Report of the Study Committee on Government Accounting

Québec ##

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Dear Sir,

The members of the Study Committee on Government Accounting are pleased to submit the results of their analysis as well as their recommendations for changes to the government's accounting policies and the presentation of its financial statements.

The last major reform of the accounting policies occurred in 1986 and 1987 and forms the basis for how the government currently presents its financial statements.

Since 1986, the Public Sector Accounting and Auditing Board (PSAAB) has published a series of new recommendations dealing with, among other things:

- what should be included in a government reporting entity and how the results of the various units included therein should be accounted for:
- the accounting method and form of presentation for:
 - governments' commitments regarding the retirement plans of their employees;
 - tangible capital assets.

For many years, the Auditor General has asked that the government's accounting policies be substantially reformed to comply with the accounting standards recommended by the PSAAB, in particular regarding retirement plans and consolidated financial statements.

The PSAAB recommendations are based on a consistent set of accounting principles and standards for the presentation of financial statements. While governments are under no obligation to comply with them fully, they draw on them for their accounting policies so as to present financial statements which reflect the financial position as fairly as possible. In addition, auditor generals rely on these standards to assess government accounting policies.

The changes concerning the new PSAAB recommendations since 1986 and the requests for changes from the Auditor General are substantial and called for an indepth revision of the government's accounting policies. Accordingly, a study committee consisting of representatives of the ministère des Finances, the Comptroller of Finance and the Auditor General was mandated to review the accounting treatment of the retirement plans and redefine the reporting entity within which consolidated financial statements could be produced in compliance with the PSAAB recommendations.

Drawing on the PSAAB recommendations and practices in effect in the other provinces, the Study Committee carried out a thorough revision of the government's accounting policies to ensure they comply with current standards and practices. This examination prompted the Study Committee to recommend changing the government's accounting policies regarding:

- the retirement plans;
- tangible capital assets;
- public sector restructuring measures;
- borrowings; and
- the presentation of consolidated financial statements.

The study group also looked into the presentation of the financial statements. It proposes a model for the Consolidated Statement of Operating Results including an annual depreciation charge for the cost of tangible capital assets. Accordingly, only the depreciation is charged to expenses, not the total cost of tangible capital assets.

This new accounting treatment of tangible capital assets, if adopted, would facilitate the allocation of resources between the acquisition cost of tangible capital assets and other expenses. Assessing the utilization costs of tangible capital assets on the same basis as other expenses would focus the decision to invest in these assets on the medium and long-term benefits, as is the case in the private sector.

In addition, since the government's objective, once the budget deficit is eliminated in 1999-2000, is to keep public finances balanced thereafter, this accounting method would mean the related debt could be reduced each year by an amount equivalent to the annual depreciation.

By acting on the Study Committee's recommendations, the government would carry out a major reform of its accounting policies in terms of the nature of the changes, the size of the amounts involved, the number of organizations concerned, and the administrative, legal and financial impact of such a decision. For instance, the government would have to review the presentation of its budget documents and adapt its management procedures. Furthermore, various pieces of legislation would also have to be reviewed, particularly concerning the operating details of certain government organizations.

This reform would place the Québec government among the most advanced governments in Canada as far as the application of specific accounting policies for the public sector is concerned.

Implementation of this reform would be demanding for the government and would lead to major changes in its ways of doing things. Nonetheless, this new accounting framework would enable the government to manage public finances more consistently and effectively.

Yours truly,

The members of the Study Committee,

André Fiset, FCA Comptroller of Finance

Jacques Henrichon, CA, Assistant Auditor General Auditor General of Québec

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The Study Committee expresses its thank Comptroller of Finance, the Auditor General contributed to this report.	, , ,
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March 25, 1998

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Table of contents

1.	The	Québec	government's accounting reforms	1
	1.1	The 19	970 reform: the concept of the net debt	1
	1.2	The 19	977 reform: the retirement plans	1
	1.3	The 19	986 reform: the consolidation of commercial enterprises	2
2.	Char	nges in p	oublic sector accounting standards and their application	2
3.	Mano	date of t	he Study Committee	3
4.	Issue	es studie	ed and recommendations	4
	4.1	Repor	ting entity	4
		4.1.1	Current government reporting entity	4
		4.1.2	Recommendations of the PSAAB	4
		4.1.3	Recommendations of the Auditor General	4
		4.1.4	What do other governments in Canada do?	5
		4.1.5	Definition of the new consolidated reporting entity	5
		4.1.6	Recommendations of the Study Committee	5
	4.2	Accou	Inting treatment and presentation of tangible capital assets	6
		4.2.1	Current situation in the Québec government	6
		4.2.2	Recommendations of the PSAAB	6
		4.2.3	Specific model for the presentation of tangible capital assets	_
		4.2.4	for the Québec government Recommendation of the Study Committee	
		4.2.4	Recommendation of the Study Committee	0
	4.3		inting treatment of the unrecorded liability of the retirement plans	
			Current situation in the Québec government	
		4.3.2	Recommendations of the PSAAB	
		4.3.3	What do other governments in Canada do?	
		4.3.4	Impact analysis	
		4.3.5	Recommendation of the Study Committee	9
	4.4	Interes	st rate applicable to the retirement plans account	
		4.4.1	Situation in 1997-1998	
		4.4.2	Recommendations of the PSAAB	10
		4.4.3	What do other governments in Canada do?	10
		4.4.4	Recommendations of the Study Committee	10

