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Good, Bad, and Incomplete: Grading the Fiscal Transparency of Canada's Senior Governments, 2021

Canada's federal, provincial and territorial governments spend, tax and borrow hundreds of billions of dollars every year. The fiscal impact of COVID-19 has made transparency in their budgets and financial statements more important than ever. Their grades in this year's report card range from A- to F. Many of Canada's senior governments meet good standards. Others fall badly short.

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The Study In Brief

Canada's senior governments raise and spend huge amounts, and have legally unlimited capacity to borrow when their expenses exceed their revenues. Holding public officials accountable for their spending, taxing and borrowing is a foundational task in a system of representative government.

While the financial information presented to legislators and the public by Canada's federal, provincial and territorial governments has improved over time, the C.D. Howe Institute's 2021 report card reveals major deficiencies. Too many governments present information that is opaque, misleading and late. The federal government failed to produce a budget in 2020. Massive increases in spending and borrowing in response to the COVID-19 crisis, and ambitions for new social programs and industrial policies in its aftermath, have raised the stakes – and, unfortunately, have coincided with some serious backsliding in the transparency and timeliness of financial information, notably at the federal level.

In seeking to hold their governments to account, citizens and taxpayers have several tools. The three tools that are the focus of this report card are (i) the budgets governments should present around the start of the fiscal year, (ii) the estimates legislatures vote to approve specific programs, and (iii) the audited financial statements governments present in their public accounts after year-end.

This report card on the usefulness of these financial documents assigns letter grades that reflect how readily an interested but non-expert user can find, understand and act on the information they should contain. In this year's report card – which covers year-end financial statements for fiscal year 2019/20 and budgets and estimates for 2020/21 – Nova Scotia, New Brunswick, Saskatchewan, Alberta, British Columbia, Yukon and Nunavut topped the class with grades of A-. Ontario earned a B. In the C range were Newfoundland and Labrador, Prince Edward Island (C), and Manitoba and Quebec (C-). The Northwest Territories earned a D+. The federal government earned an F.

Two decades ago, none of Canada's senior governments budgeted and reported revenues, expenses and surpluses or deficits on the same accounting basis; today, presentations consistent with public sector accounting standards are the rule. Canada's governments, however, can do better. Ontario could join the A rank next year with relatively small improvements, such as moving key numbers closer to the front of its budget, and achieving more timely presentation and publication of its budget and financial statements. Quebec needs to make further progress on issues that have long troubled its auditor general. The federal government produced a budget for the 2021/22 fiscal year, but did it late, and buried the key numbers under hundreds of pages of marginally informative and repetitive material – not a performance consistent with the importance of its fiscal policy nor the example the national government should set. This annual report card hopes to encourage further progress and limit backsliding. Canadians can get more transparent financial reporting and better fiscal accountability from their governments. But they need to demand it.

Note to readers: This is a revised version of this Commentary, with a correction to Yukon's grade.

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Canada's federal, provincial and territorial governments loom large in the Canadian economy and in Canadians' lives. Even before COVID-19 prompted major increases, their budgets and spending estimates for the 2020/21 fiscal year prefigured more than $800 billion in revenue and expense – around 35 percent of gross domestic product, or more than $21,000 per Canadian.

In addition to health and education services, these governments' functions range from national defence and policing to income support and business subsidies. They tax Canadians' incomes from work and saving, and they tax the consumption of most goods and services. Over time, their aggregate expenses have exceeded their revenues by substantial amounts, resulting in negative net worth. At the end of the 2019/20 fiscal year, their accumulated deficits totaled $821 billion – an amount that has ballooned with the COVID-19 crisis. During that year, they paid more than $53 billion in interest.

Taxpayers' and citizens' ability to monitor, influence and react to how legislators and officials manage public funds is fundamental to representative government. We need ways to check that legislators and government officials are acting in the interest of the people they represent, and ways to respond if we conclude that they are acting negligently or in their own interest. Financial reports are key tools for monitoring governments' performance of their fiduciary duties.

The audited financial statements Canada's senior governments publish in their public accounts after the end of each fiscal year provide much useful information. In particular, their statements of operations show their revenues and expenses during the year, and the difference between them: their surpluses or deficits. Their statements of financial position show their assets – both financial assets and capital assets – and their liabilities. The difference between their assets and liabilities – their net worth, which reflects their accumulated surpluses and deficits over time – is a key indicator of their capacity to provide services in the present and the future.

Budgets provide similar information prospectively. Citizens and taxpayers, and the legislators who represent them, can examine the budget a government presents at the start of the fiscal year – notably, its commitments with respect to revenues and expenses and the projected surplus or deficit. The budget should also show the change in net worth the projected surplus or deficit would produce, so users of the budget will understand

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Key Concept Explainer

Follow the Money, if You Can:
This annual series on the fiscal accountability of Canada's senior government lifts the veil on the often opaque reports that show their budgets at the beginning of the fiscal year, through their votes on spending, to the financial statements that report their results at the end of the year. At all three stages, legislators and citizens should be able to find the key numbers, and compare plans to results, with ease. The letter grades in this report card reflect our judgement about whether governments' budgets, estimates and financial statements let Canadians understand their fiscal plans and hold them to account for fulfilling them.

the implications of the government's plans for its capacity to deliver services at the end of the period.

The estimates a government presents to the legislature provide details on spending for which the government must obtain legislative approval. The scope of estimates is not the same as the expenses that appear in the budget and in the financial statements. Because they are items that require votes, estimates exclude some entities, such as Crown corporations, and some types of ongoing expenses, such as interest on the public debt. The estimates are nevertheless central to the legislature's control of public money. Legislators should be able to see individual program decisions in the context of the overall plan for revenues and expenses, with its implications for net worth and future service capacity.

The C.D. Howe Institute's annual report on the fiscal accountability of Canada's senior governments focuses on the relevance, accessibility, timeliness and reliability of these documents. This report is not about whether governments spend and tax too much or too little, whether they run surpluses or deficits, or whether their programs are effective or misguided. It is about whether Canadians can get the information they need to form opinions on these issues and correct any problems they discover. The letter grades in this report card reflect our judgement about whether governments' budgets, estimates and financial statements let legislators and voters understand their fiscal plans and hold them to account for fulfilling them.

Our approach is to put ourselves in the place of an intelligent and motivated but non-expert reader. We ask how readily that reader – who might be a legislator, journalist or concerned citizen – can find the relevant numbers in each document, and use them to make straightforward comparisons. For example, can the reader compare the revenues and expenses projected and approved by legislators before the start of the year with the revenues and expenses collected and disbursed during the prior year? And can the reader compare the revenues, expenses and change in net worth published after year-end with the budget's projections?

With respect to the budgets and estimates for the 2020/21 fiscal year, and the financial statements for the 2019/20 fiscal year – the documents relevant for this report card – the reader would be able to answer such questions about Nova Scotia, New Brunswick, Saskatchewan, Alberta, British Columbia and Nunavut relatively easily. These jurisdictions displayed the relevant numbers early in their documents. They used consistent accounting and aggregation methods in all their documents. They provided tables that reconcile results with budget intentions, and published in-year updates. They also tended to produce timely numbers: all except Alberta tabled their 2020 budgets before the start of the fiscal year. All released their main estimates simultaneously with their budgets. All except New Brunswick and Nunavut released their public accounts within five months of the end of the fiscal year.

Our reader would have a tougher time with the documents of other governments. Some governments' budgets, estimates and/or public accounts used inappropriate and inconsistent accounting and aggregation, impeding understanding of the documents and comparisons among them. Some governments buried their consolidated revenues and expenses hundreds of pages into a document or even hid them in separate documents.

Timeliness is uneven among Canada's senior governments. Some presented budgets after the fiscal year had started, with money already committed or spent. Some did not present their main estimates simultaneously with their budgets. Some did not release their year-end financial statements until most of the following fiscal year had elapsed, undercutting attempts to compare recent performance against a definitive baseline. The federal government presented no budget at all for the 2020/21 fiscal year.

