



7 Government Financial Reporting

Summary

The Auditor General's opinion on the 2008-09 revenue estimates was tabled in the House of Assembly on April 29, 2008. It contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles (GAAP).

We issued a management letter on the revenue estimates outlining our findings and observations. We recommended the budget be prepared and presented fully in accordance with GAAP and that the Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of revenue estimates, given the Department's responsibility for the preparation of the estimates. We also recommended offshore forfeitures be estimated and included in the revenue estimates.

The Minister of Finance tabled the Province's audited consolidated financial statements on August 5, 2008. The Auditor General's opinion on these financial statements was unqualified.

Several findings and observations resulting from the audit were reported in a management letter issued to the Minister of Finance in August 2008. While our findings were neither individually nor cumulatively significant enough to affect the opinion on the consolidated financial statements, each impacts the integrity of the financial results.

As in previous years, we made several comments with respect to systems and controls. We recommended internal controls and related roles and responsibilities be documented. We have suggested or recommended this action several times since first noting it in 2003. We are concerned with the slow progress in implementing this recommendation.

We are required under Section 9 of the Auditor General Act to report any appropriations that were exceeded during the year. Two additional appropriations were required totaling \$385.3 million for 2007-08. Additional appropriations have increased from \$99.0 million in 2003-04 to \$385.3 million in 2007-08, an increase of \$286.3 million over this five year period.

We noted, as we have several times over the past years, that the current process to approve additional appropriations reduces accountability to and control by the House of Assembly. We suggested Cabinet consider developing a process to involve the full House of Assembly in the process to approve additional appropriations.



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Background

- 7.1 The Provincial Finance Act establishes the roles and responsibilities of the Minister and Deputy Minister of Finance. Key among these are financial reporting requirements, including the preparation of estimates, public accounts and forecasts. These reporting requirements are a significant component in the accountability framework between the Department and the House of Assembly. The framework also includes:
- the annual tabling of crown corporations' business plans, audited financial statements and proposed public financing in the House of Assembly;
 - the filing of required documents as a foreign registrant of the Securities and Exchange Commission in the United States (or its equivalent in other countries);
 - other discretionary financial information or reports released to the public;
 - the oversight responsibility of the Executive Council; and
 - the role of the House of Assembly itself, including the Public Accounts Committee, in holding government accountable for the use and control of public funds.
- 7.2 As an independent audit office, the Office of the Auditor General's role in the accountability framework is established through the Auditor General Act. The broad mandate of the Act provides for the Office to examine and report to the House of Assembly on the use and control of public resources by government and its controlled entities, as well as recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual reporting by the Auditor General on the Province's consolidated financial statements (an audit engagement, providing a high level of assurance with an audit opinion), and Government's revenue estimates (a review engagement, providing a moderate level of assurance).

Chapter Objective

- 7.3 The purpose of this Chapter is to provide summary comments and observations on the government's financial reporting, including:
- information on the results of our review of the Government's 2008-09 revenue estimates included in the April 29, 2008 budget documents;

- summary comments and observations on our audit of the Province's March 31, 2008 consolidated financial statements;
- comments on the significance and timing of additional appropriations; and
- other matters.