	4.5	Loans repaid by subsequent budget appropriations	
		4.5.1 Current situation in the Québec government	
		4.5.3 What do other governments in Canada do?	
		4.5.4 Possible solutions.	
		4.5.5 Recommendation of the Study Committee	12
	4.6	Retirement incentive measures and the costs of	
		structural reorganizations	
		4.6.1 Current situation in the Québec government	
		4.6.2 Recommendations of the PSAAB	
		4.6.3 Recommendation of the Study Committee	12
	4.7	Accounting treatment of borrowings	13
		4.7.1 Current situation in the Québec government	13
		4.7.2 Recommendation of the Study Committee	
	4.8	Budget process	13
		4.8.1 Current situation in the Québec government	13
		4.8.2 Recommendations of the PSAAB	
		4.8.3 What do other governments in Canada do?	
		4.8.4 Recommendation of the Study Committee	
	4.9	Inclusion of revenue and expense forecasts	
		in the financial statements	14
		4.9.1 Current situation in the Québec government	
		4.9.2 Recommendations of the PSAAB	
		4.9.3 Recommendation of the Study Committee	
5.	Imple	ementation of the government accounting reform	14
	5.1	Significant amount charged to the net debt	14
	5.2	Comparative consolidated financial statements with respect to fiscal year 1996-1997	15
		liscal year 1990-1997	10
	5.3	Specific liability item for the SQAE	15
	5.4	Recommendation of the Study Committee	15
6.	Sumi	mary of the recommendations of the Study Committee	
		e Québec government	16

APPENDIX 1

Classification for the Purposes of the Consolidated Financial Statements of Departments and Organizations, Special Funds, Agencies and Enterprises of the Government

APPENDIX 2

Model Consolidated Financial Statements

1. The Québec government's accounting reforms

1.1 The 1970 reform: the concept of the net debt

One of the government's most significant accounting reforms over the last thirty years occurred early in the 1970s. Prior to this reform, almost all the government's tangible capital assets were capitalized in a separate asset item in the government's balance sheet, with a depreciation expense charged to the "Statement of Ordinary Revenue and Expense".

In 1970-1971, with the adoption of the *Financial Administration Act*, the accounting policies were changed and the concept of the "net debt" was introduced. A separate "capital assets" item was no longer shown in the financial statements and the balance was carried to the net debt. As of that date, acquisitions of capital assets were charged to expenditure annually, and there was no depreciation.

The "modified accrual accounting" of the time was also changed in some regards including the remittances made by government agents and mandataries. An adjustment was made for these remittances, which were previously recorded on a cash basis. Since then, all remittances received during the month of April for income taxes collected until March 31 are considered accounts receivable and revenue for the fiscal year ending March 31. This change brought the accounting policies a step closer to accrual accounting.

1.2 The 1977 reform: the retirement plans

The next major accounting change occurred seven years later, in 1977-1978, and concerned the retirement plans. The accounting treatment of these plans, which until then had been on a pay-as-you-go basis, was changed to an accrual basis. In addition, the earlier accounting method made no mention of the substantial debt that had accumulated over the years for the retirement plans and which the government had never recognized or disclosed in its financial statements.

Under this accounting reform, the government for the first time recognized this debt of over \$7.5 billion for retirement plans, some of which date back to the last century. The government then adopted an accounting practice that allowed it to gradually enter this debt in its financial statements, by amortizing it over 50 years, beginning in 1979-1980. This debt was accordingly amortized over a sufficiently long time so that a single generation would not have to bear the heavy burden of a debt that had accumulated over more than 100 years.

Since the implementation of this accounting policy, the Auditor General has recommended that the full amount of this debt be immediately recorded as a government liability.

1.3 The 1986 reform: the consolidation of commercial enterprises

It was another decade before the accounting policies were again changed significantly, with a major reform in 1986-1987 and 1987-1988. The accounting standards set by the Canadian Institute of Chartered Accountants (CICA) for the private sector continued to evolve but, at that time, there were no specific standards for the consolidation of government organizations.

Drawing on the generally accepted accounting principles (GAAP) in the private sector, the government changed its accounting policies and became the first government in Canada to consolidate its commercial enterprises, i.e. its capital stock government corporations.

For example, the inclusion of capital stock government corporations such as Hydro-Québec, the Société générale de financement and others, at modified equity value meant that the operating results of these enterprises, regardless of any dividend paid, were included in the government's budgetary surplus or deficit.

With this major reform and the one adopted in 1977-1978 concerning the retirement plans, the Québec government became one of the most advanced provincial governments as far as the application of specific accounting policies for the public sector was concerned.

Since this significant reform, there have been no substantial changes to the accounting policies, other than to clarify certain accounting methods or procedures.

2. Changes in public sector accounting standards and their application

In the early 1980s, the CICA created a national committee to set accounting standards for the federal and provincial governments to ensure a degree of uniformity in the use of accounting policies and the presentation of financial statements.

This committee, the Public Sector Accounting and Auditing Board (PSAAB), has issued many recommendations in recent years.

Since the last major accounting reform formulated in 1986-1987 and completed in 1987-1988, Canadian accounting standards for the public sector have changed greatly and most other governments increasingly tend to incorporate these new standards into their own accounting policies. It is now appropriate to review the Québec government's accounting policies in light of these new standards.

3. Mandate of the Study Committee

Last December, when the Public Accounts for the fiscal year ended March 31, 1997 were tabled, the ministère des Finances announced the formation of the Study Committee on Government Accounting to propose a reform of its accounting policies. The Committee consists of representatives of the ministère des Finances, of the Comptroller of Finance and of the Auditor General.

In addition to reviewing the accounting treatment of the retirement plans, the Committee was mandated to redefine the Québec government's reporting entity, so that it could produce consolidated financial statements that comply with the CICA's recommendations for the public sector.

Pursuant to this mandate, the Committee's report makes recommendations on the following items:

- redefinition of the reporting entity;
- accounting treatment and presentation of tangible capital assets;
- accounting treatment of the retirement plans;
- loans repaid by subsequent budget appropriations;
- retirement incentive measures and the costs of structural reorganizations;
- accounting treatment of borrowings;
- presentation of consolidated financial statements;
- budgetary process;
- inclusion of revenue and expense forecasts in the financial statements;
- implementation of the accounting reform.

