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The Numbers Game: Rating the Fiscal Accountability of Canada's Senior Governments, 2018

Canada's federal, provincial and territorial governments provide better financial information than they used to. But many present opaque budgets, use inappropriate accounting, bury key numbers, and publish too late. The Northwest Territories and Prince Edward Island were 2017's worst performers. Top graded New Brunswick and Alberta show what is possible if Canadians demand better fiscal accountability from their governments.

William B.P. Robson and Farah Omran

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The Study In Brief

Canada's federal, provincial and territorial governments spent some $724 billion on programs and $58 billion on interest charges in 2017. They provide services ranging from defence through health and education to income supports. They have very wide taxing powers and legally unlimited authority to borrow. Canadians need to be able to monitor and influence the ways their elected representatives and government officials manage public funds.

A key tool for Canadians as legislators, taxpayers and citizens to monitor and influence governments' fiscal decisions is through their financial reports:

- the budgets governments present around the beginning of the fiscal year;
- the estimates legislatures vote to approve specific programs; and
- the audited financial statements governments present in their public accounts after year-end.

The quality and timeliness of these reports – and therefore their usefulness to legislators, taxpayers and citizens – varies widely.

Our evaluation of the budgets, estimates and public accounts tabled by Canada's senior governments in the 2017/18 fiscal year awards top marks to Alberta and New Brunswick. These A-plus provinces display the relevant numbers prominently and use appropriate and consistent accounting and aggregation in their budgets and public accounts. They also provide straightforward reconciliations of results with budget intentions, their auditors record no reservations, and their budgets and public accounts are timely.

Less happily, other governments do not adhere to proper accounting standards, present budgets and estimates that are not comparable to their public accounts, bury key numbers, and are late with their budgets and/or their end-of-year results. Prince Edward Island's D and the Northwest Territories' D-plus put them at the bottom of the rankings.

Notwithstanding some poor grades in this most recent evaluation, the financial reports of Canada's federal, provincial and territorial governments generally improved over the years. Adherence to public sector accounting standards is better than it was, as is consistency in presentation of the key numbers. As Alberta and New Brunswick demonstrate, Canadians can get reliable, consistent and timely financial information from their governments – if they want it.

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Ensuring that agents - people who act on behalf of other people - act honestly, rather than in their own private interests, is a pervasive challenge. It is acute in the case of governments, because of their extraordinary powers to extract resources from taxpayers and citizens and because of the correspondingly high expectation that governments manage their affairs appropriately.

Canadian senior governments provide a wide range of services – from national defence and policing through social services such as health and education to income supports. In 2017, the federal, provincial and territorial governments spent some $724 billion on programs and more than $58 billion on interest payments on their public debt, which, combined, amounted to about 36 percent of Canada's gross domestic product (GDP). Their combined borrowing that year was $27 billion, and their net financial debt at year-end stood at around $1.2 trillion, about 54 percent of GDP.[1]

Federal and provincial governments have very wide taxing powers to generate revenue and unlimited authority to borrow to pay for spending they cannot pay for with that revenue. It is central to democratic government that taxpayers and citizens have the opportunity to monitor, influence and react to the way their elected representatives and government officials manage public funds.

Financial reports are a key tool that principals can use to monitor their agents' behaviour – to determine whether the agents are acting in their principals' interests rather than their own. For example, taxpayers and citizens can use a government's audited financial statements – published in the government's public accounts after the end of each fiscal year – to monitor a government's financial stewardship. Among other useful information, these statements include a statement of operations showing revenue and expenditure for the year, as well as a statement of financial position showing the government's net worth at the end of the year. A second example is the budget a government presents at the beginning of the fiscal year, which contains commitments about revenues and expenditures, and the resulting changes in net worth, over the course of the next year. A third example is the estimates governments present to legislatures that formally authorize the government to spend the amounts reflected in their budget through votes in the legislature.

This report focuses on the relevance, accessibility, timeliness and reliability of these government financial reports. Our concern is not whether governments spend and tax too much or too little,

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1 Government Finance Statistics, CANSIM Table 385-0032, accessed 18 April 2018.

whether they should be running surpluses or deficits, or whether their programs are effective or misguided. It is whether Canadians can get the information they need to make judgments on these issues and act to correct any problems they discover – more specifically, whether each government's budgets and financial reports let legislators and voters accurately understand its fiscal plans and hold it to account for fulfilling them.

Our perspective in assessing the clarity and reliability of governments' financial reporting is that of an intelligent and motivated, but non-expert, reader of the three key financial documents just mentioned. Taking them in the chronological order in which they typically appear, they are: (i) the budget a government presents at the beginning of the fiscal year, (ii) the estimates legislators vote to approve specific program spending and (iii) the audited financial statements in the public accounts that report the year-end results.[2] We ask how readily that person – who might be a legislator or a concerned citizen – could find and understand the numbers in each of these documents, and use them to compare the revenue and spending projected at the beginning of the year, and approved by legislators, with total revenue and spending collected and disbursed by year-end.

Such a reader looking at the budgets and public accounts of Alberta and New Brunswick would find the task easy. These provinces display the relevant numbers prominently and use appropriate and consistent accounting and aggregation methods in their budgets and public accounts. Related elements of their financial reporting – tables that reconcile results with budget intentions and auditors' reports that record no reservations – are also good. Moreover, these provinces have tended to produce timely numbers: New Brunswick tables its budget before the start of the fiscal year and Alberta releases its public accounts fairly soon after its end.

However, our reader would have a tougher time with other governments. The reasons vary. Some governments do not adhere to Canadian Public Sector Accounting Standards (PSAS). Accounting and/or aggregation methods may differ among budget, estimates and public accounts documents. Key revenue and spending figures may be buried hundreds of pages deep into the document or confusingly mixed with other numbers. Timeliness can be a problem: governments sometimes present budgets after substantial amounts have already been committed or even spent, and public accounts can be so late that much of the following fiscal year has elapsed before a definitive baseline for comparisons is available.

