

OFFICE OF THE
PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

**Bill C-51 *Economic Recovery Act (stimulus)* and
Interim Financial Reporting in the Government of Canada**

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The *Parliament of Canada Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, government estimates and trends in the national economy.

Key Points:

- This note highlights considerations for parliamentarians with respect to the quarterly reporting framework proposed in Bill C-51 - *Economic Recovery Act (stimulus)*.
- Existing reporting to Parliament focuses on planned allocations (*i.e.* the Budget, Estimates) and retrospective data that explain how federal funding has been allocated (*e.g.* the Public Accounts). There are few sources of public interim data.
- Relevant, timely and good quality interim financial data could provide parliamentarians with key information to support their stewardship of public monies, a responsibility set out in the Constitution and by historical convention.
- Based on accounting principles and the practices of other jurisdictions, the proposed quarterly reporting regime could be a good complement to the existing reporting framework if it focused on better decision support information, not strictly financial reporting. To this end, parliamentarians may wish to consider what types of non-financial information would be beneficial to include in these reports.
- At the same time, parliamentarians will need to consider the trade-off between the new reporting burden and additional costs, especially in light of other financial management reforms underway within the Government.

Prepared by: Sheryl Urie & Jason Jacques

* The authors welcome any questions or comments and can be reached at uries@parl.gc.ca and jacqui@parl.gc.ca.

I. Introduction

Legislative efforts to introduce a quarterly reporting system for the Government of Canada have been underway for several years, most recently in the form of Bill S-228¹. In general, these proposals are motivated by the need to address a perceived gap in the financial information available between the presentation of budgetary proposals (e.g. the Budget, Estimates) and 18 months later when the corresponding financial results are tabled (i.e. the Public Accounts).

Bill C-51 - *Economic Recovery Act (Stimulus)* (see Annex D) proposes amendments to the *Financial Administration Act* to establish a quarterly reporting regime for all federal entities, including departments, agencies and Crown Corporations². Beginning in April 2011, each entity would be required to publish a quarterly report that contains:

- A financial statement for the fiscal quarter.
- Comparative financial information for the preceding year.
- A statement outlining the results, including risks and significant changes.

The Treasury Board would also be permitted to make regulations pertaining to the form and content of these reports, as well as provide exemptions for federal entities.

This paper is the second in a series regarding parliamentary reporting and builds on a note released earlier this year³. As outlined at that time, the Government of Canada's (GC's) efforts to improve the frequency and quality of interim reporting represent a leading practice among Organization for Economic Cooperation and Development (OECD) jurisdictions. The GC's proposal in Bill C-51 represents an opportunity to further extend this leadership.

This paper provides:

- An overview of the current reporting available for parliamentarians.
- Criteria for assessing the usefulness of interim financial reporting.
- Considerations for parliamentarians with respect to the proposed regime.

¹ http://www2.parl.gc.ca/content/Senate/Bills/402/public/pdf/s-228_1.pdf.

² <http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=4115871&Language=e&Mode=1&File=104>.

³ http://www2.parl.gc.ca/Sites/PBO-DPB/documents/Budget_2009_Progress_Report_Info.pdf.

II. Current Reporting Framework

The GC prepares a number of different financial reports on an annual basis that are designed to fulfill legislative requirements to outline planned budgetary spending (e.g. the Estimates), provide an interim update regarding in-year results (i.e. the Fiscal Monitor) and present the year-end financial position of the GC (i.e. Public Accounts). A detailed overview is presented in Annex A.

Planned Spending

The Budget

The Budget outlines the government's fiscal, social and economic policies and priorities. It generally presents the GC's new spending initiatives and tax measures, which subsequently appear in either the Estimates or related legislation (i.e. Budget Implementation Acts).