Significant Observations

Review of 2008-09 Revenue Estimates

- 7.4 *Conclusions and summary of observations* – The Auditor General's opinion on the 2008-09 revenue estimates was tabled in the House of Assembly on April 29, 2008 along with the Government's budget documents. It contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles (GAAP).
- 7.5 The opinion on the revenue estimates was qualified because the revenue estimates did not include revenues for certain governmental units. The budget was therefore not prepared on a fully consolidated basis which is inconsistent with the basis of presentation for the consolidated financial statements. In addition, we were not able to determine the extent of these revenues. This resulted in a scope limitation. We recommended future revenue estimates include all revenues of the consolidated entity. We further recommended revenue for offshore forfeitures be estimated and included in the revenue estimates. Finally, we recommended the Department of Finance take the necessary steps to ensure it is provided with all information to fulfill its responsibility for preparing the revenue estimates.
- 7.6 *Preparation of revenue estimates* – Our review of the revenue estimates for 2008-09 was again qualified. These qualifications are indicative of deficiencies in the budget process as it relates both to completeness of revenues at specific departments, and also accountability to the Department of Finance, which has overall responsibility to report the budgeted revenue figures.
- 7.7 The revenue estimates presented in the April 29, 2008 budget document exclude certain revenues from third parties. Specifically, these revenues relate primarily to the Departments of Health (district health authorities) and Education (regional school boards). Canadian generally accepted accounting principles require these revenues be reported as separate revenue line items in the Government's revenue forecast.
- 7.8 These third party revenues, examples of which are ancillary operations in health authorities and municipal funding in school boards, are included



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elsewhere in the budget document as an offset against expenditures of the respective governmental units. Budgeted revenues and expenses for all governmental units net to zero on the total provincial budget. Since these revenues have not been estimated, and are not reported separately, the revenue estimates are not complete, and are therefore not in accordance with Canadian generally accepted accounting principles. The budgeting process around these revenues, in addition to being incorrect from an accounting perspective, does not provide users of the budget document with a true understanding of either the budgeted revenues or expenditures of the related Departments. Such information would facilitate the review or challenge of revenue and spending plans.

- 7.9 According to the Provincial Finance Act, ultimate responsibility for the preparation of the annual estimates of the Province, including the revenue estimates, rests with the Minister of Finance. This information is to be prepared under the direction of the Deputy Minister of Finance. The preparation of the estimates includes ensuring that the revenue estimates and the related assumptions developed throughout government are reasonable, appropriately supported, complete and presented in accordance with Canadian generally accepted accounting principles. The Department of Finance must have the authority to compel departments to provide all necessary information in order to meet its responsibility for completing the annual estimates.
- 7.10 The Department of Finance was not provided with detailed support for these third party revenue items from the respective Departments and therefore was not able to effectively fulfill its mandate. The Department of Finance was advised that this information was not available at budget date. Consequently the Department of Finance was not able to provide our Office with either quantification of, or support for, these revenues. Accordingly, we were unable to perform a review of these third party revenues, including the determination of their nature and magnitude. This lack of information represents a significant scope limitation in our report and led to a qualified opinion.
- 7.11 We are aware that neither district health authorities' nor regional school boards' budgets are approved until after the start of the province's fiscal year. We appreciate there are difficulties in estimating these third party revenues, and that this poses a challenge to determining complete budgets for these Departments. However, we emphasize the need for recognition of these revenues in the budget, and therefore we recommend that future revenue estimates include these amounts. The supporting assumptions and calculations used to determine these revenues should be provided to the Department of Finance.

Recommendation 7.1

The Department of Finance should ensure the Provincial budget includes all revenues of the consolidated entity in order to comply with Canadian generally accepted accounting principles.

7.12 *Offshore forfeitures* – In prior years, we reported our concern that there was no estimate of revenue from offshore forfeitures. This was again an issue resulting from our review of the 2008-09 Revenue Estimates. Exhibit 7.1 provides details of actual offshore forfeitures in each of the past five years.

Exhibit 7.1 - Offshore Forfeiture Revenue

Year	Revenue (in millions of dollars)
2007-08	107.1
2006-07	4.2
2005-06	43.2
2004-05	61.0
2003-04	1.2

7.13 Government has indicated the volatility and uncertainty of this revenue item necessitates a conservative approach to its budgeting. We emphasize the need for determining this revenue item for budget purposes in order to avoid significant budget to actual variances during the year. This ensures the completeness of the revenue estimates. It also potentially reduces the need for additional appropriations as these revenues can be considered in the annual spending plans of the Government.

Recommendation 7.2

Revenues from offshore forfeitures should be estimated by the Department of Energy and included in the revenue estimates of the Province.