We assign letter grades to governments for the quality of these numbers. While our principal focus in this report is on the budgets and reports for the fiscal cycle just ended, we are glad to report that, over time, the grades earned by the senior governments have improved. Two decades ago, none of Canada's senior governments budgeted and reported spending on the same accounting basis; today, consistent accounting is the rule. A key aim of this annual survey is to encourage further progress. British Columbia does not do well in these rankings, but it could straightforwardly improve its compliance with PSAS, its presentations of numbers, and its timeliness. Other Canadian senior governments can also enhance the clarity and reliability of their financial reports.

2 Strictly speaking, audited financial statements are only part of the public accounts and are often published in other documents such as annual reports. The public accounts also contain a great deal of other information, much of which is not audited. Because the release of the audited financial statements and the tabling of the public accounts are typically simultaneous, and since the financial statements are the centrepiece of the public accounts, we sometimes use the term "public accounts" to refer to both to streamline the exposition.

Notwithstanding the remaining challenges a motivated but non-expert reader would encounter in the financial reports of Canada's federal, provincial and territorial governments, we underline the positive longer-term trend. The development of Canada's public sector accounting standards only began in the 1980s, and since their establishment, governments have tended to adhere more closely to them over time. The remaining deficiencies and regrettable instances of back-sliding are fixable, as the example of the leading jurisdictions shows. If Canadians effectively demand better financial reporting from their governments, they can get it.

Measuring Fiscal Accountability

Any financial presentation, whether in a household, business or government, will only be useful if it satisfies some key criteria. It must be relevant to the decisions people must make. It must be reliably accurate and complete. And it must communicate the information in a manner that lets the user recognize and make sense of the key numbers.

In the case of governments, an essential minimum is that a motivated and numerate but non-expert reader must be able, unaided and in a reasonable amount of time, to identify the total revenue and spending numbers in a government's principal financial documents and compare results to intentions. Our focus on these attributes complements some other measures of fiscal transparency, notably the International Budget Partnership's Open Budget Survey (OBS), which included Canada's federal government for the first time in 2017, and awarded it a B-minus.[3] The OBS considers other issues such as opportunities for public consultation: our tighter focus reflects the fact that clear and informative financial reports are an essential precondition for any constructive discussion of fiscal policy by voters and legislators.

Background on the Financial Cycle

Two key documents our reader would consult come at opposite ends of the fiscal cycle. Canada's senior governments have fiscal years that run from April 1 to March 31. Governments typically, and should, present budgets before the beginning of the fiscal year. The public accounts, which show the audited results for actual revenues and spending, appear after its end – typically in the summer or fall.

Budgets are the core statement of a government's fiscal priorities. They typically get extensive legislative debate, wide media coverage and attention from the interested public. They should present a consolidated annual statement of all revenue and expenses, with the difference between revenue and expenses – the budget balance – representing the change in the government's net worth anticipated over the course of the year. All the figures should be on the same basis as the government uses in its year-end audited financial statements.

The audited financial statements in the public accounts are the definitive report of the government's annual finances. They are the official record of what a government raised and spent. They, too, should present a consolidated annual

3 International Budget Partnership, Open Budget Survey 2017 <https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/> accessed 19 April 2018. See Helaina Gaspard and Kevin Page, "Compared with its peers, Canada's budget process leaves room for improvement," The *Globe and Mail*, 30 January 2018 https://www.theglobeandmail.com/report-on-business/rob-commentary/compared-with-its-peers-canadas-budget-process-leaves-room-for-improvement/article37795471/.

statement of all revenue and expenses, with the difference between them equaling the change in the government's net worth over the year.

Accordingly, comparing total revenue and total expenditure in a government's budget and in its public accounts should be straightforward. If it is, the reader will easily be able to answer such basic questions as how close last year's results were to last year's plans, and what kinds of increases or decreases this year's budget implies relative to last year's results. If the comparison is unclear, answering such basic questions is hard – even a smart and motivated but non-expert reader may find it impossible.

Along with budgets and financial statements in public accounts, the estimates that authorize spending are important links in the chain of accountability from voters through legislators to the officials who actually raise and spend the money. Main estimates arrive near the start of the fiscal year, supplementary estimates later in the year. Many governments also produce interim fiscal reports, showing performance relative to budget plans and sometimes updating projections for the year. Our survey covers these other documents and how they too could improve to enhance the fiscal accountability of federal, provincial and territorial governments.

Grading the Quality of Financial Reporting

So, can a smart and motivated but non-expert reader find and interpret the relevant numbers prepared by Canada's senior governments? It depends. In some jurisdictions, the figures appear prominently and early in the documents and are accessible virtually immediately. In others, they are buried and/or scattered among many pages, tables and footnotes. In yet others, they do not appear at all.

Our approach is to locate the key spending and revenue totals in budgets and in public accounts – the ones our reader might reasonably assume are the correct numbers – and ask several questions about them. With regard to the budget, we ask:

- Does it present comprehensive total revenue and spending figures?
- If so, how prominent is that presentation?
- Are those figures consistent with the numbers presented in the public accounts?
- When was the budget tabled?

With regard to the financial statements in the public accounts, we ask:

- How prominent is the presentation of the comprehensive total revenue and spending figures?
- Are the figures consistent with Public Sector Accounting Board (PSAB) standards?
- Does the document clearly explain variances between the results and the budget?
- When were the public accounts tabled?

To round out our exploration of the quality of reporting, we also ask:

- Are the government's spending estimates presented on the same accounting basis as their counterparts in the budget and public accounts?
- If so, can a reader readily reconcile the estimates to the budget?
- Does the government publish frequent in-year updates showing deviations from budget plans?
- Did the legislative auditor (auditor general) give a clean opinion on the financial statements in the public accounts?