Although the principal focus of this report is the budgets and reports published in the most recent complete fiscal cycle, we have two comments about the past and the future.

Looking back, we are glad to report that, over time, and notwithstanding the absence of a federal budget in 2020, the quality of the financial information provided by Canada's senior governments has tended to improve. Two decades ago, none of Canada's senior governments budgeted and reported its consolidated revenues, expenses and surplus or deficits on the same accounting basis; lately, consistent accounting has become the rule.

Looking forward, we provide a preview of the scores for the fiscal year 2021/22 budgets and estimates. On this front, the news is mixed. The federal government presented a budget. The provinces and territories were generally slower in the most recent budget cycle. Seven senior governments presented their budgets later than last year. Based on documents available to date, the federal government is on track for a C in our 2022 report card, New Brunswick, Saskatchewan, Alberta and Nunavut are on track for grades of A-, and Ontario is on track for an A.

A key aim of this annual survey is to limit backsliding and to encourage further progress. The deficiencies we highlight in this report are fixable, as improvements by the leading jurisdictions show. Canadians can get good financial reporting from their governments. They should insist on it.

Measuring Fiscal Accountability

To be useful, any organization's financial documents must help people make decisions. They must be accurate and complete. They must present information so users can readily find and interpret the principal numbers. In the case of governments, an essential minimum is that a reader who is motivated and numerate, but not an expert in accounting, can easily find consolidated revenues and expenses, and the resulting surplus or deficit, in a government's budgets and financial statements. Our focus on these attributes complements some other measures of fiscal transparency, including the Organization for Economic Co-operation and Development's Best Practices for Budget

Transparency (OECD 2002) and the Open Budget Survey (International Budget Partnership 2020).[1]

The Fiscal Cycle and Principal Documents

The fiscal year of Canada's senior governments runs from April 1 to March 31. The documents we focus on come at opposite ends of that cycle. Budgets are forward looking: they present planned revenues and expenses, and the projected surplus or deficit. They should appear before the start of the fiscal year. The main estimates are likewise forward looking: they set out particular spending for which a government must obtain legislative approval. The financial statements in the public accounts are backward looking: they present actual revenues and expenses, and the actual surplus or deficit. They appear after the end of the fiscal year.

The budget is the core statement of a government's fiscal priorities. A budget attracts unique attention. It prompts extensive debate in the legislature, and gets more media coverage and scrutiny by the interested public than other fiscal documents. Its central features are a projected statement of operations – revenues and expenses – the resulting annual surplus or deficit, and the effect of the surplus or deficit on its net worth.

The estimates that set out particular spending are key links in the chain of accountability from voters through legislators to the officials who actually collect and spend the money. The links we focus on are the main estimates that set out planned spending at the start of the fiscal year. Their timeliness and the ease with which legislators can understand their relationship to the larger fiscal plan both figure in our assessment of the quality of governments' financial reporting.

The audited financial statements in the public accounts are the definitive report of a government's revenues and expenses during the year and of its net worth at the start and end of the year. The financial statements, too, should present consolidated revenues, expenses and annual surplus or deficit, along with the resulting changes in the accumulated surplus or deficit and the government's net worth.

Comparing all these documents should be straightforward. As the Public Sector Accounting Board expresses it:

> The actual-to-budget comparison is meaningful when the budget:
>
> (a) is prepared on the same basis of accounting (i.e., accrual accounting),
>
> (b) follows the same accounting principles (i.e., the standards in the PSA Handbook),
>
> (c) is for the same scope of activities (i.e., includes all components, where applicable, and all controlled entities) and
>
> (d) uses the same classification (i.e., revenue by type and expenses by function or major program) as the financial statements.[2]

A comparison that is straightforward will let a motivated though non-expert reader answer such

1 The OECD's "best practices" are dated – for example, specifying conformity with national income accounting practices, which would be a step backward from Canada's PSAS. In other respects, however, the OECD's criteria for timeliness of budgets and financial reports, clear and consistent reporting of gross amounts in both documents, timely updates relative to plan, and informative comparisons of projections with results and vice versa run parallel to ours. The Open Budget Survey awarded the federal government 71 out of 100 for transparency in its 2019 report. Some of its other criteria, including opportunities for public consultation, differ from ours, and it focuses less than we do on the clarity of the financial projections and reports themselves. Nevertheless, there are some key common themes: the Open Budget Survey highlights the limited legislative oversight in Canada's budget process, recommending earlier presentation of the budget to the legislature, earlier approval of the budget by the legislature and monitoring of in-year budget implementation.

2 Public Sector Accounting Board (2021, 34).

questions as how close last year's results were to last year's plans, and what kinds of increases or decreases in revenues and expenses this year's budget would produce relative to last year's results. A comparison that is not straightforward will force even an expert to work hard to answer such questions, and prevent a non-expert from doing it at all.

Although the main estimates do not cover all expenses captured in a government's budget or financial statements, similar logic applies to their presentation. Governments that present estimates simultaneously with their budgets, and provide clear reconciliations of the amounts they are asking legislators to approve with the overall fiscal plan, are being more transparent about their intentions, and providing more helpful context for the spending decisions, than governments that do not.

Many governments also produce interim fiscal reports at intervals as the year progresses. These show performance relative to budget, and some provide updated financial projections for the year. This kind of interim information helps legislators and citizens track in-year progress relative to budget, which can improve understanding of how events affect public finances, and can foster early action if things are going problematically off course. Our survey also looks at the frequency of these reports.

The Quality of Financial Reporting: Key Questions

Summarizing in point form, we ask the following questions about the accessibility, timeliness and reliability of these documents. With respect to the budget:

- When did the government table it?
- Did it present consolidated revenue, expense, and surplus or deficit?
- Were those figures easy to find and identify?
- Were those figures consistent with their counterparts in the financial statements?

With regard to the main estimates:

- When did the government table them?
- Were the spending items on the same accounting basis as their counterparts in the budget and the financial statements?
- Could the reader readily reconcile the estimates with consolidated expenses in the budget?

With regard to the financial statements in the public accounts:

- When did the government release them?
- Did they present consolidated revenues, expenses, and surplus or deficit?
- Did the legislative auditor (auditor general) give a clean (unqualified) opinion on the financial statements, and if not, how material is the problem?
- Were the consolidated financial statements or a summary easy to find and identify?
- Did the public accounts clearly explain variances – differences between the results and the budget?
- Did the difference between revenues and expenses equal the change in the government's net worth?

Finally, we ask if the government published in-year updates that let readers see and understand deviations from budget.

How We Graded the Governments

Going a layer deeper, we proceed to the criteria we used in answering these questions, and how we scored each criterion. We emphasize at the outset that the scoring ranges reflect the granularity we think is useful in distinguishing good from bad performance on each criterion: they are independent of the weights of each criterion in a government's overall grade.

Timeliness

All Canada's senior governments have fiscal years that run from April 1 to March 31. Since spending without authorization by elected representatives violates a core principle of representative democracy, legislators should have sufficient time to consider the government's fiscal plan, and should certainly vote on the budget before the start of the fiscal year. We awarded a score of 2 to governments that presented their 2020/21 budgets more than 30 days before the start of the fiscal year, 1 to governments that presented their budgets less than 30 days before the start of the fiscal year and 0 to governments that presented their budgets after the start of the fiscal year.

Main estimates, like budgets, should be timely. Legislators ideally would get them simultaneously with the budget, and early enough to consider them properly before the start of the fiscal year. As with budgets, we awarded 2 to governments that presented their 2020/21 estimates more than 30 days before the start of the fiscal year, 1 to governments that presented them less than 30 days before the start of the fiscal year and 0 to governments that presented them after the start of the fiscal year. We awarded a bonus point to governments that tabled their main estimates simultaneously with their budgets.