The Committee used the accounting standards sanctioned by the PSAAB as its basis. Some issues which are being discussed or revised in Canada were not accepted by the Committee, particularly the inclusion of organizations in the education and the health and social services systems within the reporting entity.

4. Issues studied and recommendations

4.1 Reporting entity

The reporting entity determines which departments, organizations and enterprises are included in establishing the government's financial statements and in which way. The definition or scope of the reporting entity is specified in the government's accounting policies which are formulated by the ministère des Finances in cooperation with the Comptroller of Finance, and approved by the Conseil du trésor.

4.1.1 Current government reporting entity

According to the government's current accounting policies, the reporting entity is as follows:

The government's financial statements include all the financial transactions of entities whose revenue is credited to the Consolidated Revenue Fund or the Health Services Fund as well as those whose operating funds are provided, as such, by allowances granted by Parliament and drawn from these funds. These entities are government departments and agencies, the National Assembly and the persons it designates, as listed in Appendix 1 (of the government's financial statements).

Moreover, its accounting policies stipulate that:

Investments in the capital stock of government agencies and enterprises are recorded at equity value in accordance with the modified equity method. Accordingly, capital stock investments are recorded at cost and subsequently adjusted each year according to the government's share of the results of these agencies and enterprises, with an offsetting entry to revenue.

The definition of the government's current reporting entity **excludes many government enterprises and agencies**. This is true in particular of the special funds other than the Health Services Fund, and certain government corporations, notably the Société de développement industriel du Québec (SDI), the Corporation d'hébergement du Québec (CHQ) and the Société d'habitation du Québec (SHQ).

4.1.2 Recommendations of the PSAAB

According to the recommendations of the PSAAB: "the government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature... and are owned or controlled by the government."

4.1.3 Recommendations of the Auditor General

For a number of years now, the Auditor General has asked the government to produce consolidated financial statements.

4.1.4 What do other governments in Canada do?

While the PSAAB definition of the reporting entity is not new, few governments complied with it in the early 1990s. However, in recent years, the federal and almost all provincial governments have essentially adopted the PSAAB definition and now produce consolidated financial statements.

4.1.5 Definition of the new consolidated reporting entity

All the government organizations, funds and enterprises listed were examined on the basis of the PSAAB classification criteria considering notably their financial position, the source of their funds and the classification of similar organizations in other provinces. Accordingly, economic units which carry out activities of a fiduciary nature have been excluded from the government's reporting entity (see Table 4 in Appendix 1).

This exercise has also made it possible to decide on the appropriate accounting treatment for consolidating the economic units included in the reporting entity, namely:

- economic units included using the consolidation method, i.e. line by line (see Tables 1 and 2 in Appendix 1);
- economic units included using the modified equity accounting method (see Table 3 in Appendix 1);

In addition to the organizations and funds carrying out activities of a fiduciary nature, Appendix 1 lists all the government's departments, organizations, agencies, special funds and enterprises, which have been classified according to either of the above methods.

For the Société d'habitation du Québec (SHQ) and the Sociétés Innovatech to be classified in the government enterprises category, their financial and legal structure must be changed to make them financially self-sufficient.

4.1.6 Recommendations of the Study Committee

Consequently, it is recommended that the Québec government change its accounting policies so that its consolidated reporting entity encompasses all government organizations, agencies, special funds and enterprises classified as shown in the tables in Appendix 1.

It is also recommended that the Québec government treat the SHQ and the Sociétés Innovatech as government enterprises. Their financial and legal structure will have to be changed to make them financially self-sufficient.

4.2 Accounting treatment and presentation of tangible capital assets

4.2.1 Current situation in the Québec government

Many public organizations which are currently outside the government's reporting entity and which are covered by the consolidated financial statements already depreciate their capital assets. These extra-budgetary organizations depend on the government for their financing and, in a way, the government already subsidizes their depreciation expenses.

The capital expenditures of other departments and organizations included in the existing reporting entity are charged to budgetary expense in the year the assets are acquired.

4.2.2 Recommendations of the PSAAB

In September 1997, the PSAAB issued new recommendations concerning tangible capital assets (Chapter SP 3150), which now allow the federal and provincial governments to depreciate them as the private sector does. This chapter recommends that governments add a "statement of tangible capital assets" to their financial statements and gives governments a choice between two models for presenting their financial statements, namely a presentation focusing on expenditures or one focusing on expenses.

The presentation model focusing on expenditures is similar to the model currently used by the Québec government. Tangible capital assets are fully charged to expenditures in the year of acquisition and no depreciation is shown in the "Statement of Revenue and Expenditure" so that the annual surplus (deficit) includes the total amount of capital expenditures. Governments which use this method must simulate a depreciation charge to present the net accounting value of these capital assets in the Statement of Tangible Capital Assets at the end of their fiscal year.

The presentation model focusing on expenses is very different in terms of presentation. Tangible capital assets are first capitalized and depreciated over their useful life and only the depreciation expense is charged to the "Statement of Operating Results" to obtain the "net operating result". An adjustment relating to capital assets is then made to charge operations with the difference between the cost of new capital assets for the year and the depreciation charge calculated in the preceding stage. The result of this last operation is the annual surplus (deficit), which is exactly the same as that calculated according to the method focusing on expenditures.

The concept of the net debt is thus maintained in both methods. However, the components of the financial statements are very different for presentation purposes.

For governments which use the method focusing on expenses, the PSAAB recommends as follows, in Chapter SP 1500, paragraph .62:

When a government reports expenses in its financial statements and reports tangible capital assets on its statement of financial position, a "net debt represented by..." format should be used for reporting those assets.

