tax accounts. The Agency and the Office of the Comptroller General should monitor these corrective actions to ensure that they result in improved information on which to base collection action and/or losses to be assumed by the government.

#### **Departments and agencies need to consider impacts of financial information in other areas**

**6.75** The government's summary financial statements, like those of most other large organizations, include a number of significant management estimates. These estimates, an integral part of accrual accounting, affect billions of dollars of reported assets and liabilities. Examples of these estimates include the estimation of losses on loans and investments, the determination of the government's liability for pension obligations, and the estimation of losses arising from various claims against the government.

**6.76** Departments and agencies are responsible for many of these estimates, and the determination of those estimates has a great impact on the financial position and costs of operations for those organizations. As a result, departments and agencies need to ensure that management processes include accurately developing, reviewing, challenging, and recording management estimates.

**6.77** If attention is directed to ensuring that this and other financial information is prepared accurately and completely and on a timely basis, departments and agencies will know the full cost of delivering their programs and activities and therefore have better information for making daily management decisions (Exhibit 6.3 provides some examples).

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**Exhibit 6.3 Examples of the importance of full cost information for some federal organizations**

- In addition to its role as the federal police force, the RCMP provides police services to most provinces and many municipalities on a contract basis. The RCMP needs high-quality information on the costs of the services it provides to its clients, to support the recovery of those costs in accordance with the contracts.
- The Department of Foreign Affairs and International Trade provides services overseas on behalf of other government departments and needs to know the cost of providing those administrative services so that other departments can pay their share of those costs.
- Transport Canada is required to capture and report full costs for its portion of the government's efforts to put new security measures in place.
- Alternative service delivery, outsourcing, and the creation of agencies highlight the need for information on total costs and on assets and liabilities managed by departments.

Source: April 2003 Report of the Auditor General, Chapter 2, Managing the Quality of Financial Information

**6.78** Having information on the full cost of government programs and activities was also the fundamental issue in our December 2002 Report, Chapter 10, Costs of Implementing the Canadian Firearms Program. Recent discussions by parliamentarians during debates on possible amendments to benefits for veterans further illustrate the usefulness of having full cost financial information. Parliament considered not only the annual cash payments associated with the amendments to benefits for veterans but also the full estimated actuarial cost of providing these benefits over the life of the program. Thus, information was available on the possible impact on the annual surplus or deficit and the accumulated deficit—not just on the government's annual cash flow.

**6.79** The Treasury Board Secretariat has established a number of departmental working groups and issued communications that are all designed to enable departments and agencies to share best practices, to understand the importance of accurate financial information, and to ultimately improve their management practices. As stated previously, however, the challenge for the government is to ensure that departments and agencies use this new accrual information effectively in their management decision making.

**6.80** The Treasury Board Secretariat recognizes this challenge in its 2003 Performance Report. It states that the use of accrual accounting concepts in ongoing decision making and for improved accountability will need awareness and understanding by public service employees and parliamentarians. As a result, the successful implementation of accrual



accounting in the decision-making processes of government will require collaborative action by the Treasury Board Secretariat and by departments and agencies.

**6.81 Recommendation.** The Comptroller General of Canada in conjunction with departmental and agency deputy ministers should ensure that departments and agencies have specific plans and strategies in place for improving and using accrual financial information at the departmental level and making that information an integral part of their management decision making. The Comptroller General of Canada should then monitor department's and agencies' progress in implementing those plans.

**Treasury Board Secretariat's response.** The Comptroller General of Canada agrees that accrual information provides better information for management and decision making and will continue to encourage departments to make full use of this information.

The requirement for both cash-based and accrual information in Treasury Board submissions and memoranda to Cabinet forces the consideration of accrual information in departments and agencies. The accrual information will, by necessity, become part of the process of preparing these documents and therefore be considered in decision making.

As noted in the chapter, further progress will be made on focussing managers' attention on accrual financial information and improving the use of that information with a move to accrual-based budgeting and appropriations.

### Departments need to strengthen financial control systems

**6.82** Since our December 2001 Report, Chapter 1, we have evaluated certain financial controls governing selected computer information systems, along with the related management and monitoring controls in 12 departments and agencies. In the past year, we continued our review of these controls in 6 departments and agencies. In total, these reviews have addressed the controls governing 25 of the key systems and applications of the largest departments and agencies. We intend to continue these reviews over the next few years so that eventually the 69 key systems and applications of the largest departments and agencies are reviewed (Exhibit 6.4).

