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GOVERNMENT FINANCIAL REPORTING

BACKGROUND

- 2.1** Members of the Legislative Assembly (MLAs) need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.
- 2.2** The Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province under the provisions of the Provincial Finance Act. Certain of these assignments include the need for Executive Council approval or ratification of planned actions.
- 2.3** The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. These include the following:
- Annual estimates (Section 7A)
 - Interim reports on state of public finances (Section 8B, see also Section 77)
 - Annual public accounts (Sections 9 and 10)
 - Remission of tax, penalty or other debts (Section 19B)
 - Additional appropriations (Section 28, see also Section 75)
 - Special warrants (Section 29, see also Section 59D)
 - Redemption or purchase of securities (Section 54)
 - Financial transactions (Section 59B)
 - Financial obligations (Section 59C)
 - Consolidated fiscal plan (Section 82)
 - Report on outcomes for fiscal year (Section 83)
- 2.4** Further, Section 73 of the Provincial Finance Act requires that crown corporation business plans, any proposed public financing and audited financial statements be tabled in the House of Assembly each year.
- 2.5** As a foreign registrant of the Securities and Exchange Commission (SEC) in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.
- 2.6** In addition to required financial reporting, government can and has periodically, at its discretion, released other financial information or reports publicly.
- 2.7** Professional standards require that the auditor of an entity with public accountability, like the Province, communicate with those having oversight responsibility for the entity's financial reporting process. For the Province's financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its

Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

- 2.8** In accordance with the professional standards referred to above, the Office of the Auditor General's 2004 *Performance Report and 2005 Business Plan* (issued March 8, 2005) included comments on the independence of the Auditor General position from government as well as on the professional conduct rules and standards adhered to by the Office.

RESULTS IN BRIEF

- 2.9** The following are our principal observations in this chapter.

- The Auditor General's audit report on the Province's March 31, 2005 consolidated financial statements was unqualified. It was tabled September 28, 2005 as part of the March 31, 2005 Public Accounts. A management letter on this year's audit was issued to government in November 2005.
- During 2004-05, there were two audits conducted by private sector firms which resulted in reporting of significant control weaknesses. One audit was of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions of the Department of Finance and the other was a service auditor report on Finance's SAP Customer Competency Centre. Certain of the more significant issues identified in these audits are consistent with concerns raised by our Office a number of times in the past. The issues reported as a result of these audits should be fully addressed on a timely basis and subject to appropriate audit coverage.
- No additional appropriations have been approved since our last Report, released in June 2005. Additional spending authority for 2004-05 of \$132,992,000 for net program expenses and \$26,451,000 for debt servicing costs, where approved vote totals were exceeded, requires Order in Council (OIC) approval within 90 days of the release of the March 31, 2005 Public Accounts. No special warrants have been approved since our last Report.
- Current legislation does not provide for effective control by the House of Assembly of spending authority limits. For example, there was no debate in the House of Assembly concerning the funding of certain tourism and other strategic initiatives which resulted in \$61.6 million in additional appropriations.
- There is a need to clarify what constitutes a special warrant versus an additional appropriation. There were a number of strategic funding initiatives announced in 2004-05. Some of these initiatives may have met the criteria for a special warrant and, thus, should have been approved by OIC prior to the related spending. Management has indicated that a legal review of Section 29

of the Provincial Finance Act will be performed prior to the implementation of any similar strategic initiatives.

- In order for government's consolidated financial statements to become more compliant with generally accepted accounting principles (GAAP), there is a need to examine the basis upon which the government's budget is prepared. It should be prepared on the same basis as the consolidated financial statements and comply with GAAP.
- The openness and transparency of government's reporting in its budget and forecasting documents would be improved if there was disclosure of the uncertainty associated with the numbers included in those documents and how government has addressed those uncertainties. For example,
 - Government budgets have included amounts for crown entities when business plans have yet to be approved.
 - Any contingencies in government budgeting or forecasting information, to deal with uncertainties, should be clearly disclosed in the applicable document.

