



# The creation and acceptance of public sector accounting standards in Canada

Accounting History

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## Abstract

This study explores the events leading up to the origination of public sector accounting standards in Canada by the Canadian Institute of Chartered Accountants (CICA) and their adoption by the Government of Canada. We interpret these events from the perspective of institutional theory. We find that a long-standing institutionalized practice of self-developed government accounting policies was disrupted by a series of challenges. An influential actor in this process was the Office of the Auditor General of Canada which first pushed for the creation of independent government accounting standards and then pushed the government toward the implementation of the accounting policies developed by the CICA's public sector accounting standard-setting body. Two CICA studies served to further disrupt the status quo. We also find evidence of the role played by an inter-organization professional network in defining and labeling problems that ultimately resulted in the change.

## Keywords

accounting history, Canada, government accounting, public sector accounting standards

## Introduction

The preparation of financial statements is guided by criteria that determine such matters as what is included in and excluded from the financial statements, how financial statement items are measured, how financial statement information is presented or otherwise disclosed, and what the appropriate reporting entity is. During the mid-twentieth century, standard-setting bodies came into existence around the world, including in Canada, to promulgate standardized principles, rules, and guidelines for organizations to follow in the preparation of financial statements. In the United

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Kingdom, The Institute of Chartered Accountants in England and Wales released its *Statement of Intent on Accounting Standards in the 1970s* noting the need to address the diversity of reporting practices (Rutherford, 2007). In Australia, the process of standard setting by the profession got under way in 1966; few standards, however, were issued until the mid-1970s (Ryan et al., 2007). In Canada, the Canadian Institute of Chartered Accountants (CICA)<sup>1</sup> took on the role of standard setter and in 1968<sup>2</sup> produced the *CICA Handbook* which laid out the standards for financial statement preparation and the standards for auditing those financial statements. These standards, however, related solely to the private sector. This study is concerned with the origin of standard setting for public sector entities in Canada.

For the first 114 years of its existence, the Government of Canada produced its financial statements in accordance with its own ideas about how financial reporting ought to be done. Financial reporting practices were developed internally within the government over this period. In 1981, that changed. The CICA – a private sector entity – created a committee to develop accounting standards for governments in Canada to follow. This committee is currently referred to as the Public Sector Accounting Board (PSAB). Indications of a perceived need for this change began in the mid-1970s, relatively soon after the *CICA Handbook* for the private sector had been published.

In this article, we examine this juncture in public sector accounting standard setting in Canada with the objective of understanding influential forces that led to these standards being developed outside of government by a private sector accounting organization. The rules of accounting (and how they are developed) are an important area of inquiry since these rules and accounting practices "... affect not just how resources are produced and distributed in an economy, but ... (also) what is deemed organizationally and socially rational and valuable ..." (Cooper and Robson, 2006: 415).

Canada is organized as a federal system, having 14 senior governments: the federal (national) government (with a specific set of responsibilities) and, within the federation, 10 provincial and 3 territorial governments (with a different specific set of responsibilities). For most of the country's history, the federal and provincial/territorial governments determined their own individual accounting practices. As a result, a wide diversity in financial reporting practices by the country's various governments existed prior to the creation of a standard-setting body (CICA Financial Reporting by Governments Study Group, 1980). Today, the federal government and each of these provinces and territories produce financial statements that are based on the same underlying set of accounting standards – the standards set by PSAB. The focus of this article is the Canadian Federal Government.

We contribute to the literature that is concerned with the history of accounting standard setting generally and, in particular, the literature that addresses the history of government accounting by adding to previous contributions, including Baker and Rennie (2006, 2011, 2012, 2013, 2017), Buhr (2012), Carpenter and Feroz (2001), Chan (1985, 2003) Chua and Sinclair (1994), Ellwood (2002), Jones (1992), Lin (1993), Lin et al. (1993), and Pallot (2001).

As part of their studies of related areas, Lin (1993), Lin et al. (1993), Baker and Rennie (2006), and Buhr (2012) have addressed aspects of the origins of the Canadian Public Sector Accounting and Auditing Committee (PSAAC). PSAAC was the original name of the CICA's standard-setting body. Lin et al. (1993) examined the extent of compliance of senior Canadian governments with the PSAAC's third and fourth standards. Lin (1993) described the accounting and auditing standards set by PSAAC from 1983 to 1992 (and provided a brief background on the formation of PSAAC). Baker and Rennie (2006) studied the adoption of full accrual accounting by the Canadian federal government and outlined the role of public sector accounting standards in that adoption. Buhr (2012) examined the adoption of accrual accounting in five countries, including Canada. As part of the Canadian aspect of the study, Buhr included a brief background on the formation of PSAAC. To our knowledge, a change in the federal government's approach to the development of financial reporting practices, the creation of the public sector accounting standard-setting board,

and the factors influencing that creation have not previously been subjects of academic research. Our study is intended to address this gap in the literature. We examine the events leading up to the establishment of the Canadian public sector standard setter and the ultimate utilization by the federal government of the standards that were developed. Drawing on institutional theory, we build an explanation for why the standard-setting process for government accounting was delegated to a professional accounting body, the CICA.

Primary data were obtained from the archives of the Chartered Professional Accountants of Canada<sup>3</sup> and from numerous government publications. Secondary data consisted of magazine and journal articles about PSAB and its predecessors and other historical works about Canadian and other government standard setting.

## Theoretical perspective

We interpret the events surrounding the creation and acceptance of public sector accounting standards from the perspective of institutional theory. At its core, institutional theory describes the tendency for social groups (including organizations) to attribute meaning to taken-for-granted social structures and processes that are part of the regular experience of the participants, a process referred to as institutionalization; the meaning acquired by these structures and processes causes them to achieve a stability that would not necessarily be warranted solely on the basis of their technical attributes (Lincoln, 1995; Selznick, 1957; Suddaby, 2010). In this study, a long-standing institutionalized practice of government developing its own accounting procedures was discontinued and replaced by a modified practice of adopting standards developed outside of government to guide the preparation of financial statements and the accounting processes underlying them.

Institutionalized practices<sup>4</sup> within organizations tend to be resistant to change (Dacin and Dacin, 2008) because their continued re-enactment has taken on meaning beyond the purely technical. This resistance does not mean that institutionalized practices cannot change, only that they do not change easily. Change involves the discontinuance of existing institutionalized practices. Oliver (1992) describes this aspect of change as deinstitutionalization or “the process by which the legitimacy of an established or institutionalized organizational practice erodes or discontinues” (p. 564). The concept of institutional work describes the role of individual (or organizational) actors in processes of institutionalization, re-enactment of institutionalized practices, and deinstitutionalization/creation of new practices. Institutional work is described by Lawrence and Suddaby (2006: 215, 219) as “the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions” and involves “intelligent, situated institutional action.” In the Lawrence and Suddaby conception, institutional work considers those individuals acting individually and collectively to maintain institutionalized practices or to effect institutional change and assumes the involvement of actors that are able purposefully “to adapt to conditions that are both demanding and dynamic” (Lawrence and Suddaby, 2006: 219). They observe that institutional change often involves discourse by actors: “practices of speaking and writing that are aimed at affecting the institutional context” (Lawrence and Suddaby, 2006: 239).

Oliver (1992) suggests three potential antecedents to deinstitutionalization: political pressures that call into question the legitimacy or utility of an institutionalized practice, functional pressures that raise doubts about the technical effectiveness of established practices, and social pressures (either external or internal) that cause existing practices to fall out of favor.