7.14 *Information requests* – During this year’s engagement, our Office’s representatives again met with resistance obtaining supporting documentation for certain other revenues and cost recoveries. In addition, in order to ensure recoveries were appropriately classified and to support the amount, we required information on related expense items. There was again considerable resistance to this request.

7.15 Under our mandate to review the budget revenue estimates we are obligated to seek, and the respective departments are obligated to provide, whatever supporting evidence we deem appropriate to support the opinion. The nature of the evidence we have requested is reasonable and the timelines expected for its collection in line with the expectations for the development



of annual departmental budgets in support of the overall Provincial budget forecast.

- 7.16 The problems we encountered in obtaining support for these revenue items may again be related to the absence of an established budget preparation protocol between the Department of Finance and other departments. While this information was eventually made available, the initial resistance to providing the appropriate support caused delays in the timely completion of our review.

Recommendation 7.3

The Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of the revenue estimates.

- 7.17 *Other matters* – We provided a management letter as a result of our review of the 2008-09 revenue estimates. This letter detailed a number of other issues and findings as follows:

- the internal process to review the economic assumptions should be formalized;
- key economic and other assumptions should be approved by Executive Council or Treasury and Policy Board; and
- inputs to the revenue models should be reviewed for accuracy.

- 7.18 We made recommendations related to each of these items and will assess progress in implementing our recommendations during our review of the 2009-10 revenue estimates.

- 7.19 *Prior year's recommendation* – During the review of the 2007-08 revenue estimates, we recommended the review opinion on the revenue estimates included in the budget documents be immediately followed by two schedules: a schedule of the revenue estimates the opinion is referring to, and a schedule of the key assumptions used in the development of the revenue estimates. We are pleased to acknowledge management has implemented this recommendation, improving clarity in the presentation and disclosure of the revenue estimates.

Results of the March 31, 2008 Audit of the Province's Consolidated Financial Statements

- 7.20 *Conclusions and summary of observations* – The Minister of Finance tabled the Province's audited consolidated financial statements on August 5, 2008, well in advance of the legislated deadline of September 30. The Auditor General's opinion on those statements was unqualified. Once again, we



commend the efforts of the Government Accounting division of the Department of Finance in preparing and releasing more timely financial results.

- 7.21 A management letter including detailed findings and other comments resulting from the audit was issued to the Minister of Finance in August 2008. While our findings were neither individually nor cumulatively significant enough to affect the opinion on the consolidated financial statements, each impacted on the integrity of financial results. We have made recommendations in the following paragraphs on several matters, including the need to document internal controls and the roles and responsibilities related to these controls. This documentation would help ensure the consistent processing of transactions and promote the integrity of recorded amounts.

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Communication of results

- 7.22 *Preparation of consolidated financial statements* – The Department of Finance’s Government Accounting Division is responsible for the preparation of the Province’s consolidated financial statements. Our Office is the legislated auditor of these statements. A financial statement audit is planned and conducted to obtain reasonable, but not absolute, assurance whether the financial statements are free of material misstatement. An audit includes assessing the risk that financial statements may contain material misstatements; examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and their application; and assessing significant estimates made by management.
- 7.23 Based on our audit, we concluded the financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2008 and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with GAAP for the public sector.
- 7.24 *Review of supporting information* – Professional standards require that an auditor review, prior to their release, any information or other documents to be released concurrently, or in combination, with financial statements upon which the auditor has or will be providing an opinion. We reviewed, but did not audit, the information in the Financial Statement Discussion and Analysis (FSD&A) section of Volume 1 of the March 31, 2008 Public Accounts. We did not find any inconsistencies between the information in the FSD&A and the information in the consolidated financial statements.