The net debt must accordingly be presented as follows:

- Net debt represented by:
 - the net accounting value of tangible capital assets;
 - cumulative operating results.

These are complex models, which is why the Committee has been more explicit regarding the definition of each method in order to more clearly bring out their differences regarding the presentation of government financial statements.

4.2.3 Specific model for the presentation of tangible capital assets for the Québec government

The members of the Study Committee have selected a model for the presentation of consolidated financial statements. This model, while similar to that of British Columbia, is more complete because it explicitly shows the change in the net debt resulting from the net accounting value of tangible capital assets. Appendix 2 provides an illustration of this model.

Briefly, this new accounting and presentation method would enable the Québec government to charge depreciation on its acquisitions of "capital" assets (tangible capital assets) to expenses and record the net accounting value of tangible capital assets in the Consolidated Statement of Change in the Net Debt.

In a way, this is the **presentation model focusing on expenses** proposed by the PSAAB, adapted for the presentation of the adjustment relating to tangible capital assets. This adjustment is shown in the Consolidated Statement of the Change in the Net Debt rather than in the Consolidated Statement of Operating Results.

In the adaptation of this presentation model focusing on expenses, the government's current statement entitled "Revenue and Expenditure" becomes "Consolidated Statement of Operating Results" and the deficit (surplus) shown therein is the excess of expenses over revenue.

To complete the presentation of the financial statements, a new statement will be added, namely the "Consolidated Statement of the Change in the Net Debt", to satisfy the PSAAB requirement to show the annual change in the net debt.

4.2.4 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government adopt the presentation model focusing on expenses illustrated in Appendix 2 for the government's tangible capital assets in its financial statements.

4.3 Accounting treatment of the unrecorded liability of the retirement plans

4.3.1 Current situation in the Québec government

In accordance with its accounting policies on the retirement plans, the government records only a portion of its commitments to the retirement plans other than RREGOP (regular service) and provides estimates of its actuarial liabilities in a note.

In addition, in accordance with these same accounting policies, the government amortizes the cost of changes made to the retirement plans over a period corresponding to the estimated average remaining active career of members in RREGOP as of the fiscal year beginning in the calendar year in which the changes become effective.

4.3.2 Recommendations of the PSAAB

The PSAAB issued recommendations on the accounting treatment of commitments arising from government retirement plans in November 1988. These recommendations specify that: "The Statement of Financial Position and the Statement of Revenues and Expenditures or the statement of operations should account for the pension-related expenditures on the basis of the value of the pension benefits attributed to employee service to the accounting date."

Similarly, the recommendations of the PSAAB stipulate as follows for the changes made to retirement plans: "The cost of plan amendments related to prior period employee services should be accounted for in the period of the plan amendment."

4.3.3 What do other governments in Canada do?

Almost all other governments in Canada have changed their accounting policies to comply with the new PSAAB recommendations.

4.3.4 Impact analysis

The Study Committee has analyzed the financial and budgetary impacts of immediately entering the unrecorded liability of the retirement plans.

Including an additional liability of more than \$1 billion since January 1, 1997 pursuant to a legislative amendment made to RREGOP in December 1996 concerning the non-unionizable portion and an actuarial surplus for RREGOP (experience differences and actuarial surpluses) of \$3.9 billion, the total net increase in the retirement plans account liability amounts to some \$13.5 billion as at April 1, 1997.

The government had already included this amount in its financial statements, but not in its balance sheet because it was being amortized. Entering the total amount of the unrecorded liability for the retirement plans in one year has a major impact on the government's total debt. However, the government's financial situation is no different and has not deteriorated. All this information was already known and disclosed in a note to the financial statements.

4.3.5 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government enter the total unrecorded actuarial liability of the retirement plans and change its accounting policy so that the cost of changes be recorded in the year in which they occur.

4.4 Interest rate applicable to the retirement plans account

4.4.1 Situation in 1997-1998

In its annual expenses relating to the retirement plans, the government charges interest expenses to its debt service. The rate used is currently based on an annual estimate of the yield of the RREGOP fund for unionizable employees, deposited with the Caisse de dépôt et placement du Québec (CDPQ).

As a result of the last changes in 1996-1997 to the structure of the various CDPQ funds, this estimation method is no longer appropriate.

To replace this rate and ensure consistency with the valuation of the actuarial liabilities of the retirement plans, the ministère des Finances proposes using the same rate of interest as for the valuation of the actuarial liabilities of the retirement plans for accounting purposes, as of 1997-1998.

Moreover, the differences attributable to the different yields obtained on the employees' fund during the three-year period and the yield forecast at the time of the last actuarial valuation, which can be determined at the end of each three-year period, will be amortized over 16 years, as stipulated in the existing accounting policy regarding experience differences.

Consistency with the Retirement Plans Sinking Fund

The Financial Administration Act was amended in 1993-1994 to enable the Minister of Finance to make long-term investments with the CDPQ to build up a retirement plans sinking fund (RPSF). The amounts accumulated in this fund are earmarked to pay benefits to future pensioners.

In determining the government's net liabilities regarding the retirement plans, the value of the RPSF is deducted from the retirement plans account.

To maintain consistency between the RPSF and the retirement plans account and the stability of their growth, the yield rate imputed to the fund will also be the rate used for the actuarial valuation, as of 1997-1998. The actuarial surpluses or deficits, attributable to differences

between the return obtained by the sinking fund and the forecast return, will be amortized over the same period as that used for the government retirement plans account.

Accordingly, the amortization of differences in return of the RPSF will vary inversely with the amortization of differences in the rate applicable to the retirement plans account.

When the RPSF eventually equals the balance of the retirement plans account, the two amortizations will almost completely offset each other so that the process will maintain stability in the growth of these aggregates.