SCOPE

- 2.10** The Auditor General Act provides broad mandates for the Office to examine and report on the use and control of public funds or resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual coverage and reporting by the Auditor General on the Province's consolidated financial statements (audit - high assurance) and government's revenue estimates (review - moderate assurance), Section 9A (1) (e) provides for specific reporting on cash and other losses within government. The Office is also required to review the Province's annual U.S. SEC filing documents.
- 2.11** The annual financial statements of various crown entities and trusts are, depending on statutory or other arrangements, audited and reported upon by the Auditor General or a public accounting firm. We consider the results of those financial statement audits, as well as other government financial reporting, where appropriate, during the conduct of the Office's discretionary broad scope assignments in selected areas each year.
- 2.12** The purpose of this chapter is to provide summary comments and observations on government's financial reporting, including information on our annual examinations of the Province's consolidated financial statements and the government's revenue estimates.

PRINCIPAL FINDINGS

Audit of Province's Consolidated Financial Statements

- 2.13** Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the Province's consolidated financial statements which are government's responsibility, represented primarily by the Minister of Finance.
- 2.14** Government tabled and released the Province's March 31, 2005 consolidated financial statements on September 28, 2005 as part of Volume 1 of the Public Accounts. The Auditor General's opinion on those statements was unqualified.
- 2.15** **GAAP compliance** - Government follows Canadian generally accepted accounting principles (GAAP) for the public sector to the extent necessary to provide an unqualified opinion, however, there are certain specific requirements not yet being fully met. For example, the following are identified areas where government should consider fuller GAAP compliance in the future.
- The consolidated financial statements do not include budget amounts for the line items on the Statement of Operations and Statement of Change in Net Direct Debt. This disclosure is required by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB). Related to this, government does not yet prepare or present its budget on a basis fully consistent with that used for the consolidated financial statements. Information is included in the Financial Statement Discussion and Analysis (FSDA) section of Volume 1 of the Public Accounts in order to compensate for this lack of disclosure in the statements themselves.
 - PSAB requires that expenses be disclosed at gross value. However, there are various user fees, chargeables, and recoveries which are netted against expenses on the Consolidated Statement of Operations. Note 9 to the financial statements provides some disclosure of the amounts netted against expenses but does not provide a breakdown of gross expenses by line item on the Statement of Operations. We were informed that expenses are disclosed on a net basis to be consistent with the budget which is presented on a net basis.
 - There are federal transfer payment revenues recorded as recoveries and netted against expenses. We identified \$161.6 million in federal payments which were recorded as recoveries. The impact of this accounting treatment is an understatement of revenues and expenses with no impact on the surplus balance. We were informed that these revenues are treated as recoveries to be consistent with treatment in the budget.
 - When consolidating the tangible capital assets (TCA) balances of entities included in the reporting entity, those balances are not adjusted to comply with the government's TCA accounting policy requirements for such factors as thresholds, amortization rates and useful life expectancy. Management has indicated that there would be practical challenges in implementing this requirement and that the costs of doing so would exceed the benefits.

- A number of smaller crown entities and government partnership arrangements are not yet fully and appropriately accounted for in the consolidated financial statements. The impact of this is an understatement of net assets and an overstatement of net direct debt of approximately \$24.1 million.
- Derivative transactions are recorded between the consolidated fund, the sinking fund, and the public debt retirement fund of the Province. These are inter-entity transactions which should be eliminated. The impact of these inter-entity transactions not being eliminated during consolidation is an overstatement of the current surplus of \$7.4 million, an understatement of liabilities of \$13.2 million, and an understatement of opening net direct debt of \$5.8 million.

2.16 The concerns related to compliance with GAAP noted in the first three bullets above are a result of the presentation of information in the budget. We understand that a working group has been formed to review the usefulness and format of the content of the Province's financial reports, including the budget, to ensure they meet the requirements of users. We believe this is a valuable exercise but would like to point out that any recommendations from this group should comply with GAAP.