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Systems and Controls

- 7.25 *Internal controls* – We have commented on the need for documenting internal controls and roles and responsibilities in each of 2003, 2004, 2005, 2006 and as recently as the February 2008 Report of the Auditor General. Government response to our comments or recommendations has generally indicated agreement. However, we are concerned with the slow progress towards achieving this goal.
- 7.26 Government has indicated it is in the process of documenting its system of internal controls. We are aware of a pilot project being conducted at Service Nova Scotia and Municipal Relations (SNSMR) to develop a framework on assessing and documenting internal controls. We understand the progress of the project will be dependent on available funding.
- 7.27 In addition to our continued finding regarding the lack of documentation of both internal controls and related roles and responsibilities, we were also concerned with the responses we received on this issue during our March 31, 2008 audit. As part of our audit procedures, we sent a questionnaire to departments and agencies requesting information on changes during the year. One question asked whether internal controls and other processes related to financial reporting had been documented. Several responses indicated the relevant department or agency adhered to all Provincial government policies and procedures for financial reporting without reference to internal control documentation. Other responses indicated adherence to the Management Manuals maintained by Treasury and Policy Board. We noted these policies do not provide for documentation of internal controls.
- 7.28 The Provincial Finance Act includes general references to the roles and responsibilities of the Minister and Deputy Minister for internal controls. Additional guidance needs to be developed, and effectively communicated on a more comprehensive basis. This would include the roles and responsibilities of departmental and crown entity governing bodies and senior management in the design, implementation, operation and maintenance of internal controls.
- 7.29 The significance of internal controls is without debate. In the audit profession, the importance of evaluating internal controls and assessing the extent to which they operate to reduce risks has resulted in a shift in the way audits are planned and conducted. In the corporate world, internal controls are recognized as a key component in the overall governance structure of an entity. In government, internal controls are also essential to ensuring the efficient and effective use of public funds. As well, internal controls need to be documented to ensure at least:

- consistent processing of transactions;
- the integrity of recorded amounts; and
- continuity of processing when management and staff change.

7.30 Through the Province's Controller's office, the government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained. We anticipate each of the following recommendations would be implemented through direction from the Controller's office.

Recommendation 7.4

Management should ensure internal controls within government are clearly documented and effectively communicated.

Recommendation 7.5

Management should ensure roles and responsibilities for the design, implementation, operation and maintenance of internal controls are formally assigned.

7.31 As part of the required reporting on our audit, we noted internal controls were reviewed only to the extent considered necessary under Canadian generally accepted auditing standards to establish a basis for determining the audit coverage necessary to express an opinion on the Province's consolidated financial statements, and to otherwise assist in planning and performing the audit. The audit work was not designed to determine whether internal controls were adequate for management's purposes and did not necessarily disclose all conditions requiring attention by management.

7.32 Further, as it related to the internal controls of the entities consolidated in the Province's financial statement reporting entity, reliance was placed on the audit work of public accounting firms appointed to report on the financial statements of those entities. Our comments on selected weaknesses in internal controls which were reported to those entities by their auditors are included in Chapter 8 of this Report.

7.33 *Management and oversight controls* – Budgetary control is achieved through the monthly forecasting and reporting process documented in the Management Manuals and as described to us by Treasury and Policy Board (TPB) management.

7.34 A key control in the monitoring of expenditures is the preparation by TPB of a summary report of budget to actual variances for Cabinet's review. This presentation was not prepared for each month we tested. We suggest that



in order for Cabinet to ensure it is providing an adequate oversight function, these presentations should be presented to and reviewed by Cabinet on a regular basis.

7.35 In addition, we noted the following in our testing of these entity-level controls.

- Management Manual 200 requires departments to provide detailed explanations for all variances. Variance thresholds should be established to guide departments and Treasury and Policy Board in assessing which variances require explanation.
- There were no documented policies and procedures for the forecasting processes used by the departments that we tested. Documented policies would help ensure consistency and provide a framework for accountability in forecasted results.
- Evidence of executive level review is a common control feature; however, departmental forecasts did not always include evidence of this review.