Timely publication of year-end financial statements also matters. Earlier publication makes them more useful in holding a government to account for its performance and evaluating subsequent projections. We awarded 2 to governments that tabled their 2020 statements less than 90 days after the end of their fiscal year, 1 to governments that tabled them 90 to 180 days after the end of the fiscal year, and 0 to governments that tabled them more than 180 days after. Typically, the publication of the financial statements coincides with the tabling of the public accounts: if it did not, we used the date of the public accounts in our score, since the public accounts often contain key additional information, such as reconciliations of results with the budget.

Some readers may feel that our timeliness criteria are too demanding for the particular circumstances affecting the 2020/21 budgets and the 2019/20 financial statements. While it is true that the pandemic made economic and fiscal projections unusually hard, which affected not only budgets but some forward-looking disclosures in financial statements, making the fiscal cycle contingent on circumstances is problematic.[3] Events such as natural disasters, economic crises and wars occur from time to time, and letting the executive branch compromise key principles of democratic governance opens the door to opportunistic behaviour. Our approach is even-handed in the sense that the pandemic affected governments at all levels from coast to coast, so our scoring system does not advantage or disadvantage some relative to others.

Interim updates are another vehicle for timely information about how the fiscal results are unfolding relative to the budget. Accordingly, we include a criterion related to the frequency of interim information. We awarded 3 to governments that provided monthly updates, 2 to governments that provided quarterly updates, 1 to governments that provided only half-year updates and 0 to governments that provided none.

Placement of Key Numbers

Making key numbers easy to find and identify matters, especially for non-experts. Readers of budgets and public accounts documents should not need to sort through reams of extraneous and

3 As former Parliamentary Budget Officer, Kevin Page, remarked of the federal government's failure to present a budget: "[Budgets] are fiscal plans. And to say that, 'because there's too much uncertainty, we're going to manage without a plan', is kind of bizarre…." The reason we have plans is because there is uncertainty." See http://globalnews.ca/news/7383423/trudeau-record-parliament-no-budget/.

potentially misleading material. Putting consolidated revenues, expenses, and the surplus or deficit up-front reduces the chance that a user will give up, or find wrong numbers ahead of the right ones.

We reference the physical budget books and public accounts, or their electronic PDF equivalents, because web pages and links among documents are sometimes ephemeral and not clearly dated, and can present users with hard-to-quantify navigational challenges. We begin counting at the first physical or electronic page. For both budgets and public accounts, we awarded 3 to governments that presented their consolidated revenues, expenses and bottom-line numbers within the first 15 pages of the documents, 2 to governments that presented them 16-30 pages into the documents, 1 to governments that presented them 31-50 pages into their documents, and 0 to governments that presented them more than 50 pages into their documents. We do not scale our scores according to the overall length of the documents – by using percentages, for instance – because long documents are less user-friendly than short ones. Budgets and annual reports are easier to read and interpret if they are concise and to the point.

Reliability and Transparency of Numbers

With respect to both budgets and public accounts, we ask if the reader can readily find consolidated revenues and expenses, and the surplus or deficit, and relate the surplus or deficit to the change in the government's net worth. Governments that omit items such as amortization of capital, debt-servicing costs or pension expense, or that move money in and out of special-purpose accounts, obscure their bottom lines. In both cases, we awarded 2 to governments that presented consolidated revenues, expenses and bottom-line figures, 1 to governments that presented a consolidated bottom line, but did not present clear consolidated revenues and expenses figures that reconciled with it, and 0 to governments that showed no consolidated bottom line.

With respect to the public accounts, a vital question is whether the relevant legislative auditor qualified her or his opinion about their adherence to PSAS. We awarded 2 to governments that received an unqualified opinion on their 2020 financial statements, 1 to governments that had one qualification, and 0 to governments that had more than one qualification.[4] We also included a measure of the seriousness of auditor qualifications by comparing the size of the discrepancy between what the government presents and what the auditor calculates the government would show with a PSAS-consistent presentation. We awarded 2 if there was no discrepancy or any discrepancy was less than 5 percent of expenses in the most recent fiscal year, 1 if a discrepancy was between 5 and 10 percent of expenses, and 0 if a discrepancy was more than 10 percent of expenses.

Financial results are easier to understand if the difference between revenues and expenses – the surplus or deficit – is straightforwardly related to the change in the government's net worth over the

4 The opinion of the legislative auditors has relatively heavy weight in our overall grades because of the scope and rigour of their work. In a non-government setting, a qualified audit opinion is a red flag to any user of financial statements. We did not make them decisive in determining a passing or failing grade on their own for two reasons. First, although numbers that have passed inspection are clearly better than those that have not, their timeliness and the ease with which users can find and identify them confidently matter; audited numbers published very late and in a format or location where non-experts won't find them are not much good. Second, compliance with PSAS is a matter on which reasonable people can and do disagree; not all of Canada's legislative auditors apply identical tests in evaluating their government's financial statements, and judgments about how best to reflect reality for decision-making purposes in financial statements are continuously evolving.

fiscal year. Often it is not: a line with a label such as "other comprehensive income or loss" will sit between the surplus or deficit for the year and the change in the accumulated surplus or deficit during the year. These "below-the-line adjustments", which are not only allowed but mandated by PSAS in some circumstances, are not necessarily evidence of anything untoward. They often contain gains and losses of government-owned enterprises, which illustrate both the merits of this presentation, and its problems. Crown corporations are at arm's length, rather than directly controlled, and gains or losses on their investments are of a different character than decisions about taxes and spending by the legislature. But Crown corporations expose taxpayers to gains and losses, and governments should be accountable to taxpayers for that exposure. Our judgement is that, on balance, the wedge these entries drive between budget decisions and ultimate changes in a government's service capacity make them problematic and increase opacity for non-experts.

The accumulated surplus or deficit is the definitive statement of a government's capacity to provide future services – why, then, is a government highlighting an annual result that does not relate to it? Moreover, governments may not reliably honour the principle that such adjustments should relate to matters outside their control – that the budget at the start of the year could not have anticipated. Our concerns about below-the-line adjustments led us to award 4 to governments with no such adjustments in their 2019/20 financial statements, 3 to governments with adjustments that had an absolute value less than 0.6 percent of expenses, 2 to governments with adjustments with an absolute value between 0.6 and 1.1 percent of expenses, 1 to governments with adjustments between 1.1 and 1.6 percent of expenses, and 0 to governments with adjustments exceeding 1.6 percent of expenses.[5]

Comparability of Numbers

With respect to budgets, users will learn more if they can readily compare budget plans with historical results as published in previous financial statements and with the projected results for the fiscal year about to end.[6] We awarded 1 to governments that presented revenues and expenses using the same aggregations they presented in their year-end financial statements, and 0 to governments that did not.

With respect to estimates, legislators should be able to understand how the specific items they are approving relate to projected consolidated expenses in the budget. We awarded 2 to governments that presented estimates that matched the budget and reconciled with projected consolidated expenses. We awarded 1 to governments that presented estimates that did not match the budget but provided a clear reconciliation with projected consolidated expenses, and to governments that presented estimates with accounting that matched the budget but did not provide a clear reconciliation. We awarded 0 to governments that presented estimates that did not match the presentation in the budget and did

5 These thresholds reflect the distribution of adjustments relative to expenses in all governments' financial statements over fiscal years 2014/15 to 2019/20. The mean absolute adjustment over those years was about 0.6 percent of expenses, and the standard deviation was about 0.5 of a percentage point, so adjustments larger than 1.6 percentage points were two standards deviations worse than the average of all governments over the period.

6 When governments table budgets before the start of the fiscal year, as they should, the term "year about to end" applies literally – it is the then-current fiscal year. When governments table budgets after the start of the fiscal year, the year before has already ended, but the audited financial statements are not yet ready, so the results for that year in the budget will still be projections.

not reconcile them with projected consolidated expenses.