The discontinuation of an institutionalized practice is normally associated with the creation of a new (or, at least, a modified) practice to replace it. Lawrence and Suddaby (2006) describe several types of institutional work involved with institution-creation processes that have been observed in the empirical literature. Three of these processes are particularly relevant to the subject of our study

– advocacy, changing normative associations, and constructing normative networks. Advocacy is the use of social suasion to mobilize support for a new institutionalized practice (Lawrence and Suddaby, 2006). Changing normative associations refers to reinterpreting the foundations underlying an existing institutionalized practice to accommodate a new practice. Constructing normative networks involves “constructing of interorganizational connections through which practices become normatively sanctioned and which form the relevant peer group with respect to compliance, monitoring and evaluation” (Lawrence and Suddaby, 2006: 221).

We also draw on literature concerning professions. Occupations that achieve the status of professions hold a privileged place in society and members of a professional group enjoy access to resources not available to those outside of the profession. Hines (1989) argues that accountants have, throughout the history of accounting as an occupation, worked to achieve and maintain professional status. The privileged status accorded to professions positions these groups as sources of social influence. Scott (2008) argues that “professions in modern society have assumed leading roles in the creation and tending of institutions. They are the preeminent institutional agents of our time” (p. 219):

Professions act as cultural-cognitive agents providing the categories, principles, and conceptual tools that help to define and frame issues. As normative agents they provide the norms, standards, principles, and benchmarks that guide human actions in particular situations. Finally as regulative agents they participate in the drafting, implementation, and interpretation of the legally sanctionable rules and regulations through which coercive power is exercised. (Muzio et al., 2013: 706)

Under this approach to understanding organizational decisions and behavior, the role of professions is acknowledged to play an influential role, as does the symbolic, rather than the solely technical, in how organizations structure themselves and take on the activities that they do.

The preceding serves as an informative framework with which an interpretation of the emergence of the CICA, an organization of professionals, as the standard-setting body for government accounting in Canada can be developed.

## Findings

### *The period of internally developed accounting practices*

When the Dominion of Canada was created in 1867,<sup>5</sup> financial statement preparation was governed by *An Act Respecting the Collection and Management of the Revenue, the Auditing of Public Accounts, and the Liability of Public Accountants* (Statutes of Canada, 1867). This statute did not detail specifics about how the financial statements ought to be prepared – but did indicate who was to determine this:

It shall be the duty of the Board of Audit to frame Regulations respecting the method of Book-keeping to be used in the several departments and by the several sub-accountants of the Dominion, the issuing of warrants, the accounting for public moneys, and the auditing of accounts thereof, and to submit such Regulations to the Governor in Council through the Minister of Finance, and from time to time to suggest any amendments they may deem advisable in such Regulations, and to submit them in like manner; And any Order in Council made on any of the subjects aforesaid, shall have the force of law until revoked or amended, as it may be, by any subsequent Order. (Statutes of Canada, 1867: paragraph 26)

Created through an Act in 1855, the Board of Audit had been established to ensure the correctness of the accounts for the Province of Canada and, later, for the Dominion of Canada. As the

name suggests, a primary function of the Board was to audit the financial information produced by the government. The Board was also responsible for the development of accounting policies (Baker and Rennie, 2012). The 1867 statute also indicates that it was the duty of the Board of Audit “to prepare and submit to the Minister of Finance the Public Accounts to be annually laid before Parliament” (Statutes of Canada, 1867: paragraph 27).

The 1867 Act was followed up by several other acts over the years, with significant ones being the following: *An Act to Provide for the Better Auditing of the Public Accounts* (Statutes of Canada, 1878), *Consolidated Revenue and Audit Act* (Statutes of Canada, 1931), and *An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations* (short title “Financial Administration Act” or FAA) (Statutes of Canada, 1951). In all of these variations of the legislation concerning the financial management of the Government of Canada, control over the form of the public accounts was assigned to parties within government whether it be the Board of Audit, the Treasury Board,<sup>6</sup> the Minister of Finance, and/or the Receiver General.<sup>7</sup>

The Canadian Federal Government’s long-standing custom of developing its own accounting policies has the qualities of an institutionalized practice. It was highly stable (existing for 114 years) and thus had been re-enacted by generations of actors within the government. It was supported by legislation, which Scott (2014) sees as a source of legitimacy. Previous Auditors General had certified the financial statements as to their accuracy based on the government’s stated accounting practices, providing validation from a normative standpoint (see Scott, 2008).

In the 1970s and 1980s, the federal government’s custom of determining its own accounting practices began to be challenged. Tension appeared as questions arose concerning the technical efficacy of the government’s accounting practices. Moreover, the private sector had recently adopted accounting standards developed by a CICA standard-setting board. This occurrence made an alternative model of accounting policy development apparent. Both situations created conditions favorable for disrupting the government’s institutionalized practice of developing its own accounting policies.

### *Disruptive pressures/enabling conditions for change*

As noted above, Oliver (1992) described three types of pressures that can challenge existing institutions: political pressures, functional pressures, and social pressures. In the case of internally developed government accounting procedures, both functional pressures (relating to technical efficacy) and political pressures (relating to perceived legitimacy of practices) worked to undermine this long-held practice. A complementary construct in this context is that of “enabling conditions for agency” – that is, the conditions that facilitate the emergence of agency where actors are motivated to diverge from institutionalized practices in some way – a process that ultimately leads to institutional change (disruption of existing institutions and creation of new ones) (see Battilana and D’Aunno, 2009). The concept of agency refers to actors acting to effect change; it would not refer to actions of actors that are simply following established institutionalized practices (see Baker and Rennie, 2013; Battilana and D’Aunno, 2009; Lawrence and Suddaby, 2006). A significant challenge to existing government practices came from James Macdonell, Canada’s Auditor General from 1973 to 1980.<sup>8</sup>

Macdonell identified a need for change on many fronts, including the development of government accounting practices. A chartered accountant, Macdonell had, prior to his appointment as Auditor General, been the head of the consulting arm of the chartered accounting firm Price Waterhouse (Sinclair, 1979). As such, he was accustomed to the private sector practice of conducting an audit with reference to generally accepted accounting principles developed by a board of the

CICA. It should be noted that Macdonell was not the first private sector accountant to serve as Auditor General. Georges Gonthier (Auditor General from 1924 to 1939) had previously been a private sector accountant. Also, Macdonell's immediate predecessor, A. Maxwell Henderson, was a chartered accountant who had worked in both the private and public sectors. All Auditors General after Henderson were chartered accountants.

Maxwell Henderson was the Auditor General at the time the *CICA Handbook* was published in 1968. His focus, however, appeared to be identifying government waste and mismanagement and engaging in conflicts with the government over staffing of his office (Hartle, 1979; Sinclair, 1979). Macdonell's orientation toward improving financial management led him to take more notice of accounting policy problems than had his predecessors.

During Macdonell's tenure as Auditor General, several studies on government auditing, financial management, and accounting issues were initiated, most often by Macdonell himself (Free et al., 2012; Office of the Auditor General of Canada, 1979; Sinclair, 1979). Table 1 summarizes the various studies that concerned aspects of financial reporting practices.

The first of these studies was initiated by Macdonell shortly after taking office and entailed a review of the Office of the Auditor General of Canada. This committee (the Independent Committee for the Review of the Office of the Auditor General of Canada) was chaired by J.R.M Wilson, FCA, an accountant from the private sector; the other two members were also from the private sector (Marcel Bélanger, CA, and A. Lorne Campbell, Q.C.) (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975). One issue noted by the committee was that "No generally accepted code of accounting principles and practices has been developed for financial reporting by governments ...." (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975: 45). The report also pointed out that this situation caused problems for the Office of the Auditor General: "Given the present difficulties, it may be many years before the Auditor General of Canada can test the fairness of presentation of the financial statements of Canada against any generally accepted understanding of what is appropriate" (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975: 45). The report went on to recommend that "The Auditor General should participate in studies of accounting principles for government, whether initiated by the accounting profession or by the Government itself" (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975: 50). In the discussion leading up to this recommendation, the committee noted that the CICA had made a submission to the committee wherein the Institute had expressed an interest in developing generally accepted accounting principles for government (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975).