7.36 *Payments to vendors* – Our office conducted a control audit on payments to vendors which ran concurrently with the March 31, 2008 consolidated financial statement audit. The objective of the audit was to assess whether controls over payments to vendors were adequate to ensure transactions were complete, accurate, authorized and provide an adequate management trail. The conclusions and observations from that audit are included in Chapter 2 of this Report.

7.37 *Audit of governance and control framework* – An audit of the governance and control framework of the Investment Management, Liability Management and Treasury Services, and Capital Markets Administration divisions of the Department of Finance was conducted by an external audit firm and completed in 2004. The resulting report, issued in December 2004, identified several control weaknesses which resulted in a denial of opinion. The auditors categorized the significant deficiencies as follows:

- those related to the governance model including the need for an oversight body in both the Liability Management and Treasury Services and Investment Management divisions, and a more comprehensive risk management plan for the Liability Management and Treasury Services Division; and
- those related to internal controls including improved segregation of duties in each of the Liability Management and Treasury Services, Investment Management, and Capital Markets Administration divisions.

7.38 A significant portion of the activity of the Investment Management Division related to investments in the two public service pension plans

and we understand these activities are now part of the activities of the Nova Scotia Pension Agency. However, there is still substantial short-term investment activity conducted through the Department of Finance. The Liability Management and Treasury Services, and Capital Markets Administration divisions remain responsible for the Province's \$11 billion in unmatured debt (including \$6 billion in derivatives) and \$2 billion in sinking fund assets.

- 7.39 Given the significance and complexity of the transactions processed by these divisions, we recommended an audit by an external, experienced private sector firm be conducted to determine whether the deficiencies have been remedied to the extent necessary for an unqualified audit opinion. This recommendation was made in our December 2005 and February 2008 Reports of the Auditor General. We have repeated this recommendation again in this Chapter as we are concerned with the significant deficiencies found in this area.

Recommendation 7.6

The Department of Finance should obtain an independent audit opinion on the governance and control framework of the Liability Management and Treasury Services, and Capital Markets Administration divisions. This should be conducted by a private sector firm.

- 7.40 *Internal Audit Centre* – The Internal Audit and Risk Management Centre was established in 2004, and has recently been renamed the Internal Audit Centre. We completed an audit of internal audit functions across government, including those in crown corporations and other governmental units. The results of that audit are included in Chapter 3 of this Report.

Other Reportable Matters

- 7.41 *Significant accounting policies* – Our management letter resulting from the March 31, 2008 audit identified certain areas in which improvements to the financial statements were needed to ensure full compliance with GAAP. A summary of matters still under consideration is noted below.
- There remains one entity, Canadian Blood Services, for which there is disagreement between the Department of Finance and the Office of the Auditor General as to whether it is a Government Partnership Arrangement. The results of operations of this entity were not consolidated, and we calculated a \$15.4 million possible understatement of consolidated income as a result. We expect this matter will be resolved prior to next year's audit.
 - PS 2500.07 of the Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Handbook notes that as part of the



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consolidation process, the accounting policies of government units must be adjusted to conform with the government's accounting policies. The most significant instance of possible adjustments due to inconsistent application of accounting policies relates to tangible capital assets (TCA). We have also expressed concerns in the past over a related issue involving the high level of TCA thresholds used by government for certain classes of TCA. We expect matters related to these issues will also be resolved for next year's audit.

- 7.42 *General ledger maintenance* – The general ledger had numerous financial asset and liability account balances which had not changed since the end of the prior fiscal year. Further examination of these balances revealed many had been inactive for several years with periods of dormancy dating as far back as the 1999 fiscal year. These inactive general ledger accounts may not represent true financial assets and liabilities as defined by the CICA's Public Sector Accounting Board (PSAB), and therefore maintaining them in the general ledger reduces the usefulness of the financial statements to users. Account balances in the general ledger should be analyzed to ensure they continue to meet PSAB definitions.

Recommendation 7.7

The Government Accounting Division should analyze inactive financial asset and liability accounts to ensure they should be maintained in the general ledger. Accounts which do not meet the definition of a financial asset or liability should be removed and the result recognized in operations.