Our assessments using these criteria, along with a letter grade calculated using a grade-point-average approach, appear in Table 1.

The quality of the headline revenue and spending presentations in the principal financial documents is critical to the grades. Box 1 provides a fuller account of the points awarded for performance by each criterion. In summary, we give the highest scores to governments that show the key total revenue and spending figures within the first 15 pages

Table 1: Evaluating the Fiscal Reporting of Canada's Senior Governments

	Budgets				Public Accounts					Estimates	Fiscal Updates	Grade
	Does budget prominently present consolidated figures?	Page where figures appear in budget	Date 2017/18 budget tabled relative to start of fiscal year	Are budgets on the same accounting basis as the public accounts?	Page where figures appear in public accounts	Date 2016/17 public accounts tabled relative to end of fiscal year	Are public accounts on PSAS basis?	Are figures comparable to their budget counterparts?	Do public accounts explain variance from budget plans?	Are estimates consistent with, and easily reconciled to, budget?	Do interim reports show results against budget targets?	
	0 if non-consolidated, 1 for both consolidated and non consolidated, 2 for only consolidated	0 if 51+, 1 if 31-50, 2 if 16-30, 3 if <16	0 if > 8 weeks, 1 if 4-8, 2 if <4, 3 if early	0 if they aren't, 1 if they are	0 if 51+, 1 if 31-50, 2 if 16-31, 3 if <16	0 if > 7 months, 1 if 5 - 7, 2 if <5	0 if not, 1 if yes with auditor reservation(s), 2 if yes with no reservations	0 if not,1 if budget figures restated and not explained,2 if restated and explained, 3 if yes	0 if none,1 if reconciled but not explained, 2 if full	0 if no, 1 if same accounting but not easily reconciled, 2 if yes	0 if no, 1 if half-year, (H), 2 if quarterly, (Q), 3 if monthly, (M)	
Maximum Grade	2	3	3	1	3	2	2	3	2	2	3	
Grade Weight	3	1	2	3	1	2	4	1	1	2	2	
Federal*	Yes	Page 253 of 280	22-Mar-17	Yes	Page 11 of 354	3-Oct-17	Yes	Yes	Clear reconciliation and deviations explained	No. Not reconciled	Yes (M,H)	A-
	2	**0**	**3**	**1**	**3**	**1**	**2**	**3**	**2**	**0**	**3**	
NL	Yes	Page 2 of 10	6-Apr-17	Yes	Page 13 of 133	6-Oct-17	Yes	Budget figures restated and restatement explained	Clear reconciliation and deviations explained	No. Not reconciled	Yes (H)	B
	2	**3**	**2**	**1**	**3**	**1**	**2**	**2**	**2**	**0**	**1**	
PE	No. multiple balance figures, surplus before interest and amortization	Page 9 of 170	7-Apr-17	Does not adhere to consolidation standard	Page 14 of 87	24-Oct-17	Yes	Budget figures restated and restatement explained	Reconciliation tables but deviations not explained	Yes	Yes (H)	D
	0	**3**	**2**	**0**	**3**	**1**	**2**	**2**	**1**	**2**	**1**	

Table 1: Continued

	Budgets				Public Accounts					Estimates	Fiscal Updates	Grade
	Does budget prominently present consolidated figures?	Page where figures appear in budget	Date 2017/18 budget tabled relative to start of fiscal year	Are budgets on the same accounting basis as the public accounts?	Page where figures appear in public accounts	Date 2016/17 public accounts tabled relative to end of fiscal year	Are public accounts on PSAS basis?	Are figures comparable to their budget counterparts?	Do public accounts explain variance from budget plans?	Are estimates consistent with, and easily reconciled to, budget?	Do interim reports show results against budget targets?	
NS	No. Budget presents figures from the General Revenue Fund	Page 7 of 99	26-Sep-17	Yes	Page 20 of 118	27-Jul-17	Yes	Revised budget figures and restatement explained	Clear reconciliation and deviations explained	Yes	Yes (H, Q)	B-
	0	**3**	**0**	**1**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	
NB	Yes	Page 23 of 27	31-Jan-17	Yes	Page 11 of 84	30-Sep-17	Yes	Budget figures clearly restated and restatement explained	Clear reconciliation and deviations explained	Yes	Yes (Q)	A+
	2	**2**	**3**	**1**	**3**	**1**	**2**	**2**	**2**	**2**	**2**	
QC	Consolidated, but multiple balance figures	Page 8 of 598	28-Mar-17	Yes	Page 21 of 185	21-Nov-17	Yes, but received auditor reservation	Yes	Clear reconciliation and deviations explained	Yes. Not reconciled	Yes (M,H)	C+
	1	**3**	**3**	**1**	**2**	**0**	**1**	**3**	**2**	**1**	**3**	
ON	Yes	Page 243 of 330	27-Apr-17	Yes	Page 23 of 142	07-Sep-17	Yes, but received auditor reservations	Revised budget figures and restatement explained	Clear reconciliation and deviations explained	Yes. Not reconciled	Yes (Q, H)	C
	2	**0**	**1**	**1**	**2**	**1**	**1**	**2**	**2**	**1**	**2**	
MB	Yes	Page 6 of 44	11-Apr-17	Yes	Page 40 of 127	19-Sep-17	Yes	Revised budget figures and restatement explained	Clear reconciliation and deviations explained	Yes	Yes (Q)	A-
	2	**3**	**2**	**1**	**1**	**1**	**2**	**2**	**2**	**2**	**2**	