This report conveyed some themes that became important in the deinstitutionalization process. First, the above discourse adopted a narrative from private sector accounting practice: that the fairness of financial statements was related to the existence of a set of generally accepted accounting principles. Indeed, the committee identified that a lack of a generally accepted set of government accounting principles was an impediment to the work of the Auditor General's Office. The inability to test the fairness of the government's financial statements was a technical problem for the audit process, creating a functional pressure on existing practices.

Second, the perceived validity of government's practice of developing its own financial reporting policies was challenged by the committee's mention that the CICA had expressed an interest in developing government accounting standards. The CICA already had a track record of determining appropriate norms for accounting and auditing in the private sector.

Within this report was the identification of a problem – a lack of proper auditability of government financial statements and thus a potential lack of validity of those statements, and a potential solution – the willingness of an established standard setter to develop accounting standards for



**Table 1.** Studies involving financial management and accounting.

Year of report	Name of study	Initiator of study	Participants in study	Key conclusions or recommendations of study with regard to financial reporting
1975	Review of the Office of the Auditor General of Canada	Auditor General James Macdonell	Chair: J.R.M. Wilson, FCA Members: Marcel Belanger, CA, and A. Lorne Campbell, Q.C.	Recommended that "The Auditor General should participate in studies of accounting principles for government, whether initiated by the accounting profession or by the Government itself" (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975: 50). Concluded that "There is evidence indicating an urgent need to confirm or restate the generally accepted accounting principles for government" (Office of the Auditor General of Canada, 1975a: Appendix D, paragraph 28).
1975	Consulting engagement to evaluate the organization of the Office of the Auditor General – official title unknown	Auditor General James Macdonell	Coopers & Lybrand, Chartered Accountants	
1977	Report on the Study of the Accounts of Canada, 7 October 1975	Treasury Board (Government of Canada)	Chair: N. Glenn Ross, FCA (chair) Members: a representative from each of the following departments: Finance, Supply and Services, and Treasury Board	Recommended use of a standard presentation format and recommended several improvements to presentation format (Steering Committee to Study the Accounts of Canada, 1977).
1976	Financial Management and Control Study	Auditor General Macdonell	Chair: Robert Dale-Harris, FCA Vice-Chair: N. Glenn Ross, FCA Members: four other chartered accountants. Much of the work carried out by more than 50 chartered accountants seconded from the private sector	Recommended that one senior government officer should be assigned responsibility for establishing the accounting practices for preparing the government's financial statements (Office of the Auditor General of Canada, 1975b).

(Continued)

Table 1. (Continued)

Year of report	Name of study	Initiator of study	Participants in study	Key conclusions or recommendations of study with regard to financial reporting
1979	Royal Commission on Financial Management & Accountability – Final Report (sometimes referred to as the Lambert Report)	The Minister of Finance	Chair: Allen Lambert (CEO of Toronto-Dominion Bank) Members: H. Marcel Caron, CA; John Hodgetts (political science professor); Oliver Stoner (federal government deputy minister)	Recommended that a provincial and federal government joint task force be established to study how government accounting standards should be established. (The study should not be undertaken by the CICA.) (Government of Canada, 1979)
1986	Federal Government Reporting Study	Auditor General Kenneth Dye and US Comptroller General Bowsher	A Steering Committee (including the Auditor General Dye and US Comptroller General Bowsher); A Core Group of Canadian and US government officials; User-Group Experts; Core Group Advisors; Methods Experts; A Technical Team and a Production Team	Identified the users of public sector financial statements and designed a set of illustrative public sector financial statements and an illustrative auditor's report that indicated that the financial statements were consistent with CICA public sector accounting standards (Office of the Auditor General of Canada and United States General Accountancy Office, 1986).

CICA: Canadian Institute of Chartered Accountants; FCA: The designation for a chartered accountant who has been awarded the designation "Fellow" on the basis of meritorious service to the profession.



governments. Thus, the report revealed both a technical challenge to existing institutionalized practices and a potential replacement and was the first of a series of challenges to the system of the government's financial standard development practices.

The sentiments of the independent committee were echoed by Macdonell in his 1975 Report of the Auditor General where he stated,

The work of the Office and the state of accounting, auditing and financial control in Government, appears to have suffered in the past from a lack of clearly understood, generally accepted accounting and auditing principles similar to those which have been evolving over the years in the private sector. Major efforts are underway to establish, or cause to be established, theoretically sound policies and criteria to frame and support the operations of the Audit Office in the future ....

The CICA has recently appointed a task force, including a nominee of the Auditor General, to study the feasibility and desirability of establishing an Institute standing committee on accounting and auditing standards for all levels of government. (Office of the Auditor General of Canada, 1975a: paragraph 3.15)

Later in his 1975 report, Macdonell responded directly to the review committee's recommendation concerning generally accepted accounting principles:

The Independent Review Committee stressed the need for a comprehensive set of accounting principles for government and recommended that the Auditor General participate in studies aimed at the development of such principles. The Committee also recommended that the Auditor General take an active interest in the development of nationally accepted governmental auditing principles and standards. (Office of the Auditor General of Canada, 1975a: paragraph 12.5)

In his 1976 Auditor's report, Macdonell referred back to the above 1975 commentary and also provided the update that

The Independent Review Committee stressed the need for a comprehensive set of accounting principles for government and, in its twelfth recommendation, proposes that the Auditor General participate in studies aimed at the development of such principles. In my 1975 Report (paragraph 12.5) reference was made to the Audit Office's intent to provide a full measure of support to a task force appointed by the Canadian Institute of Chartered Accountants to review the feasibility of establishing a standing committee of the Institute on government accounting and auditing standards. On the recommendation of that task force, the Institute recently established the Government Accounting and Auditing Study Group to carry out further studies. The Deputy Auditor General, Rhéal Chatelain, C.A., represents the Audit Office on this Study Group which is chaired by N. Glenn Ross, F.C.A., and also includes Ross M. Skinner, F.C.A., both of whom are members of my Independent Advisory Committee on Government Accounting and Auditing Standards (see paragraph 20.15). (Office of the Auditor General of Canada, 1976: paragraph 20.30)

The above discourses from Auditor General Macdonell reiterate the need for generally accepted accounting principles and identify the private sector as a model. He both identifies the need for change in the institutionalized practice of government accounting principle development and makes a supportive reference to a potential solution being developed by the CICA. This can be seen as an example of the use of advocacy in the process of creating a new institutionalized practice (see Lawrence and Suddaby, 2006). Advocating a change to a practice is implicitly a criticism of existing practice. The Auditor General's advocacy, therefore, served not only to promote a new practice for developing the government's financial reporting policies but also to undermine the existing practice. The advocacy for change by the Auditor General, who was both a source of validity for the government's financial statements and an individual of considerable influence, constituted a source of political pressure for change.

Macdonell's 1976 report also highlighted that the Audit Office had been working to maintain a close relationship with the professional accounting organization and that staff members played active roles in the profession (Office of the Auditor General of Canada, 1976). Thus members of the Office of the Auditor General were also members of a wider professional network of accountants. Macdonell mentions N. Glenn Ross of Coopers & Lybrand Chartered Accountants in this paragraph. As we will see, Mr Ross was present in several aspects of the movement toward independent standard setting for government financial reporting.