- 7.43 In addition to our comments regarding certain financial assets and liabilities, we also noted the accounting for Sydney Steel Corporation (Sysco) transactions in the Province's general ledger accounts should be improved. The general ledger accounts did not reflect Sysco as a fully consolidated entity and, as a result, significant audit adjustments were required. There is potential for error in the process to adjust Sysco to a fully consolidated entity.

Recommendation 7.8

The Government Accounting Division should ensure the general ledger accounts related to Sydney Steel Corporation are revised to reflect the results of Sysco as a consolidated entity.

- 7.44 *Access controls* – In the February 2008 Report of the Auditor General, Chapter 6 - Government Financial Reporting, we reported our concern over the number of SAP users who were able to post transactions to the prior period. We are pleased to report our testing indicated this matter was remedied in the current year.



Audit Completion

- 7.45 *Timing of release* – Government Accounting again set an aggressive target for release of the March 31, 2008 consolidated financial statements by tabling them on August 5, 2008. Our audit opinion was dated June 30, 2008 except Note 13 (Subsequent Events) which is as of July 13, 2008. We again commend Government Accounting for undertaking this initiative and for their accomplishment. More timely financial statements increase their usefulness in decision-making and resource allocation.
- 7.46 *Difficulties encountered performing audit* – The year’s audit deadline was met through cooperation from line departments and other entities included in the consolidated financial results of the Province. For the most part, the audit working papers and other documentation we requested from departments were received as requested and in a timely matter.
- 7.47 We did however, encounter considerable difficulties in completing the audit work for contingencies and contractual obligations. There were several instances where information received by Government Accounting from line departments was inaccurate or incomplete. We experienced the same problem in the prior year’s audit and noted this in the March 31, 2007 management letter. In the response to the March 31, 2007 management letter, management advised this issue would be addressed with departmental staff. We are aware departmental accounting staff have been provided with information from Government Accounting to assist them in the identification and recognition of contingencies and contractual obligations. The number of adjustments resulting from this year’s audit indicates a need for further instruction, and we suggest this be completed before the 2008-09 audit.
- 7.48 We also encountered instances where information we requested to facilitate the timely completion of our audit was not received when due. Given the aggressive target for the release of the Public Accounts, it is imperative we receive accurate information on time and as requested because our Office’s resources are scheduled based on the due dates included in the list of audit requirements provided to departments.
- 7.49 *Management judgments and estimates* – Government’s preparation of the Province’s consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to future actual results differing from government’s assumptions upon which the accounting estimates are based. At the conclusion of this year’s audit there were no significant outstanding concerns with the estimated accounting balances used in preparing the March 31, 2008 consolidated financial statements.



- 7.50 *Misstatements in the financial statements* – During the audit of the March 31, 2008 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 of these issues were resolved either by review of additional information provided to us or by adjustments to the financial statements.
- 7.51 Generally accepted auditing standards require that all but trivial known errors or misstatements identified in the Province’s consolidated financial statements during the year-end accounting or audit processes be corrected. Any unresolved, unadjusted errors or differences are considered when preparing the auditor’s report on whether the statements “*present fairly*” in accordance with GAAP. All but trivial errors should be corrected to enhance the accuracy of the financial statements.

Recommendation 7.9

The Government Accounting Division should ensure all but trivial known and possible errors identified during the audit are corrected.