As part of the accounting reform, the ministère des Finances will review, at the next three-year actuarial valuation scheduled for 1998, many of the parameters basic to the determination of the actuarial liability and the interest expenses linked to the retirement plans. In particular, it will examine:

- the most appropriate method for determining the interest rate to use in valuing its actuarial liability and charging annual interest expenses;
- the most appropriate amortization methods for the treatment of actuarial surpluses and unfunded actuarial liabilities;
- the balance on which the interest rate will be applied for purposes of calculating the annual interest expenses of the retirement plans;
- the appropriateness of using, as is currently the case, the same rate of interest for all the plans, regardless of the nature of the financial commitments it may have regarding them.

4.4.2 Recommendations of the PSAAB

This situation is specific to the Québec government and the PSAAB makes no specific recommendation in this regard.

4.4.3 What do other governments in Canada do?

This situation is specific to the Québec government and is a matter of internal regulation.

4.4.4 Recommendations of the Study Committee

Consequently, it is recommended that, for the purposes of calculating the interest on the retirement plans account, the ministère des Finances use the rate it determines for the purposes of calculating the government's actuarial liabilities regarding the retirement plans, such rate being the one used for accounting purposes.

It is further recommended that the Québec government review, at the next three-year actuarial valuation in 1998, the basic parameters for the determination of the actuarial liability and interest expense relating to the retirement plans.

4.5 Loans repaid by subsequent budget appropriations

4.5.1 Current situation in the Québec government

The Financing Fund (FF) and the Corporation d'hébergement du Québec (CHQ) act as financial intermediaries between the establishments of the education and the health and social services systems and the government, to finance their many investment programs. These organizations borrow funds and then make loans to the establishments, to be repaid by subsequent budget appropriations.

These organizations obtain a significant portion of their financing from the FF. Should the FF be consolidated in the government's financial statements, the loans made by the FF (the government) would be paid off by grants made by the same entity, i.e. the government.

4.5.2 Recommendations of the PSAAB

In June 1995, the PSAAB issued new recommendations concerning loans made by the government to organizations to be repaid by subsequent budget appropriations.

The PSAAB makes the following recommendation when a loan is granted to an organization outside the reporting entity and which must be repaid with subsequent budget appropriations (promised grants):

The amount of a loan that is expected to be recovered from future appropriations should be accounted for as an expenditure in the period when a direct relationship can be established between the repayment of the loan and a government's funding to the borrower.

4.5.3 What do other governments in Canada do?

In general, other governments comply with this standard even though it is relatively new.

4.5.4 Possible solutions

Two possible solutions are available to the government, namely, terminate the current operations of the FF or change its legal status.

If the FF were a government corporation of a commercial nature which financed itself directly on the capital markets (with the government's guarantee) in order to make loans to establishments, the government could then continue to subsidize the establishments of the two systems without being required to charge its commitments to budgetary expense. These commitments would continue to be disclosed in a note to the government's financial statements as is the case currently.

For this purpose, the government must change the administrative and legal structure of the FF and the Corporation d'hébergement du Québec (CHQ) so that they are treated as commercial enterprises. Should the government make its intentions clear by tabling a bill to this effect in the fall, these organizations could be treated in the same way as the other enterprises, and

operations carried out as of April 1, 1997 would be deemed to be carried out on the basis of a commercial enterprise and recorded at equity value.

4.5.5 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government change the administrative and legal structures of the FF and the CHQ to make their accounting treatment the same as the government's other commercial enterprises.

4.6 Retirement incentive measures and the costs of structural reorganizations

4.6.1 Current situation in the Québec government

The government set up retirement incentive measures that enabled it to reduce its payroll and, subsequently, create jobs for young people to maintain services.

These measures include the retirement incentive program which improved the conditions of the retirement plans for government employees.

Accordingly, severance premiums were paid to employees as an incentive to offset the loss of benefits at retirement. Furthermore, structural reorganizations were carried out to provide services that better meet public needs and generate efficiency and cost savings.

One of the major structural changes affects the health and social services system, and notably involves changing the purpose of many establishments. To minimize the costs of job security and stability, the government developed retirement incentive programs. This measure is directly related to the reorganization of the system. Currently, the cost of these programs is amortized over a number of years.

4.6.2 Recommendations of the PSAAB

According to generally accepted accounting principles for the public sector, these expenses should normally be charged entirely to budgetary operations. No provision is made for amortization in these principles.

4.6.3 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government change its accounting practice regarding the accounting treatment of retirement incentive measures and structural reorganizations so that the costs of these measures are charged in the fiscal year in which they are carried out.

4.7 Accounting treatment of borrowings

4.7.1 Current situation in the Québec government

The increased use of new financial instruments and the proliferation of various ways of carrying out a given transaction demand that the accounting policy regarding borrowings be adapted to this new reality.

The objective of the changes to the accounting treatment of borrowings is to develop a general frame of reference to foster consistent accounting treatment. Accordingly, the aim is to better reflect the economic substance of the financial instruments used and consequently, to reflect more faithfully the management of the debt and its associated risks.

The key changes compared with the accounting methods used since 1986 are as follows:

- recording of all borrowings at realization value, compared with the current practice which is to record them at par value;
- amortization of deferred issuing costs and unrealized exchange gains and losses, calculated separately for each borrowing, rather than as an overall amount, as is currently the case:
- adoption of an accounting method for derivatives of the same nature and consistent with the one adopted for borrowings.

4.7.2 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government apply the new accounting methods concerning borrowings.