Table 1: Continued

	Budgets				Public Accounts					Estimates	Fiscal Updates	Grade
	Does budget prominently present consolidated figures?	Page where figures appear in budget	Date 2017/18 budget tabled relative to start of fiscal year	Are budgets on the same accounting basis as the public accounts?	Page where figures appear in public accounts	Date 2016/17 public accounts tabled relative to end of fiscal year	Are public accounts on PSAS basis?	Are figures comparable to their budget counterparts?	Do public accounts explain variance from budget plans?	Are estimates consistent with, and easily reconciled to, budget?	Do interim reports show results against budget targets?	
SK	Yes	Page 45 of 77	23-Mar-17	Expenses not fully adjusted for accrual treatment	Page 7 of 88	21-Jul-17	Yes	Revised budgeted expenses and restatement explained	Clear reconciliation and deviations explained	Yes. Estimates not reconciled.	Yes (Q,H)	B
	2	**1**	**3**	**0**	**3**	**2**	**2**	**2**	**2**	**1**	**2**	
AB	Yes	Page 13 of 154	7-Mar-17	Yes	Page 12 of 151	29-Jun-17	Yes	Revised budgeted expenses and restatement explained	Clear reconciliation and deviations explained	Yes. Estimates not reconciled.	Yes (Q)	A+
	2	**3**	**3**	**1**	**3**	**2**	**2**	**2**	**2**	**1**	**2**	
BC	Yes	Page 8 of 149	21-Feb-17	Yes	Page 16 of 136	22-Aug-17	No - BC legislates its own standards	Yes	Clear reconciliation and deviations explained	Yes	Yes (Q)	B-
	2	**3**	**3**	**1**	**2**	**1**	**0**	**3**	**2**	**2**	**2**	
NT*	No	Page 42 of 56	1-Feb-17	Yes	Page 13 of 135	8-Nov-17	Yes	Revised budgeted expenses and restatement not explained.	Reconciliation but deviations not explained	Yes	No	D+
	0	**1**	**3**	**1**	**3**	**0**	**2**	**1**	**1**	**2**	**0**	

Table 1: Continued

	Budgets				Public Accounts					Estimates	Fiscal Updates	Grade
	Does budget prominently present consolidated figures?	Page where figures appear in budget	Date 2017/18 budget tabled relative to start of fiscal year	Are budgets on the same accounting basis as the public accounts?	Page where figures appear in public ac-counts	Date 2016/17 public accounts tabled rela-tive to end of fiscal year	Are public accounts on PSAS basis?	Are figures comparable to their budget counter-parts?	Do public accounts explain variance from budget plans?	Are estimates consistent with, and easily reconciled to, budget?	Do interim reports show results against budget targets?	
YK*	Yes	Page 6 of 26	27-Apr-17	Yes	Page 2 of 46	18-Oct-17	Yes	Yes	Reconcilia-tion but de-viations not explained.	Yes.	Yes (H)	A-
	2	**3**	**1**	**1**	**3**	**1**	**2**	**3**	**1**	**2**	**1**	
NU*	No	Page 5 of 14	22-Feb-17	Yes	Page 14 of 69	26-Oct-17	Yes	Revised budget figures and restatement not explained	Reconcilia-tion but de-viations not explained.	Yes. Not easily reconciled.	No	C
	0	**3**	**3**	**1**	**3**	**1**	**2**	**1**	**1**	**1**	**1**	

Notes:

*Federal – Supplementary Estimates (A), in a separate document, provide a partial reconciliation to the budget.

*NT – Budget Address. *YK – Consolidated summary of financial information. *NU – Fiscal and Economic Indicators.

Source: Various government documents; authors' calculations.

of a budget or public accounts document. With regard to reporting schedules, timely presentations earn higher marks: budgets and estimates should appear before the start of the fiscal year and public accounts should appear within a few months after the fiscal year-end.[4] With regard to consistency, we score jurisdictions higher when their budgets, estimates and/or financial statements in their public accounts conform to PSAS – the opinion of the relevant legislative auditor being critical in this regard[5] – and when the estimates and/or the public accounts provide reconciliations to the budget. We weight the scores on each criterion and convert them to letter grades.[6]

As noted, the top marks go to Alberta and New Brunswick. Ottawa, Manitoba and Yukon are not far behind: all three also present timely and consistent figures in their budgets and public accounts documents. With the exception of the federal budget, which buries the key numbers in an annex hundreds of pages in, the relevant numbers in these jurisdictions would be easy for our idealized reader to find and interpret.

In contrast, the Northwest Territories and Prince Edward Island rank last with a grade of D-plus and D, respectively. Their budgets contain multiple revenue and spending figures that no non-expert could possibly reconcile with the headline figures in their public accounts. They publish their public accounts relatively late, and do not provide straightforward comparisons between their budgets and delete results. Nunavut's grade of C reflects similar faults. Ontario's grade of C is largely due to a qualified audit opinion, with the differences between what it presents for total expenditures and what the Ontario Auditor General demands amounting to $1.4 billion, or 1 percent of spending. Ontario's release of financial statements was ragged: while it published an HTML version in September, the PDF document we use for our page reference did not appear until December. Ontario also buries its headline figures deep in its budget.

Changes in Grading and Grades

For many years, the quality of financial reporting by Canada's senior governments has been improving. The spread of budget presentations that are consistent with governments' public accounts and the adherence of both to PSAS are particularly notable. Two decades ago, all these governments used largely cash-based budgeting, recording revenue when cash flowed in and expenses when cash flowed out, even if the activity related to the receipts and payments occurred in different fiscal years. This approach has major deficiencies: long-lived assets, for example, should be amortized over their useful lives rather than expensed immediately, while deferred compensation such as pensions for

4 One key reason for preferring quick production of the annual financial statements is that it encourages faster gathering and compilation of the necessary data, which should facilitate presentation of reasonable estimates for the fiscal year not yet ended in the budget for the year about to start.

