

January
2012

Report of the Auditor General
to the Nova Scotia
House of Assembly



Appendices to
Chapters 4 and 6

Independence • Integrity • Impact

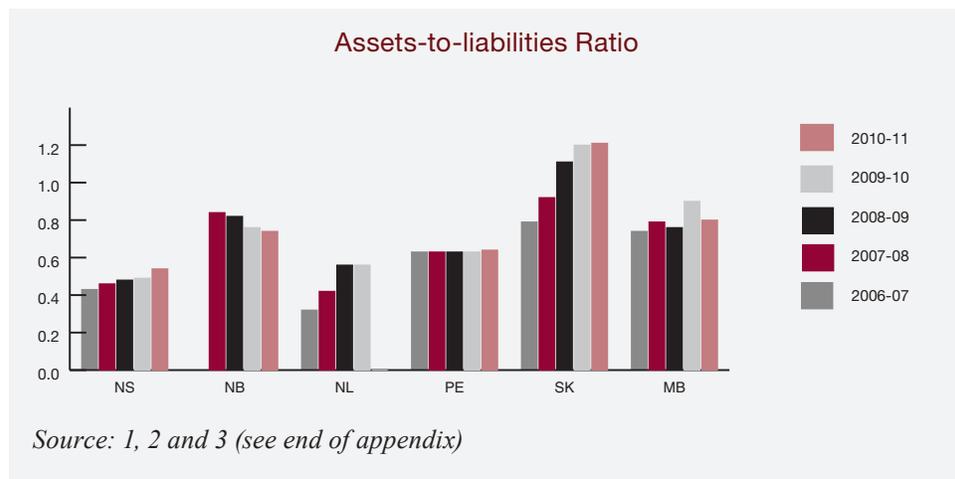
Chapter 4 – Indicators of Financial Condition: Appendix





Sustainability Indicators

- 4.1 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its obligations to creditors, without increasing its debt or raising taxes. These indicators provide insight into how a government balances its commitments and debts.
- 4.2 The following sustainability indicators are provided in addition to those detailed in Chapter 4 – Indicators of Financial Condition.
- 4.3 *Assets-to-liabilities ratio* – This indicator measures the ratio of a government’s total assets, including capital assets, to its liabilities. A ratio greater than one shows assets are greater than liabilities and the government has an accumulated surplus. A ratio less than one indicates liabilities are greater than assets and the government has been financing its operations by issuing debt. A decreasing trend in this ratio means a government is increasingly relying on debt to cover its cost of operations. Four of the six provinces saw increases in this ratio since 2007. The ratio for Nova Scotia has improved from 0.43 in 2007 to 0.54 in 2011 and it is now the lowest of all comparable jurisdictions.