Macdonell had initiated another study that was also released in 1975. It was a consulting engagement carried out by Coopers & Lybrand Chartered Accountants to evaluate the organization of the Office of the Auditor General. One of the observations made by Coopers & Lybrand was that "there is evidence indicating an urgent need to confirm or restate the generally accepted accounting principles for government ..." (Office of the Auditor General of Canada, 1975a: Appendix D, paragraph 28).

At roughly the same time as the two above-mentioned studies were conducted, a related study was undertaken by the Treasury Board to study the accounts of Canada and was completed on 7 October 1975. Unlike the reports commissioned by the Auditor General, this report was an internal assessment of the quality of government accounting practices. The purpose of this committee was

To study the purposes, principles and practices which should govern the form of the accounts of Canada, taking into account the practices of other governments, including [here various specific accounting issues were listed such as "the concept of a single consolidated fund," "the cash or modified cash basis of accounting" ...] and such other matters as affect the fairness, completeness and accuracy of the information provided in the accounts. (Steering Committee to Study the Accounts of Canada, 1977: 24)

This committee was chaired by N. Glenn Ross, FCA, a partner with Coopers & Lybrand Chartered Accountants. The other members of the committee were representatives from the Department of Finance, the Department of Supply & Services, and the Treasury Board. Thus, while this was an internal report, an influential external accountant was heavily involved. The committee recommended the use of a standard presentation format for the government's summary financial statements and also suggested several changes to the form of the financial statements (Steering Committee to Study the Accounts of Canada, 1977). The committee specified the set of financial statements that should be included in the summary financial statements and suggested many changes to the details regarding how financial reporting should be done, including several model formats for budgets (estimates) and public accounts statements (including the financial statements). They also identified severe problems with the financial statements of crown corporations (Steering Committee to Study the Accounts of Canada, 1977). While this report did not make recommendations concerning a set of generally accepted accounting principles for government, it revealed numerous significant shortcomings in the federal government's financial reporting system and in doing so added to the growing concerns about government accounting practices.

This report represented a challenge to the technical efficacy of the financial reporting policies of Canada. And that implicated the development process of those policies – a functional pressure on the institutionalized practice of self-developed accounting policies.

In his 1975 Report of the Auditor General, Macdonell commented on the above noted study: "implementation of actions recommended by this Study will make a major contribution toward improving the standards of government accounting and financial reporting in the future" (Office of the Auditor General of Canada, 1975a, paragraph 2.29). Few of the recommendations were actually implemented by the government (Government of Canada, 1979). Ross became a special advisor to Auditor General Macdonell in 1974 (Office of the Auditor General of Canada, 1977).

Auditor General Macdonell also initiated a Financial Management and Control study which was undertaken by staff from his office together with outside accountants. This study arose because Macdonell was concerned that the financial and internal accounting controls were inadequate (Office of the Auditor General of Canada, 1975b). The committee was composed of six chartered accountants and was chaired by Robert Dale-Harris and vice-chaired by N. Glenn Ross (both partners at Coopers & Lybrand); the committee also borrowed more than 50 chartered accountants from 16 different chartered accounting firms to help with this study (Office of the Auditor General of Canada, 1976). The participation of a host of private sector chartered accountants would serve to increase the potential for network associations with government accountants and auditors. Lawrence and Suddaby (2006) observe that the construction of normative networks can support the creation of new institutionalized practices.

This committee found many flaws in the government's financial management and control systems, and many recommendations were made for improvements (for a copy of part 1 of the report, see Office of the Auditor General of Canada, 1975b; for a copy of part 2 of the report, see Office of the Auditor General of Canada, 1976). Its final recommendation was a call for financial management and control to become the responsibility of one senior officer of the government, and that responsibility should be established for eight key activities, one of these being "establishing the accounting practices governing the financial statements and Public Accounts of Canada" (Office of the Auditor General of Canada, 1975b: paragraph 10.36).

Like the Report on the Study of the Accounts of Canada, the Financial Management and Control study challenged the technical efficacy of financial reporting policies, arguing that the government's existing practices were seriously flawed. This resulted in political pressure coming to bear on the federal government as accounting issues identified by the Auditor General entered into the debates of the House of Commons. In response to the tabling of the government's budget, a member of the opposition noted, "... the rather stinging indictment the Auditor General made about government budgetary control, improper accounting methods and a dearth of clear-cut understandable information contained in the estimates and the public accounts" (House of Commons of Canada, 1976: 14387–14388). The Financial Management and Control study also identified a need for assigning responsibility for establishing new government accounting practices but did not provide a recommendation for how this ought to be achieved.

Not long after Macdonell's Financial Management and Control study was issued, the Minister of Finance began his own study of a similar issue, forming the *Royal Commission on Financial Management and Accountability in the Government of Canada*; The Minister of Finance's royal commission was carried out by four individuals: H. Marcel Caron (a chartered accountant), John Edwin Hodgetts (a political science professor), Allen Thomas Lambert (chair; a banker), and Oliver Gerald Stoner (a federal government deputy minister) (Government of Canada, 1979). The commission completed its report in 1979. It was commonly known as the Lambert Commission (after its chair), and we will hereinafter refer to the commission in this way. This study included a section on government financial statements and criticized the government for failing to implement most of the recommendations of the 1975 Study of the Accounts of Canada (referred to above) (Government of Canada, 1979). This failure provides additional evidence of the difficulties the government had in making improvements to its own accounting policies. However, the Lambert Commission report went on to argue that the CICA should *not* be the body to take the lead in consideration of the matter of government's generally accepted accounting principles. The report referred to a CICA Task Force on Government Accounting that reported in 1976 and a study group that the CICA had formed to further research the area of government accounting standards development:

The next stage in the study should be conducted, not by the Canadian Institute of Chartered Accountants, but by a joint task force set up by the federal and provincial governments. This task force should include accountants and auditors from both levels of government as well as members of the professional, business, and academic communities noted for special skills and competence. (Government of Canada, 1979: 257)

The commissioners recommended that “the federal government take the lead in setting up a joint task force with the provincial governments to determine the accounting standards that should be recognized, accepted and used in the presentation of government financial information” (Government of Canada, 1979: 157). The preamble to this recommendation notes the development of generally accepted accounting standards for the private sector and states that governments, too, should face the same scrutiny as private businesses. The report articulates acceptance of the idea that generally accepted accounting principles for government need to be developed, but it is also clear that this should be an internal matter. The rationale for excluding the CICA from the commission’s recommended joint task force is not given in the report. Neither did the commission explain alternative approaches it may have had in mind for what type of within-government organizations could successfully set accounting standards that would be followed by all the various governments in Canada. The Lambert Commission appears to be committed to the institutionalized practice of government self-development of its financial reporting policies.

The push-back of these commissioners concerning the idea of the CICA taking the lead on the government accounting standard-setting file (an idea supported by the Auditor General) suggests that the issue of an outsider setting standards may have been a somewhat politically charged subject. Nonetheless, the commissioners did provide support for the idea that the current accounting practice development process was not suitable, thus providing some support for institutional change.

During this period, there was a change to how the Auditor General reported on his audit of the financial statements. Up until 1977, the Auditor General simply included a brief certification at the bottom of each of the financial statements, indicating that the statement was in agreement with the accounts and correctly reflected the government’s accounting policies (for example, see Receiver General for Canada, 1977). New legislation<sup>9</sup> called for an opinion on the financial statements as a whole:

The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservation he may have. (Statutes of Canada, 1977: paragraph 6)

The change in this aspect of the legislation was made in order to implement one of the recommendations of the 1975 *Report of the Independent Review Committee on the Office of the Auditor General of Canada* (Office of the Auditor General of Canada, 1977).