5 The heavy weight we place on auditors' findings reflects the scope and rigour of their work. As in a non-government setting, a qualified audit opinion is a red flag to any user of financial statements. The audit opinion is not decisive in our grades for two reasons. While numbers that have passed inspection are clearly better than those that have not, their accessibility and timeliness still make a key difference to, say, legislators trying to perform their fiduciary duties – audited numbers that are utterly obscure and published very late are not helpful. Furthermore, compliance with PSAS is a matter on which reasonable people can and do disagree. Indeed, not all of Canada's legislative auditors apply identical tests in evaluating their governments' financial statements, and judgments by any one of them may – and arguably should – change over time.

6 We scale the letter grades for each senior government so that the top performer receives the highest possible mark.

Box 1: Grading Scheme

For our quantitative judgments, we:

- Award zero if a jurisdiction publishes its budget more than eight weeks into the fiscal year, one if it publishes four to eight weeks into the fiscal year, two if it publishes fewer than four weeks into the year, and three if it publishes before the start of the year.
- Award zero if a jurisdiction presents its headline figures more than 50 pages into the budget, one if it presents them 31 to 50 pages into the budget, two if it presents them 16 to 30 pages into the document and three if it presents them within the first 15 pages of the document.
- Award zero if a jurisdiction tables its public accounts more than seven months after its fiscal year-end, one if it tables them five to six months after its year-end, two if it tables them within four months of its year-end.
- Award zero if a jurisdiction presents its headline figures more than 50 pages into the public accounts, one if it presents them 31 to 50 pages in, two if it presents them 16 to 30 pages in and three if it presents them within the first 15 pages.*
- Award zero if the public accounts do not reproduce the revenue and spending estimates from the corresponding budget, one if the public accounts reproduce restated revenue and spending estimates without justifying the restatement, two if the public accounts reproduce restated revenue and spending estimates and justify the restatement, three if the public accounts reproduce revenue and spending estimates that match the budget.
- Award zero if the public accounts do not reconcile the results to their budget counterparts, one if the public accounts reconcile results to budget counterparts and do not explain the deviation of the results from the intentions, two if the public accounts reconcile result to budget counterparts and explain deviation of the results from intentions.

For our qualitative judgments, we:

- Award zero if a jurisdiction does not present consolidated figures for revenue and spending in its budget, one if a jurisdiction prominently presents both consolidated and non-consolidated figures, two if a jurisdiction prominently presents consolidated figures only.
- Award zero if a jurisdiction does not prepare its budget on the same accounting basis as its public accounts, one if a jurisdiction prepares its budget on the same accounting basis as its public accounts.
- Award zero if a jurisdiction explicitly deviates from PSAS by legislating its own standards, one if a jurisdiction nominally adheres to PSAS but has reservations from the legislative auditor about its adherence in practice, and two if a jurisdiction adheres to PSAS and has no auditor reservations.
- Award zero if the main estimates and the budget are not on the same accounting basis with no reconciliation provided, one if the main estimates and the budget are on the same accounting basis with no reconciliation provided, and two if main estimates and budget are on the same accounting basis with reconciliation provided.
- Award zero if a jurisdiction does not publish interim updates showing deviations from budget plans, one if a jurisdiction publishes half-year interim updates, two if a jurisdiction publishes quarterly interim updates, and three if a jurisdiction publishes monthly updates.

Box 1: Continued

Weighting the criteria relative to each other is inherent in any grading system. We standardize the grades we assign above to be between zero and one for each criterion. We then assign different weights to each criterion based on our judgement of what is more important to the overall goal of clarity and reliability, and sum them. Provinces receive an A+ if they score 90 percent or above, A for 85 percent, A- for 80 percent, B+ for 77 percent, B for 73 percent, B- for 70 percent, C+ for 67 percent, C for 63 percent, C- for 60 percent, D+ for 57 percent, D for 53 percent, D- for 50 percent, and F for less than 50 percent.

government employees should be recorded when the work that earns the benefits is done rather than when they are paid.

Even as governments moved to accrual accounting in their financial statements, amortizing capital assets and recording deferred compensation as it was earned, budget presentations remained on a cash basis for many years, resulting in major discrepancies between the two documents that would flummox all but the most expert readers. And notwithstanding some major qualifications from legislative auditors nowadays, the trend over time has been for objections by auditors to become less frequent and less serious.

As some of the worst problems of the past have become less salient, our scrutiny has appropriately shifted to highlight other issues. In recent iterations of this report, we added the criterion that estimates should be prepared using accounting consistent with budgets and presented on a basis that permits ready comparison to budgets. We added criteria related to the placement of the key numbers, which should appear early and prominently in the documents. This year, we have refined our grading system for each criterion, as well as the relative weighting of criteria. These changes affected the grades and rankings in some cases. For instance, they hurt the relative position of the federal government, which scores well otherwise but presents estimates inconsistent with its budget, and buries its key fiscal figures deep in its budget documents.

That caveat noted, some changes in governments' letter grades are straightforwardly attributable to changes in their budgets and public accounts (Table 2). Alberta has been an outstanding performer since 2016. It is worth noting that Alberta's A-pluses followed a period when it scored poorly, thanks to a confusing array of "operating," "saving" and "capital" accounts that were not PSAS-consistent. Alberta's high grades in recent iterations are also due to the timeliness of its budgets and its public accounts.

New Brunswick's improvement is worth a note: its A-plus reflects improvements to its accounting for public-sector pension plans, and consequent disappearance of a reservation by the provincial auditor. Newfoundland and Labrador has improved even more markedly from its dismal showing in 2016. Inconsistent figures in its budget and public accounts are no longer a problem. If its estimates were consistent also, Newfoundland and Labrador would join the high-end performers.

Yukon also deserves a comment: it is the one territory that presents its budget on the same PSAS-consistent basis as its public accounts. Timelier presentation of both could improve its grade to an A-plus.

