

**FEDERAL GOVERNMENT SPENDING:  
*A PRIORI* AND *A POSTERIORI* CONTROL MECHANISMS**

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## **FEDERAL GOVERNMENT SPENDING: *A PRIORI* AND *A POSTERIORI* CONTROL MECHANISMS**

### **INTRODUCTION**

This paper describes the federal government's spending control mechanisms. With its 450,000 employees, 1,600 programs and services and annual spending of \$200 billion, the federal government is the largest and most complex organization in Canada. The federal public sector therefore requires an effective mechanism for sound expenditure management.

It is for this reason that expenditure control is carried out at every stage of the federal government's financial cycle, involving *a priori* control mechanisms (before the expenditures are committed) and *a posteriori* control mechanisms to ensure propriety and the proper use of public funds.

### **THE GOVERNMENT OF CANADA'S EXPENDITURE CONTROL SYSTEM AND PARLIAMENT'S FRONT-LINE ROLE IN EXPENDITURE CONTROL**

Canada is a constitutional monarchy, a federation and a parliamentary democracy. Its federal system of government is inherited from the British tradition and is composed of the executive, legislative and judicial branches. It is the responsibility of the executive branch, consisting of the Prime Minister and Cabinet, to enact legislation, propose expenditures, establish national policies and conduct international affairs.

The legislative branch, or Parliament, consists of the Queen (represented by the Governor General), the Senate and the House of Commons. The legislative branch is responsible for tabling, considering and passing legislation, including appropriation bills. Finally, the judicial branch is made up of the Supreme Court, the Federal Court and the Superior Courts of the provinces. Wholly independent from the other two branches of government, the judicial branch interprets and applies Canada's laws.

The two houses of Parliament have the authority and the obligation to consider and approve all government spending. Section 26 of the *Financial Administration Act* states that “no payments shall be made out of the Consolidated Revenue Fund without the authority of Parliament.” Moreover, the Constitution (section 53) requires that all legislation regarding expenditures of public money must originate in the House of Commons, and section 54 specifies that it can be initiated only by a minister of the Crown.

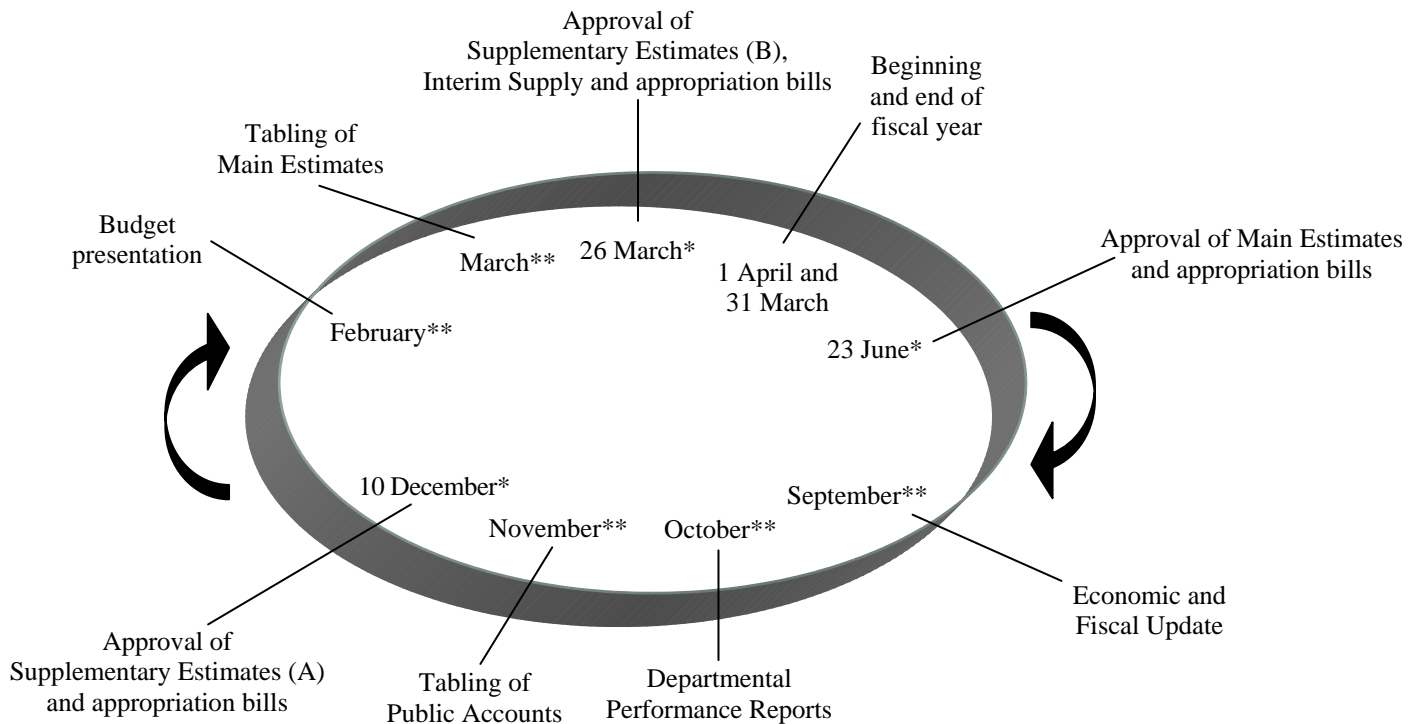
Canadian statute law and the Constitution authorize the Senate, the House of Commons and their parliamentary committees to play a fundamental role in budgetary control by scrutinizing and authorizing government spending. This review and authorization role is performed throughout the government’s financial cycle.