Changes in accounting and auditing standards

- 7.52 *Accounting standards* – Accounting standards and pronouncements that comprise GAAP continue to evolve. Changes in presentation and disclosure are intended to improve the usefulness of financial statements for decision-making purposes. Significant matters on which PSAB has recently released final or revised pronouncements or is developing new or revised pronouncements, or issuing statements of principle or statements of recommended practice, are described below:
- 7.53 *Accounting for tax revenue* – PSAB’s Tax Revenue Project will address general recognition, measurement, reporting and disclosure principles of all types of tax revenues. It is expected that the new standard will be approved in 2009.
- 7.54 *Statements of principals and other guidance* – Statements of principles suggest key principles and definitions that PSAB expects to propose in future recommendations. Other guidance would include statements of recommended practice which provide guidance on selected topics. The following statements are currently under consideration by PSAB:
- Financial Instruments
 - Environmental Liabilities
 - Indicators of Government Financial Condition
 - Assessment of Tangible Capital Assets

- 7.55 In addition, amendments to existing standards are proposed in the exposure draft on government transfers.
- 7.56 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. The nature and impact of required or planned accounting changes should be disclosed 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.
- 7.57 We note there are several accounting topics which impact crown corporations and other entities whose results are consolidated with those of the Province. These include several new or revised pronouncements related to financial instruments, inventory, capital disclosures, and goodwill and intangible assets. The impact of these changes on the financial statements of crown corporations will have to be considered during the consolidation process. As well, PSAB is currently conducting a project with the objective to revise the Introduction to Public Sector Accounting Standards to clarify which generally accepted accounting principles government organizations should apply when preparing their own financial statements.
- 7.58 *International financial reporting standards* – The move to international financial reporting standards is fast approaching. Publicly accountable enterprises in Canada are to adopt International Financial Reporting Standards commencing with fiscal years beginning on or after January 1, 2011. Crown corporations and other entities whose results are consolidated with those of the Province will need to determine if they will be impacted by the transition to international financial reporting standards.
- 7.59 *Auditing standards* – Current Canadian generally accepted auditing standards are in the process of being replaced by Canadian Auditing Standards (CAS). CAS are to be based on International Auditing Standards and will be effective for financial statement audits for periods beginning on or after December 15, 2009, and therefore will impact our audit procedures related to the consolidated financial statements for the year ended March 31, 2011. We will ensure changes impacting the completion of the audit are communicated to Government Accounting on a timely basis.

Additional Appropriations

- 7.60 *Conclusions and summary of observations* – Additional appropriations totalling \$301.5 million were approved for the fiscal year ended March 31, 2008. An additional \$83.8 million was approved in August 2008. The total additional appropriations for the year are therefore \$385.3 million (2007 – \$222.4 million). Although the timing of the approval for these additional appropriations was in compliance with the Provincial Finance Act, the Act itself reduces accountability and control by allowing approval of additional



expenditures in exhausted appropriations for up to ninety days after the tabling of the Public Accounts.

7.61 We suggested Cabinet consider engaging the full House of Assembly in the process to approve additional appropriations. Given the increasing significance of additional appropriations in the spending capability of the Province, such a process would help ensure an efficient and effective allocation of resources.

Timing and Significance

7.62 *Required reporting* – We are required under Section 9 of the Auditor General Act to report on any appropriations that were exceeded during the year. We note Executive Council approved Order-in-Council (OIC) 2008-179 effective March 31, 2008 approving additional appropriations of \$301.5 million for 2007-08. A further \$83.8 million in additional appropriations was required and approved in August 2008 by OIC 2008-415. The most significant amount of the total additional appropriations related to assistance to universities which exceeded the approved budget by \$165.8 million.

7.63 *Significance of additional appropriations* – Exhibit 7.2 below notes the revenue included in the budget in each of the past five years, the actual revenue for the year, and the additional appropriation(s) for each year, for the consolidated fund. There has been a steady increase in additional appropriations over the past five years from \$99.0 million in 2003-04 to \$385.3 million in 2007-08, resulting in an increase in additional appropriations of \$286.3 million over this period.

Exhibit 7.2

Additional Appropriations (in millions of dollars)

	Revenue Estimates	Actual Revenue	Variance	Additional Appropriations
2007-08	7,030	7,541	511	385
2006-07	6,589	6,677	88	222
2005-06	6,098	6,318	220	111
2004-05	5,574	5,855	281	159
2003-04	5,302	5,356	54	99

7.64 We note, as we have several times in past years, that the current process to approve additional appropriations reduces accountability to and control by the House of Assembly. The debate and challenge integral to the budget process are absent from the approval for additional appropriations. We suggest Cabinet consider engaging the full House of Assembly in the process to approve additional appropriations during the year. We note

the following as an example of additional revenues received prior to year end which resulted in additional appropriations to cover increased expenditures.