Table 2: Governments' Fiscal Reporting Grades Since 2016

	2018	2017	2016
Federal	A-	A	B+
Newfoundland and Labrador	B	B	E
Prince Edward Island	D	C-	E
Nova Scotia	B-	A-	C-
New Brunswick	A+	A+	B+
Quebec	C+	C+	C+
Ontario	C	B+	A-
Manitoba	A-	B	B
Saskatchewan	B	A-	A+
Alberta	A+	A+	A+
British Columbia	B-	A	B+
Northwest Territories	D+	C	E
Yukon	A-	B+	C+
Nunavut	C	C	E

Note: Changes in grades reflect both changes in governments' financial reporting, and changes in our grading system, as described in the text.

Less happily, Ontario's grade has gone from good in 2016 to poor in 2018. The provincial auditor's objections to its treatment of pensions and electricity pricing are key to this deterioration; also hurting its score were later presentations of both its budget and its public accounts, and more obscure placement of the key numbers. British Columbia's grade dropped abruptly in 2018. British Columbia does not comply with PSAS, and its public accounts came out later, with the results displayed less prominently.

To return to the good-news note in closing this section, we observe that some egregious instances of poor reporting used to be commonplace. Despite the mixed picture in the most recent results, emulating the best practices among the higher-scoring jurisdictions – which would not be hard to do – could produce A-pluses across the board.

Does Fiscal Accountability Matter?

Relevant, accurate and accessible financial reports do not, on their own, guarantee that governments will serve the public interest. They can, however, equip legislators and others to remedy some ongoing problems, as we discuss below. And battles between governments and legislative auditors – whose mandate is to opine on the quality of financial reports, and whose views strongly influence our grading – provide indirect evidence that governments themselves think the presentation of financial information matters.

Budget Hits and Misses

Turning first to ongoing problems, Canada's senior governments have a pronounced tendency to overshoot their budget targets. Some 20 years of experience show that revenues and expenditures come in over budget projections far more often than not – which, among other things, means governments are significantly larger now than they would have been if they had hit their annual targets.[7] This tendency has become less pronounced in recent years – a period when the quality of budget presentations, notably including their consistency with financial statements, has improved. It is reasonable to think that financial reports that allow easier comparisons between intentions and results will raise the profile of this issue further, and help further reduce the gap between promises and results in future years.

Discrepancies between budget intentions and results at the municipal level offer another example with real-world consequences. The budgets that councils in Canada's major cities vote use different accounting practices than the financial statements they produce after year-end. Whereas their financial statements are, like those of most senior governments, PSAS-consistent, their budgets are not: they use cash accounting, which dramatically inflates the apparent costs of capital projects. The information municipal councilors use in making budget decisions therefore discourages capital investments in general, and encourages cities to charge too much up-front for the projects they do undertake. Annual angst over balancing city budgets is familiar to councilors, ratepayers and voters; much less noticed are the sizeable annual surpluses cities show in their financial statements – surpluses reflected in sizeable holdings of financial assets, when most residents would probably favour higher investment in physical assets such as roads, pipes, and transit (Dachis, Robson and Omran 2017). Budget presentations that were consistent with financial statements and facilitated comparisons between intentions and results could help cities tax and spend more effectively.

Disputes over Financial Reporting

Disagreements over financial presentations offer indirect but powerful testimony to their importance. When public sector accounting standards were relatively new in the 1990s, reservations by legislative auditors were relatively common.

Salient examples occurred at the federal level in fiscal years 1995/96, 1996/97, 1997/98 and 1998/99, when the federal government pre-booked increasingly large amounts of spending – its objective being to eliminate the surpluses that emerged after then-finance minister Paul Martin balanced the budget, and thus defuse pressure for tax cuts (Robson 1999). As the federal Auditor General complained at the time, the government was presenting Parliament with financial statements that reflected neither what Parliament voted nor Ottawa's true fiscal position. Moreover, as in the municipal case, emphasizing transactions that would present well in the financial statements also distorted priorities. Ottawa ended up taxing more, and spending more on programs that lend themselves to financial manipulation, than it would have done if it had presented more honest information.

7 Busby and Robson (2017) and Robson and Omran (forthcoming 2018) document this phenomenon for senior governments generally. Robson (2018) discusses it in regard to healthcare spending in particular.

A more recent example is in Ontario. The provincial Auditor General declined to give a clean opinion on the province's financial statements in fiscal year 2015/16 because it showed surpluses in pension plans as government assets without evidence that it could access them to pay for future government services.[8] The provincial Auditor General added another qualification in 2016/17, when the province set up an elaborate structure to keep off its books the borrowing needed to finance its electricity subsidies. Conflicts like these with its legislative auditor would not be attractive to the government of Ontario unless it thought that presenting a misleadingly positive bottom line would create scope for politically advantageous fiscal policies in the future.

Improving Fiscal Accountability in Canada

To summarize the discussion up to this point, we have, on the plus side, noted improvements in financial presentations by many governments, and a tendency for results to be closer to budgets in more recent years. However, on the negative side, there is continued tension between the requirements of good financial reports and temptations to present obscure and/or misleading numbers.

Earlier, we said that if Canadians effectively demand better financial reporting from their governments, they can get it. We now survey some further improvements governments should make in the interest of greater fiscal accountability.

Public Accounts Should Reflect Public Sector Accounting Standards

To begin with, all senior governments should prepare their financial reports consistent with PSAS. British Columbia should move to the same standards observed by the rest of the country. All other documents, including budgets, in-year updates on the evolving situation, and reconciliation tables explaining differences between projections and outcomes, should rest on that same fundamental base.

Budgets Should Match Public Accounts

Furthermore, all senior governments should present headline budget numbers prepared on the same basis as their public accounts. The numbers should be clearly labelled and appear early in the main documents. No government should confuse matters with more than one set of headline figures, or inconsistent aggregating and netting that make what should be a simple comparison of projections and results practically impossible. Legislators should insist on this change: a director of a for-profit business or a well-run charity who accepted such poor information – and increasingly few would – would not remain a director for long.

