

**SUPPLEMENTARY INFORMATION  
OBSERVATIONS OF THE AUDITOR GENERAL  
ON THE  
FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA  
FOR THE YEAR ENDED MARCH 31, 2005**

In previous years I have reported two other matters in my Report on the Financial Statements of the Government of Canada. In these Observations I provide an update on the status of these issues.

**TRANSFERS TO FOUNDATIONS**

Due to improvements instituted and proposed by the Government, developments in accounting standards, and the relative insignificance of transfers to foundations in the current year, I have removed the other matter about transfers to foundations that I have reported in previous years in my Report on the Financial Statements of the Government of Canada.

My concerns have been about the way foundations were funded, the way the funding was accounted for, and the accountability regime relating to transfers to foundations.

The following table illustrates that since 1997, the Government has transferred \$9.4 billion to the foundations (including transfers of \$535 million in 2004–05). Of this amount, \$7.4 billion remains in the foundations' bank accounts or investments or was receivable at year end.

In recent discussions, the Comptroller General has indicated that he is looking into changing this method of funding. While the details have not been finalized, his proposal would involve making disbursements to foundations based on their cash requirements. I view this as a positive development that the Government should pursue.

I have also questioned whether transfers to foundations should be recorded as expenses when amounts are transferred to the foundations, or when transfers are used by the foundations.

In addition to the Government Reporting Entity standard discussed later in these Observations, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants has a project to review the accounting for transfers that should provide guidance relevant to this issue. Practitioners and standard setters continue to discuss this PSAB project. So far, no new standard has been developed.

Lastly, I have expressed concerns about the accountability regime over foundations. As I noted in last year's observations, I expected that improved accountability measures would result in credible reporting of results, effective ministerial oversight, and adequate external audit.

In my February 2005 Status Report, I reported the following:

- The Government had made improvements in reporting to Parliament.
- The Government still needed mechanisms for ministers to make an adjustment to a foundation when circumstances change considerably.
- I still had concerns about the audit provisions. However, I am pleased that on June 29, 2005, a legislative amendment was made to the *Auditor General Act* that gives my Office access to foundations to conduct performance audits.

## Foundations that received over \$10 million in funding between 1996-97 and 2004-05

Foundation	Year announced	Funding received <sup>1</sup>	Grants provided <sup>2</sup>	Interest earned	Operational expenses	Balance March 31, 2005 <sup>1,3</sup>	Funding commitments signed
	(\$ millions)						
Canada Foundation for Innovation	1997	3,651	1,493	894	47	3,005	1,439
Canada Millennium Scholarship Foundation	1998	2,500	1,456	784	66	1,762	292
Canada Health Infoway Inc.	2001	1,200	99	127	56	1,172	41
Foundation for Sustainable Development Technology	2001	550	16	21	12	543	73
Genome Canada	2000	600	270	59	26	363	122
Endowment funds <sup>4</sup>	2000 to 2005	239	6	16	3	246	4
Aboriginal Healing Foundation	1998	390	306	90	48	126	73
Canadian Health Services Research Foundation	1997	152	48	24	10	118	26
Other foundations under \$125 million <sup>5</sup>	2000	140	52	15	5	98	24
<b>Grand Total</b>		<b>9,422</b>	<b>3,746</b>	<b>2,030</b>	<b>273</b>	<b>7,433</b> <sup>6</sup>	<b>2,094</b>

<sup>1</sup> Funding received includes \$535 million that was receivable by the foundations at March 31, 2005.

<sup>2</sup> In addition to grants, this column includes eligible project expenses.

<sup>3</sup> The balances shown are from the latest annual reports, where March 31, 2005 financial statements are not yet available.

<sup>4</sup> For endowment funds only the earnings are disbursed — these include Pierre Elliott Trudeau Foundation; Clayoquot Biosphere Trust Society; Pacific Salmon Endowment Fund Society; Canadian Institute for Research on Linguistic Minorities, University of Moncton; Frontier College Foundation; and Asia-Pacific Foundation of Canada. During the year the Green Municipal Investment Fund and the Green Municipal Enabling Fund were combined as the Green Municipal Fund, which is reflected as an “other organization”. As a result, \$200 million of funding previously reported in the table is now reflected in footnote 6.

<sup>5</sup> These are the Canadian Foundation for Climate and Atmospheric Sciences and the Forum of Federations.

<sup>6</sup> In addition to funding for foundations and endowments, \$1,100 million had been transferred to other organizations at arm’s length from the Government; \$910 million of the transferred amount had yet to be used at March 31, 2005. The organizations are the Canadian Institute for Health Information; the Green Municipal Fund; Precarn; Canarie Inc.; the Canadian Institute for Advanced Research; the Canadian Academies of Science; and the Canadian Council on Learning.

I wish to reiterate that I express no view on the merits of foundations as vehicles to deliver government programs, and my comments should not be interpreted as a criticism of these organizations.

## EMPLOYMENT INSURANCE ACCOUNT

As a result of the amendment to the *Employment Insurance Act*, which received Royal Assent on June 29, 2005, I have removed the other matter related to Employment Insurance that was reported last year in my Report on the Financial Statements of the Government of Canada. The amendment established a new rate-setting mechanism that is effective for the 2006 premium rate. Further explanation will be provided in my Annual Report to the House of Commons later this year.

In addition to the above items that affect my Report on the Financial Statements of the Government of Canada for the current year, I wish to draw Parliament's attention to an item of significance to the Financial Statements of the Government of Canada for the upcoming year.

## GOVERNMENT REPORTING ENTITY

In 2003, PSAB revised its standard on the government reporting entity. This revised standard, to be implemented in 2005–06, changes the requirements for determining which organizations should be considered to be part of the Government, for purposes of financial reporting. Under this new standard, organizations should be considered part of the Government if they are “controlled” by Government. This differs from the previous standard, which also considered ownership and accountability.

The standard defines control as “the power to govern the financial and operating policies of another organization.” It indicates that this control can be exercised by establishing an organization's fundamental purpose and eliminating or significantly limiting the ability of the organization to make future decisions by predetermining the financial and operating policies of the organization.

Any organizations determined to be controlled by the Government would be treated as part of the government reporting entity. The Financial Statements of the Government of Canada would then reflect their assets, liabilities, expenses, and revenues. Transfers to these organizations would not be treated as expenses until the organization used these funds for their intended purposes.

This is a particularly challenging standard to apply because Government must consider the preponderance of evidence to judge whether an organization is controlled by the Government—there is no single rule or criterion to establish control.

I am continuing my discussions with government officials in an effort to reach an agreement on how to apply this new standard to the 2005–06 accounts.