Recommendation 2.1

We recommend steps be taken to ensure the Province complies more fully with generally accepted accounting principles, especially with regard to disclosing GAAP-compliant budget information in the financial statements.

2.17 It is important to acknowledge that the accounting standards and pronouncements that make up GAAP continue to evolve. There are new accounting pronouncements and some in process that will have an impact on the government's future financial reporting. For example, the following are more significant matters on which PSAB has recently released final pronouncements or is developing new or revised pronouncements:

- liabilities, contingent liabilities and contractual obligations;
- generally accepted accounting principles;
- government transfers; and
- financial instruments.

2.18 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. Further, government should disclose the nature and impact of required or planned accounting changes as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

2.19 **Systems and controls** - Government, primarily through management of the Department of Finance, is responsible for preparation of the Province's consolidated financial statements. This includes responsibilities related to internal control, such as designing and maintaining accounting policy statements and control procedures, safeguarding assets, preventing and detecting error and fraud, and awareness of circumstances that could result in fraudulent financial reporting.

2.20 Government's senior executive management is responsible for the design, implementation, operation and maintenance of controls. Responsibility for systems and control processes within government needs to be clearly defined and communicated on a more comprehensive basis. While the Provincial Finance Act includes general references to the roles and responsibilities of the Minister and Deputy Minister in this regard, there needs to be additional guidance developed. This would include the roles and responsibilities of departmental and crown entity governing bodies and senior management in relation to control and risk management.

Recommendation 2.2

We recommend internal controls within government, including specifically the positions with roles and responsibilities for control effectiveness, be clearly documented and effectively communicated.

2.21 In conducting our audit, we obtained a sufficient understanding of the systems and controls to plan the audit. Where we relied upon controls, sufficient audit evidence was obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2005 consolidated financial statements was not planned or conducted in order to conclude on the adequacy of the overall level or quality of controls.

2.22 While conducting the financial statement audit, areas were identified where internal controls could be strengthened or operating improvements achieved. Certain matters identified during the current year have implications which warrant government's consideration. These have been communicated to Finance as part of a management letter. As part of the audit of the Province's March 31, 2006 consolidated financial statements, we will follow up on these matters to determine the status of actions taken or planned.

2.23 **Management letter** - In November 2005, a management letter was issued to government providing various observations from our audit of the Province's March 31, 2005 consolidated financial statements. That letter also included management responses to many of the matters we reported. The management responses were reproduced verbatim as provided to our Office. Inclusion of managements' responses in the letter does not signify our agreement with them. The following are the more significant observations reported and recommendations made which have not already been included in other parts of this chapter. The last bullet,

concerning control weaknesses in Service Nova Scotia and Municipal Relations, includes information which was not included in the management letter. This information is from a follow-up assignment conducted by our Office.

- Government's preparation of the Province's consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to differences between future actual results and government's assumptions upon which the accounting estimates were based. At the conclusion of this year's audit, there were no significant outstanding concerns with the estimates used in preparing the March 31, 2005 consolidated financial statements.
- During the audit of the March 31, 2005 consolidated financial statements, a number of accounting, disclosure and audit issues arose, and were communicated to government staff at various points in the audit process. Some, but not all, of these were resolved either by review of additional information provided or by adjustments to the financial statements.
- With regard to the Province's consolidated financial statements and other government financial reporting, it is appropriate for all known errors or identified misstatements to be corrected, other than trivial ones. However, it is not unusual for financial statements of an entity of the size and nature of the Province to have residual issues at the conclusion of an audit. Such unresolved, unadjusted errors or differences are considered when preparing the Auditor's Report on whether the statements "present fairly" in accordance with GAAP.
- A key control for ensuring reliable financial reporting and safeguarding of resources is the existence of documented policies and the effective communication of those policies. In February 2003, updated government Management Manuals were released on the Treasury and Policy Board website. These manuals include some, but not all, relevant policies. Government Accounting staff have acknowledged the need and intention to further develop and enhance government's financial management and accounting policies. However, there have been no new policies added to the manuals since they were released. We understand that there are some draft policies developed which are awaiting approval.