Estimates Should Match Budgets, in Presentation and Timing

Approval of estimates by legislators is a key link in the chain of fiscal accountability. In most jurisdictions, this link is weaker than it should be. Jurisdictions that present estimates inconsistent with budgets and public accounts create a huge information gap for legislators. As with budgets, the inconsistency may arise because of different accounting methods, or because subcomponents prepared using similar accounting methods are added up differently in the estimates. An additional

8 The problem with Ontario's pension accounting goes a layer deeper, since the calculations behind the pension "assets" used high discount rates – higher than those used by the pension plans themselves – to make future pension payments look small, thus exaggerating the financial health of the plans.

problem is that legislators often get, and vote, the estimates late, after significant money has already been committed or spent.

When it comes to reconciliation, several Atlantic provinces generally set a good example in this regard, releasing estimates consistent with the budget projections simultaneously with their budgets. In western provinces, by contrast, the estimates generally come weeks later and are not easily reconciled to budget figures. In Ontario, a proper reconciliation of the spending figures in estimates to the budget is possible only with some additional work and guidance – a proper reconciliation table, early in the estimates, would help busy readers and legislators better follow the money.

The federal government is, at the time of writing, contemplating changes in its estimates process. As matter stand, Ottawa must table its Main Estimates by March 1, which sometimes means they precede the budget. Furthermore, it presents its estimates on a different accounting and aggregation basis than its budget and public accounts. In the words of former Parliamentary Budget Officer Kevin Page, former MP Pat Martin and public accounting expert Bob Plamondon: "You cannot add up department spending plans and get to budget totals. It is well-nigh impossible for mere mortals to follow money."[9]

In its 2016 Fall Economic Update, the federal government announced that it would "present cash and accrual accounting reconciliation tables" in the estimates so that "Parliamentarians and Canadians can better understand federal government spending." Although a year later than promised, this change occurred in the 2018 budget, making it the first federal budget to contain a reconciliation of the budget figures with the planned estimates. While estimates that are consistent with the budget projections are an improvement, the reconciliation cannot simply be, as critics have charged in this case, an entry consisting of a dollar figure that anticipates spending at the executive's discretion.

Timing is also an issue with the federal proposals. The 2016 Fall Update also called for tabling the Main Estimates on April 16th each year instead of early March. Although the update justified this later timing on the basis that the Estimates would likelier reflect budget initiatives, beginning the process of parliamentary approval so long into the fiscal year does not make sense. Far better would be a commitment to present budgets in February and present the Main Estimates at the same time, as happens in the Atlantic provinces.

Key Numbers Must be Accessible and Recognizable

To say that a motivated but non-expert reader ought to be able to find the key numbers easily, and confidently identify them as the key numbers, might seem trivial, but relevant and accurate numbers will be of little use if only experts can find them. Having clearly labelled numbers in the opening pages of a document is vastly different from having them buried in a complicated table hundreds of pages into a document or in an annex.

A supplementary suggestion to reinforce the accessibility of governments' financial reports – and encourage non-expert readers to look at them at all – is to reduce extraneous information and clutter. For many years, the federal government's budgets have contained hundreds of pages of white space, repetition, condescending illustrations, political messaging, and extensive commentary on matters far removed from fiscal policy. The tone and content of discussions about the budget would improve if that padding disappeared. More substantive changes

9 "Why we must restore Parliament's control of the public purse," The *Globe and Mail*, 21 December 2015. For a more formal investigation of the problems of estimates inconsistent with the budget, see House of Commons (2012).

are also possible. The federal Auditor General has recently pointed out that modern governments have hundreds of billions of dollars in debt, making a statement of changes in cash balances useless (Ferguson 2017). Although omitting this statement would require a change in public sector accounting standards – statements of cash flow are traditionally one of the “big three,” alongside statements of operations and statements of financial position – governments can do a better job of highlighting the more informative numbers, and relegating the less informative ones to the background.

Year-End Results Must be Timely

Finally, we underline the importance of quick publication of results. Every organization needs timely operational and financial information to set and adjust its course. The public accounts of federal, provincial and territorial governments let legislators and citizens compare a government’s end-of-year results to its budget plans to see if it fulfilled its promises, and understand the size of, and reasons for, deviations from targets. Speed in assembling the information that will appear in the audited public accounts’ financial statements also improves the prospects for a realistic budget plan.