## **THE FINANCIAL CYCLE**

The federal government’s financial cycle begins officially when the Minister of Finance tables a budget in Parliament (see Figure 1), typically in the second half of February each year. The budget outlines the government’s policy priorities and its fiscal, social and economic policies and priorities for the upcoming fiscal year. The fiscal year of the Government of Canada runs from 1 April to 31 March.

Following the presentation of the budget, the government tables the Main Estimates, generally in the early March. These contain details of the government’s proposed spending, by department and agency, for the upcoming fiscal year, and are aligned with the framework outlined in the Budget Speech. The Main Estimates identify the spending authorities (votes) and the amounts to be included in subsequent appropriation bills (also known as supply bills) that Parliament will be asked to approve to enable the government to proceed with its spending plans. The associated appropriation bills must be approved by 23 June.

**Figure 1 – Federal Government Financial Cycle:  
1 April to 31 March**



\* deadline

\*\* approximate date

Source: Economics Division, Parliamentary Information and Research Service, Library of Parliament.

Since the fiscal year begins on 1 April and the normal supply cycle provides for the House to decide on the Main Estimates in June, the government must ask for an advance on the funds requested in the Main Estimates. This advance, known as the Interim Supply, must be approved by Parliament no later than 26 March.

It is very difficult to forecast all the government's financial needs for the fiscal year ahead, and information about some of the programs announced in the Budget Speech may not be sufficiently detailed or available in time to be included in the Main Estimates. The government may therefore submit amendments to the expenditure plan by tabling Supplementary Estimates. These are normally tabled twice a year, in November and March; the corresponding appropriation bills must be tabled for Parliament's approval no later than 10 December and 26 March.

In the fall, each department and agency must table in its Departmental Performance Report, which provides information about the results achieved in comparison with anticipated performance and the commitments made in the Main Estimates of the previous fiscal year.

Also in the fall, the Minister of Finance presents the *Economic and Fiscal Update*. The document provides basic economic and fiscal information that will be the subject of policy review and public debate leading up to the next budget.

The government's financial cycle ends with the tabling of the *Public Accounts of Canada* in October or November. The document sets out the government's financial statements in detail, including the financial operations of each department and agency.

## **THE FEDERAL GOVERNMENT STRATEGY: SOUND FINANCIAL MANAGEMENT**

### **A. *A Priori* Internal Control**

At every stage of the financial cycle, there is strict and effective budget control. First, in drafting its budget, the federal government uses an expenditure management system that is based on ongoing resource reallocation. In more specific terms, the government conducts a rigorous review of federal spending to test for relevance, efficiency and excellence. The expenditure review provides a basis for reductions in funding to lower-priority programs or the elimination of programs that are no longer effective, and the reallocation of the resulting savings to high-priority areas.

In preparing the Main Estimates and the Supplementary Estimates, each department and agency must provide information on its planned spending by program and activity. At this stage, departments' and agencies' requests for funding for specific initiatives are subject to an in-depth review by the Treasury Board Secretariat. A central agency, the Secretariat provides advice, guidance and assistance with allocating resources, in accordance with government priorities and within the limits established by the financial framework set out in the budget and the *Economic and Fiscal Update*. Advice and guidance deal primarily with ensuring value for money and oversight of financial management in departments and agencies.