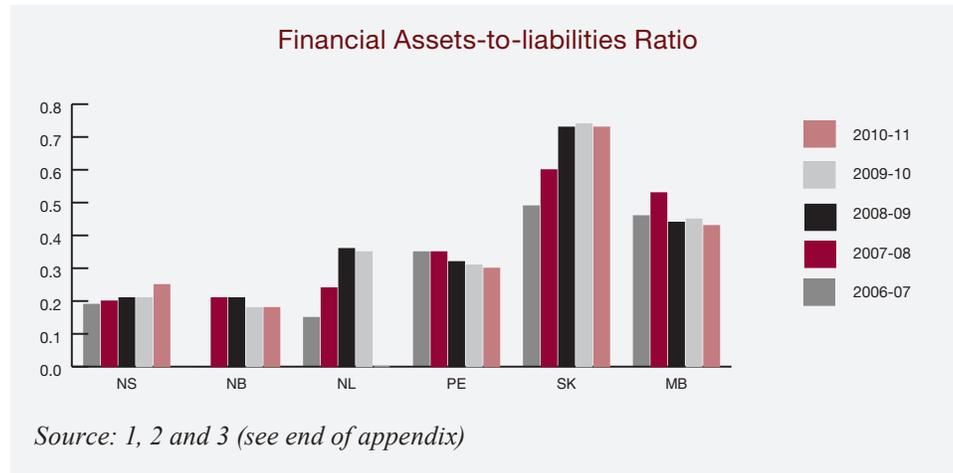


Assets to Liabilities Ratio (Nova Scotia)					
Year ended March 31	2007	2008	2009	2010	2011
Assets (\$ millions)	\$6,617	\$6,890	\$7,393	\$8,070	\$9,148
Liabilities (\$ millions)	\$15,223	\$15,077	\$15,554	\$16,500	\$17,008
Financial Assets/Liabilities	0.43	0.46	0.48	0.49	0.54

- 4.4 *Financial assets-to-liabilities ratio* – This indicator shows the extent to which government’s future revenues will be required to pay for past transactions or events. A ratio greater than one indicates financial assets are sufficient to meet current obligations and to finance future operations. A ratio less than one means a reliance on future revenues or increasing debt to pay for past decisions. A

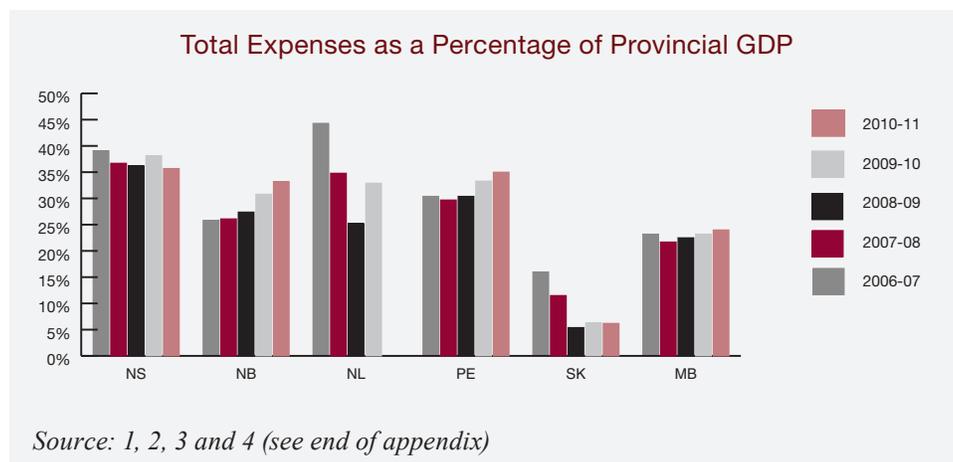


decreasing trend in this ratio may not be sustainable as it means that a government may have difficulties meeting its obligations and covering its costs of operations. The following exhibit shows the ratio for Nova Scotia improved from 0.19 in 2006 to 0.25 in 2011.



Financial Assets to Liabilities Ratio (Nova Scotia)					
Year ended March 31	2007	2008	2009	2010	2011
Financial Assets (\$ millions)	\$2,866	\$2,962	\$3,236	\$3,455	\$4,181
Liabilities (\$ millions)	\$15,223	\$15,077	\$15,554	\$16,500	\$17,008
Financial Assets/Liabilities	0.19	0.20	0.21	0.21	0.25

4.5 *Total expenses as a percentage of provincial GDP* – This indicator compares the rate of growth of a government’s spending with the economy in which it operates. If the ratio is increasing, government spending is increasing at a faster rate than the growth of the economy, and may not be sustainable. The following exhibit shows the ratio for Nova Scotia increased from 25.6% in 2007 to 27.7% in 2010 and then decreased to 25.9% in 2011. Four jurisdictions showed an increase in the ratio from 2007 to 2010. The ratio for 2011 was similar to the 2010 ratio for these jurisdictions.