The Estimates

The Estimates are separated into three documents:

- Part I, The Government Expenditure Plan, provides summary-level information and highlights of year-over-year changes in departmental spending and transfer payments⁴.
- Part II, The Main Estimates, enumerates the votes and the amounts to be included in subsequent appropriation bills that Parliament will be asked to approve to enable the government to proceed with its spending plans⁵.
- Part III contains two documents that link financial requirements and results⁶. The Reports on Plans and Priorities (RPPs) identify departments' strategic objectives and planned resource allocations over a 3-year period. The Departmental Performance Reports (DPRs) outline progress over the previous fiscal year in achieving these outcomes⁷.

Interim Progress

The only regular interim reporting for parliamentarians is the Fiscal Monitor, which provides high-level monthly reporting of revenues and expenditures across the GC. While a year-over-year comparison of financial results is provided, there is no clear linkage to forecast financial results presented in planned spending documentation.

The GC has recently introduced quarterly updates regarding Budget 2009 implementation, which provides financial and operational information pertaining to each budgetary initiative. However, there is currently no commitment to extend this reporting beyond the current fiscal year.

⁴ 2009-2010 Parts I and II Main Estimates and Government Expense Plan, Page 1, <http://www.tbs-sct.gc.ca/est-pre/20092010/me-bd/docs/index-eng.pdf>.

⁵ General Info Part II Main Estimates, Treasury Board Secretariat, Government of Canada http://www.tbs-sct.gc.ca/est-pre/q2_0203e.asp.

⁶ *Backgrounder: Estimates Process*, Treasury Board Secretariat, Government of Canada <http://www.tbs-sct.gc.ca/media/nr-cp/2007/1030-eng.asp#Backgrounder2>.

⁷ Ibid.

Financial Results

The Public Accounts

The annual Public Accounts reports on financial transactions government-wide, presenting the audited results that correspond to Estimates tabled in Parliament 18-months earlier.

The Annual Financial Report

The Annual Financial Report (AFR) provides the Government's aggregate revenue and expenditure data over the past economic cycle (or longer) and presents the data in the context of broader economic developments.

III. Criteria for *Useful* Reporting

While it appears self-evident that more information would be beneficial to parliamentarians, recent experience with the GC's budget implementation reports offers several important lessons. Most notably, more data does not necessarily result in more relevant information or improved oversight of federal spending.

The function of financial statements is the communication of information to users. To do this effectively, the information must be relevant and reliable, and communicated in a manner that is useful to the users of the financial information. The guidance in section PS1000 Financial Statement Concepts (provided in Annex B) of the Public Sector Accounting Handbook identifies four key qualitative characteristics of financial statements. The qualitative characteristics are detailed below:

- *Relevance.* Relevance is achieved through information that has predictive, feedback and accountability value and is timely.
- *Reliability.* Reliable information has the following characteristics – representational faithfulness, completeness, neutrality, conservatism and verifiability.
- *Comparability.* Comparability enables users to identify similarities in and differences between the information provided by two sets of financial statements.
- *Understandability.* Understandability means that information is to be presented clearly and simply, avoiding excessive detail or complex presentation formats that could result in confusion and misinterpretation.

Parliamentarians should be mindful of these key qualitative characteristics when evaluating the usefulness of the proposed quarterly reports.

The provision of quarterly financial statements by government departments may be useful in that more information may be available, but whether it is the right information to be useful for accountability and decision-making will be subject to the precise standards set by the Treasury Board.

IV. Considerations for Parliamentarians

From the perspective of the PBO, there are three issues that warrant consideration by parliamentarians with respect to the GC's proposed reporting framework:

1. Whether the content of reports should be restricted to financial data.
2. How the proposed reports will be linked to other aspects of the reporting cycle.
3. How the GC will address implementation challenges.

Content of Reports

The GC proposal would focus on financial information, but also commit to providing a complementary statement outlining results, risks and significant changes in relation to operations.

As noted in PBO assessments of the GC's quarterly updates on Budget 2009 implementation, financial metrics are a cornerstone for informing parliamentarians on progress throughout the year. However, the identification of differences between planned and actual expenditures and an explanation of variances is equally important.