Accordingly, in 1978 for the first time, Macdonell provided an *Opinion of the Auditor General on the Financial Statements of the Government of Canada*. However, Macdonell did not quite follow the directive in the legislation that tied fairness of the financial statements to their conformity with the government’s stated accounting policies. Instead, he first gave an opinion that “these financial statements present information in accordance with the stated accounting policies of the Government of Canada ....” (Receiver General for Canada, 1978: 2.2). It should be noted that he did not indicate that the statements were presented fairly although they were presented in accordance with the stated accounting policies of the government. He then followed this paragraph up

with, "I have the following reservations concerning certain of the stated accounting policies of the Government of Canada which, in my opinion, affect the fairness of the information presented in the financial statements," and he went on to describe these deficiencies (Receiver General for Canada, 1978: 2.2). Thus, his reservations were not concerning the conformity of the financial statements with the government's accounting policies, but rather the quality of the government's accounting policies themselves.<sup>10</sup>

The reservations in the Auditor General's opinion were the subject of considerable discussion at the 9 November 1978 meeting of the Standing Committee on Public Accounts. Here, the Auditor General (who was called as a witness to these proceedings) reiterated that the problem was not about adherence to the government's stated accounting policies but that the government's accounting policies were not acceptable (Standing Committee on Public Accounts of Canada, 1978).

By delivering this audit opinion, the Auditor General issued a public challenge to the quality of the federal government's accounting policies and indirectly to the policy development process itself. We note that the auditor enlisted the fairness narrative that had been introduced earlier by the 1975 Office of the Auditor General review committee by suggesting that the fairness of the financial statements was negatively impacted by use of the government's financial reporting policies. This represented additional pressure for institutional change.

### *The CICA's involvement*

The CICA had begun getting involved in the issue of government accounting standard setting by making a submission to the Independent Review Committee of the Office of the Auditor General of Canada and in that submission had expressed an interest in developing generally accepted accounting principles for government (Independent Committee for the Review of the Office of the Auditor General of Canada, 1975).

In 1975, the CICA followed up by creating a task force to look at whether accounting standards for governments should be developed. The Task Force on Government Accounting was chaired by N. Glenn Ross, and it addressed its report to the Joint Research Steering Committee of the CICA. As was noted earlier in the article, Ross was a private sector accountant who nonetheless played leading roles in more than one committee concerned with federal government accounting and auditing and was a special advisor to the Auditor General. The terms of reference for the Task Force on Government Accounting were to investigate and report on the following matters:

1. Is there a need for accounting and reporting standards for the Government of Canada and/or the provincial governments? Are these standards sufficiently different from generally accepted accounting principles now represented by the Accounting Recommendations in the Handbook to warrant establishing a new Committee to pronounce on them?
2. If there is such a need:
  - a. would the Government of Canada and/or provincial governments likely heed such standards?
  - b. would it be desirable for the Joint Research Steering Committee to take some, or the, responsibility for establishing such a Committee either itself or in co-operation with some group within the government sector?
3. If a Standing Committee on Government Accounting was recommended, what commitment of time and money would be involved for:
  - a. the Research Department?
  - b. the governments concerned? (CICA Task Force on Government Accounting, 1976: 1)

The task force was also asked to include an implementation plan for such a committee if it were to determine that a Committee on Government Accounting should be formed.

The question about whether government accounting standards need to be different from private sector accounting standards (under item 1 above) has come up in other jurisdictions. For example, this issue came to the fore when the United States was considering the development of generally accepted accounting standards for government (Chan, 1985; Government of Canada, 1979). On this subject, the Canadian Task Force concluded that private sector accounting standards are not very useful for the public sector because so many of the topics addressed in it are not relevant to governments (CICA Task Force on Government Account, 1976).

In answer to the second question of its mandate, the task force noted that

No government is likely to surrender to any professional group its sovereign responsibility for running its own affairs. This includes how it accounts for and audits its own activities. Thus it would be unrealistic for the Institute to contemplate that it will ever be delegated the right to establish accounting and auditing rules that are in any way mandatory for government accountants and auditors. Recommendations put forward by the Institute may ultimately be reflected in legislation or other governmental directives and thereby become binding on government auditors and accountants, but unless this happens, the Institute's influence with government legislators, accountants and auditors will depend entirely upon the quality of its research and recommendations.

We concluded that the Institute should not seek any special relationship with governments, but should maintain its freedom to formulate and promote preferred practices independent of legislators, government auditors and government accountants. Close relationships must be maintained with them, and participation by them in research is to be welcomed, but the Institute must be prepared to accept the fact that its influence will depend on the quality of its advice, and not on any special relationships.

This leaves open the question directed to us in our terms of reference – namely, would governments likely heed standards advocated by the accounting profession? We believe that not infrequently those responsible for the accounting and reporting practices of governments encounter questions as to which there is real doubt as to the preferable answer. In such cases, the existence of a body of knowledge on government accounting practices and of standards preferred by the Institute should definitely influence practices, with a cumulative effect over a period of time. Legislative auditors have generally indicated that, if they are sufficiently involved in their development, they would welcome standards against which they could assess governmental practices. Similarly, government accountants would find a set of recommended standards useful in reviewing their own accounting practices and statement presentation. (CICA Task Force on Government Accounting, 1976: 9–10)

This analysis acknowledges that the government has the legal right to set its own accounting policies and that if the CICA took on responsibility for setting government accounting standards, the government would need to submit to these standards voluntarily. As a result, the goal would be to develop standards that would actually be useful for government accountants and auditors.

The major recommendation of the Task Force was that a study group of eight members should be created to catalogue existing accounting practices in governments and to review the objectives and the concepts underlying these practices. Terms of reference for the new study group were included in the task force report as an appendix and indicated that the eight members of the study group should include three legislative auditors<sup>11</sup> (or staff), three government administrators, and two individuals from the private sector or academe (CICA Task Force on Government Accounting, 1976).



The Task Force did not specifically recommend at that stage that the CICA should take on the role of standard setter for government accounting, but did conclude that the CICA could provide a useful public service by becoming involved in some way:

We have concluded that the time is ripe for the accounting profession to become involved in the field of government accounting, reporting and auditing...it is in the public interest that some independent body subject government practices to some continuing scrutiny to assist in identification of significant shortcomings in comparability, and visibility of financial information. It is only on this basis of making a useful contribution to society that any significant effort by the accounting profession can be justified, for most members are not likely to realize any direct benefits from greater activity on the part of the profession. (CICA Task Force on Government Accounting, 1976: 4-5)

We note that the CICA Task Force referred to the idea of the public interest in its assessment of the need for an independent standard setter and that the current PSAB website echoes the Task Force in this regard in its statement about the purpose for the creation of this board: "The Public Sector Accounting Board (PSAB) was created to serve the public interest by establishing accounting standards for the public sector" (CPA Canada, n.d.: 1). Similarly, PSAB's Mission Statement begins: "The Public Sector Accounting Board (PSAB) serves the public interest by ...." (PSAB, 2017a: 1).

The Study Group recommended by the Task Force on Government Accounting was formed and carried out most of its research in 1977, and the report was published by the CICA in 1980. The chair of the Study Group was N. Glenn Ross. As envisioned by the task force, the Study Group included members of legislative audit offices (at both federal and provincial levels) and current and former government administrators (at both federal and provincial levels); all members were chartered accountants (CICA Financial Reporting by Governments Study Group, 1980). The Study Group examined the financial statements of the Canadian government and the provincial and territorial governments, as well as the principles underlying the statements. They also developed objectives for government financial statements. They found a significant amount of diversity in financial reporting approaches and noted that "The financial statements of Canadian governments are now so complex and varied in presentation and terminology that even persons familiar with government accounting have difficulty in appreciating the significance of information conveyed" (CICA Financial Reporting by Governments Study Group, 1980: ii).