With respect to public accounts, users will learn much from an informative comparison of the year's results to the budget projections. Many governments show budget comparisons next to the statement of operations in their financial statements. We awarded 3 to governments that showed budget numbers that matched those in the budget itself, or numbers restated to improve their adherence to public sector accounting standards. We awarded 2 to governments that showed budget numbers that did not match those in the budget itself, but explained the discrepancies. We awarded 1 to governments that showed budget numbers that did not match those in the budget and did not explain the discrepancies. We awarded 0 to governments that did not show budget projections with their statements of operations.

We separately evaluated the quality of information about variances from budget plans. We awarded 2 to governments that both showed the variances in a table and explained them, 1 to governments that showed the variances in a table but did not explain them, and 0 to governments that did not show the variances.

The 2021 Report Card

To produce an overall grade from these criteria, we standardized the scores for each criterion to be between 0 and 1,[7] weighted them based on our judgment of their relative importance to the overall goal of clarity and reliability[8] and summed the weighted scores to produce a percentage score that we converted to a letter grade on a standard scale: A+ for 90 percent or above, A for 85-89 percent, A- for 80-84 percent, B+ for 77-79 percent, B for 73-76 percent, B- for 70-72 percent, C+ for 67-69 percent, C for 63-66 percent, C- for 60-62 percent, D+ for 57-59 percent, D for 53-56 percent, D- for 50-52 percent and F for less than 50 percent. Our assessments for each criterion and the resulting letter grades for each government appear in Table 1.

Best and Worst

Nova Scotia, New Brunswick, Saskatchewan, Alberta, British Columbia, Yukon and Nunavut topped the class with grades of A-. All displayed the relevant numbers early in their documents. All used consistent accounting and aggregation methods in all documents. All provided tables that reconciled results with budget intentions, and published in-year updates. They also tended to produce timely numbers. All except Alberta tabled their 2020 budgets before the start of the fiscal year. All released their main estimates simultaneously with their budgets. All except New Brunswick, Yukon and Nunavut released their public accounts within five months after the end of the fiscal year.

In the next tier is Ontario with a B. In the tier below that are Newfoundland and Labrador with a grade of C+, Prince Edward Island with a C, and Manitoba and Quebec – which has had chronic problems with its auditor general – with grades of

7 For example, if we awarded 2 for a criterion with a maximum score of 3, the government's standardized score on that criterion would be 0.67.

8 Subjectivity is inevitable in any weighting system of this kind, and it is natural to wonder how sensitive the results are to the weights we chose. A simple test of their importance to our scores is to compare those grades to the grades that would have resulted from placing equal weight on each criterion. That exercise produces an average absolute change across the 14 governments of 1 degree – equal, for example, to a change in score from B to B-. The correlation between the rankings using weighted and non-weighted criteria is 97 percent, while the correlation between the numerical grades using weighted and non-weighted criteria is 88 percent.

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

	Budget				Estimates		Public Accounts								Fiscal Updates	Grade
	Date 2020/21 budget tabled relative to start of fiscal year	Page where figures appear in budget	Is budget accounting consistent with financial statements?	Does budget highlight consolidated revenue, expense and surplus/deficit?	Date 2020/21 estimates tabled relative to start of fiscal year	Are estimates consistent and reconciled with the budget?	Date 2019/20 statements tabled relative to end of fiscal year	Page where statements or summary appears in public accounts	Do public accounts highlight consolidated revenue, expense and surplus/deficit?	Do statements receive an unqualified opinion from legislative auditor?	Amount subject to qualified opinion, as percent of expense	Do statements include comparison to budget plans?	Do public accounts explain variance from budget plans?	Below-the-line adjustments as percent of expense	Do interim reports compare results to budget plans?	
	2 if >30 days early, 1 if<30 days early early, 0 if late	3 if <16, 2 if 16-30, 1 if 31-50, 0 if >51	1 if yes, 0 otherwise	2 if yes, 1 if surplus/deficit only, 0 if no	2 if >30 days early, 1 if <30 days early, 0 if late, +1 if released with budget	2 if yes, 1 if different accounting reconciled, or if same accounting not reconciled, 0 otherwise	2 if <90 days, 1 if 90-180 days, 0 if >180 days	3 if <16, 2 if 16-30, 1 if 31-50, 0 if >51	2 if yes, 1 if surplus/deficit only, 0 if no	2 if unqualified, 1 if one qualification, 0 if more than one qualification	2 if <5, 1 if 5 to 10, 0 if > 10	3 if yes, 2 if inconsistent budget figures restated, explained, 1 if restated, not explained, 0 otherwise	2 if full, 1 if variance table but variances not explained, 0 if none	4 if 0, 3 if <0.6, 2 if >0.6 and <1.1, 1 if > 1.1 and < 1.6, 0 if >1.6	3 if monthly (M), 2 if quarterly (Q), 1 if half- year (H), 0 if none	
Weight	2	1	3	3	1	2	2	1	1	3	1	1	1	1	2	
Federal	No budget presented	No budget presented	No budget presented	No budget presented	27-Feb-20	No budget to reconcile with	30-Nov-20	14	No consolidated expense and multiple balance figures	Yes	0	Budget figures restated to adjust for updated presentation	Clear tables and explanations of variances	0.96	Yes (M, Q, H)	**F**
	0	0	0	0	2	0	0	3	1	2	2	2	2	2	3	
NL	30-Sep-20	8*	Yes	Yes	30-Sep-20	Different accounting (modified cash basis) and not reconciled with budget	07-Jan-21	13	Yes	Yes	0	Yes	Clear tables and explanations of variances	0.24	Yes (H)	**C+**
	0	3	1	2	1	0	0	3	2	2	2	3	2	3	1	

Table 1: Continued

	Budget				Estimates		Public Accounts								Fiscal Updates	Grade
	Date 2020/21 budget tabled relative to start of fiscal year	Page where figures appear in budget	Is budget accounting consistent with financial statements?	Does budget highlight consolidated revenue, expense and surplus/deficit?	Date 2020/21 estimates tabled relative to start of fiscal year	Are estimates consistent and reconciled with the budget?	Date 2019/20 statements tabled relative to end of fiscal year	Page where statements or summary appears in public accounts	Do public accounts highlight consolidated revenue, expense and surplus/deficit?	Do statements receive an unqualified opinion from legislative auditor?	Amount subject to qualified opinion, as percent of expense	Do statements include comparison to budget plans?	Do public accounts explain variance from budget plans?	Below-the-line adjustments as percent of expense	Do interim reports compare results to budget plans?	
Weight	**2**	**1**	**3**	**3**	**1**	**2**	**2**	**1**	**1**	**3**	**1**	**1**	**1**	**1**	**2**	
PE	17-Jun-20	9	Yes	Multiple balance figures, but a consolidated bottom line	17-Jun-20	Yes	08-Jan-21	14	Yes	Yes	0	Budget figures restated to adjust for including consolidated Agencies, which are explained in the report	No variance tables	0.96	Yes (H)	**C**
	0	3	1	1	1	2	0	3	2	2	2	2	0	2	1	
NS	25-Feb-20	5	Yes	No. budget presents figures from the General Revenue Fund	25-Feb-20	Yes	20-Aug-20	7	Yes	Yes	0	Revised budget figures to adjust for consolidation are explained in the report. Comparisons to the General Revenue Fund budget figures match.	Clear tables and explanations of variances	0.15	Yes (Q)	**A-**
	2	3	1	0	3	2	1	3	2	2	2	2	2	3	2	