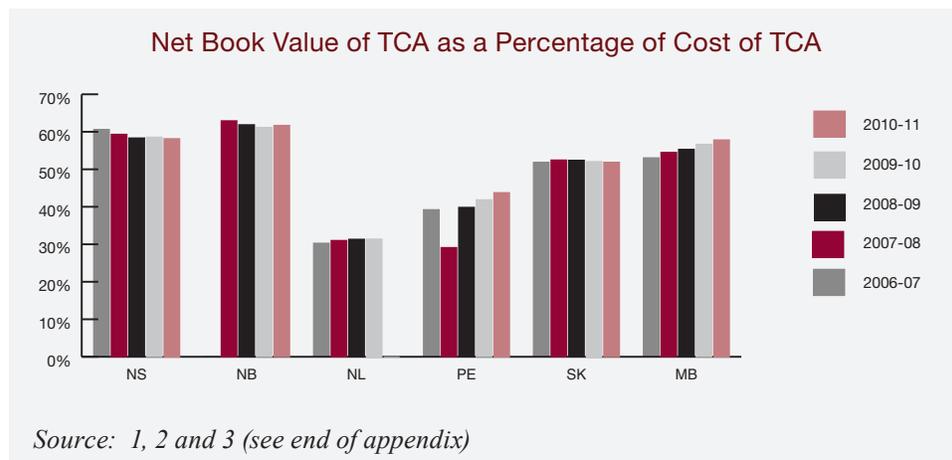




Total Expenses as a Percentage of Provincial GDP (Nova Scotia)					
Year ended March 31	2007	2008	2009	2010	2011
Total Expenses (\$ millions)	\$8,111	\$8,834	\$9,170	\$9,499	\$9,328
Provincial GDP (\$ millions)	\$31,644	\$33,031	\$34,041	\$34,283	\$35,952
Expenses/GDP	25.6%	26.7%	26.9%	27.7%	25.9%

Flexibility Indicators

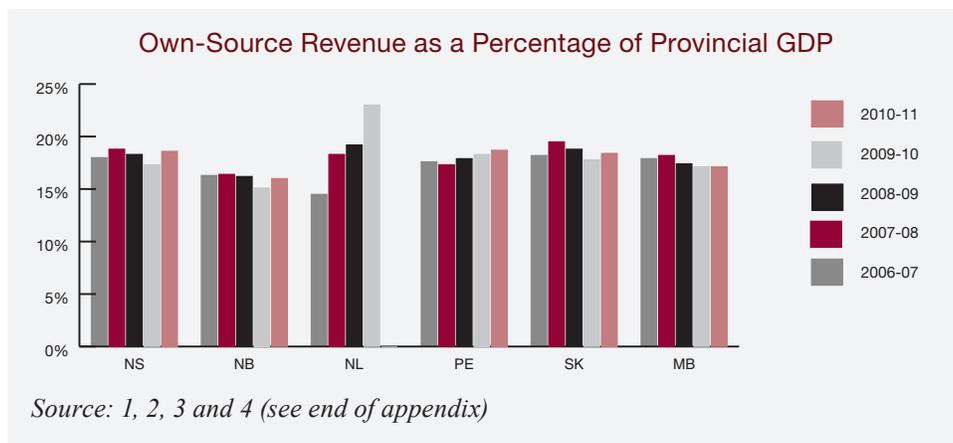
- 4.6 Flexibility describes the extent to which a government can change its debt burden or raise taxes within an economy. Increasing debt and taxation reduces flexibility and the government's ability to respond to changing circumstances. Assessing flexibility provides insight as to how a government manages its finances. The following indicators have been selected to assess flexibility.
- 4.7 *Net book value of tangible capital assets (TCA) as a percentage of cost of tangible capital assets* – This indicator measures the estimated useful life of a government's tangible capital assets. A decrease in this ratio indicates that assets are not being replaced at the same rate as they expire. The flexibility of a government could be negatively impacted if the cost of repairing or replacing aging assets becomes too burdensome. The following exhibit shows that Nova Scotia was the only jurisdiction with a decrease in its percentage for this ratio; Nova Scotia had a slight decrease from 60.7% in 2007 to 58.2% in 2011. The ratio increased for two jurisdictions and was consistent over the five years shown in the exhibit for the remaining jurisdictions.