**6.83** Although there are many elements to internal control (paragraph 6.16), our objective for these reviews is to assess the quality of certain financial internal controls in selected financial information systems. We want to determine the extent to which the financial internal controls of various departments and agencies are sufficient to ensure the safeguarding of assets and that financial information is accurate, complete, and properly authorized.

**6.84** After two years of reporting on the significant weaknesses in these controls, we have continued to identify the same weaknesses in our most recent reviews. As reported in our April 2003 Report, Chapter 2, Managing the Quality of Financial Information, departments have indicated a willingness to respond to these weaknesses. Departments and agencies



**Exhibit 6.4 Scope of controls assessment work**

	Entity
2001	Canadian Heritage (1) Agriculture and Agri-Food Canada (1) Canada Customs and Revenue Agency (2)
2002	Fisheries and Oceans Canada (1) Indian and Northern Affairs Canada (1) Department of Foreign Affairs and International Trade (1) Veterans Affairs Canada (2) Public Works and Government Services Canada (2) Canada Customs and Revenue Agency (3)
2003	Citizenship and Immigration Canada (1) Health Canada (1) Industry Canada (1) Correctional Service Canada (1) Transport Canada (1) Canada Customs and Revenue Agency (6)
2004 and beyond (planned)	National Defence (4) Royal Canadian Mounted Police (4) Canadian International Development Agency (1) Industry Canada (2) Health Canada (5) Fisheries and Oceans Canada (6) Transport Canada (3) Public Works and Government Services Canada (3) Agriculture and Agri-Food Canada (3) Human Resources Development Canada (4) Citizenship and Immigration Canada (4) Canada Customs and Revenue Agency (5)

Note: The numbers in parentheses represent the quantity of systems or applications covered by our assessments; they are matched with the departments and agencies responsible for those systems as at 11 December 2003.

involved in our first review (2001) have demonstrated varying degrees of improvement, with Agriculture and Agri-Food Canada showing significant improvement.

**6.85** In many of the departments reviewed to date, we have noted that when controls exist, they are generally the detective type and not the preventive type that would exist if departments were using the automated capacities of the systems implemented. Preventive controls stop the wrong data from getting processed by the system and reduce the chance of the wrong information being included in the financial reports used for decision making.

**Exhibit 6.5 Weaknesses in internal control systems that need particular attention**

Systems	Weaknesses	Explanation	Implication
<b>Electronic security controls</b>	<ul style="list-style-type: none"> <li>User access rights and privileges reflect incompatible duties.</li> <li>Super user accounts are not sufficiently controlled.</li> <li>Users have wider system access than required.</li> <li>Generic user IDs are used, which impairs accountability.</li> <li>Best practices for key security parameters are not being enforced.</li> </ul>	Electronic security controls are used to control user access rights and privileges within an electronic information system. Lapses in electronic security controls could allow for accidental or intentional corruption or loss of information. This can also result in the integrity of system tables and structures being compromised.	Inadequate electronic security controls could lead to unauthorized access, which can then lead to loss and/or corruption of data. This can result in erroneous reports being produced by the systems.
<b>Monitoring controls</b>	<ul style="list-style-type: none"> <li>Security administration function does not follow best practices.</li> <li>Reconciliation of accounts is not being done on a timely basis.</li> <li>Review of clearing and suspense accounts is not timely.</li> <li>Policies and procedures for monitoring accounts are not always in place—for example, review of unusual or high-risk transactions and review of key performance measures such as “receivables aging”.</li> </ul>	<p>Monitoring controls engage senior management in analyzing the reasonableness of financial information. Differences identified or matters observed must not only be highlighted but investigated and analyzed with corrective action taken.</p> <p>The security administration function is shared among many users and not controlled. There are no formal policies and best practices in place, leaving this position at risk.</p>	A lack of monitoring controls allows errors to go unnoticed, thereby compromising data accuracy and validity as well as increasing the risk of loss and/or corruption of data.
<b>New financial systems</b>	<ul style="list-style-type: none"> <li>Integration of financial systems has not been achieved.</li> <li>Many controls inherent in the new financial systems are not being used.</li> </ul>	New financial systems have many capabilities but are often used to simply compile results produced from existing systems. In some cases, two or more systems are operating where integration may be possible. This approach to systems development and integration adds to the complexity and cost of maintaining financial information. There is also additional room for error if separate systems are maintained.	Not taking full advantage of the new systems capabilities results in lost opportunity to increase efficiency and effectiveness of the operations. Also, not using built-in controls could reduce the consistency of the controls.
<b>Manual processing controls</b>	<ul style="list-style-type: none"> <li>Segregation of duties is inadequate.</li> <li>Documentation on policies and procedures is not being prepared/ reviewed.</li> <li>Quality assurance of the account verification process is limited.</li> </ul>	Modern control frameworks should allow for proper integration of manual processing controls within an electronic framework. Manual controls are less systematic and less comprehensive in their application than electronic controls.	Bypassing the electronic framework increases the risk that data values will remain unchecked, be omitted, or result in duplicate information or other errors.
<b>Selected authorities controls</b>	<ul style="list-style-type: none"> <li>Payments are being certified without:                             <ul style="list-style-type: none"> <li>documentation of having received the goods;</li> <li>proper delegation of signing authority; and</li> <li>authorization.</li> </ul> </li> </ul>	Section 34 of the <i>Financial Administration Act</i> (FAA) requires that proper authorization be obtained and that goods or services have been received prior to any payment being made. Section 33 of the FAA requires that proper authorization be obtained prior to any requisition for a payment out of the Consolidated Revenue Fund and the subsequent charge against appropriations.	Without proper controls the government does not have assurance that payments are made only for goods or services that have been received.