Table 1: Continued

	Budget				Estimates		Public Accounts								Fiscal Updates	Grade
	Date 2020/21 budget tabled relative to start of fiscal year	Page where figures appear in budget	Is budget accounting consistent with financial statements?	Does budget highlight consolidated revenue, expense and surplus/deficit?	Date 2020/21 estimates tabled relative to start of fiscal year	Are estimates consistent and reconciled with the budget?	Date 2019/20 statements tabled relative to end of fiscal year	Page where statements or summary appears in public accounts	Do public accounts highlight consolidated revenue, expense and surplus/deficit?	Do statements receive an unqualified opinion from legislative auditor?	Amount subject to qualified opinion, as percent of expense	Do statements include comparison to budget plans?	Do public accounts explain variance from budget plans?	Below-the-line adjustments as percent of expense	Do interim reports compare results to budget plans?	
Weight	2	1	3	3	1	2	2	1	1	3	1	1	1	1	2	
NB	10-Mar-20	11	Yes	Yes	10-Mar-20	Yes	14-Oct-20	7	Yes	Yes	0	Yes	Clear tables and explanations of variances	0.68	Yes (Q)	A-
	1	3	1	2	2	2	0	3	2	2	2	3	2	2	2	
QC	10-Mar-20	25	Yes	Consolidated, but multiple balance figures	10-Mar-20	Consistent with the portfolio expenditure of the budget only, not reconciled to total	22-Dec-20	21	Yes	Received auditor reservation	10.9	Yes	Clear tables and explanations of variances	2.30	Yes (M)	C-
	1	2	1	1	2	1	0	2	2	1	0	3	2	0	3	
ON	12-May-20	33	Yes	Yes	12-May-20	Budget figures restated	11-Sep-20	13	Yes	Yes	0	Budget figures restated as explained in note 16 of public accounts.	Clear tables and explanations of variances	0.18	Yes (Q)	B
	0	1	1	2	0	2	1	3	2	2	2	2	2	3	2	

Table 1: Continued

	Budget				Estimates		Public Accounts								Fiscal Updates	Grade
	Date 2020/21 budget tabled relative to start of fiscal year	Page where figures appear in budget	Is budget accounting consistent with financial statements?	Does budget highlight consolidated revenue, expense and surplus/deficit?	Date 2020/21 estimates tabled relative to start of fiscal year	Are estimates consistent and reconciled with the budget?	Date 2019/20 statements tabled relative to end of fiscal year	Page where statements or summary appears in public accounts	Do public accounts highlight consolidated revenue, expense and surplus/deficit?	Do statements receive an unqualified opinion from legislative auditor?	Amount subject to qualified opinion, as percent of expense	Do statements include comparison to budget plans?	Do public accounts explain variance from budget plans?	Below-the-line adjustments as percent of expense	Do interim reports compare results to budget plans?	
Weight	2	1	3	3	1	2	2	1	1	3	1	1	1	1	2	
MB	11-Mar-20	8	Yes	Yes	11-Mar-20	Same accounting, but different aggregation basis and not reconciled with budget	29-Sep-20	46	Yes	Received more than one qualification	10.7	Yes	Clear tables and explanations of variances	0.39	Yes (Q)	**C-**
	1	3	1	2	2	1	0	1	2	0	0	3	2	3	2	
SK	15-Jun-20	7	Yes	Yes	15-Jun-20	Same accounting, but different aggregation basis and not reconciled with budget	18-Jun-20	9	Yes	Yes	0	Yes	Clear tables and explanations of variances	0.44	Yes (Q)	**A-**
	0	3	1	2	1	1	2	3	2	2	2	3	2	3	2	

Table 1: Continued

	Budget				Estimates		Public Accounts								Fiscal Updates	Grade
	Date 2020/21 budget tabled relative to start of fiscal year	Page where figures appear in budget	Is budget accounting consistent with financial statements?	Does budget highlight consolidated revenue, expense and surplus/deficit?	Date 2020/21 estimates tabled relative to start of fiscal year	Are estimates consistent and reconciled with the budget?	Date 2019/20 statements tabled relative to end of fiscal year	Page where statements or summary appears in public accounts	Do public accounts highlight consolidated revenue, expense and surplus/deficit?	Do statements receive an unqualified opinion from legislative auditor?	Amount subject to qualified opinion, as percent of expense	Do statements include comparison to budget plans?	Do public accounts explain variance from budget plans?	Below-the-line adjustments as percent of expense	Do interim reports compare results to budget plans?	
Weight	**2**	**1**	**3**	**3**	**1**	**2**	**2**	**1**	**1**	**3**	**1**	**1**	**1**	**1**	**2**	
AB	27-Feb-20	10	Yes	No consolidated expense and multiple balance figures	27-Feb-20	Same accounting, but different aggregation basis and not reconciled with budget.	27-Aug-20	9	Yes	Yes	0	Yes	Clear tables and explanations of variances	0.53	Yes (Q)	**A-**
	2	3	1	1	3	1	1	3	2	2	2	3	2	3	2	
BC	18-Feb-20	10	Yes	Multiple balance figures, but a consolidated bottom line	18-Feb-20	Yes	31-Aug-20	12	Yes	Received qualification	9.6	Yes	Clear tables and explanations of variances	0.48	Yes (Q)	**A-**
	2	3	1	1	3	2	1	3	2	1	1	3	2	3	2	
NT	25-Feb-20	55	No	Multiple balance figures, but a consolidated bottom line	25-Feb-20	Yes	19-Nov-20	15	Multiple balance figures, but a consolidated bottom line	Yes	0	Inconsistent budget figures restated without explanation	No variance tables	0	Yes (H)	**D+**
	2	0	0	1	3	2	0	3	1	2	2	1	0	4	1	

Table 1: Continued

	Budget				Estimates		Public Accounts								Fiscal Updates	Grade
	Date 2020/21 budget tabled relative to start of fiscal year	Page where figures appear in budget	Is budget accounting consistent with financial statements?	Does budget highlight consolidated revenue, expense and surplus/deficit?	Date 2020/21 estimates tabled relative to start of fiscal year	Are estimates consistent and reconciled with the budget?	Date 2019/20 statements tabled relative to end of fiscal year	Page where statements or summary appears in public accounts	Do public accounts highlight consolidated revenue, expense and surplus/deficit?	Do statements receive an unqualified opinion from legislative auditor?	Amount subject to qualified opinion, as percent of expense	Do statements include comparison to budget plans?	Do public accounts explain variance from budget plans?	Below-the-line adjustments as percent of expense	Do interim reports compare results to budget plans?	
Weight	2	1	3	3	1	2	2	1	1	3	1	1	1	1	2	
YK	05-Mar-20	8	Yes	Yes	05-Mar-20	Yes	29-Oct-20	4	Yes	Yes	0	Yes	Yes	0.11	Yes (H)	A-
	1	3	1	2	2	2	0	3	2	2	2	3	2	3	1	
NU	19-Feb-20	11	Yes	Yes	19-Feb-20	Different aggregation basis, but matches departmental expenses, as explained in the budget document.	29-Oct-20	13	Yes	Yes	0	Revised budget figures to adjust for reclassification of COGS of revolving funds to expenses	Yes	0.00	No	A-
	2	3	1	2	3	1	0	3	2	2	2	2	2	4	0	

*Since Newfoundland and Labrador publishes its budget speech and budgeted financial statements separately, we choose the page number from the budget speech, as it is a more comprehensive document that is comparable to other jurisdictions' budgets. Yukon also publishes its budget address, fiscal and economic outlook, and budgeted financial statements separately. Similarly, it publishes its audited financial statements as a separate document from the rest of the public accounts. Since the financial statements documents are the only documents that include consolidated revenue and expense figures, we use them for the page number. These placements advantage Yukon in these criteria relative to other jurisdictions.

C-. The Northwest Territories presented multiple revenue and expense numbers in its budget, published its financial statements late, and did not provide straightforward comparisons of its results to its budget, earning a D+.

The federal government produced no budget for the 2020/21 fiscal year, and so received scores of 0 with respect to all budget information. Its 2020 public accounts did not present a figure for consolidated expense, showing actuarial losses related to its employee pensions below an "operating balance" line.[9] It also published its public accounts late. It earned an F, which is a signal failure from the government that was formerly a leader in fiscal transparency and accountability.