Recommendation 2.3

We recommend a defined plan and schedule be developed to ensure the government management manuals are updated, to include all relevant financial and accounting policies, in a timely manner.

- One of the components of internal control is risk assessment and the processes established to respond to identified risks in order to ensure government objectives are achieved. This includes risk assessment and processes to ensure

the integrity of the financial statements. As part of our planning for the audit of the financial statements, we requested that the Deputy Minister and senior financial executive of each department and agency of government complete a management inquiry questionnaire. One question included was “Has the risk of a material misstatement of the financial statements due to fraud been assessed?” “No” was the common answer to that question. There should be an ongoing process in place to identify the risks to the integrity of the financial statements and ensure the exposure is minimized. This process should be documented. This is an important component of an effective internal control system.

Recommendation 2.4

We recommend an ongoing process be established to identify the risks to the integrity of the financial statements and ensure the exposure is minimized. This process should be documented.

- The existence of an effective internal audit function in government is an important mechanism to assist management in monitoring its discharge of responsibilities for the use and control of public resources. Government’s internal audit function is centralized within the Department of Finance.

There have been a number of organizational changes within internal audit since it was centralized which have been detrimental to its effective functioning. As a result, management established a committee in 2004-05 to review the mandate, governance and organizational structure of the internal audit function to ensure it will become effective. The recommendations of this committee were approved in principal in February 2005. Based on the recommendations, the role of internal audit in government will be changing to focus more on business risks; including a risk-based approach to audit planning and auditing and assessment of whether government’s risk identification and mitigation practices are adequate. We acknowledge the efforts that have been made aimed at supporting the effective functioning of internal audit within government and encourage continued commitment in this regard.

We understand that with this changing focus of internal audit, there may be fewer internal audit resources available to departmental management for audits of internal controls. With reduced internal audit resources available for compliance audits, it is important for government and departmental management to ensure internal controls are effective and adequately monitored.

Recommendation 2.5

We recommend government and departments ensure roles and responsibilities for internal control are being performed effectively and, where appropriate, subject to adequate coverage by internal audit or other audit resources.

- An audit of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions was completed for Finance by a private sector firm during 2004. A final report was released publicly in December 2004. It identified significant control weaknesses which resulted in a denial of opinion. It should be noted that certain of the more significant issues identified as a result of this audit are consistent with concerns raised by our Office a number of times in the past.

From a financial statement audit perspective, we have assessed this area as high risk and as such have not placed any reliance on internal controls when completing testing for the audit. Management has indicated that all major aspects of the audit have been implemented. We have not assessed the action taken on the recommendations. We recommend a follow-up audit be conducted by this firm or another one with the expertise necessary to effectively follow up on the weaknesses identified during the audit. Until an unqualified opinion is received, the denial of opinion may have to be disclosed in the government's U.S. SEC and any other financial filings. Further, the House and public should receive independent, qualified audit reporting on whether all concerns have been adequately resolved.

Recommendation 2.6

We recommend that government make arrangements to conduct a follow-up audit on the governance and control framework relating to the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions of the Department of Finance. This audit should be completed by a private sector firm with the expertise necessary to effectively follow up on the weaknesses identified during the audit.

- During 2004-05, government contracted for an annual service auditor review of Finance's SAP Customer Competency Centre (CCC). This included a service auditor report on controls for the centralized SAP infrastructure and support functions performed by the CCC for government and for a number of public sector entities. The first service auditor report contained a reservation of opinion for eight control procedures in five of nine areas. (See Report of the Auditor General, June 2005, Chapter 3, paragraphs 3.16 and 3.17). This first report provided an opinion as at a specific point in time (November 15, 2004). The contractual arrangement with the service auditor calls for further audits. The weaknesses identified in the first report should be addressed so that an unqualified opinion may be provided in the future. It should be noted that certain of the more significant issues identified as a result of this audit are consistent with concerns raised by our Office a number of times in the past.