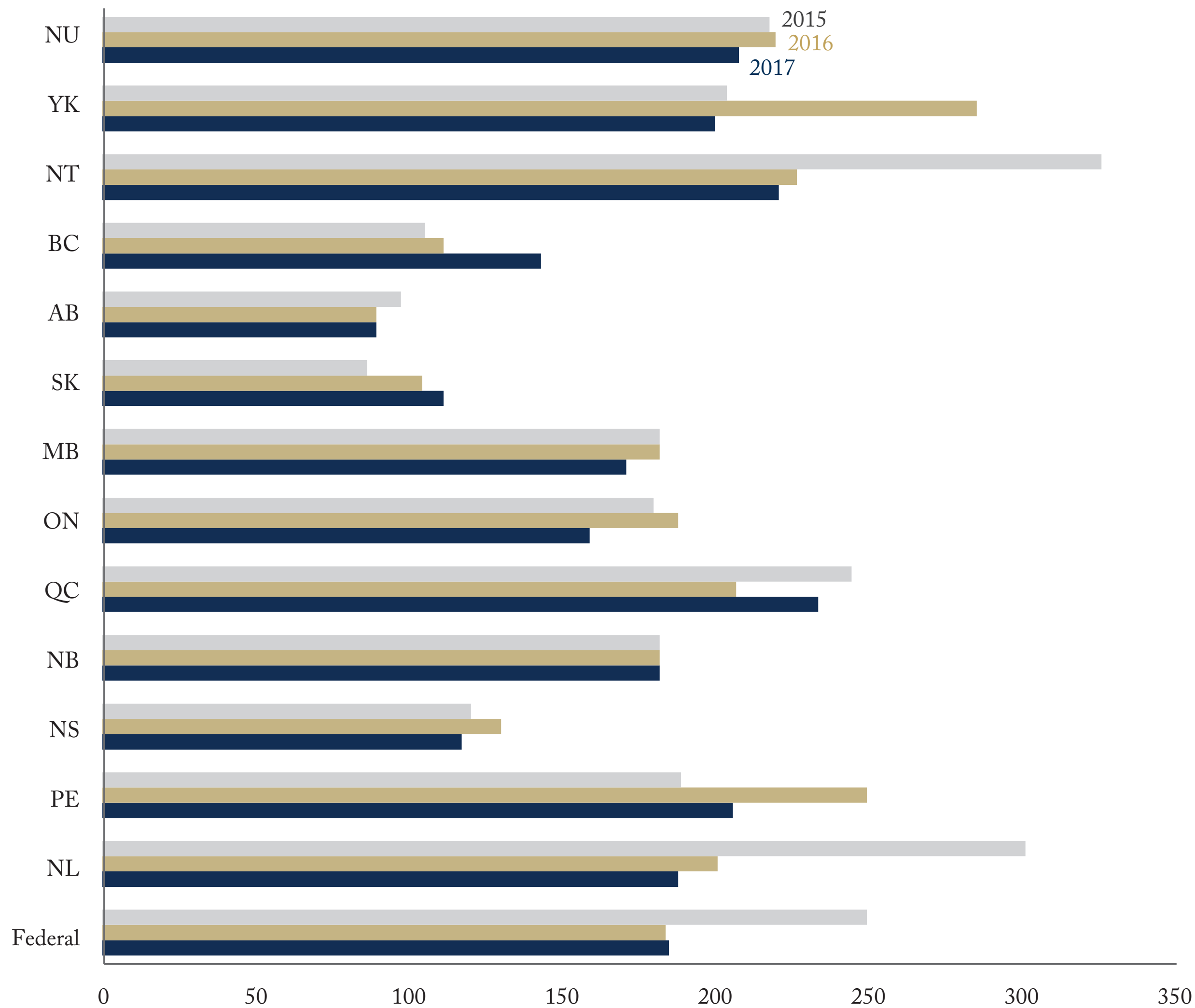
Table 1 shows wide variation in the release of public accounts. There is no good reason why financial results for a year ending March 31 should still be a mystery more than one quarter later. Some governments table and/or publish them quickly, and while most jurisdictions have tabled them faster in recent years, the gaps between fastest and slowest are inexplicably large (Figure 1). Alberta’s legislation requires publication of its public accounts before the end of June. Most governments, however, receive their auditors’ approvals and produce their reports far later. Manitoba’s legislative date for tabling the public accounts is no later than September 30, which, not surprisingly, is the date they are often released. In our view, June 30 would be a good deadline by which all governments should table and release their public accounts.[10]

Reasons for slow reporting are often historical, reflecting past practice rather than current imperatives. For example, the provincial Auditor General of Newfoundland and Labrador’s 2017 report to the House of Assembly, while noting with approval an amendment to the province’s *Financial Administration Act* to require tabling of the Public Accounts before November 1,[11] highlighted that the Act still requires the province’s books to remain open up to one month after the year-end. That is a leftover from the period, now two decades in the past, when the province used cash accounting (OAGNL 2017, 18). A push for more timely release can be a spur to eliminate such obsolete practices.

10 Current reporting schedules might make this seem unrealistically tight. But the federal Auditor General has said: “We all know how much work it takes to prepare and audit a set of financial statements for a senior government…. But I looked at the financial statements of Exxon Mobile Corporation for the year ended 31 December 2016. Over the years 2012 to 2016, Exxon had revenue of between $451 billion and $219 billion, which is in the same range as the Government of Canada’s revenue totaling about $293 billion for the year ended 31 March 2017. In Exxon’s management discussion and analysis, about seven pages explain critical estimates and uncertainties they have to deal with in their accounting. They have to make estimates in complex areas, such as oil and natural gas reserves, impairments, asset retirement obligations, suspended exploratory well costs, and tax contingencies. Let us also not forget that their financial information will be relied on by users to make investment decisions. Despite all that, Exxon’s audit report for its 31 December 2016 financial statements is dated 22 February 2017, less than two months after its year-end.” (Ferguson 2017)

11 Or mid-September in an election year. The previous deadline was February 1 of the following year.

Figure 1: Number of Days After Year-end Until Public Accounts Release



Sources: Government documents; authors' calculations.

Canada's Senior Governments Can Do Better

Governments play massive roles in Canada's economy and in Canadians' lives. The chains of accountability that link our needs and desires, through our elected representatives, to the officials who tax us, regulate us and provide services to us, are long and complicated. We need transparency and accountability in fiscal policy as much as we need it anywhere.

Canadian governments have improved their reporting of their financial intentions, transactions and positions. Yet major gaps remain. An intelligent and motivated, but non-expert, Canadian seeking to understand her governments' operations should be able, quickly and confidently, to find the key figures in budgets, estimates and public accounts. She should be able to see what governments plan to do before the year starts and compare that with what they did shortly after the year has ended. Sadly, this ideal is still not possible in most jurisdictions.

Happily, however, we know how to get there. The high marks achieved by the leaders in this fiscal accountability report card are not magic, or even mysterious. They are the result of financial statements consistent with public sector accounting standards, and budgets, estimates, and interim reports prepared on the same basis. Those are things any government can do. They are the result of presentations that make the key numbers readily accessible early in the relevant documents. Any government can do that. And they are the result of timely presentations: budgets presented before the fiscal year starts, and public accounts tabled within three months of the fiscal year-end. Those, too, are things any government can do.

Canada's senior governments can improve their financial reporting. Legislators and voters should hold them accountable for doing so.

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