Changes in Grading and Grades

Up until the most recent failures, the quality of financial reporting by Canada's senior governments had been improving. Notably, this included better adherence to public sector accounting standards in financial statements and in budgets – which, not coincidentally, meant that budgets were becoming easier to compare with results, and vice versa.

Widespread adherence to PSAS is a phenomenon of the twenty-first century. Previously, senior governments largely budgeted on a cash basis, recording revenues when cash flowed in and expenses when cash flowed out, even if the activity related to the receipts and payments did not occur in the relevant fiscal year. Public sector accounting standards mandate accrual accounting, which matches revenues and expenses to the period when the relevant activity occurred. Amortizing long-lived assets over the period during which they deliver services, for example, is more informative than showing their up-front cash costs. Likewise, recording deferred compensation – such as pensions for government employees – when the work that earns the benefits is done is more informative than showing it when the payments occur.

As Canada's senior governments moved to PSAS in their year-end financial statements, they initially continued presenting budgets on a cash basis, resulting in potentially baffling discrepancies between the two documents. We are glad to report that most senior governments have recently presented budgets consistent with PSAS. As such problems have become less salient over time, our scrutiny in this project has extended to other issues.

In recent years, we added the criterion that estimates should be prepared on a basis consistent with PSAS so that users can readily reconcile them with budgets. For similar reasons, we added the criterion that the main estimates should appear before the start of the fiscal year – ideally with budgets. We also revised the criteria related to the timing of budgets and financial statements, accentuating the difference between governments that present budgets early enough to permit substantive legislative scrutiny and those that do not, and between governments that publish their results promptly and those that do not. We refined the criterion related to adherence of the financial statements to PSAS to differentiate between governments that received one auditor's qualification, which might reflect a minor matter or an arguable difference in interpretation, from those with more than one – a warning about more

9 This presentation implies that these actuarial "losses" resulted from circumstances outside the government's control – more precisely, an unforeseeable decline in interest rates that forced the government to increase the value of its pension obligations (the lower the interest rate on assets that are good matches for pension promises, the larger the contributions needed to fund them). These losses were foreseeable, however; they reflect the government's use of an artificially high interest rate when it originally recorded the pension obligations (Laurin and Robson 2020). They should be in consolidated expenses, with other costs of federal employees.

chronic problems. We added the criterion related to below-the-line adjustments, because they obscure the connection between a government's annual results and changes in its service capacity, and give governments scope to de-emphasize results for which they would prefer not to be accountable.

In this year's iteration, we have added the criterion related to the size of discrepancies between a government's presentation and what the relevant legislative auditor calculates proper adherence to PSAS would produce.

We have also applied similar criteria related to presentation of consolidated revenues, expenses and surplus or deficit in both budgets and public accounts. Evaluating both avoids a potential conflict between rewarding consistent presentation of numbers in both documents in cases where consistency involved duplicating an inferior presentation.

Since readers might wonder if changes in criteria and weights affected governments' relative standings, we provide a check. Table 2 compares each government's grade for 2021 with its grade for 2020, as published in last year's report (Robson and Omran 2020c) and with the grade it would have received in 2020 if last year's report had used this year's scoring system. Changes in criteria do matter, but most of the changes in grades between the two years reflect changes in governments' financial reporting.[10] The bulk of these changes are positive: generally better performance with respect to the clarity, reliability and timeliness of budgets, estimates and financial statements.

Looking at particular jurisdictions, we note that New Brunswick has been a consistently high performer since 2017, after improvements to its accounting for public sector pension plans and consequent disappearance of a reservation by the provincial auditor. New Brunswick has a particularly strong record in presenting timely budgets: for several years, it was unique in presenting a January budget, and it has consistently presented its budget before the start of the fiscal year.

Saskatchewan's high grade is also worth noting. It joined the top performers in last year's report due to timely presentations of its budget, estimates and public accounts. Although its 2020 budget was later, it improved in other areas: its budget presented the key numbers earlier, and the below-the-line adjustment in its financial statements was smaller.

British Columbia is generally a high performer, but the new criterion related to the size of the discrepancy flagged by its auditor general hurt it. Positives for the province were its timely budget and estimates, consistency between both documents and its public accounts, and prominent presentation of key numbers.

Alberta has been a solid performer since 2015, when it stopped presenting multiple balance figures in its budgets. It rejoined the top rank this year with a timely budget release. Provincial legislation requires Alberta's budget to be tabled in February, a deadline it achieved in 2020/21.

Ontario improved its grade considerably in 2019, after a qualified opinion from the provincial auditor general previously hurt it. Its performance has improved further since then.

The federal government's grade has plummeted, thanks mainly to its failure to produce a budget for 2020/21. Excluding amortization of unrecognized pension costs from its expenses is a retrograde step.

Nunavut's grade improved markedly this year. Its budget presentation was better, and it explained variances from budget plans in its public accounts. These changes took Nunavut from a bottom-rank score in last year's report to a top-rank score this year.

10 The average absolute difference attributable to changes in the scoring system across the 14 governments was 0.04.

Table 2: Governments' Fiscal Reporting Grades Since 2018 Report

	2018	2019	2020 As Published	2020 Using 2021 Grading Scheme	2021
Federal	A-	B+	B-	B	F
Newfoundland and Labrador	B	C+	C	C+	C+
Prince Edward Island	D	C	C-	C+	C
Nova Scotia	B-	B-	B	B	A-
New Brunswick	A+	A+	A	A	A-
Quebec	C+	C	C	C-	C-
Ontario	C	B-	B	B	B
Manitoba	A-	D+	C	C	C-
Saskatchewan	B	B	A-	A-	A-
Alberta	A+	A	B+	A-	A-
British Columbia	B-	A-	A-	B+	A-
Northwest Territories	D+	F	D-	D-	D+
Yukon	A-	B-	D+	C-	A-
Nunavut	C	F	D-	D	A-

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

The 2021/22 Budget Cycle and a Preview of 2022 Results

Although the overall trend in fiscal transparency and accountability of Canada's senior governments has been positive, the absence of a federal budget in 2020 and several developments in the 2021 budget round highlight that there is nothing automatic about improvement.

Fewer senior governments presented timely documents in the 2021/22 budget cycle than the year before, with Yukon, British Columbia and Manitoba each taking a step back. Alberta, the Northwest Territories and Nunavut presented budgets and estimates in February. Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Yukon presented budgets and estimates in March. Ontario presented its budget in March and its estimates in April. The late releasers include the federal government, Newfoundland and Labrador, Manitoba, Saskatchewan and British Columbia, which tabled their budgets and estimates in April.

We show preliminary grades for our 2022 report card in Table 3.[11] These estimates reflect an update of the scores in Table 1, using 2021/22 budgets and estimates, and assuming each government's performance in the 2020/21 round of public accounts is the same as in the previous round. On the basis of its performance to date, Ottawa would get a C on the 2022 report card. Ontario would top the class with an A.

Table 3: Preview of 2022 Report Card

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

Note: These grades are based on fiscal year 2021/22 budgets and estimates and 2019/20 public acccounts.

Does Fiscal Accountability Matter?

Relevant, accurate and accessible financial reports cannot, on their own, ensure that governments will serve the public interest, but they are a foundation. Without them, citizens and taxpayers, and the legislators acting for them lack basic information about what governments are planning, how well they are meeting their targets, and what the consequences are for their capacity to deliver services in the future. Good numbers, by contrast, give the principals a strong start in understanding any problems the numbers reveal and in monitoring progress toward a solution.

11 These grades are not necessarily what we will award in 2022, as they do not reflect potential changes in the presentation of the public accounts for the year ending March 31, 2021.