Net Book Value of TCA as a Percentage of Cost of TCA (Nova Scotia)					
	2007	2008	2009	2010	2011
Net Book Value (\$ millions)	\$3,688	\$3,850	\$4,070	\$4,523	\$4,877
Total Revenue (\$ millions)	\$6,083	\$6,487	\$6,974	\$7,719	\$8,383
Debt Servicing Costs as a % of Revenue	60.6%	59.4%	58.4%	58.6%	58.2%



4.8 *Own-source revenue as a percentage of provincial GDP* – Own-source revenue-to-provincial GDP is an indicator of government revenue derived from the provincial economy, through taxation or other sources, compared to the provincial GDP. Higher percentages may indicate a reduction in flexibility; however, the impact on flexibility is affected by taxpayers’ willingness for government to increase taxation or other own-source revenue. Tax rates and other own-source revenue that are currently high may also impact the government’s ability to increase own-source revenue and may have a negative impact on flexibility. There were small fluctuations in this ratio for Nova Scotia, with own-source revenue averaging 18.2% of provincial GDP over the five-year period. The following exhibit indicates four jurisdictions also had small fluctuations in this ratio and one jurisdiction had a significant increase in this ratio.



Own-source Revenue as a Percentage of Provincial GDP (Nova Scotia)					
Year Ending March 31	2007	2008	2009	2010	2011
Own-source Revenue (\$ millions)	\$5,687	\$6,205	\$6,232	\$5,943	\$6,688
Provincial GDP (\$ millions)	\$31,644	\$33,031	\$34,041	\$34,283	\$35,952
Own-source Revenue/GDP	18.0%	18.8%	18.3%	17.3%	18.6%

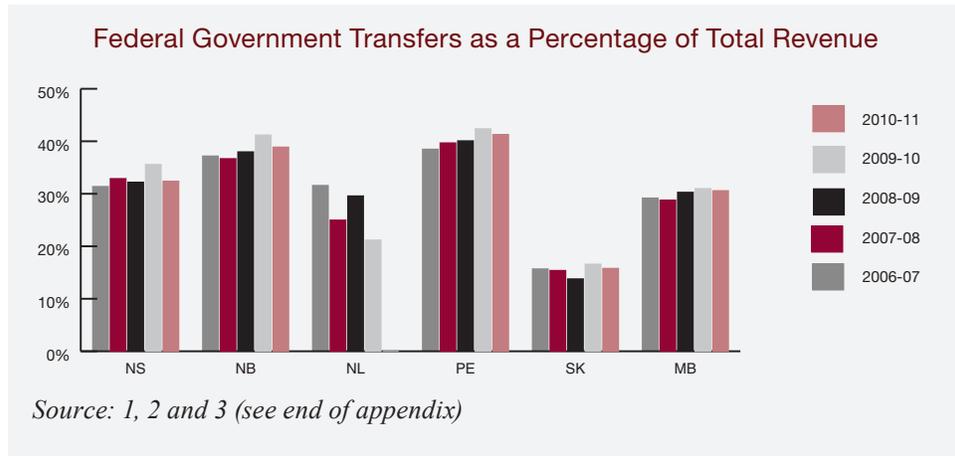
Vulnerability Indicators

4.9 Vulnerability indicators can measure the amount government is dependent on sources of revenue outside its controls and its exposure to risks which might affect the government’s ability to meet its commitments. The lower government’s own-source revenue is, the more it relies on fiscal decisions of others. The following indicator has been selected to assess vulnerability.