### **B. *A Posteriori* Internal Control**

When government expenditures have been committed, budgetary control is performed by the Office of the Comptroller General of Canada, whose mandate involves financial management and internal audit. The Office of the Comptroller General oversees government spending throughout the federal public service and ensures that standards are set and observed. In carrying out its responsibilities, the Office has a Senior Financial Officer in every department and agency, whose role (and that of the accredited professionals working with that officer) is to review and sign off on the department's new spending proposals for all initiatives that have a major financial impact. The work of the Senior Financial Officers gives Parliament and Canadian taxpayers further confidence that public funds are being managed responsibly.

The federal government recently decided to strengthen the internal audit function across the entire federal public service. In addition to the internal audit activities carried out by the Office of the Comptroller General, every department and agency will have an internal audit committee, a majority of whose members are drawn from outside the public service. The remaining members must not belong to the department concerned, with the exception of the deputy head, who may chair the committee or serve as an ex-officio member. These provisions will ensure that the internal audit is independent from the audited organization.

### **C. *A Posteriori* External Control**

There is also an external organization that exercises *a posteriori* control of government spending: the Office of the Auditor General of Canada. The Office conducts an independent audit of the financial statements of federal government departments and agencies. It also carries out management audits on value for money, which often help identify areas where government systems and practices can be improved. The Auditor General sends the audit results to Parliament, thus promoting government accountability. He or she may present up to three reports per year to Parliament.



## **PARLIAMENTARY APPROVAL AND AUDIT OF GOVERNMENT SPENDING**

Parliament also has *a priori* oversight authority over federal government spending through its review of the Main Estimates and the Supplementary Estimates, and it has a role in adopting appropriation bills associated with the expenditure plans. Through its parliamentary committees, Parliament is also able to conduct an *a posteriori* review of federal government spending by examining the government's consolidated financial statements (the *Public Accounts of Canada*), the Auditor General's reports and the Departmental Performance Reports.

### **A. *A Priori* Parliamentary Control**

Following their tabling in the House of Commons, the Main Estimates are referred to the various standing committees of the House of Commons. Standing committees may only approve, reduce or reject the Main Estimates that are referred to them – they may not increase them. Committees must report their Estimates back to the House by 31 May, after which time they are deemed to have been adopted. The House of Commons must then approve the Main Estimates before the government is able to introduce the appropriation bill authorizing withdrawals from the Consolidated Revenue Fund. The Supplementary Estimates are dealt with in a similar manner. Supplementary Estimates are deemed to have been reported back to the House on the third sitting day before the last allotted day in the supply period.

Each fiscal year, the House of Commons has the authority to consider the Main Estimates of two departments or agencies in Committee of the Whole House. The documents are reviewed, one day each, in a four-hour session. This in-depth review of the Estimates of two departments, in the presence of all members of Parliament and the ministers responsible, results in greater transparency and greater visibility of the Estimates review process.

Furthermore, in every federal government financial cycle, seven days are designated in the House of Commons for each of the three supply periods (Main, Interim and Supplementary). On these supply days (specifically during the period set aside for Government Orders), members of Parliament have an opportunity to question ministers, and to draw the attention of the public and the media to a range of financial issues and some of the government's contested actions or decisions. These are important debates, in which the government must defend its spending plans before Parliament.

In the Senate, when the Main Estimates are tabled, they are referred to the Standing Senate Committee on National Finance for examination and report. As part of its examination, the Committee invites the President of the Treasury Board and senior officials from the Treasury Board Secretariat to appear and answer questions from senators. Following these meetings, the Committee presents its report to the Senate. The report is debated and concurred in before the related appropriation bill is considered and passed by the Senate. The Standing Senate Committee on National Finance has the entire fiscal year to consider the Main Estimates. It generally presents a number of interim reports on particular aspects of the document. The Committee also examines the Supplementary Estimates and reports back to the Senate on its deliberations.

Unlike the House of Commons, neither the Senate nor its Committee on National Finance adopts the Estimates following their consideration. Appropriation bills, however – like all other bills – must be adopted by the Senate. The appropriation bills related to the Main Estimates or the Supplementary Estimates are tabled in the Senate after their adoption by the House of Commons.