Budget Hits and Misses

Canada's senior governments have had a notable tendency to overshoot their budget targets: over the past couple of decades, both revenues and expenses have come in over budget projections far more often than not. This overshooting had become less pronounced prior to the massive overshoots occasioned by the COVID crisis, but its cumulative effect meant that governments went into the crisis spending more than they would have been if they had hit their annual targets previously.[12] The fiscal pressures of the crisis will intensify the focus on governments' bottom lines. Financial reports that allow easier comparisons between intentions and results will be a valuable tool to contain the gap between targets and results in future years.

Our focus on consistency of presentation might appear a preoccupation of accountants, without much relevance for the decisions and allocation of resources that affect taxation and the quality of government services. Canada's municipalities, however, offer examples of the real-world consequences of problematic budget presentations. Whereas municipal financial statements, like those of most senior governments, are consistent with PSAS, their budgets typically are not: most municipal budgets use cash accounting rather than accrual accounting. The information municipal councillors use in making budget decisions likely discourages capital investments in general, and encourages cities to charge too much up front for the projects they undertake. Annual angst over balancing the city's budget is familiar to councillors, ratepayers and voters. Much less noticed are the sizable annual surpluses cities show in their financial statements – surpluses reflected in holdings of financial assets, when most residents probably would likely prefer higher investment in physical assets such as roads, drinking water and sewers, and transit (Robson and Wu 2021). Budget presentations that are consistent with financial statements and that facilitate comparisons between intentions and results could help cities tax and spend more effectively; we think the correlation between consistent accounting and smarter decisions applies equally well to senior governments.

Disputes over Financial Reporting

Disagreements over financial presentations offer indirect but powerful testimony to their importance. Battles between governments and legislative auditors show that governments think the presentation of financial information matters: why risk a qualified opinion unless the presentation of misleading numbers offers some political reward?

When public sector accounting standards were newer in the 1990s, reservations by legislative auditors were more common. Salient examples occurred at the federal level in the late 1990s and early 2000s, when Ottawa pre-booked increasingly large amounts of spending, artificially reducing surpluses (Robson 1999; Robson and Omran 2020a). As the auditor general of Canada complained in a series of reports (see, for example, Canada 2001, 1.29-1.34), the federal government was presenting Parliament with financial statements that reflected neither what Parliament voted nor the government's true fiscal position. Moreover, as in the municipal case, making decisions on the basis of what will look good in the financial statements distorted the actual allocation of resources. Ottawa ended up taxing more, and spending more on programs that lent themselves to financial manipulation, than it would have done had it presented better information.

12 Robson and Omran (2020a) document this phenomenon; Robson (2020) discusses it in regard to healthcare spending in particular.

Ontario provides more recent examples. In fiscal year 2015/16, the provincial auditor general issued a qualified opinion on Ontario's financial statements because of concerns that they showed pension plan assets that the government did not control. The following year, the auditor general also objected to the government's accounting related to potential future electricity revenues, which obscured expenses related to electricity subsidies. Ontario's 2017/18 financial statements, which garnered an unqualified opinion from the auditor general, showed a much larger deficit than they would have if these practices had continued. Prior budgets and financial statements showing bigger deficits likely would have produced some mixture of spending restraint and more aggressive revenue collection than actually occurred.

An ongoing example is Quebec. The provincial auditor general has issued a qualified opinion on the province's financial statements for eight years running, noting that the government was not properly reporting subsidies to third parties for the construction of fixed assets and other expenditures. The auditor estimates the resulting understatement of the province's accumulated deficit at more than $12 billion. We understand that the province is addressing the auditor's concerns, but think it possible that Quebec would have raised more revenue or cut expenses if it had complied with its auditor's recommendations during this period.

Improving Fiscal Accountability in Canada

On the positive side, many of Canada's senior governments have made notable improvements in their financial presentations, and in recent years results have tended to be closer to budgets. On the negative side, there is continuing tension between the requirements of good financial reports and the obscure and/or misleading presentation of key numbers. The failure of the federal government to present a budget at all in 2020 was unprecedented. We conclude this year's report with some suggestions to foster better fiscal accountability.

All Documents Should Reflect Public Sector Accounting Standards

All Canada's senior governments should publish financial statements that are consistent with public sector accounting standards, and highlight consolidated revenues, expenses, and surplus or deficit. All other documents, including budgets, in-year updates on the evolving situation and reconciliation tables explaining differences between projections and outcomes, should likewise be consistent with those standards and highlight the same key numbers.

Budgets Should Precede the Start of the Fiscal Year

Budgets should be timely, giving legislators and citizens time to understand and respond to – and, in the case of legislators, vote on – the fiscal plan before the year is already under way. It is an affront to accountability to ask legislatures to approve a plan after money has already been spent. Public engagement will suffer if lack of time precludes an opportunity to understand and comment on a budget's projections before the fact. Ontario recently committed to presenting its budget no later than March 31. While that is better than presenting after April 1, there is no reason all governments should not table their budgets before the end of February. Alberta's recent commitment and presentation of a February budget sets a better standard.

Estimates Should Be Timely and Reconcile with Budgets

Governments that present estimates inconsistent with their budget and/or their financial statements create a huge information gap for legislators.

Inconsistencies might result from different accounting and/or aggregation, and from legislators' not receiving information showing whether expenses authorized by votes on individual programs reconcile with the fiscal plan. Presenting consolidated expenses on the same accounting basis as the budget, with clear reconciliation of any aggregation differences between the estimates and the budget, mitigates this problem. In recent years, the federal government improved the presentation of its estimates, providing reconciliations with the budget plan and showing the relevant expenses on an accrual basis.

An additional problem is that legislators often get, and vote on, estimates on a different timeframe than the budget. Several Atlantic provinces set a good example, releasing estimates consistent with budget projections simultaneously with their budgets. Elsewhere, estimates might come weeks later. After taking a step back on timing for the past two years, tabling its main estimates as late as mid-April, Ottawa tabled its 2020/21 estimates in February. Unfortunately, its failure to present a 2020/21 budget overshadowed that positive step. A good measure of accountability and transparency would be a commitment to presenting the budget in February, as the federal government had done in previous years, and the main estimates at the same time.[13]

This is an area where legislators should play a stronger role by using powers they already possess. The federal, provincial and territorial legislatures all have standing committees to deal with estimates, such as the federal House of Commons Standing Committee on Government Operations and Estimates. In the modern world of centralized communications and control in the offices of premiers and prime ministers, these committees can seem unexciting and membership in them like a lot of work for relatively little profile. But the wisdom, or not, of governments' use of public funds tends to become high profile at intervals, and members of these committees who take their job seriously, and insist on timely and useful information, make a difference.

Key Numbers Should Be Accessible and Recognizable

Relevant and accurate numbers are less useful if readers cannot find them or recognize them when they do find them. Clearly labelled numbers in the opening pages of a document are conducive to understanding and engagement. Obscure numbers hundreds of pages deep, or in an annex, look like an attempt to evade scrutiny.

In this connection, we urge governments to declutter their budgets. The federal government's 2022 budget featured a further deterioration in Ottawa's tendency to bury the key numbers in an annex, under hundreds of pages of political spin and repetitious or irrelevant material. Experts know to persist until they find the summary statement of transactions that includes the effects of the budget measures. A non-expert exploring the budget might give up before finding it, or think that numbers given so little prominence could not be important.

13 The OECD (2002) recommends that governments submit their draft budget – equivalent to the budget in Canadian practice – no less than three months prior to the start of the fiscal year, and that approval of the budget – the estimates in Canadian practice – should precede the start of the fiscal year. The Open Budget Survey on Canada's federal government says it should "[e]nsure the Executive's Budget Proposal is provided to legislators at least two months before the start of the budget year and that the budget proposal and the Main Estimates are better aligned" (International Budget Partnership 2020).

Year-End Results Should Be Timely

Every organization needs timely information to detect and fix problems. The public accounts of Canada's senior governments let legislators and citizens compare end-of-year results with budget plans to see if the government fulfilled its promises and to understand the size of, and reasons for, deviations from targets. Quick production of financial statements encourages faster gathering and compilation of data, which should improve the quality of the numbers in the budget plan for the year underway and, by extension, for the baseline fiscal position in the future.