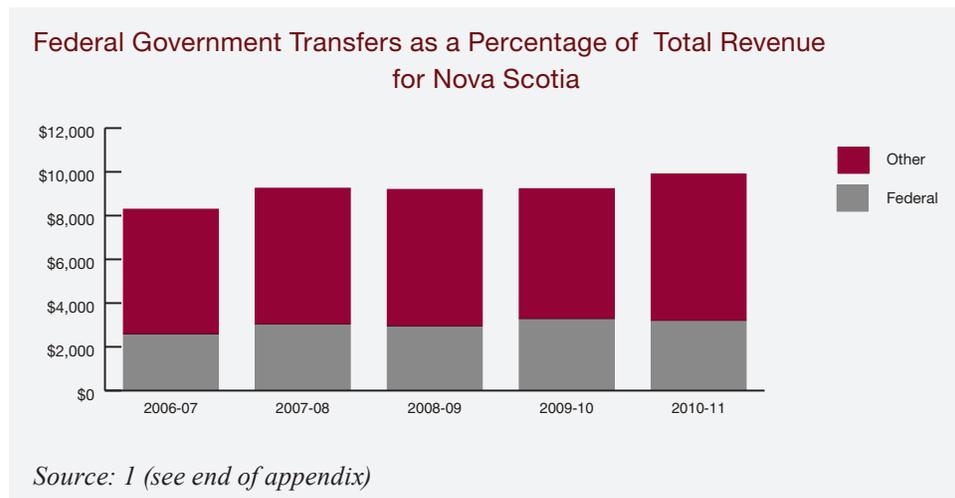
4.10 *Federal government transfers as a percentage of total revenues* – This indicator demonstrates the extent to which a province relies on the federal government transfers compared to total government revenues. The higher the percentage, the more reliance the provincial government has on receipt of funds from the federal government. These transfers are dependent on policy decisions at the federal level and outside the control of the provincial government. Nova Scotia



had a small increase in this ratio with federal government transfers averaging 32.9% of total provincial revenue from 2007 to 2011. Overall, federal transfers as a percentage of total revenues has remained constant or increased slightly in other jurisdictions over the past five years with the exception of Newfoundland and Labrador.



Federal Revenue as a Percentage of Total Revenue (Nova Scotia)					
Year Ending March 31	2007	2008	2009	2010	2011
Federal Revenue (\$ millions)	\$2,606	\$3,048	\$2,964	\$3,287	\$3,209
Total Revenues (\$ millions)	\$8,293	\$9,253	\$9,196	\$9,231	\$9,897
Federal Revenue as a % of Total Revenue	31.4%	32.9%	32.2%	35.6%	32.4%





Sources:

1. *Nova Scotia – Public Accounts for March 31, 2007 – March 31, 2011*
2. *New Brunswick, Prince Edward Island, Saskatchewan, Manitoba – Public Accounts March 31, 2007 – March 31, 2011*
3. *Newfoundland and Labrador – Public Accounts March 31, 2007 to March 31, 2010*
4. *Statistics Canada – Gross domestic product, expenditure-based, by province and territory (2006-2009)*
5. *Statistics Canada – Population by year, by province and territory (July 2007 – 2011)*
6. *Budget Assumptions and Schedules for the fiscal year 2011-12*

Income from Government Business Enterprises (GBE) has been included in the calculation of own source revenue, and total revenue for all provinces. These amounts were not consistently reported in our previous year's chapter due to the different methods of presentation in the financial statements of the other provinces. This change ensures that information presented is comparable among provinces and is consistent with the way in which most provinces report financial indicators. As a result, certain numbers have changed from those reported in our prior year's chapter.

Chapter 6 – Follow-up of 2005 to 2009 Financial Recommendations: Appendix





Implementation Status: June 2005 Recommendations

Chapter 2 – Government Financial Reporting – Finance

2.1 We recommend that the development of the economic assumptions and estimated revenues for each line item be completed after the Executive Council has approved planned revenue and spending decisions for the coming year. The impact of those decisions should be specifically incorporated into the development of the economic assumptions and the revenue line items.