4.8 Budget process

4.8.1 Current situation in the Québec government

Québec Budget Speeches have always had the financial statements of the Consolidated Revenue Fund as their basis or element of accountability. However, since the Committee is recommending that the government present consolidated financial statements, this implies a review of the current presentation of its budget documents. For if the budget documents were to continue to be presented on the basis of the Consolidated Revenue Fund, and the public accounts on the basis of consolidated financial statements, this would lead to two different deficit results. This could bring about confusion on the information provided on the change in the government's budgetary situation.

4.8.2 Recommendations of the PSAAB

The PSAAB has no specific recommendation in this regard.

4.8.3 What do other governments in Canada do?

All other provincial governments publish consolidated financial statements but only the governments of Ontario and Alberta base their budget on their consolidated financial statements. The other governments also publish consolidated financial statements, but only in the Public Accounts. They base their Budget Speech on the general fund, i.e. a fund similar to Québec's Consolidated Revenue Fund.

4.8.4 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government present consolidated financial statements according to the model in Appendix 2 and base the budget documents on these consolidated financial statements.

4.9 Inclusion of revenue and expense forecasts in the financial statements

4.9.1 Current situation in the Québec government

The government's financial statements do not include a comparison between forecast revenue and expense and the actual results. It was considered unnecessary to supply this information since this comparison is made in other government publications which provide appropriate explanations of the differences.

4.9.2 Recommendations of the PSAAB

For some years now, the PSAAB has recommended that the federal and provincial governments include in their statements of revenue and expense a comparison of actual revenue and expense with what was forecast in the Budget Speech.

4.9.3 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government present, in the Consolidated Statement of Operating Results, its initial budget figures and the actual results.

5. Implementation of the government accounting reform

5.1 Significant amount charged to the net debt

The accounting reform recommended herein implies major change to the government's accounting policies and to the presentation of its financial statements, notably concerning the retirement plans, capital assets and the accounting treatment of borrowings.

Other governments have already undertaken a similar reform, such as Ontario which, when it reformed its accounting policies, made major corrections to the net debt, though without changing the deficits of previous years.

The Committee is of the view that the new accounting policies must be applied retroactively, though without adjusting the figures of previous fiscal years. Accordingly, it is appropriate to use the same accounting treatment as Ontario.

5.2 Comparative consolidated financial statements with respect to fiscal year 1996-1997

For the first year of presentation of consolidated financial statements, i.e. 1997-1998, the Committee has stipulated that they be presented in comparison with the 1996-1997 financial statements according to the unchanged accounting policies for that year. A specific note to the 1997-1998 consolidated financial statements will advise the reader that the 1996-1997 financial statements are not presented on the same basis and accordingly are not comparable.

5.3 Specific liability item for the SQAE

The inclusion of the many government organizations in the consolidated financial statements has a major impact on the government's liabilities. The Committee favours special accounting treatment for the SQAE. It was agreed that the long-term debt of the SQAE would be shown as a separate liability item in the Consolidated Statement of the Government's Financial Position, since its borrowings were carried out for the benefit of the municipalities.

5.4 Recommendation of the Study Committee

Consequently, it is recommended that the Québec government accept the implementation details of the government accounting reform put forward by the Committee.

6. Summary of the recommendations of the Study Committee to the Québec government

It is recommended that, as of fiscal year 1997-1998:

6.1 The government change its accounting policies so that its consolidated reporting entity encompass all the government's organizations, agencies, special funds and enterprises according to the classification set out in the tables in Appendix 1.

The government treat the Société d'habitation du Québec and the Sociétés Innovatech as government enterprises. Their financial and legal structure will have to be changed to make them financially self-sufficient.

- 6.2 The government adopt the presentation model focusing on expenses as illustrated in Appendix 2 for tangible capital assets in its financial statements.
- **6.3** The government enter the total unrecorded actuarial liability of the retirement plans and change its accounting policy so that the cost of changes be recorded in the period in which they occur.
- **6.4** For the purposes of calculating the interest on the retirement plans account, the ministère des Finances use the rate it determines for the purposes of calculating the government's actuarial liabilities regarding the retirement plans, such rate being the one used for accounting purposes.

For the next three-year actuarial valuation in 1998, the government review the basic parameters for the determination of the actuarial liability and the interest expense relating to the retirement plans.

- 6.5 The government change the administrative and legal structures of the Financing Fund and the Corporation d'hébergement du Québec to make their accounting treatment the same as the government's other commercial enterprises.
- 6.6 The government change its accounting practice regarding the accounting treatment of retirement incentive measures and structural reorganizations so that the costs of these measures are charged in the fiscal year in which they are carried out.
- **6.7** The government apply the new accounting methods concerning borrowings.
- 6.8 The government present consolidated financial statements according to the model in Appendix 2 and base the budget documents on these consolidated financial statements.
- **6.9** The government present, in the Consolidated Statement of Operating Results, its initial budget figures and the actual results.
- **6.10** The government accept the implementation details of the government accounting reform put forward by the Committee.

APPENDIX 1

Classification for the Purposes of the Consolidated Financial Statements of Departments and Organizations, Special Funds, Agencies and Enterprises of the Government

GOVERNMENT DEPARTMENTS AND ORGANIZATIONS WHOSE FINANCIAL TRANSACTIONS ARE CARRIED OUT FROM THE CONSOLIDATED REVENUE FUND AND INCLUDED IN THE GOVERNMENT'S REPORTING ENTITY

Affaires municipales

Bureau de révision de l'évaluation foncière du Québec Commission municipale du Québec

Régie de la sécurité dans les sports du Québec

Régie du logement

Agriculture, Pêcheries et Alimentation

Commission de protection du territoire agricole

du Québec

Régie des assurances agricoles du Québec

Régie des marchés agricoles et alimentaires du Québec*

Société de financement agricole

- Financement agricole

Tribunal d'appel en matière de protection du

territoire agricole

National Assembly and designated persons

Directeur général des élections - Commission

de la représentation

Public Protector Auditor General

Conseil du trésor, Administration et Fonction

publique

Commission de la fonction publique

Conseil exécutif

Culture et Communications

Commission de toponymie

Commission des biens culturels du Québec

Conseil de la langue française Office de la langue française Régie des télécommunications