At the beginning of this century, the OECD (2002) recommended the publishing of audited financial statements not more than six months after year-end, to allow legislators to scrutinize the prior year's outcomes before voting on the next budget. With improvements in information technology since then, we think this is a reasonable outside limit and that a best-practice standard would be sooner than that.[14] Speedy preparation of data by the federal government would be particularly helpful, because most other Canadian senior governments rely on Ottawa for tax information, without which they have difficulty finalizing their statements.

Alberta requires its public accounts to be published before the end of June. Most governments, however, receive their auditor's approval and produce their reports far later. Manitoba's legislative date for tabling the public accounts is September 30, which, not surprisingly, is also the date they are often released. In our view, September 30 should be the latest date on which any government tables and releases its public accounts, with releases before the end of June being ideal.

Legislators Should Review the Public Accounts

Finally, we underline the importance of legislative involvement at the end of the fiscal cycle, as well as at the beginning. With the exception of Quebec, every senior legislature has a standing committee on public accounts.[15] Chaired by a member of the opposition, these committees have responsibility for scrutinizing governmental effectiveness and efficiency, ensuring that the public accounts are timely and accurate, and taking up concerns raised by the relevant auditor general.

Like the committees dealing with estimates, the public accounts committees typically will not generate the highest profile for their members. But that profile will largely reflect the degree to

14 Former federal auditor general Michael Ferguson (2017) elaborated on this point with reference to the federal government: 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.

15 In the Quebec National Assembly, the Committee on Public Administration performs many functions of the public accounts committees in other jurisdictions, including an annual hearing with the provincial auditor general, but its role with respect to the public accounts is less comprehensive. Quebec's auditor general has observed that an annual review of public accounts by a parliamentary committee would promote better oversight of the government's performance (Quebec 2020, chap.10).

which members use their powers. The attention garnered by reports of legislative auditors – and by this annual C.D. Howe Institute report card – shows that people who insist on transparency and accountability for public funds can make a difference.

Legislative scrutiny can help ensure that below-the-line adjustments are rarer, and used more appropriately, than they otherwise might be. PSAS mandates them for gains and losses of Crown corporations that would not be appropriately shown in the statement of operations, but that does not mean legislators and taxpayers should ignore them, or accept them as inevitable. If a Crown corporation is hurting a government's ability to deliver services, perhaps the government should reform it or dispose of it.

Canada's Senior Governments Can and Must Do Better

Governments play a massive role in the Canadian economy and in the lives of Canadians. The chains of accountability that link citizens' wishes, through their elected representatives, with the officials who tax, regulate and serve them are long and complicated, and transparency and accountability in fiscal policy are essential.

Canada's senior governments have generally improved their reporting of their financial intentions, transactions and positions. Yet gaps remain and backsliding is a constant danger. An intelligent and motivated, but non-expert, citizen seeking to understand a government's current situation and plans should be able, quickly and confidently, to find the key figures in budgets, estimates and public accounts. That concerned citizen should be readily able to see what that government plans to do before the year starts and compare that with what it did shortly after the year has ended. Many governments do not make this possible.

As this report card shows, however, improvements are within easy reach. The grades of the top performers reflect consolidated financial statements consistent with PSAS, and budgets, estimates and interim reports prepared on the same basis. All governments can do that. They also reflect presentations that make the key numbers readily accessible early in the relevant documents. All governments can do that. And they reflect timely presentations: budgets presented before the fiscal year starts and public accounts tabled shortly after fiscal year-end. All governments can do that.

There is no mystery to the challenge. If Canadians insisted on better financial reporting from their governments, they could get it.

Appendix:

Table A1: Budget and Public Accounts Documents Referenced

Government	Budget Document Used	Accessible at
Federal	Not Applicable	Not Applicable
Newfoundland and Labrador	Budget 2020/21 - Statements and Schedules	https://www.gov.nl.ca/budget/2020/budget-speech/
Prince Edward Island	2020-21 Budget Estimates of Revenue and Expenditures	https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf
Nova Scotia	Budget 2020-21	https://beta.novascotia.ca/sites/default/files/documents/6-2046/ftb-bfi-041-en-budget-2020-2021.pdf
New Brunswick	2020-21 Budget Speech	https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2020-2021/BudgetSpeech2020-2021.pdf
Quebec	The Québec Budget Plan – 2020-2021	http://www.budget.finances.gouv.qc.ca/budget/2020-2021/en/documents/BudgetPlan_2021.pdf
Ontario	2020 Ontario Budget	https://budget.ontario.ca/2020/pdf/2020-ontario-budget-en.pdf
Manitoba	Budget 2020-Budget and Budget Papers	https://www.gov.mb.ca/asset_library/en/budget2020/budget.pdf
Saskatchewan	2020-21 Saskatchewan Provincial Budget	https://publications.saskatchewan.ca/#/products/106274
Alberta	Fiscal Plan - A Plan for Jobs and the Economy	https://open.alberta.ca/dataset/05bd4008-c8e3-4c84-949e-cc18170bc7f7/resource/79caa22e-e417-44bd-8cac-64d7bb045509/download/budget-2020-fiscal-plan-2020-23.pdf
British Columbia	Budget 2020	https://www.bcbudget.gov.bc.ca/2020/pdf/2020_budget_and_fiscal_plan.pdf
Northwest Territories	2020-2021 Budget Address and Papers	https://www.fin.gov.nt.ca/sites/fin/files/resources/2020-2021_budget_address_and_papers_final.pdf
Yukon	2020-21 Operation and Maintenance and Capital Estimates	https://yukon.ca/sites/yukon.ca/files/fin-2020-21-budget_en.pdf
Nunavut	2020-21 Consolidated budget of the Government Reporting Entity	https://gov.nu.ca/sites/default/files/2020-21_consolidated_budget_final.pdf

Table A1: Continued

Government	Public Account Used	Accessible at
Federal	2020 Public Accounts	https://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2020/pdf/2020-vol1-eng.pdf
Newfoundland and Labrador	2020 Public Accounts	https://www.gov.nl.ca/exec/tbs/files/Public-Accounts-2019-20.pdf
Prince Edward Island	2020 Public Accounts	https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2019-2020.pdf
Nova Scotia	2020 Public Accounts	https://notices.novascotia.ca/files/public-accounts/2020/2020public-accounts-volume-1.pdf
New Brunswick	2020 Public Accounts	https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA2020v1.pdf
Quebec	2020 Public Accounts	http://www.finances.gouv.qc.ca/documents/Comptespublics/en/CPTEN_vol1-2019-2020.pdf
Ontario	2020 Public Accounts	https://files.ontario.ca/tbs-2019-20-annual-report-and-consolidated-financial-statements-en.pdf
Manitoba	2020 Public Accounts	https://www.gov.mb.ca/asset_library/en/finances/public-accounts.pdf
Saskatchewan	2020 Public Accounts	https://publications.saskatchewan.ca/#/categories/893
Alberta	2020 Public Accounts	https://open.alberta.ca/dataset/7714457c-7527-443a-a7db-dd8c1c8ead86/resource/23901819-222f-4be4-87bf-8c22d18eb62d/download/2019-20-goa-annual-report.pdf
British Columbia	2020 Public Accounts	https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/public-accounts/2019-20/public-accounts-2019-20.pdf
Northwest Territories	2020 Public Accounts	https://www.fin.gov.nt.ca/sites/fin/files/resources/section_i.pdf
Yukon	2020 Public Accounts	https://yukon.ca/sites/yukon.ca/files/fin/fin-2019-20-public-accounts_en_0.pdf
Nunavut	2020 Public Accounts	https://gov.nu.ca/sites/default/files/2020_public_accounts_-_english_web_version.pdf

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