Status – Complete

2.2 We recommend the effective date of the economic assumptions be the date they are approved by the Executive Council.

Status – Complete

2.3 We recommend all key economic assumptions used in the development of the revenue estimates be approved by the Executive Council.

Status – Complete

2.4 We recommend that, in accordance with GAAP, federal transfer payments be included in revenue as opposed to being netted against expense appropriations.

Status – Complete

2.5 We recommend the budget process be reviewed and revised to ensure there is proper cut off of information and that the revenue estimates reflect the most current information available.

Status – Complete

2.6 We recommend the budget process be reviewed and revised to ensure Finance is made aware of all potential revenue line items so the Department can assess relevant information when determining the province's estimated revenues and related disclosures.

Status – Do not intend to implement

2.7 We recommend government take steps to ensure the necessary resources and processes are in place to ensure the province's annual SEC Form 18K report is filed as required on a timely basis.

Status – Complete

Chapter 3 – Government Systems and Controls – Finance

3.1 We recommend government assess the adequacy of its own control procedures associated with data processing service provider arrangements.

Status – Complete

3.2 We recommend that annual business planning information and accountability reporting on the Industrial Expansion Fund be made available to the House of Assembly on at least the same basis as such information is currently available on other crown entities.

Status – Department of Economic and Rural Development and Tourism – Complete

Implementation Status: December 2005 Recommendations



Chapter 2 – Government Financial Reporting – Finance

2.1(1) We recommend steps be taken to ensure the Province complies more fully with generally accepted accounting principles,
Status – Do not intend to implement

2.1(2) especially with regard to disclosing GAAP-compliant budget information in the financial statements.
Status – Complete

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.
Status – Work in progress

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.
Status – Treasury Board – Complete

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.
Status – Work in progress

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.
Status – Work in progress

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.
Status – Complete

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.
Status – Complete

2.8 We recommend management address the recommendations to improve controls within the Business Registration Unit of SNSMR in a timely manner.
Status – Service Nova Scotia and Municipal Relations – Work in progress



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.

Status – Do not intend to implement (The Office of the Auditor General agrees with this status and this recommendation has been removed from further follow-up assignments.)

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

Status – Do not intend to implement

Implementation Status: June 2006 Recommendations

Chapter 2 – Government Financial Reporting – Finance

2.1 We recommend that the revenue estimates included in the budget be prepared and presented in full accordance with generally accepted accounting principles.

Status – Do not intend to implement

2.2 We recommend that the consolidated financial statements be prepared and presented on a basis fully compliant with generally accepted accounting principles.

Status – Complete

Chapter 3 – Government Systems and Controls – Finance

3.1 We recommend that management implement industry-recognized control best practices for SAP applications to address the weaknesses reported.

Status – Work in progress

3.2 We recommend that management implement additional control techniques to remediate the identified weaknesses in the control standards adopted by management.

Status – Complete

3.3 We recommend that management provide information relative to these additional observations to all parties who were provided copies of the Section 5900 Report.

Status – Do not intend to implement (The Office of the Auditor General agrees with this status and this recommendation has been removed from further follow-up assignments.)

3.4 We recommend management implement controls to address reported weaknesses. Further, and as previously recommended in 2003, this process should include the implementation and regular monitoring of control best practices for all aspects of the SAP applications.

Status – Complete



Implementation Status: December 2006 Recommendations

Chapter 2 – Government Financial Reporting – Finance

2.1 We recommend that government complete a detailed analysis of the appropriate accounting treatment for the WCB, and ensure full compliance with GAAP in the 2006-07 and future financial statements.

Status – Complete

2.2 We recommend that the Provincial Finance Act be amended to eliminate the existing inconsistency related to additional appropriations and steps be taken to ensure all actions taken by government are in compliance with the requirements of the Act.

Status – Complete

2.3 We recommend that Treasury and Policy Board and the Department of Finance work with the Office of the Auditor General to clarify the boundaries, both in substance and form, of the access to information allowed under the Auditor General Act.