The results of the service auditor report were considered when planning audit coverage for the March 31, 2005 audit of the Province's consolidated financial statements. To date, this has been the only service auditor report issued. Management has indicated that they plan to have the next audit begin

in February 2006 covering the period April 1, 2005 to March 31, 2006. We encourage the Department to implement its plan so that the resulting audit opinion will be available for use in the Province's March 31, 2006 financial statement audit and by public sector entities which use the CCC.

Recommendation 2.7

We recommend government take steps to ensure weaknesses identified in the first service auditor report for the centralized SAP infrastructure are addressed so that an unqualified opinion may be provided. As well, the next report should be completed and issued so it is available for use in the March 31, 2006 financial statement audits of the Province and entities which use the SAP Customer Competency Centre.

- During 2004-05, a suspected fraud was discovered in the Business Registration Unit (BRU) of SNSMR. The occurrence of this suspected fraud was considered in planning the March 31, 2005 audit of the Province's consolidated financial statements. As a result of the suspected fraud, a public accounting firm was engaged to complete a review of controls over cash receipts and refund processes in the BRU. A report from this review was issued in May 2005 and recommended a number of changes to improve controls.

Our Office completed a review of the Department's progress in implementing the review recommendations in October. As part of our review, we discussed, with staff, the progress made in addressing the recommendations. We did not verify the actions taken to date as indicated by staff.

In August 2005, a Departmental response to the recommendations in the firm's report was approved by the Deputy Minister. The response outlined agreement with most of the recommendations and indicated how the Department intended to address them. In September 2005, a project leader was appointed to ensure that the indicated changes were implemented. At the time of our review in October, we found only a small number of changes had been made, and most of these were to processes within the specific area where the suspected fraud had occurred. These changes were made to eliminate the specific vulnerabilities exploited. A number of the report's recommendations target enhancement of information technology systems. Systems development projects are planned or underway to address these. There are plans in various states of completion for most of the other recommendations, but no significant changes have yet been made to address the risks identified.

Recommendation 2.8

We recommend management address the recommendations to improve controls within the Business Registration Unit of SNSMR in a timely manner.

- 2.24** [Financial Statement Discussion and Analysis \(FSDA\) section of Public Accounts](#) - Professional standards require that an auditor make arrangements for a pre-release general review of any information or other documents to be released concurrently, or in combination with, financial statements upon which the auditor has or will be reporting.
- 2.25** We reviewed, but did not audit, the information in the FSDA section of Volume 1 of the March 31, 2005 Public Accounts.
- 2.26** We acknowledge that changes have been made to the content of the FSDA this year based upon new guidelines issued by the Public Sector Accounting Board (PSAB). We encourage government to continue to improve the content of the FSDA.

Review of Government's Revenue Estimates

- 2.27** Under Section 9B of the Auditor General Act, the Auditor General is mandated to examine and report on government's annual revenue estimates. Our next planned reporting under Section 9B will be on the government's 2006-07 revenue estimates, which will be tabled in the House along with the supporting information for the 2006-07 Budget.
- 2.28** As part of our revenue estimates review, we refer to pronouncements of the Canadian Institute of Chartered Accountants (CICA), including those directed to management preparers of future-oriented financial information (FOFI). Each year, we notify Finance that the Department should ensure appropriate compliance with those pronouncements when preparing and presenting the revenue estimates.
- 2.29** Subsequent to our review under Section 9B of government's 2005-06 revenue estimates, we issued a management letter to Finance in May 2005. That letter provided additional observations and comments from our review of the 2005-06 revenue estimates and other related information included in the Minister of Finance's April 26, 2005 Budget Address and supporting documents. A summary of selected matters and the recommendations from that letter were included in Chapter 2 of the June 2005 Report of the Auditor General.
- 2.30** The information in paragraphs 2.28 and 2.29 will be considered as part of our review of the 2006-07 revenue estimates.

