

Intelligence MEMOS



From: William B.P. Robson and Farah Omran
To: Canada's finance ministers
Date: June 19, 2019
Re: **FISCAL ACCOUNTABILITY: THE PATH FORWARD**

In our new C.D. Howe Institute [Commentary](#), we rated the fiscal accountability of Canada's senior governments.

To summarize, on the positive side, many 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 obscure and/or misleading presentation of key numbers.

Here are a number of improvements included in our annual fiscal report that would foster better fiscal accountability by Canada's senior governments.

Public Accounts Should Reflect Public Sector Accounting Standards

All senior governments should publish financial statements that are consistent with public sector accounting standards. All other documents, including budgets, in-year updates on the evolving situation and reconciliation tables explaining differences between projections and outcomes, should do the same.

Budgets Should Match Financial Statements

Governments should not confuse users of their financial documents 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. Budgets should present consolidated revenues and expenses, and the anticipated surplus or deficit, on the same basis as those numbers appear in financial statements.

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. There is no reason why governments should not table their budgets before the end of February.

Estimates Should Be Timely and Reconcile with Budgets

Legislators' approval of estimates is a link in the chain of fiscal accountability that, in most jurisdictions, is weaker than it should be. Governments that present estimates inconsistent with their budgets and/or their financial statements create a huge information gap for legislators. Presenting consolidated expenses on the same accounting basis as the budget, with clear reconciliation of any aggregation differences between the estimates and the budget, would mitigate this problem.

An additional problem is that legislators often get, and vote on, the estimates after the financial horses have already started leaving the barn.

Key Numbers Should Be Accessible and Recognizable

Relevant and accurate numbers are less useful if potential users cannot find them or recognize them when they do find them. Clearly labelled numbers in the opening pages of a document are far better than obscure ones hundreds of pages deep, or in an annex.

In this connection, we urge governments to cut extraneous information and clutter from their budgets. The federal government's budgets are particularly bad, with page after page of repetition, political messaging, and extensive commentary on matters far removed from fiscal policy. Readers of its 2018/19 budget had to flip more than 300 pages into an annex to find the consolidated revenues, expenses and bottom-line projections.

Year-End Results Should Be Timely

Finally, we underline the importance of the quick publication of results. Every organization needs timely operational and financial information to set and adjust its course.

An additional benefit of the quick production of financial statements is that it would encourage faster gathering and compilation of the necessary data, which should improve the quality of the numbers in the budget plan for the year under way and, by extension, for the baseline fiscal position in the future.

William B.P. Robson is President and CEO of the C.D. Howe Institute where Farah Omran is a junior policy analyst.

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