Status – Complete

Implementation Status: June 2007 Recommendations

Chapter 7 – Government Financial Reporting – Finance

7.1 We recommend further steps be taken to move towards preparing and presenting the revenue estimates included in the budget in full accordance with generally accepted accounting principles.

Status – Do not intend to implement

Implementation Status: February 2008 Recommendations

Chapter 6 – Government Financial Reporting – Finance

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

Status – Complete

6.2 The Division should ensure that adjustments to the general ledger be made as part of the year-end financial statement preparation process only, and not subsequently. In addition, the ability to post these entries should be limited to selected senior individuals.

Status – Complete

6.3 Management should obtain an independent audit opinion on the governance and control framework of the Investments, Liability Management and Treasury Services, and Capital Markets Administration Divisions. This should be conducted by a private-sector firm.

Status – Complete



6.4 Department of Finance management should ensure that the Provincial Finance Act is amended to eliminate the existing inconsistency with respect to additional appropriations. Management should also ensure the Act is clarified regarding its applicability to certain entities with respect to the process to write off recorded amounts.

Status – Complete

Implementation Status: November 2008 Recommendations

Chapter 2 – Payments to Vendors – Finance

2.1 The identified instances of incompatible access privileges should be investigated to determine if all or some are necessary. If they are necessary, compensating controls should be put in place to mitigate the higher risk these situations cause.

Status – Work in progress

2.2 The government's SAP Customer Competency Centre should perform periodic analysis to identify where incompatible system access privileges have been assigned to government employees so that these situations can be reviewed for necessity, and compensating controls implemented where appropriate.

Status – Work in progress

2.3 CSUs should not process payments without evidence of proper departmental approval.

Status – Complete

2.4 CSUs should verify the mathematical accuracy of documents supporting payments if there is a risk of errors occurring in the documentation. CSU employees should provide evidence of this process by signing or initialing the documents checked.

Status – Complete

2.5 Payments should not be processed by CSUs without all required posting and payment information being recorded by departments on the supporting documentation.

Status – Complete

2.6 Payment transactions should be checked by CSUs to ensure they were processed and posted correctly.

Status – Complete

2.7 Payments should not be processed by CSUs unless all relevant supporting documentation is provided.

Status – Complete

2.8 The balancing of electronic payments to bank records should be performed and documented by the Government Accounting Division of the Department of Finance before payments are made.

Status – Complete



2.9 The Department of Finance should implement lower or multiple levels of electronic payment limits to prevent a very large, unauthorized electronic payment from being processed.

Status – Do not intend to implement (The Office of the Auditor General agrees with this status and this recommendation has been removed from further follow-up assignments.)

2.10 The Department of Community Services should provide Government Accounting with a listing of all employees authorized to approve income assistance payments and ensure that the listing is promptly updated when changes occur.

Status – Department of Community Services – Do not intend to implement (The Office of the Auditor General agrees with this status and this recommendation has been removed from further follow-up assignments.)

2.11 Government Accounting should not create or change vendor master file records unless the request is fully supported by required documentation.

Status – Complete

2.12 CSUs should ensure there is sufficient information presented with journal vouchers to identify any related transactions.

Status – Complete

2.13 The Department of Finance should oversee a project to document and communicate responsibility for internal control throughout government, as well as to have all significant control systems in government documented. Once documented, control systems should be analyzed for weakness, deficiencies corrected, and a system to periodically monitor compliance with government control standards should be implemented.

Status – Work in progress

Chapter 7 – Government Financial Reporting – Finance

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.

Status – Do not intend to implement

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

Status - Do not intend to implement

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.

Status – Complete

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

Status – Work in progress



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

Status – Work in progress

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.

Status – Complete

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.

Status – Work in progress

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.

Status – Complete

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

Status – Complete

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.

Status - Complete

There were no financial reporting recommendations in 2009.