Parliamentarians may wish to consider providing guidance to the GC that the proposed quarterly reports should contain financial variance analysis (*i.e.* planned versus actual), as well as a description of why the variance has occurred and what actions, if any, have been adopted to redress it.

Alignment with Reporting Cycle

The GC proposal does not specify whether the quarterly reports would be explicitly linked to existing planning documents, such as the Budget or the Estimates. The proposal is also silent regarding how the new reports would complement existing interim financial data presented in the Fiscal Monitor.

A weakness with the current financial reporting system is the lack of continuity among the three key financial reporting documents: the Budget, the Estimates and the Public Accounts. This problem faces legislatures in a number of jurisdictions.

Building on lessons from the GC's quarterly budget updates, parliamentarians may wish to request that the GC present financial data on a similar basis as the Estimates and also provide separate details for each initiative contained in the most recent budget. This would ensure alignment with the Estimates and Public Accounts, and allow parliamentarians to track implementation of new initiatives.

Implementation Challenges

The new proposal does not identify how the GC would overcome previously identified challenges regarding sufficient capacity to generate the new quarterly reports, as well as capacity on the part of Parliament to be able to understand, analyze and use the new information.

With respect to capacity within the GC, a review of the financial management categories in the Management Accountability Framework (MAF) assessments indicates that⁸:

- There were no departments that were assessed as 'Strong' in the category of *Reporting to Parliament*. From a review of the comments in the MAF, the greatest weaknesses identified included the lack of negative review and lessons-learned, lack of independently verifiable evidence-based information, as well as a limited use of comparisons.
- Only one Department was considered 'Strong' in the category of *Effectiveness of Financial Management and Control*. In addition, the majority of the departments have over 15% of the Financial Management (FI) positions vacant and over 15% of the FI positions not permanently staffed.

Regarding the capacity of Parliament to use the information, there have been ongoing challenges obtaining relevant analysis regarding the Estimates and finding committee time to review proposed spending⁹. It is likely that new quarterly reports would face similar challenges.

Parliamentarians may wish to ask the GC to share an implementation plan for the new quarterly reporting regime and seek assurances that sufficient resources have been earmarked to support implementation of the new reporting regime. In addition, parliamentarians may also need to assess whether their own internal review processes for the Budget, Estimates, and Appropriation Bills should be amended to accommodate improved interim information.

V. Conclusion

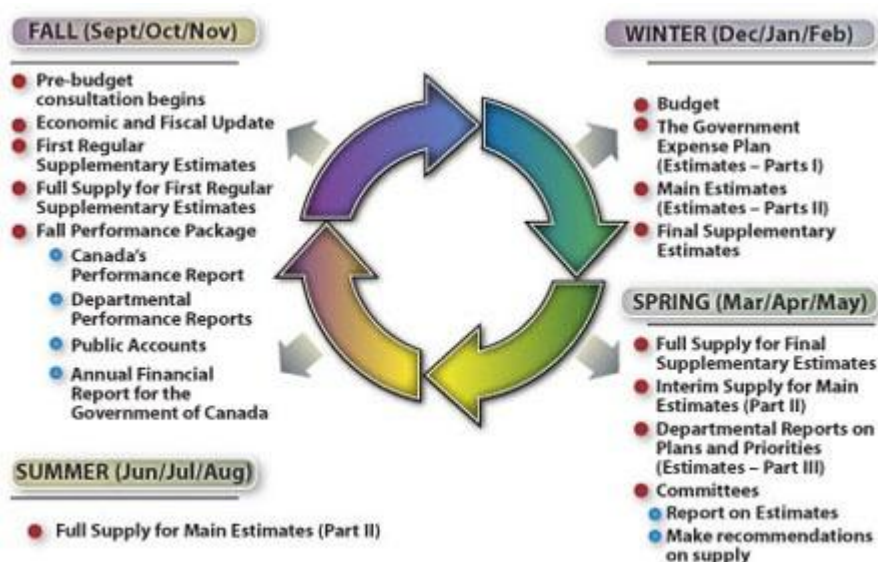
On balance, quarterly financial reporting would provide a good discipline for timely reporting to Parliament. Quarterly departmental financial statements may provide some of the necessary information to help parliamentarians meet their constitutional obligations related to financial oversight. However, the resource requirements and implementation timeframes are both large obstacles to overcome in meeting the proposed reporting requirement.