OTHER MATTERS

- 2.31** [New pronouncements from the CICA's Assurance Standards Board](#) - As a result of new pronouncements from the CICA's Assurance Standards Board, additional and enhanced quality control procedures will be required for the Office's assurance examinations, including our review of the government's revenue estimates and our audit of the Province's consolidated financial statements. These changes will add additional time and effort to our assurance examinations, and will require more time between the completion of our work and the issue of the Auditor General's

opinion. Government will have to include added lead-time for our quality review processes as part of its scheduling for the 2006-07 Budget and 2005-06 consolidated financial statement processes and related printing.

- 2.32** [Additional appropriations and special warrants](#) - Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the June 2005 Report of the Auditor General, Chapter 2.
- 2.33** No additional appropriations have been approved since our last Report. Based on the information included on page 31 of the Financial Statement Discussion and Analysis section of Volume 1 of the March 31, 2005 Public Accounts, additional appropriations are required for 2004-05. Additional spending authority is required for 2004-05 of \$132,992,000 for net program expenses (approved totals of 12 votes were exceeded) and \$26,451,000 for debt servicing costs. These require Order in Council approval within 90 days of the release of the March 31, 2005 Public Accounts.
- 2.34** While it may be too early to determine the additional spending authority ultimately required for the 2005-06 votes, information included in the government's Forecast Update dated August 31, 2005 indicated that the voted appropriations in four departments were forecasted to be exceeded.
- 2.35** During 2004-05, government approved \$10 million of funding for tourism initiatives (November 2004) and \$71.9 million for a number of strategic funding initiatives (December 2004). These initiatives are reflected in the 2004-05 spending totals resulting in the requirement for \$61.6 million of the \$132,992,000 in additional spending authority noted above. Under current statutory provisions, government's decision to fund such initiatives is within its authority. Our intention is to reemphasize a point we have made on numerous occasions in previous reporting: current legislation does not provide for effective control by the House of Assembly of spending authority limits.
- 2.36** According to Section 29 of the Provincial Finance Act, expenses which have not been provided for by the Legislature and are urgently and immediately required for the public good, must be approved by Order in Council (OIC) as special warrants. We note that, since our last Report, there have been no special warrants approved by Executive Council under Section 29 of the Provincial Finance Act.
- 2.37** There were a number of strategic initiatives announced in 2004-05, which are discussed above, none of which were approved by OIC prior to the related spending. Some of these initiatives may possibly meet the criteria of a special warrant and thus should have been approved by OIC in advance of the spending.
- 2.38** There is a need to clarify the difference between a special warrant and an additional appropriation. Management has indicated that a legal review of Section 29 of the Provincial Finance Act will be completed prior to the implementation of any similar strategic initiatives.

