

Intelligence MEMOS



From: William B.P. Robson and Farah Omran
To: Canada's finance ministers
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Re: **FISCAL ACCOUNTABILITY: WHY IT MATTERS**

We all know what it is like to stare at a mystifying financial presentation, wondering if we are dense, or if someone is trying to put something over on us. When the presentation is from our federal government, or the province we live in – governments that can tax us, deliver essential services, and often run up big debts we have to service – mysterious finances are not just a frustration, they are an outrage.

What does a financial presentation, whether for a household, business, a non-profit corporation or government, need to be useful?

It must be relevant to the decisions people are making. It must be reliably accurate and complete. And it must communicate the information in a manner that lets users recognize and make sense of the key numbers.

Governments are not businesses which an investor can buy into, or not. Nor are they like charities which donors can choose to support, or not. Everyone is involved, so it is critical that a motivated and numerate but non-expert reader should be able, unaided and in a reasonable amount of time, to identify the key numbers in a government's principal financial documents and compare results with intentions. Our new C.D. Howe Institute [paper](#) ranks the performance of Canada's senior governments against this seemingly modest goal.

Our focus on these attributes complements some other measures of fiscal transparency, including the Organisation for Economic Co-operation and Development's *Best Practices for Budget Transparency* and the Open Budget Survey from the International Budget Partnership.

Two principal documents come at opposite ends of the annual fiscal cycle – which, for Canada's senior governments, runs from April 1 to March 31. As they should, governments typically table budgets before the beginning of the fiscal year. The financial statements in the public accounts, which show the audited results for actual revenues and expenses, appear after the end of the fiscal year – typically in the summer or early fall.

The budget is the core statement of a government's fiscal priorities, and typically gets extensive debate, wide media coverage and attention from the interested public. As part of the budget, the government should table a consolidated statement of all planned revenues and expenses, with the difference between the two – the expected surplus or deficit – representing the change in the government's net worth, its accumulated surplus or (more usually) deficit, anticipated over the course of the year. The figures in its fiscal plan should be on the same accounting basis, consistently consolidating and aggregating across entities and functions, that the government uses in its financial statements.

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 financial position at the beginning and end of the year. The financial statements, too, should present a consolidated annual statement of all revenues and expenses, with the difference between them equaling the change in the government's net worth – which represents its capacity to provide services at the date of measurement – over the year.

Comparing consolidated revenues and expenses in a government's budget and financial statements should be straightforward. If it is, the reader will be able easily 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 in revenues and expenses are implied in this year's budget relative to last year's results. If the comparison is not straightforward, answering such basic questions is hard – even for a smart and motivated but non-expert reader.

Most recently, New Brunswick has been the standout among the senior governments for financial presentations that are clear, reliable, and timely. Our 2019 report gives New Brunswick a grade of A+. Grades for the federal government, other provinces and the territories ranged from A through F. The laggards need to improve. Fiscal accountability is too important to lose in a fog of bad numbers.

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