For the most part, the report concerned itself with this issue, documenting the differing financial reporting approaches used by the various provinces, territories, and federal government in a number of different areas (e.g. reporting on financial condition, reporting on financial results, stewardship, and compliance reporting) (CICA Financial Reporting by Governments Study Group, 1980). The problems with interpretation of government financial statements brought about by the diverse financial reporting approaches in use provided a justification for standardization of government accounting practices – something that a set of common government accounting standards would address.<sup>12</sup> This constituted another perspective on why individual governments developing their own accounting practices may be less than ideal from a functional standpoint – another technical challenge to the institutionalized practice of governments developing their own accounting policies.

The Study Group concluded that there was a need for generally accepted reporting standards for government to be developed (CICA Financial Reporting by Governments Study Group, 1980). It also addressed whether the developer of these standards should be a standing committee of the

CICA (similar to the already existing standard-setting committees for private sector accounting principles and auditing principles). The report identified several advantages and challenges to such an approach. In the end, they did not recommend a CICA standing committee for this role, and this decision was influenced by the statement by the Lambert Commission that the CICA should not be further involved in the development of government accounting standards (cited earlier in this article). The Study Group quoted the Commission on this point and then responded as follows:

This view indicates that the CICA should not, on its own initiative, set up a standing committee for government financial reporting that would have the same status, in the public sector, that the Accounting Research and Auditing Standards Committees have in the private sector. The Lambert Commission did not state why it reached this conclusion nor did it recognize that standard setting is a continuous process that does not end with a committee report. This important fact should not be overlooked by anyone concerned with the development of reporting standards for governments. (CICA Financial Reporting by Governments Study Group, 1980: 191)

The report went on to recommend that rather than set up its own committee, the CICA could encourage government to create an independent body to develop government accounting standards and that the CICA could provide staff support and research assistance to this body (CICA Financial Reporting by Governments Study Group, 1980: 192).

N. Glenn Ross, chair of the Study Group, later explained that it recommended against the CICA standing committee because of concerns that governments would not accept standards produced by a volunteer committee and that members of the CICA may not be willing to bear the cost of this additional standard-setting activity (Ross, 1982). Nevertheless, Ross (1982) went on to report that “the governors of the Canadian Institute rejected the study group’s conclusion and decided to add a committee on public sector accounting and auditing to the two existing committees on accounting and auditing standards” (p. 78). The Minutes of this Board of Governors meeting indicate a sense that the opportunity to exercise leadership in public sector accounting standard setting was important and that although it would be financially costly to the membership, it would be a worthwhile endeavor to fill the void that existed in this area (CICA Board of Governors, 1980). The committee was later established, but not before consultation with government officials had taken place: “Before the Canadian Institute of Chartered Accountants (CICA) established the committee in March 1981, it asked for – and got – the support of senior government administrators and legislative auditors” (CICA, 1983: 6).

### *A CICA standing committee is formed for government accounting standard setting*

In its May 1981 issue, *CA Magazine* announced the formation of a new CICA Standing Committee – the Government Accounting and Auditing Committee (GAAC); the committee would include eight members from the public sector (a mix of provincial and federal government representatives from both financial statement preparer roles and the legislative auditor roles) and four members from the private sector (CA Magazine, 1981). Chairing this new committee was N. Glenn Ross. The committee first met in October 1981, and at this meeting, the committee recommended that its name be changed to the Public Sector Accounting and Auditing Committee (PSAAC) in accordance with its mandate relating to all public sector organizations – not solely to the governmental level (Ross, 1982).

The committee immediately began working on developing the objectives of government financial reporting, general standards of presentation of government financial statements, and defining the accounting entity (CA Magazine, 1991). The standard setter was subsequently renamed the

Public Sector Accounting and Auditing Board (PSAAB) in 1993 (Buhr, 2012). In 1998, the CICA's Auditing and Assurance Standards Board took over the public sector auditing aspect of PSAAB's work, and as a result, PSAAB was renamed the Public Sector Accounting Board (PSAB) (CPA Canada, n.d.). To date, 48 public sector accounting standards and seven guidelines are in effect (PSAB, 2017b).

### Government response

While senior government administrators were supportive of the standard-setting initiative (CICA, 1983), it took quite a number of years for the Canadian government to become compliant with Public Sector Accounting Standards. The federal government continued its practice of developing accounting policies as it saw fit, despite the existence of independently developed accounting standards.

In the Auditor General's Office, however, Auditor General Kenneth M. Dye (Macdonell's successor) continued to support the independent development of public sector accounting standards and the Government of Canada's use of these standards. In his first year (1981), Dye followed the style of Macdonell's careful audit opinion reservation on the government's stated accounting policies (Receiver General for Canada, 1981). He went further in 1982 by stating that certain accounting policies were "not appropriate for a fair presentation of the assets and liabilities and revenues and expenditures of the Government of Canada" (Receiver General for Canada, 1982: 2.15) and took a similar approach in his 1983 and 1984 opinions (Receiver General for Canada, 1983, 1984).

In 1985, Dye exerted more pressure on the government's accounting policies by providing two opinions about the financial statements. His first opinion was that the financial statements were in accordance with the government's stated accounting policies. However, the second was an adverse opinion on the fairness of the government's financial statements:

However, in my opinion, because of the stated accounting policies that I consider inappropriate as outlined in Reservations 1, 2 and 3, the accompanying financial statements *do not present fairly* the financial position of the Government as at March 31, 1985 and its results of operations and financial requirements for the year then ended. (Receiver General for Canada, 1985: 2.18; emphasis added)

The three reservations were on the following issues: (1) lack of comprehensiveness of the financial statements (i.e. concerning the appropriate reporting entity for the government), (2) valuation of international development assistance loans, and (3) unrecorded liabilities relating to employee pensions and the mortgage insurance fund.

This style of opinion was not quite what was specified in the Auditor General Act which indicated that the opinion was to address whether the financial statements were presented fairly in accordance with the government's stated accounting policies<sup>13</sup> (see Receiver General for Canada, 1985: 2.2). It should be noted that Dye, in his audit opinion, enlisted the fairness narrative (described earlier in the article in relation to institutional change) that suggested that the government's internally developed accounting principles did not result in fairly presented financial statements.

In his 1985 *Observations of the Auditor General on the Financial Statements of Canada*, Dye followed up by expressing his strong support for the CICA standard setter for the public sector and the continuing support of it by the government, thus advocating for a new standard-setting practice:

The development of accounting principles that are appropriate for Canadian governments and generally accepted by financial statement users, preparers and auditors is progressing. As a chartered accountant, I

am proud of the leadership shown by the CICA. As Auditor General of Canada, I am encouraged by the Government's continued support of the CICA and the interest shown in making the financial statements that I audit more responsive to user needs. (Receiver General for Canada, 1985: 3.6)

At this point, PSAAC had issued two accounting statements: (1) Disclosure of accounting policies and (2) Objectives of government financial statements (Lin, 1993).

The Auditor General's 1985 adverse opinion was the subject of discussion at the 17, 19, and 25 June 1986 meeting of the Standing Committee on Public Accounts. During the discussion of the audit opinion, Comptroller General Michael Rayner,<sup>14</sup> speaking on behalf of the government, stated, "I think it is fair to state it would be the government's hope – certainly my own personal hope – that we can eliminate the Auditor General's reservations in his opinion on the public accounts as soon as possible" (Standing Committee on Public Accounts of Canada, 1986: 35: 48). This response indicates that the adverse opinion had the desired impact.