Régie du cinéma

Développement des régions et Affaires autochtones

Education

Commission consultative de l'enseignement privé Commission d'évaluation de l'enseignement collégial

Conseil supérieur de l'éducation

Emploi, Solidarité et Condition féminine

Conseil du statut de la femme

Environnement et Faune

Bureau d'audiences publiques sur l'environnement

Famille et Enfance

Conseil de la famille

Office des services de garde à l'enfance

Finances

Inspector General of Financial Institutions

Industrie, Commerce, Science et Technologie Conseil de la science et de la technologie

Société de développement industriel du Québec

Justice

Tribunal des droits de la personne

Métropole

Relations avec les citoyens et de l'Immigration

Bureau de révision en immigration Commission d'accès à l'information

Commission des droits de la personne et des

droits de la jeunesse

Conseil des aînés

Conseil des Communautés culturelles et de l'Immigration

Office de la protection du consommateur

Relations internationales

Ressources naturelles

Société de financement agricole

- Financement forestier

Revenu

Santé et Services sociaux

Conseil de la santé et du bien-être

Conseil médical du Québec

Office des personnes handicapées du Québec

Sécurité publique

Comité de déontologie policière

Commission québécoise des libérations

conditionnelles

Régie des alcools, des courses et des jeux

Tourisme

Transports

Commission des transports du Québec

Travail

Conseil consultatif du travail et de la main-

d'œuvre

Conseil des services essentiels

Régie du bâtiment du Québec

^{*} This organization also carries out operations of a fiduciary nature excluded from the government's reporting entity.

ORGANIZATIONS AND SPECIAL FUNDS WITH THEIR OWN ACCOUNTING UNIT INCLUDED IN THE GOVERNMENT'S REPORTING ENTITY

ORGANIZATIONS AND FUNDS

Agence de l'efficacité énergétique Agence métropolitaine de transport Bibliothèque nationale du Québec Commission d'appel en matière de lésions

professionnelles Commission de la capitale nationale du Québec Commission de reconnaissance des associations

d'artistes

Commission des affaires sociales Commission des normes du travail Commission des services juridiques

Commission des valeurs mobilières du Québec

Conseil des arts et des lettres du Québec Conseil des assurances de dommages Conseil des assurances de personnes Corporation d'urgences-santé de la région

de Montréal métropolitain
Fondation de la faune du Québec
Fonds d'aide aux recours collectifs
Fonds d'assurance-prêts agricoles et
forestiers

Fonds de la recherche en santé du Québec Fonds pour la formation de chercheurs et

l'aide à la recherche Institut de police du Québec

Institut de recherche et d'information sur

la rémunération

Institut de tourisme et d'hôtellerie du Québec Musée d'art contemporain de Montréal

Musée de la civilisation Musée du Québec

Cree Hunters and Trappers Income Security Board

Office des professions du Québec

Parc technologique du Québec métropolitain Régie de l'assurance-maladie du Québec Régie des assurances agricoles du Québec

Régie de l'énergie

Régie des installations olympiques et le Fonds spécial olympique

Sidbec

Société de développement des entreprises

culturelles

Société de développement industriel du Québec

Société de la Place des Arts de la

Société de la Place des Arts de Montréal Société de télédiffusion du Québec

Société d'investissement Jeunesse Société du Centre des congrès de Québec

Société du Grand Théâtre de Québec Société du Palais des congrès de Montréal

Société du parc industriel et portuaire de Bécancour

Société du parc industriel et portuaire

Québec-Sud

Société immobilière du Québec Société nationale de l'amiante

Société québécoise d'assainissement des eaux Société québécoise de développement de la

main-d'oeuvre

Société québécoise d'information juridique

Société québécoise de récupération et de recyclage

Société des traversiers du Québec

SPECIAL FUNDS

Fonds d'aide à l'action communautaire autonome Fonds d'aide aux victimes d'actes criminels Fonds d'assistance financière pour certaines régions sinistrées

Fonds de l'assurance-médicaments Fonds de conservation et d'amélioration du

réseau routier

Fonds de développement du marché du travail

Fonds de développement international

Fonds spécial de financement des activités locales

Fonds de gestion des départs assistés

Fonds de la formation à distance

Fonds de la gestion des immeubles du Québec à l'étranger

Fonds de la lutte contre la pauvreté par la

réinsertion au travail

Fonds de la réforme du cadastre québécois Fonds de l'industrie des courses de chevaux Fonds de l'information gouvernementale

Fonds de l'état civil Fonds de perception

Fonds des contributions des automobilistes au

transport en commun

Fonds des pensions alimentaires*

Fonds des registres du ministère de la Justice

Fonds des services gouvernementaux

Health Services Fund Fonds des services de police

Fonds des technologies de l'information sous la responsabilité de la ministre de la Sécurité du revenu et ministre d'État de l'Emploi et de la Solidarité

Fonds des technologies de l'information

du Conseil du trésor

Fonds des technologies de l'information

du ministère des Finances

Fonds des technologies de l'information

du ministère du Revenu

Fonds d'information géographique et foncière Fonds du Bureau de la statistique du Québec

Fonds de partenariat touristique

Fonds forestier

Fonds pour la vente de biens et services du ministère des Ressources naturelles

^{*} This organization also carries out operations of a fiduciary nature excluded from the government's reporting entity.