⁸ Detailed tables are presented in Annex C. The data are drawn from the most recent public MAF assessments in 2007. While progress has likely been made over the intervening two years, these results remain indicative of capacity challenges.

⁹<http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=1062530&Language=E&Mode=1&Parl=37&Ses=2>.

Annex A: Summary of Financial and Performance Reporting in the Government of Canada

Title	Purpose	Accounting Basis	Timing	Granularity	Information Structure
Budget	For decision	Accrual	Annual Ex-ante	Government-wide	Broad Priorities
Fiscal Monitor	For Information	Accrual	Monthly / In year	Government – wide	Revenues and Expenses
Estimates Part 1	For Information	Near Cash	Annual Ex-ante	Government-wide	Aggregated
Estimates Part 2	For decision	Near Cash	Annual Ex-ante	By Department	Vote and by Standard Object
Estimates Part 3 – RPP	For Information	Near Cash	Annual Ex-ante	By Department	Strategic Outcomes
Supplementary Estimates	For decision	Near Cash	Occasional In-year	By Department	Vote
Public Accounts	For Information	Accrual (audited)	Annual Ex-post	Government-wide	By Standard Object
Estimates Part 3 – DPR	For Information	Accrual	Annual Ex-post	By Department	Strategic Outcome



Source: Treasury board Secretariat, The Reporting cycle <http://www.tbs-sct.gc.ca/tbs-sct/audience-auditore/parliamentarian-parlementaire-eng.asp>.

Annex B: Excerpt from Public Sector Accounting Handbook (Section 1000)

PS1000 FINANCIAL STATEMENT CONCEPTS

PURPOSE AND SCOPE

- .01 This Section describes the concepts underlying the development and use of accounting principles in government financial statements. Such financial statements are designed to meet the common information needs of external users of financial information about a government.
- .02 Financial statements" refers to the summary financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity. Financial statements include the notes and schedules supporting the statements. "Government" refers to the elected and appointed policy-makers and administrators who together perform the executive function and are the preparers of financial statements.
- .03 This Section is to be used by preparers and auditors of financial statements in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing.
- .04 This Section does not establish standards for particular measurement or disclosure issues. Nothing in the Section overrides any specific standard in another Section of the CICA Public Sector Accounting Handbook. The Public Sector Accounting Board (the Board) will review any inconsistency between this Section and another Section when that other Section is re-examined.
- .05 Financial reporting and accounting standards are evolutionary and are revised to reflect changes in conditions. Standards are the concepts, conventions and postulates that provide principles to measure, recognize, present and disclose the financial information considered necessary for accountability and useful for decision making. In government standards, the unique characteristics of government (see [Appendix A](#) to FINANCIAL STATEMENT OBJECTIVES, Section PS 1100) are a primary consideration in setting the parameters of the government reporting model.
- .06 Standards generally do not prescribe format, ordering of financial statements or financial statement elements, or terminology except as required to meet the measurement and presentation requirements of the standards. Standards do, however, specify what measure(s) must be reported on a statement, and the calculation of those measures may demand a certain ordering of the financial statement elements reported. In all other aspects, preparers of government financial statements use professional judgment to design financial statements tailored to their users' needs.