The hearings held by the House of Commons and Senate committees with ministers and public servants enable parliamentarians to have a say in departmental expenditure plans. The hearings are open to the public, and the proceedings may be closely followed by those who are the most affected by the government's decisions, and also by the media. Because parliamentarians review and question the spending plans, they are able to encourage departments to improve program design and delivery, which may lead to improved management and greater cost-effectiveness in government programs.

### **B. *A Posteriori* Parliamentary Control**

Parliament not only has a say in federal government spending through its review of the expenditure plans and through the adoption of appropriation bills and other legislation, but it is also able to conduct an *a posteriori* expenditure review through the work of the various standing committees of the House of Commons and the Senate.

All parliamentary committees have an opportunity to review the Departmental Performance Reports from the departments and agencies within their mandate. They may also conduct special investigations into the use of public funds. All parliamentary committees can review the Auditor General's reports.

It should be noted that the House of Commons Standing Committee on Public Accounts has a special comptrollership role, as its terms of reference include reviewing the federal government's consolidated financial statements (the *Public Accounts of Canada*), the Auditor General's report and any other issues referred to it by the House of Commons.

In the same way, the House of Commons Standing Committee on Government Operations and Estimates is tasked specifically with examining the spending plans and actual expenditures of the federal organizations whose operational responsibilities extend throughout government, primarily the Privy Council Office, the Treasury Board Secretariat, the Public Service Commission, and Public Works and Government Services Canada. In addition, the Committee is responsible for reviewing: the Estimates process; horizontal initiatives that cut across a number of departments; Crown corporations; private foundations that spend federal funds; and the use of contingency funds.

## **COMMENTARY**

In light of the federal government's complexity, it is not always easy for Parliament to exercise effective oversight of the government, its activities and its expenditures. Even though parliamentarians devote a great deal of time to this comptrollership role, some commentators believe that more time and effort should be spent on the approval and audit of federal spending. Notably, a number of parliamentarians are of the view that the House of Commons and Senate committees should conduct a more meticulous review of the Main Estimates and the Supplementary Estimates. Why is this the case?

Parliamentarians have many responsibilities. In addition to overseeing the use of public funds by the government, they are also lawmakers voting on legislation and the resulting policies. They often sit on a number of standing committees, in addition to performing their duties with regard to the people whom they represent, in their riding or their home province.

It should also be pointed out that budgetary control involves ever-greater intervention by the federal government in various sectors of Canadian society. As mentioned above, the government administers a large number of programs to meet the needs of an increasingly varied clientele. Budgetary control thus constitutes a major challenge for parliamentarians, given their limited time and resources.

Unlike parliamentary committees in other countries such as Australia, France and the United Kingdom, those in Canada do not receive assistance from staff in the Office of the Auditor General in examining expenditure plans and Auditor General reports. Currently, only one or two analysts (from the Library of Parliament) are assigned to each parliamentary committee, to conduct the research required for the committee's work. A number of parliamentarians consider that analysis and research capabilities must be increased to better serve the standing committees of the House of Commons and the Senate. This would strengthen the committees' ability to conduct a thorough review of the Estimates and related issues and to hold the government to account on its use of public funds.

In its second report, the Commission of Inquiry into the Sponsorship Program and Advertising Activities chaired by Justice John H. Gomery pointed out the difficulties associated with parliamentary committees' review of the federal government's expenditure plans. The Commission recommended that the federal government should substantially increase funding for parliamentary committees in order to ensure that they have the technical assistance they require for a thorough review of expenditure plans.

## **CONCLUSION**

To sum up, there are a number of mechanisms in place for the control of federal spending. Among these, parliamentary committees provide members of Parliament and senators with an opportunity for more detailed oversight of the government and its finances. In the House of Commons, each standing committee reviews the expenditures within its mandate. In the Senate, the Standing Committee on National Finance is responsible for reviewing all government expenditure plans.

The extent of budgetary control exercised by Parliament depends on the analysis and research capacities available to parliamentary committees. Similarly, the effectiveness of budgetary control depends on the amount of time that parliamentarians are willing to give to the expenditure review and authorization process. In its second report, the Gomery Commission commented on this issue and recommended that increased funding be provided to parliamentary committees for the review of spending plans.

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