**6.86** With strong internal control systems being very important to risk management and to financial management and control, we have prioritized the control weaknesses arising from our controls assessments audit work that we believe should receive particular attention (Exhibit 6.5). While this is not an all-inclusive list of control requirements, we believe that these controls are the most critical to preventing and detecting errors. We also believe that these weaknesses, if present in a department or agency, need to be addressed within a reasonable period of time to avoid having an impact on decision making in departments.

**6.87** We believe that the control weaknesses that we have identified are not insurmountable. With attention, most problems could be solved within a reasonable period of time.

**6.88** As a result, we will start to formally assess and monitor the progress made by departments and agencies in addressing the control weaknesses we have noted. This progress will be reported in future chapters in the format outlined in Exhibit 6.6.

**6.89** The Treasury Board Secretariat plans to issue high-level guidance on financial control frameworks that departments will be able to tailor to their specific needs. Currently, a broad strategy is being developed and some departments and agencies have expressed interest in participating in the development of the framework. In addition, the SAP financial systems cluster group (a user group that shares expertise in support of a financial system) has created a tool for generating user profiles to assist departments in managing user privileges.

**6.90** While this guidance and direction should be helpful, the challenge for the government is similar to what it faces in implementing the use of accrual financial information by departments. The key is to ensure that departments continue to focus on the importance of the issue, on the different types of controls and control weaknesses, and on how to effectively implement the changes in their management processes so that the quality of their financial information is reinforced and improved.

**Exhibit 6.6** Template for reporting progress of departments and agencies in responding to control challenges

	Electronic security controls	Monitoring controls	New financial systems	Manual processing controls	Payroll	Authorities
Department name						

- Significantly addressed.** Most of the original significant audit finding has been fully addressed.
- Satisfactory progress.** Substantial progress has been made in addressing the original audit finding, but some additional action is still required.
- Some progress.** Some progress has been made in addressing the original audit finding, but considerable additional action is still required to achieve the desired results.
- Unsatisfactory progress.** Progress has not been made in addressing the original audit finding, and action remains outstanding.

**6.91** As outlined in the revised Treasury Board Policy on Internal Audit, all internal audit functions in departments and agencies are repositioning their role to that of an assurance provider. In this role, they will likely be providing assurance on the completeness and accuracy of financial information for decision making and the related control systems and therefore can help to advance this issue within departments. As an example, in our controls assessment work with the Canada Customs and Revenue Agency, we have conducted our review of key controls jointly with the Agency's internal audit function.

**6.92 Recommendation.** The Comptroller General of Canada, in co-operation with departmental and agency management, internal audit groups, and audit committees, should ensure that departments and agencies identify and address the internal control weaknesses in financial accounting and information systems within a reasonable period of time.