GOVERNMENT ENTERPRISES INCLUDED IN THE GOVERNMENT'S REPORTING ENTITY

Centre de recherche industrielle du Québec

Commission de la santé et de la sécurité du travail

Corporation d'hébergement du Québec*

Financing Fund *

Fonds d'indemnisation du courtage immobilier (insurance portion) **

Hydro-Québec **

Loto-Québec

Régie de l'assurance-dépôt du Québec

James Bay Development Corporation (JBDC)

Société de l'assurance automobile du Québec

Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)

Société des alcools du Québec

Société des établissements de plein air du Québec

Société d'habitation du Québec*

Société générale de financement du Québec

Société Innovatech du Grand Montréal*

Société Innovatech du Sud du Québec*

Société Innovatech Québec et Chaudière Appalaches*

Société québécoise des transports

Société québécoise d'exploration minière (SOQUEM)

Société québécoise d'initiatives agro-alimentaires (SOQUIA)

Société québécoise d'initiatives pétrolières (SOQUIP)

^{*} Their classification reflects the legislative amendments recommended by the Committee.

^{**} These organizations also carry out operations of a fiduciary nature excluded from the government's reporting entity.

ORGANIZATIONS AND FUNDS THAT CARRY OUT OPERATIONS OF A FIDUCIARY NATURE AND ARE EXCLUDED FROM THE GOVERNMENT'S REPORTING ENTITY

Caisse de dépôt et placement du Québec

Comité Centraide - public sector

Commission administrative des retirement plans et d'assurances

Commission de la construction du Québec

Curateur public (Le)

Fonds administrés par la Régie des marchés agricoles et alimentaires du Québec

Fonds central pour le bénéfice des personnes incarcérées

Fonds des cautionnements des agents de voyages

Fonds des pensions alimentaires (partie fiduciaire)

Fonds d'indemnisation en assurance de dommages

Fonds d'indemnisation en assurance de personnes

Fonds d'indemnisation du courtage immobilier

Fonds en fidéicommis

Hydro-Québec - Caisse de retraite

Régie des rentes du Québec

APPENDIX 2

Model Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATING RESULTS Fiscal year ended March 31, 19X2

riscal year ended March 31, 19A2	19X2 Budget	19X2 Actual results	19X1 Actual results
REVENUE			
Income and property taxes			
Consumption taxes			
Duties and permits			
Miscellaneous revenue			
Revenue from government enterprises and organizations			
Gain on disposal of capital assets			
Own-source revenue			
Government of Canada transfers			
EXPENSE ¹			
Transfers			
Remuneration			
Operations			
Amortization of tangible capital assets			
Loss on disposal of capital assets			
Bad debts and other provisions			
Debt service			
Deficit - expense in excess of revenue			

¹ Expenditures will be shown by mission and program.

CONSOLIDATED STATEMENT OF CHANGE IN THE NET DEBT Fiscal year ended March 31, 19X2

	19X2	19X1
PREVIOUSLY ESTABLISHED OPENING BALANCE		
Adjustment:		
Recording of sick leave and vacations		
ADJUSTED OPENING BALANCE		
Deficit - expense in excess of revenue		
Increase (decrease) in the net accounting value of tangible capital assets		
Annual change in the net debt		
CLOSING BALANCE		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at March 31, 19X2

	19X2	19X1
LIABILITIES		
Bank overdraft		
Accounts and expenses payable		
Retirement plans		
Borrowings		
Borrowings for municipal works		
Other		<u> </u>
TOTAL LIABILITIES		_
FINANCIAL ASSETS		
Cash		
Accounts receivable		
Interest in government enterprises		
Investments		
Deferred expenses		
Unrealized loss on exchange		<u> </u>
TOTAL FINANCIAL ASSETS		
NET DEBT		
Net debt represented by:		
Tangible capital assets		
Accumulated deficits - expense in excess of revenue		

CONSOLIDATED STATEMENT OF FINANCIAL REQUIREMENTS AND FINANCING Fiscal year ended March 31, 19X2

	19X2	19X1
OPERATING ACTIVITIES		
Deficit - expense in excess of revenue		
Items not affecting liquid assets: Participation in the results of organizations and enterprises credited to revenue less declared dividends Gain or loss on disposal of capital assets Accounts and expenses payable Provision for bad debts Provision for losses on investments Provision for losses on financial guarantees Contribution for financing water purification Government's contribution as employer to the retirement plans Financing of the retirement plans Depreciation of tangible capital assets Amortization of unrealized loss on exchange		
Net operating results to be financed		
Retirement plans: — Benefits and other payments — Contributions by members and other employers Defined-purpose accounts: — Payments and other debits — Inflows and other credits		
Borrowings for municipal works		
Change in other assets and liabilities relating to operations		
Liquid assets used for operating activities		
INVESTMENT ACTIVITIES Change in investments — Investments made — Investments realized		
Tangible capital assets — Acquisitions — Disposals		
Liquid assets used for investment activities		
NET FINANCIAL REQUIREMENTS		

CONSOLIDATED STATEMENT OF FINANCIAL REQUIREMENTS AND FINANCING (cont'd) Fiscal year ended March 31, 19X2

FINANCING ACTIVITIES	19X2	19X1
Change in borrowings — New borrowings — Borrowings repaid		
Revenue of the retirement plans sinking fund		
Change in liquid assets relative to the cash position — Cash in the bank — Temporary investments		
NET FINANCING		

CONSOLIDATED STATEMENT OF TANGIBLE CAPITAL ASSETS Fiscal year ended March 31, 19X2

	Real estate	Roads and bridges	Machinery and equipment	Development of computer systems	19X2 Total	19X1 Total
Cost of tangible capital assets - opening balance						
Acquisitions						
Disposals						
Cost of tangible capital assets - closing balance						
Accumulated depreciation - opening balance						
Depreciation expenses						
Decreases in value						
Impact of disposals						
Accumulated depreciation - closing balance						
Tangible capital assets						