The minutes also included a lengthy discussion of the Federal Government Reporting Study (FGRS) (Standing Committee on Public Accounts of Canada, 1986). Auditor General Dye and Charles Bowsher (Comptroller General of the United States) had initiated a study on the users of federal government financial statements two years previously, and the study was completed in 1985 and published in 1986.<sup>15</sup> This report identified six groups of federal government financial statement users: "legislative users; citizens, the media, policy analysts, special interest groups, and other levels of government; government planners and managers; economists; corporate users; and lenders, security dealers, and their advisors," and members of these groups were surveyed as part of the study (Office of the Auditor General of Canada and United States General Accounting Office, 1986: 3). Various improvements to current financial reporting approaches were suggested by these users.

Importantly, the FGRS report included an *Illustrative Annual Financial Report of the Government of Canada 1985* which included illustrative financial statements prepared on the basis of the CICA public sector accounting standards and an illustrative Opinion of the Auditor General on these financial statements. The final sentence of this Opinion was, "The government's accounting policies are consistent with the principles recommended by the Canadian Institute of Chartered Accountants for financial reporting by governments in Canada" (Office of the Auditor General of Canada and United States General Accounting Office, 1986: Cdn 22). This was in direct contrast to the "actual" 1985 financial statements which (as noted above) were not using accounting policies consistent with CICA standards and which received an adverse audit opinion.

Dye continued to issue adverse opinions on the Government of Canada's financial statements from 1986 to 1989; in all four of these years, the following three items were cited in relation to the adverse opinions: (1) failure to record a loan loss allowance relating moneys borrowed by the Canadian Wheat Board (a crown corporation), (2) failure to include crown corporations in the government reporting entity, and (3) unrecorded liabilities relating to employee pension obligations (Receiver General for Canada, 1986, 1987, 1988, 1989). By the time of the 1989 adverse opinion, PSAAC had issued three more accounting statements: Statement 3 - General standards of financial statement presentation for governments; Statement 4 - Defining the government reporting entity; and Statement 5 - Accounting for employee pension obligations in government financial statements (see Lin, 1993). As a result, in his 1989 opinion, the Auditor General was able to refer specifically to PSAAC accounting standards that were being violated. Specifically, in his discussion of reservation 2, Dye was able to point to PSAAC statement 4, and in his discussion of reservation 3, he was able to point to PSAAC statement 5. This shows both that PSAAC was responsive to contested accounting issues that had been the subject of a series of adverse opinions and that PSAAC statements became a tool for the Auditor General in gaining legitimacy for his position.

Finally, in 1990, the Auditor General gave the Government of Canada a “clean” audit opinion on its financial statements because the government had changed its accounting policies in the previously problematic areas to conform to the CICA’s public sector accounting standards (Office of the Auditor General of Canada, 1990; Receiver General for Canada, 1990).

In the Report of the Auditor General of Canada to the House of Commons for 1990 (in the section entitled Observations on the Financial Statements of the Government of Canada), Auditor General Dye reported that “the Minister of Finance and the President of the Treasury Board strengthened the government’s accounting policies” (Office of the Auditor General of Canada, 1990: 48). He goes on to note that “This accounting treatment complies with guidance provided by the Canadian Institute of Chartered Accountants” (Office of the Auditor General of Canada, 1990: 48).

Even when the federal government changed its accounting practices to conform to the PSAAC standards, federal legislation concerning the determination of government accounting policies did not (and still does not) explicitly state that the Government of Canada follows the CICA’s public sector accounting standards (see Statutes of Canada, 1985). But beginning in 2006, the government did acknowledge the consistency of its accounting practice with the CICA’s public sector accounting standards. In that year, for the first time, the Summary of Significant Accounting Policies note to the financial statements included the following information under “Basis of Accounting”:

These financial statements are prepared using the Government’s accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles. (Receiver General for Canada, 2006: 2.9)

In that same year, for the first time, the Auditor General’s Opinion also indicated that the federal government’s stated accounting policies conform with Canadian generally accepted accounting principles (Receiver General for Canada, 2006). Thus, although the government began making its financial reporting policies consistent with the CICA standards in 1990, it took another 16 years before this was made explicit in the financial statements and in the audit opinion.

The most recent financial statements of the Government of Canada contain a similar statement (but now refer to the standards as Canadian public sector accounting standards; Receiver General for Canada, 2017). This way of phrasing the basis of accounting acknowledges that the government is technically responsible for its own accounting policy development but chooses to base those policies on standards developed by the public sector accounting standard setter. In this way, the federal government is able to maintain control over its accounting policies and standards, which is clearly still important to those charged with federal government financial statement preparation.

The government’s position is consistent with the institution-creating approach identified by Lawrence and Suddaby (2006) as “changing normative associations” which involves making new connections between sets of practices and their foundations. Here, we see that the practice of government developing its own accounting policies *without* reference to external standards is re-oriented to the idea that the government develops its own accounting policies and bases them on a helpful set of externally developed standards that the government uses in its own accounting policy development process.

## Discussion and conclusion

The Canadian federal government’s institutionalized practice of developing its own accounting policies prevailed in Canada for more than a century – a well-accepted and stable practice that



symbolized government's control of its financial management practices. In Canada, the 1970s saw an increasing concern about the quality of government financial reporting and financial management in general, fueled by several Auditor General and internal government studies on these subjects. Some of these studies merely exposed the many problems that existed (generating both functional and political pressures), while others began to shift to larger questions about whether a set of generally accepted accounting principles for government should be developed. Accompanying this latter issue was the question of how and by whom these standards should be created.

James Macdonell, the Auditor General of Canada from 1973 to 1980, was a strong proponent of the idea that the CICA should take the lead in setting accounting standards for government, and his successor Kenneth Dye played an important role in encouraging the adoption of PSAAC standards. This encouragement often took the form of advocating for independently developed standards. We argue that these challenges facilitated institutional change regarding accounting policy development by the Canadian government. In this case, the process of change away from accounting policy developed internally involved advocating for an alternative practice – using accounting standards developed by an independent body, the CICA.

What was apparent in the years leading up to the creation of a standard-setting body for government accounting was the influential presence of professional accountants (chartered accountants) within both the Office of the Auditor General and the various committees appointed by the Auditor General. It appears that they were inclined to look to the CICA for a model of auditing and standard setting given their close professional association with that organization. Those with private sector experience would have been very aware of the CICA's success in developing private sector standards.

That an auditor needed to have generally accepted accounting principles against which to assess government financial statements was a familiar and accepted idea in the private sector. It is not clear that this would be a necessary aspect of a public sector audit – after all, the Auditor General did have various provisions from the FAA with which to evaluate the government's financial statements; yet, as illustrated by the recommendations of the Independent Review Committee in 1975 (helped along by the CICA's submission which offered to develop government accounting standards), the lack of a generally accepted practice was starting to be viewed as a problem. The involvement of the CICA was starting to be seen as a solution. A private sector-style solution for the financial statement standard-setting challenge may have seemed like a logical and justifiable approach considering its success in a similar arena.

This wasn't a view that was shared by all as was clear from the comments of the Lambert Commission. But a person of considerable influence, Auditor General Macdonell did have the opinion that the public sector did not have adequate accounting standards and that this made it difficult for the Auditor General's Office to do its work. As a result, he entered into discussions with individuals from the CICA about this matter (CA Magazine, 1991).

The high degree of interaction between/among private sector accountants, government staff, and the CICA provided opportunity for the exchange of information and perceptions about these and other matters and the idea of having the CICA promulgate standards for the government to follow gained traction. Perhaps other solutions may have been possible, including solutions that were entirely internal to government. It does not appear, however, that a clearly articulated internal solution came to the fore. But the CICA solution was available, and in the end, it prevailed.