**Treasury Board Secretariat's response.** The Comptroller General of Canada will follow up with senior financial management in departments on the control weaknesses found by the Office of the Auditor General.

The Comptroller General will also encourage departmental internal auditors and departmental audit committees to follow up on the Office of the Auditor General's findings and further improve accounting and systems controls.

#### **Need to further improve departmental financial statements**

**6.93** As part of its accounting policy framework, the Treasury Board Secretariat requires departments to prepare auditable annual financial statements. Over the past two years, the Treasury Board Secretariat and departments and agencies have made significant progress in preparing departmental financial statements that contain some useful information about assets, liabilities, revenues, and expenses.

**6.94** However, as noted in earlier observations on the Public Accounts of Canada, in our chapters on the Financial Information Strategy, and in our April 2003 Report, Chapter 2, the current model for departmental financial statements needs to be improved. It does not include some major costs, some liabilities, the valuation adjustments of some assets, certain liabilities maintained centrally by the Treasury Board Secretariat and services provided without charge by other government departments.

**6.95** In our view, without this information, the departmental financial statements do not provide accurate and reliable information on a department's program costs and financial position. As a result, users of these financial statements are not getting a complete picture of the departments' costs of activities, assets, and liabilities, and are therefore making decisions without complete information. As well, without this information being reflected in the financial results of these departments, the departments responsible for the costs and liabilities are not being evaluated for their management of these items.

**6.96** Preparing departmental financial statements so that they provide all of the necessary information and are ready for publication and audit would

likely highlight for departments and agencies the importance of financial management and control concepts. As well, it would also provide an opportunity for departmental and agency internal audit to participate in the review of these financial statements and thereby contribute to their role as assurance provider. Also, departmental audit committees could become engaged in the oversight and approval of the financial statements.

**6.97** The Treasury Board Secretariat has made some progress in improving the auditability of financial statements of certain departmental corporations and in devolving responsibility for certain balances managed centrally. The Secretariat has also indicated that the remaining departmental financial statements will not be published until they contain complete information. Since our December 2002 Report, Chapter 5, the Treasury Board Secretariat has been studying the remaining issues with input from departments and agencies to ensure that, in the future, departmental financial statements present information both fairly and fully.

**6.98 Recommendation.** The Comptroller General of Canada should promptly resolve the outstanding issues regarding departmental financial statements and establish a target date for finalizing the publication of departmental financial statements that would withstand the test of audit.

**Treasury Board Secretariat's response.** As noted in the chapter, departments and agencies have made significant progress in preparing financial statements. All departments and agencies are preparing accrual-based financial statements. The financial statements of many departmental corporations have been audited and included in the Public Accounts for many years. Starting in 2001–02, they were prepared on a full accrual basis of accounting.

With the adoption of full accrual accounting in the 2003 Budget and the government's 2002–03 summary financial statements, the Secretariat is now developing an approach for implementing the few remaining accrual accounting policies in departments and agencies. This involves the devolution of certain central accounting processes, such as allowances for losses on loans, contingent and certain other liabilities, and services provided without charge. As departments and agencies develop the capacity to record and report these amounts and we are satisfied that the financial statements are fairly presented, departments will be encouraged to publish them in departmental performance reports.

## Conclusion

**6.99** Financial information and strong internal control in the Government of Canada continue to be important components of good stewardship and effective management. They integrate financial and non-financial information into decision making and encourage the implementation of appropriate systems of control. The Office of the Auditor General of Canada continues to support the government's implementation of improved financial

management practices, including the use of accrual financial information in daily decision making.

**6.100** In the past year, the government has continued to make progress in advancing financial management and control in the government and has achieved a significant milestone in implementing improved financial reporting. After facing many challenges and with considerable effort, the government prepared its summary financial statements on a full accrual basis. These financial statements enhance the value of its financial reporting because it provides readers with a more complete picture of the government's financial position. As well, with the adoption of accrual accounting for its summary financial statements, Canada is now a world leader among national governments in financial reporting.

**6.101** However, the adoption of accrual accounting in the summary financial statements was never intended as an end in itself, but rather as part of a wider initiative to improve financial management and control in the government. More work is still needed to resolve a number of outstanding issues.