CONTEXT OF GOVERNMENT FINANCIAL STATEMENTS

- .07 *A government financial report should present information that is useful in evaluating the government's financial condition at the end of the accounting period and its financial performance during the accounting period. Government financial statements are a fundamental component of a government financial report. [APRIL 2005]*
- .08 The financial position of a government as measured in the financial statements is only one factor in determining the financial condition of a government. Financial condition is a broad, complex concept with both short- and long-term implications that describes a government's financial health in the context of the overall economic and financial environment. Nevertheless, financial statements provide information that is critical to evaluating the financial condition of the government, and they form the cornerstone of a government financial report.
- .09 The changes in the government's financial position presented in the financial statements are essential factors in assessing the financial performance of the government in the accounting period. They are, however, not the sole measures of government financial performance in the period. Additional financial performance information that draws on information external to the financial statements supplements and adds further depth to the picture of financial performance illustrated in the financial statements.
- .10 The complex nature of government, its myriad of objectives and its public accountability requires multi-faceted reporting. Accordingly, total government reporting envisions a multidimensional accountability report comprising: a financial report that includes government financial statements; other information about a government's financial condition, and supplementary financial performance information; as well as non-financial information.
- .11 All governments in Canada publish financial statements that display their financial position and the changes in financial position in the period. These financial statements are general purpose statements that serve, to the extent possible, the needs of a variety of users. Such statements are commonly required by law, audited and issued annually and, while most often addressed to legislatures or councils, are available to all interested parties.
- .12 Financial statements cannot be expected to fulfill all of the users' needs served by a government's financial reporting system. Governments produce many kinds of financial reports in addition to financial statements. For example, there are reports prepared by individual entities to comply with legislation; there are reports to measure and report on the performance of individual funds, programs and activities; and there are special purpose reports designed to meet particular needs of specific users. In addition, governments set out their fiscal plan in budgets and estimates of expenses or expenditures. Some information, such as related performance information and narrative explanations, can only be provided in other financial reports or as supplementary information to the financial statements themselves. Thus, certain information is better provided, or can only be provided, by financial reports other than financial statements.
- .13 Nevertheless, financial statements are a central feature of government financial reporting. They serve as a means by which a government provides an

accounting of its administration of public financial affairs and resources. These financial statements are a principal means of communicating financial information to those not involved in the government's financial administration and present aggregated information capable of integration with other financial statements, schedules and reports provided by the government. Because of this key role, the objectives of government financial statements (see FINANCIAL STATEMENT OBJECTIVES, Section [PS 1100](#)) are a significant factor in the selection of accounting policies used in government financial reporting and in the determination of information required from the accounting system.

USERS AND USER INFORMATION NEEDS

- .14 Government financial statements serve the interests of a variety of users: the public, legislators, councillors, investors, analysts and other governments.
- .15 Legislatures, councils and governments are accountable to the public, who provide the revenues and resources necessary for government operations, who receive government services and who are the beneficial owners of the public money and property for which legislatures, councils and governments are responsible. The public is comprised of groups with a variety of interests and views.
- .16 As elected representatives of the public, legislators and councillors are primary users of government financial statements. They grant authority to the government to administer public resources and financial affairs, and hold the government accountable for its financial administration.
- .17 Investors in government securities and enterprises provide financial resources. Government has an interest in providing information useful to them in evaluating its ability to finance its activities and to meet its liabilities and contractual obligations. Economic and financial analysts serve legislators and councillors, investors and other interested parties. They use financial statements and other information to analyze and evaluate financial issues.
- .18 Users are interested in the state of a government's finances, its financial viability both in the short and long term, its revenues and financing sources, the allocation and use of its economic resources, the nature and extent of its economic activities and the quality of its financial management. In particular, government financial statements need to report the information required by users to help them make assessments and judgments concerning government financial operations and management.
- .19 More specifically, users look to financial statements to provide information about:
 - (a) the sources and types of government revenues;
 - (b) the allocation and use of economic resources;
 - (c) the cost of goods and services provided in the accounting period;
 - (d) the extent to which the costs of the period were met by the revenues of the period;
 - (e) the government's financial position;
 - (f) the stock, allocation and use of non-financial resources;
 - (g) the extent to which revenues were sufficient to meet expenditures;