Thus, the role of influential actors (the Auditor General and members of the various investigative committees) and the identification of a model for an alternative approach for government accounting policy development served to disrupt the institutionalized practices of the previous system. The role of agency in institutional change is evident in this study. Moreover, the emerging normative practice of establishing generally accepted accounting principles developed by a



professional accounting body for the private sector in Canada may have been influential. The role of professions as institutional carriers (Muzio et al., 2013) is also evident in this study. We present evidence of the significant role played by professional accountants, suggesting normative influences, with the profession of accounting acting as a medium conveying values and norms that appear to have influenced the government accounting standard-setting process. Lawrence and Suddaby (2006) identify normative networks as “interorganizational connections through which practices become normatively sanctioned ...” (Lawrence and Suddaby, 2006: 224–225). The enlistment of professional accountants to study government accounting problems allowed for the infusion of a known “solution” of standardized generally accepted accounting principles and facilitated the labeling of the government’s problem as the lack of such standards.

N. Glenn Ross served as an important actor. He was influential in both government and CICA circles. He was a special advisor to the Auditor General of Canada for several years during the 1970s (Office of the Auditor General of Canada, 1977). He was chair of a Government of Canada committee to study and report on the accounts of Canada (Steering Committee to Study the Accounts of Canada, 1975) and vice-chair of the Auditor General initiated Financial Management and Control Study (Office of the Auditor General of Canada, 1975b). On the CICA side, Ross chaired a task force and a study group of the CICA, both of which were exploring the concept of government accounting standards and whether the CICA should play a role in their development (CICA Financial Reporting by Governments Study Group, 1980; CICA Task Force on Government Accounting, 1976). Ross ultimately became the first chair of the resulting government accounting standard-setting board (CA Magazine, 1981).

It appears that Ross and a collection of other professional accountants, including the Auditor General of Canada, played important roles in facilitating the institutional change that occurred in the development of government accounting standards. Professionalization has been described as the process through which a group of workers making up an occupation seek to define the conditions and methods of their work. The professionalization of accounting has been a subject of research interest for many years (see Cooper and Robson, 2006; West, 1996). An aspect of this process is “... the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly” (DiMaggio and Powell, 1983: 152). In this study, professional private sector accountants were involved in the process of government accounting problem identification. Some were invited by the Auditor General’s office from 16 different chartered accounting firms for the Financial Management and Control study, some were involved in studies of federal government accounting practices and the practices of the Office of the Auditor General (members of the firm, Coopers & Lybrand, played a prominent role here), and others were close advisors to the Auditor General. Many professional accountants, therefore, had opportunities to influence the perspectives of officials in the government departments that were in charge of preparing the financial statements. This is consistent with the existence of an inter-organization-spanning professional network that could provide a medium for accounting’s professionalization process to influence perspectives on government accounting practices. Given the preceding, we argue that the acceptance of the CICA as the standard-setting body for government accounting arose, in part, out of normative pressures emanating from the network of professional accountants involved in the government accounting and auditing arena.

But the strongest influence on this change in practice was certainly the Office of the Auditor General of Canada. Auditors General Macdonell and Dye forcefully advocated for change, through various studies, through their commentary in the annual reports of the Auditor General of Canada, through their offering of encouraging commentary about the CICA as a standard setter for government, through their audit opinions, and through the FGRS which provided illustrative financial statements that used the public sector standards of the CICA. Through these various means, the

federal government was nudged into change – first to change its own policies to be consistent with Public Sector Accounting Standards (in 1990) and then eventually to state that its policies were consistent with these standards (in 2006).

Suchman (1995) indicates that the process of generating new institutionalized practices begins with the cognition of problems associated with the existing institutions and naming those problems. Suchman (1995) proposes that an entity “may attempt to name the problem on its own, or it may refer the problem to the chartered label-giving institutions of a higher-order collectivity (e.g., professions, think tanks, regulatory agencies, and the like)” (p. 43). We note that in his various forms of discourse, the Auditor General, himself a member of the chartered accountant profession, enlisted a narrative that a lack of generally accepted accounting principles was problematic for the fairness of the government’s financial statements. It can be observed that this naming incorporated within it the implicit solution of creating generally accepted accounting principles for the public sector, something that already existed in the private sector. Adopting a solution that has already been successful in another arena demonstrates qualities that are similar to DiMaggio and Powell’s (1983) concept of mimetic isomorphism.

This article provides an account of the development of public sector accounting standards in Canada and their adoption by the Canadian Federal Government. It witnesses the modification of a long-standing practice of internally developed government accounting practices and highlights the role of agency in institutional disruption and the role of professions, through professional networks, in institutional change. As such, this study contributes to our understanding of the development of public sector accounting standards in Canada and provides an example of institutional change through agency and interorganizational professional networks.

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### Notes

1. The Canadian Institute of Chartered Accountants (CICA) is now part of the new, single professional accounting body in Canada known as the Chartered Professional Accountants (CPA) of Canada.
2. Although a committee of the CICA had been issuing authoritative bulletins on accounting practice since 1946 (Murphy, 1986).
3. We thank Jerry Gerard, Information Services Officer of CPA Canada, for his help in accessing these documents.
4. Informed by taken-for-granted beliefs (i.e. institutions), organizational practices become institutionalized when the appropriateness of them is not challenged or questioned.
5. The beginning of the Dominion of Canada at 1 July 1867 is known as “confederation.”
6. The Treasury Board is a Cabinet committee that oversees accountability, financial management, personnel, and administration for the various departments of the federal government.
7. During the period studied in this research, financial statements were always the responsibility of more than one department. In the mid-1970s to 1982–1983, the financial statements were signed by officials from both the Department of Finance and the Receiver General for Canada (e.g. see Receiver General for Canada, 1977). Beginning in 1983–1984, the President of the Treasury Board, the Minister of Finance,

and the Receiver General for Canada were jointly responsible for the financial statements (e.g. see Receiver General for Canada, 1990).

8. Canada's Auditor General is an Officer of Parliament and reports to Parliament and is accountable to Parliament; one of its roles is to perform an independent audit on the Financial Statements of the government of Canada which involves audits of its departments, agencies, crown corporations, and other government organizations (Office of the Auditor General of Canada, n.d.).
9. This might be considered a minor change relative to other, high-profile, legislative changes that were made that year – most notably, the addition of value-for-money auditing to the mandate of the Auditor General. See Free et al. (2013) for an historical study of that change.
10. Macdonell's final audit opinion of his term as Auditor General for the year ended 31 March 1979 contained a similar reservation (Receiver General for Canada, 1979), as did that of acting Auditor General Michael Rayner in 1980 (Receiver General for Canada, 1980) and that of the next Auditor General, Kenneth Dye in 1981 (Receiver General for Canada, 1981).
11. Legislative auditors is a general term for the Auditor General and his or her counterparts in the provinces and territories.
12. The identification that diverse financial reporting approaches were problematic as seen here is similar to an earlier situation with private sector accounting where the delegating of *private sector* accounting policy development to the CICA was called for at least in part because of "the acknowledgement, largely owing to public awareness, of serious concerns in the 1960s, that uniformity and consistency in reporting practices would be aided by the delegation of standard setting to the CICA" (Murphy, 1986: 33). The result of this was the "designation of the *CICA Handbook* recommendations as mandatory standards by the Canadian Securities Administrators in 1972, the Canada Business Corporations Act in 1975 and the Ontario Securities Act in 1978" (Murphy, 1986: 47).
13. However, typically, auditors' reservations of opinion occur within the context of the applicable financial reporting framework, not as a critique of the framework itself.
14. Rayner, now on the preparer side of the government financial statements, had served as acting Auditor General just a few years earlier and had issued a reserved opinion (see Note 10).
15. Auditor General Dye provided the Federal Government Reporting Study (FGSR) findings to Public Sector Accounting and Auditing Committee (PSAAC), and according to Dye, these findings were helpful to PSAAC in its work (Receiver General for Canada, 1986).

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