**6.102** Most importantly, as reported in our December 2002 Report, Chapter 5, Financial Management and Control in the Government of Canada, it remains essential that the government resolve the issue of accrual appropriations and budgeting at the departmental level. Although this issue is complex and needs to be considered carefully, the government has been studying it for many years and has made little progress. In our view, until government-wide and departmental budgeting, financial reporting, and appropriations are put on a common basis, effective use of financial management information in the government will not be achieved.

**6.103** Departments must also strengthen their internal control systems, paying particular attention to electronic security controls, monitoring practices, the integration of manual and electronic processing controls, and the full exploitation of these systems.

## About the Chapter

### Objectives

For this chapter, we wanted to determine the extent of the government's progress in implementing accrual accounting and in implementing financial information systems designed to produce accrual-based financial information. We also wanted to determine whether the government had made progress in implementing accrual budgeting and appropriations.

### Scope and approach

We did not develop a separate strategy and criteria for our work. Instead we relied on the nature, scope, and extent of our audit of the summary financial statements of the Government of Canada. As a result, we derived our observations and findings from the audit of the government's summary financial statements and from other audit work done by the Office of the Auditor General of Canada in the area of financial management and control in the government.

The procedures we followed included testing a sample of transactions and account balances, performing analyses, confirming year-end balances with third parties, reviewing significant internal controls as necessary, and discussing significant matters with government officials.

The audit of the summary financial statements was conducted according to Canadian generally accepted auditing standards. We assessed whether the summary financial statements were fairly presented in accordance with the government's stated accounting policies. Our resultant opinion and observations on matters related to accounting treatments and disclosures are included in the 2002–03 *Public Accounts of Canada*.

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## Appendix Standing Committee on Public Accounts: Recommendations on accrual appropriations/ budgeting and the government's response

Report date	Recommendation	Government response
December 1998	The Treasury Board Secretariat should complete its consultations with its stakeholders as quickly as possible in order to determine the best possible options to move the appropriations (supply) process to full accrual basis.	Progress is slower than anticipated. Response to a consultation paper is expected by 10 March 2000, from which recommendations to the government will be made in the following two or three months.
March 2000	The Treasury Board Secretariat should complete its consultations with departments and agencies on moving to accrual appropriations.  Once the consultations are completed, the Treasury Board Secretariat should inform Parliament and the Public Accounts Committee in writing of its final decision and recommendations to the government on moving to accrual appropriations.	Responses to the consultation paper have been received and are being compiled and analyzed.  Completion of the analysis is expected by September 2000, although further review of accrual-based budgeting and its relationship with appropriations may be required.
March 2001	The Treasury Board Secretariat should complete its consultations with parliamentarians aimed at determining the best possible options to convert the appropriations (supply) process to a full accrual basis and report the results to the House of Commons by 31 March 2002; the Government of Canada should move to an accrual-based system of appropriations (supply) by 1 April 2003.	The subject of accrual-based appropriations is very complex and requires careful review and consultation. Any decision made will have tremendous impact and consequences for government. This strongly underlies the need for very careful, rigorous, and exhaustive study before making any decisions in the area.
May 2001	The Treasury Board Secretariat should undertake and complete the required studies and consultations on full accrual-based appropriations, and it should prepare a set of proposals and alternatives to be presented to the House of Commons Standing Committee on Public Accounts, no later than 31 March 2002.	The subject of accrual-based appropriations is very complex and requires careful review and consultation. The decisions made respecting any contemplated changes to our budgeting and appropriations practices will have tremendous impact and consequences for government. This strongly underlies the need for very careful, rigorous, and exhaustive study before making any decisions in the area.
December 2002	The government should adopt the integration of full accrual-based budgeting and appropriations into the Canadian Expenditure Management System, and advise the Public Accounts Committee when the decision has been made.  Once the decision is made to move toward full accrual-based budgeting and appropriations, the Treasury Board Secretariat should immediately prepare an action plan together with an implementation timeframe and table both these documents with the Public Accounts Committee.	Adopting the integration of full accrual-based budgeting and appropriations into the Expenditure Management System could have far reaching implications for government and for Parliament. Unlike accrual accounting, there is not international consensus on the adoption of accrual budgeting. Those countries that have implemented accrual budgeting have adopted specific accrual tools to suit their specific need and to help them implement much broader reforms. Moreover, some countries have indicated that their accrual budgeting frameworks are not yet proven and may be subject to change in the context of lessons learned. We intend to learn from their experience.

Source: Adapted from reports of the Standing Committee on Public Accounts



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