- (h) how the government financed its activities and how it met its cash requirements;
 - (i) actual results of activities of the period in comparison with those originally planned and those of past periods; and
 - (j) whether public economic resources were managed in accordance with legislative authorities.
- .20 Information in financial statements may be used for a number of diverse purposes depending on the interests of the users. For example, information presented in the financial statements, when used with other information, is useful in gaining an understanding of and assessing:
- (a) a government's ability to meet its financial obligations, both short- and long-term;
 - (b) a government's ability to maintain the level and quality of its services and to finance new programs;
 - (c) future tax and other revenue requirements;
 - (d) government spending priorities;
 - (e) the impact of government economic activities on the economy; and
 - (f) the performance of government in managing the economic resources for which it is responsible.

FINANCIAL STATEMENT OBJECTIVES

- .21 The information needed to aid understanding and assessments of government financial operations and to promote accountability extends beyond reporting surpluses and deficits. A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities. Further, this information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position. The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs. The objectives of government financial statements are outlined in FINANCIAL STATEMENT OBJECTIVES, Section [PS 1100](#), and are consistent with the financial statement concepts of this Section.

BENEFIT VERSUS COST CONSTRAINT

- .22 The benefits expected to arise from providing information in financial statements should exceed the cost of doing so. This constraint also applies to the development of accounting standards by the Board. It is also a consideration when preparing financial statements in accordance with those standards (for example, in considering disclosure of information beyond that required by the standards). The Board recognizes that the benefits and costs may accrue to different parties and that the evaluation of the nature and amount of benefits and costs is substantially a judgmental process.

QUALITATIVE CHARACTERISTICS

- .23 The function of financial statements is the communication of information to users. To fulfill this function effectively, the information must be relevant and reliable, and communicated in a manner that best facilitates its use.
- .24 *Financial statements should communicate information that is relevant to the needs of those for whom the statements are prepared, reliable, comparable, understandable and clearly presented in a manner that maximizes its usefulness.* [APRIL 2005]
- .25 Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics.

Relevance

- .26 For the information provided in financial statements to be useful, it must be relevant to the decisions made by users and for assessing accountability. Information is relevant by its nature when it can influence the decisions of users by helping them evaluate the financial impact or potential financial impact of past, present or future transactions and events or confirm, or correct, previous evaluations. For the information in government financial statements to be relevant to the needs of users, it must also be of a nature, and presented in a manner, that helps users assess the accountability of the government for its administration of public resources and financial affairs.
- .27 Financial statements are not intended to provide all of the information necessary to users for decision making or for assessing government accountability. Nevertheless, they provide a fundamental component of the information needed for such purposes.
- .28 Relevance is achieved through information that has predictive, feedback and accountability value, and is timely.

(a) **Predictive value and feedback value**

Information that helps users to predict a government's future financial results and cash flows has predictive value. Although the data provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions. The predictive value of the statement of operations, for example, is enhanced if abnormal items are separately disclosed. Information that confirms or corrects previous predictions has feedback value. Information often has both predictive value and feedback value.

(b) **Accountability value**

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in

government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

(c) **Timeliness**

Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. For information to be useful for decision making and accountability, the decision maker or stakeholder must receive it before it loses its capacity to influence decisions. The usefulness of information for decision making and assessing accountability declines as time elapses.

Reliability

.29 Information should be reliable. Inaccurate, inappropriate or incomplete information, or information that is biased or does not faithfully represent what it purports to represent, will inhibit rather than enhance understanding, evaluation and decision making by users and adversely affect the accountability provided by the financial statements to stakeholders. Reliable information has the following characteristics.

(a) **Representational faithfulness**

Representational faithfulness is achieved when transactions and events affecting the entity are presented in financial statements in a manner that is in agreement with the actual underlying transactions and events. Thus, transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision.