- 2.39** **Provincial budgets and forecasts** - As part of our audit work on the consolidated financial statements, we obtain explanations for significant variances between the 2004-05 budget figures and actual results. When examining restructuring costs, we found the workforce adjustment cost centre in this appropriation had a budget of \$4.0 million and actual costs of \$0.2 million, a reduction in costs of \$3.8 million. The explanation provided for this variance was that the budget for this cost centre is a contingency. It is known that some funds will be spent in this area, but the amount is not known. As a result, the budget is kept at approximately \$4 million.
- 2.40** As well, the business process reengineering cost centre had a budget of \$5.1 million and actual costs of \$2.4 million, a reduction in costs of \$2.7 million. The explanation provided for this variance was that staff do not know how many initiatives will occur under this cost centre during the year. For the 2004-05 budget, there were known initiatives of \$1.5 million but the remaining \$3.6 million was unallocated.
- 2.41** As part of our audit work, we also obtained a variance analysis and explanations between the 2004-05 latest forecast, included in the 2005-06 Budget documents, and the 2004-05 actual costs for restructuring. There were three cost centres within this appropriation which had significant variances - work force adjustments; business process reengineering; and human resource strategy. The total April 2005 forecast (i.e., the 2004-05 forecast included in the 2005-06 Budget) for these cost centres was \$17.75 million while the actual costs were \$3.18 million, a reduction from forecast of \$14.57 million. The explanation provided for this variance was that there is uncertainty involved in the forecasting process and, as a result, the restructuring cost appropriation contains a contingency to offset this uncertainty.
- 2.42** During the budgeting and forecasting process, uncertainties can be mitigated by contingencies. In these cases, the contingencies should be clearly disclosed in the applicable document. As well, there is a need for clearly defined policies and procedures concerning the use of contingencies; including when to use them, the approach used to determine the amount, and the review and approval process for amounts used.

Recommendation 2.9

We recommend that policies and procedures concerning the use of contingencies in the Province's budgets and forecasts be clearly defined and communicated. When contingencies are used, they should be specifically approved by Executive Council and clearly disclosed in the applicable document.

- 2.43** Government budgets have included amounts for crown entities when business plans have yet to be approved. For example, government's 2004-05 Budget included \$487.3 million in funding for the Capital District Health Authority

(CDHA). Subsequent to the approval of the government's budget, the business plan of the CDHA was approved with a budget of \$517 million, an increase of \$29.7 million.

- 2.44** When government's budget includes amounts for crown entities with unapproved business plans, there is a known risk in the achievement of the budget. This risk should be disclosed. Government may not know the final approved budget of the entities but the entities' requests in comparison to the amount included in government's budget are known. These differences should be disclosed in the government's budget.

Recommendation 2.10

We recommend adequate disclosure in government's budget documents of the risks in achieving the budget.

- 2.45** **U.S. SEC annual filing** - In order for the Province to issue debt in the United States market, government must have an Annual Report (Form 18K) on file at the U.S. SEC. This report is supposed to be updated annually by December 31. We reported in Chapter 2 of the June 2005 Report of the Auditor General that the Province's Form 18K had not been updated since December 2003 when it was updated for the 2002-03 fiscal year.
- 2.46** The Form 18K was updated and filed for the 2004-05 fiscal year in November 2005.
- 2.47** **Cash and other losses** - Section 9A (1) (e) of the Auditor General Act requires that we report every case in which we have observed that "... there has been a deficiency or loss through fraud, default, or mistake of any person".
- 2.48** The Nova Scotia Management Manuals no longer contain a requirement for departments and crown entities to report losses to this Office. However, some departments have reported the following losses to us for 2004-05. The list below may not include all losses; just the ones reported to our Office.

Departments	Cash	Property	Total
Environment and Labour	\$197	\$6,769	\$6,966
Finance	-	5,150	5,150
Justice	397	3,904	4,301
Nova Scotia Advisory Council on the Status of Women	-	300	300
Office of the Auditor General	-	750	750

Service Nova Scotia and Municipal Relations ⁽¹⁾	362,144	22,221	384,365
Tourism, Culture, and Heritage	<u>-</u>	<u>553</u>	<u>553</u>
Total Reported	\$362,738	\$39,647	\$402,385

(1) A \$360,482 cash loss was discovered in 2004-05 but relates to losses incurred from April 1, 1997 to December 31, 2004

2.49 In addition, there are other possible losses identified as a result of work by government internal audit which are still under investigation.

CONCLUDING REMARKS

2.50 Improvements are required in government's financial reporting. We support government's plans to review the content of its financial reports to ensure they meet the needs of users. These actions contribute to the quality of government's financial reporting. The resulting reports should be in accordance with generally accepted accounting principles and other appropriate professional pronouncements.