- 7.65 Offshore forfeiture revenue totalled \$107.1 million for the fiscal year ended March 31, 2008. The December 28, 2007 Forecast indicated Provincial revenues were expected to increase by \$95 million; \$93.9 million of this amount related to offshore forfeitures.
- 7.66 As noted in paragraph 7.12, we did not agree with the decision to exclude any estimate for revenue from offshore forfeitures during the review of the 2007-08 revenue estimates. Regardless of the treatment for budget purposes, we suggest the significance of this amount warrants full House debate regarding how best to allocate these funds.
- 7.67 *Timing of approvals* – According to Section 13 of the Provincial Finance Act, no further contractual obligations or commitments may be charged to an exhausted appropriation. However, Section 28 of the Act allows up to ninety days after the tabling of the Public Accounts for the approval of additional appropriations related to the appropriations in the Public Accounts. There is an inconsistency within the Act. Management has acknowledged this inconsistency. Last year we recommended that the Provincial Finance Act be amended and we repeat this recommendation below.

Recommendation 7.10

Department of Finance management in conjunction with Executive Council, should ensure the Provincial Finance Act is amended to eliminate the existing inconsistency with respect to additional appropriations.

Other Matters

- 7.68 *Conclusions and summary of observations* – No special warrants have been approved by Executive Council since our last Report in February 2008. In addition, with respect to cash and other losses, an insignificant amount has been reported to us for 2007-08.
- 7.69 *Special warrants* – Section 9A of the Auditor General Act requires we report whether any special warrants have been issued. A special warrant is issued under Section 29 of the Provincial Finance Act for expenses that have not been provided for by the Legislature and are immediately and urgently required for the public good. We note since our last Report in February 2008, no special warrants have been approved by Executive Council under Section 29 of the Act.



7.70 *Cash and other losses* – Section 9A (1) (e) of the Auditor General Act requires 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*”.

7.71 There is no longer a requirement in the Management Manuals for departments and crown entities to report losses to this Office. However, as in prior years, some departments reported losses to our Office for 2007-08. Note the list below may not include all losses as it details only those provided to us.

Exhibit 7.3

Cash and Other Losses 2007-08

Department	Cash	Property
Justice	\$1,906.48	\$1,140.00
Service Nova Scotia and Municipal Relations	\$10.80	-

Response: Department of Finance

The Department of Finance appreciates the opportunity to respond on this chapter of the Report of the Auditor General. The Financial Reporting Chapter provides summary comments on the Auditor General's review of the Government's 2008/09 revenue estimates, the Auditor General's audit of the Province's consolidated financial statements for the year ending March 31, 2008 and other financial reporting matters. The summary comments in this chapter, as well as our response, should be read in conjunction with the more detail management letters that the Auditor General provided for both the revenue review and the audit of the 2007/08 Public Accounts.

RESPONSE:
FINANCE

Generally speaking, the Department appreciates and supports the recommendations that the Auditor General provides. While we have taken many steps to ensure our Estimates are GAAP compliant, and in the same format as the Public Accounts, at this time we do not plan to take the final step to move to Consolidated Budgeting. While it would address the revenue inclusion issue for third parties, it would require fundamental changes with the provincial budgeting process. As well, the Province does not intend to change the revenue estimate process for offshore forfeitures. As this chapter shows, this revenue is very volatile and it would not be prudent to establish an ongoing expenditure supported by this source.

Finally the Department does recognize that there are inconsistencies within the Provincial Finance Act. Further amendments could however produce additional inconsistencies or other unintended consequence. A complete review of the Finance Act is a major undertaking and there are currently no plans to initiate such a project.