(b) **Completeness**

Information is complete when none of the data necessary to achieve representational faithfulness is lacking. Completeness of disclosure means providing sufficient information about transactions, circumstances or events of such size, nature or incidence that their disclosure is necessary to understand the government's finances. In assessing the degree of completeness of the information provided in financial statements, the benefit / cost constraint in paragraph [PS 1000.22](#) and the qualitative characteristics trade-off described in paragraph PS 1000.32 would be considered. Reliability implies completeness of information, at

least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behaviour.

(c) **Neutrality**

Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented. Bias in measurement occurs when a measure tends to consistently overstate or understate the items being measured. In the selection of accounting principles, bias may occur when the selection is made with the interests of particular users or with particular economic or political objectives in mind. Financial statements that do not include everything necessary for faithful representation of transactions and events affecting the entity would be incomplete and, therefore, potentially biased.

Neutrality does not mean "without purpose", nor does it mean that accounting should be without influence on human behaviour. Accounting information cannot avoid affecting behaviour, nor should it. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that negates neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without colouring the image it communicates for the purpose of influencing behaviour in some particular direction.

(d) **Conservatism**

The application of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner. When uncertainty exists, estimates of a conservative nature attempt to ensure that assets, revenues and gains are not overstated and, conversely, that liabilities, expenses and losses are not understated. Conservatism does not, however, encompass the deliberate understatement of assets and revenues or the deliberate overstatement of liabilities and expenses.

(e) **Verifiability**

The financial statement representation of a transaction or event is verifiable if knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

Comparability

- .30 Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of information by itself. It enables users to identify similarities in and differences between the information provided by two sets of financial statements. Uniformity in application of principles is important when comparing the financial statements of two different entities. Consistency in application is important when comparing the financial statements of the same entity over two periods or at two different points in time. Consistency

helps prevent misconceptions that might result from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, disclosure of the effects of the change is necessary to maintain comparability.

Understandability and clear presentation

- .31 Information should be understandable and clearly presented. Excessive detail, vague or overly technical descriptions, and complex presentation formats result in confusion and misinterpretation. Users need information presented clearly and simply. For the information provided in financial statements to be useful, it must be capable of being understood by users. Users are assumed to have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

Qualitative characteristics trade-off

- .32 In practice, a trade-off between qualitative characteristics is often necessary, particularly between relevance and reliability. For example, there is often a trade-off between the timeliness of producing financial statements and the reliability of the information reported in the statements. There may also be a trade-off between the accountability value of information and the level of detail appropriate to the financial statements, as well as the cost of providing it. As described in paragraph [PS 1000.12](#), some information may be better provided by other reports in the government's reporting system. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Source : Financial Statement Concepts, SECTION PS 1000, Public Sector Accounting.

Annex C: Summary of Selected MAF Assessments

Table 1: Quality of Reporting to Parliament

Department	Quality of Reporting to Parliament				Effectiveness of Financial Management and Control			
	Strong	Acceptable	Opportunity for Improvement	Attention Required	Strong	Acceptable	Opportunity for Improvement	Attention Required
Agriculture Canada			✓			✓		
Canada Revenue Agency		✓				✓		
Canadian Border Security Services			✓			✓		
CFIA		✓			✓			
Citizen and Immigration Canada			✓		✓			
Environment Canada		✓				✓		
Finance		✓				✓		
Fisheries and Oceans		✓				✓		
Foreign Affairs and International Trade			✓				✓	
Health Canada			✓			✓		
Heritage Canada			✓			✓		
HRSDC		✓				✓		
Indian Affairs and Northern Development		✓					✓	
Industry Canada			✓		✓			
Justice Canada			✓			✓		
National Defence		✓				✓		
Natural Resources Canada			✓				✓	
Parks Canada		✓				✓		
Public Health Agency of Canada		✓				✓		
Public Safety and Emergency Preparedness			✓			✓		
Public Works and Government Services			✓			✓		
Transport Canada			✓		✓			
Treasury Board			✓			✓		

Source: Round V MAF Assessments 2007, section 7

Link: <http://www.tbs-sct.gc.ca/mafcrg/assessments-evaluations/2007/menu-eng.asp>

The MAF assessment results for the Effectiveness of Financial Management and Control are summarized in Table 5 below.

Table 2: Effectiveness of Financial Management and Control

Ranked by operating Expenses for 2008-2009	FI Positions Vacant				FI Positions Not Permanently Staffed				Key Financial employees with a university degree and designation		
	less than 5%	5%-14%	15% - 34%	more than 35%	less than 5%	5%-14%	15% - 34%	more than 35%	15% - 25%	26%-50%	over 50%
Agriculture Canada			✓				✓				✓
Canada Revenue Agency	na	na	na	na			✓				✓
Canadian Border Security Services			✓				✓		na	na	na
CFIA	✓				✓						✓
Citizen and Immigration Canada	✓							✓			✓
Environment Canada			✓				✓				✓
Finance		✓			✓						✓
Fisheries and Oceans			✓				✓			✓	
Foreign Affairs and International Trade			✓				✓				✓
Health Canada		✓				✓					
Heritage Canada				✓		✓				✓	
HRSDC				✓		✓					✓
Indian Affairs and Northern Development			✓		✓					✓	
Industry Canada		✓			✓						✓
Justice Canada			✓				✓			✓	
National Defence				✓			✓				
Natural Resources Canada			✓				✓		✓		✓
Parks Canada			✓				✓			✓	
Public Health Agency of Canada				✓				✓			✓
Public Safety and Emergency Preparedness			✓				✓				✓
Public Works and Government Services						✓					✓
Transport Canada		✓			✓						✓
Treasury Board		✓			✓						✓

Annex D: Excerpt from Bill C-51 *Economic Recovery Act (stimulus)*

FINANCIAL ADMINISTRATION ACT

Amendments to the Act

58. The *Financial Administration Act* is amended by adding the following after section 65:

65.1 (1) Every department shall cause to be prepared, in the form and manner provided for by the Treasury Board, a quarterly financial report for each of the first three fiscal quarters of each fiscal year.

(2) The report shall contain

(a) a financial statement for the fiscal quarter and the period from the start of the fiscal year to the end of that fiscal quarter;

(b) comparative financial information for the preceding fiscal year; and

(c) a statement outlining the results, risks and significant changes in relation to operations, personnel and programs.

(3) The appropriate Minister shall cause the report to be made public within 60 days after the end of the fiscal quarter to which the report relates.

(4) The Treasury Board may, by regulation, exempt a department from the requirement set out in subsection (1) or provide that any of the content referred to in subsection (2) be excluded from its report.

59. Subsection 85(1) of the Act is replaced by the following:

85. (1) Divisions I to IV, except for sections 131.1 and 154.01, do not apply to the Bank of Canada.

60. The Act is amended by adding the following after section 131:

131.1 (1) Each parent Crown corporation shall, in respect of itself and its wholly-owned subsidiaries, if any, cause to be prepared, in the form and manner provided for by the Treasury Board, a quarterly financial report for each of the first three fiscal quarters of each fiscal year.

(2) The report shall contain

(a) a financial statement for the fiscal quarter and the period from the start of the fiscal year to the end of that fiscal quarter;

(b) comparative financial information for the preceding fiscal year; and

(c) a statement outlining the results, risks and significant changes in relation to operations, personnel and programs.

(3) The parent Crown corporation shall cause the report to be made public within 60 days after the end of the fiscal quarter to which the report relates.

(4) The Treasury Board may, by regulation, exempt a parent Crown corporation from the requirement set out in subsection (1) or provide that any of the content referred to in subsection (2) be excluded from its report.

Coming into Force

61. Sections 58 to 60 come into force on April 1, 2011.

Source: http://www2.parl.gc.ca/content/hoc/Bills/402/Government/C-51/C-51_1/C-51_1.PDF.