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# 6 Follow-up of 2005 to 2009 Financial Recommendations

## Summary

The overall implementation rate of our recommendations related to financial reporting from our 2005 to 2009 audits is 66%. This 14% increase over the prior year's rate of 52% is partly due to a change in our calculations.

We performed a review of departments' self-assessments of their progress in addressing our recommendations. We evaluated these self-assessments and discussed the support for the implementation status. Some adjustments were made to the assessments. As a result of this review, we provide moderate assurance to readers of this Chapter. Nothing came to our attention to cause us to believe that the representations made by government, as adjusted, are not complete, accurate and reliable.

Since 2006, we have recommended that the revenue estimates included in the annual budget be prepared on a consolidated basis. The revenue estimates are prepared on a gross basis for the general revenue fund only, and not for the consolidated entity; as a result our opinion is qualified every year. This recommendation has been outstanding for a number of years; government needs to take steps to address this issue for the 2012-13 revenue estimates.

Two other recommendations have been made in successive reports. The first relates to the need for an independent follow-up audit to be conducted on divisions within the Department of Finance after a 2004 audit resulted in a denial of opinion. This audit was performed by our Office in 2011 and the results are reported in Chapter 3 – Governance and Control Framework. In addition, we have recommended that internal controls in government be identified and related roles and responsibilities for these controls be assigned. Some progress is being made toward implementation of these recommendations.

While government has taken some action to address our recommendations, implementation rates are still too low, and a number of outstanding recommendations date back several years.

Details of all financial recommendations from 2005 to 2009, along with their current status, can be found on our website at [oag-ns.ca](http://oag-ns.ca).



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# 6 Follow-up of 2005 to 2009 Financial Recommendations

## Background

- 6.1 Financial reporting is a key component of government's accountability framework; it is a means through which government fulfils its accountability responsibilities regarding the use of public funds and demonstrates its stewardship over those funds. We include a chapter on government financial reporting each year in our reports to the House of Assembly. We have also included chapters concerning other financial matters such as Chapter 2 – Payments to Vendors – included in our November 2008 Report. Each chapter contains recommendations which we believe provide practical, constructive advice to address issues raised by these audits.
- 6.2 Our reports have included formal recommendations since 2002. We follow up the implementation status of these recommendations after two years. We believe two years is sufficient time for auditees to address our recommendations.
- 6.3 This year we will be preparing two follow-up chapters. This Chapter will report the status of recommendations concerning financial reporting and other financial management issues and how responsive departments and agencies have been in implementing the recommendations from our 2005 to 2008 audits. (There were no financial reporting chapters in our 2009 Reports). We will report the results of our follow-up on the implementation status of the remaining recommendations from our 2005 to 2009 performance audits in our spring 2012 report.
- 6.4 We requested that government management complete a self-assessment of their progress in implementing the outstanding 2005 to 2008 recommendations in Treasury Board's Tracking Auditor General Recommendations (TAGR) system. We also asked management to provide supporting information. Our review process focused on whether self-assessments and information provided by management were accurate, reliable and complete. This Chapter includes summary level information on implementation status; more detailed information, including specific recommendations can be found on our website at [oag-ns.ca](http://oag-ns.ca).
- 6.5 In May 2011, government committed to updating Nova Scotians on the progress of implementing our recommendations every six months. On November 9, 2011 the first *Provincial Update on the Auditor General Recommendations as at October 31, 2011* was released. We will be providing additional comments on this document in our spring 2012 report.



## Review Objective and Scope

- 6.6 The objective of this assignment was to provide moderate assurance on the implementation status of recommendations concerning financial reporting and other financial management issues included in reports of the Auditor General from 2005 to 2009. This level of assurance is less than for an audit because of the type of work performed. An audit would have enabled us to provide high assurance, but would have required a significant increase in the resources devoted by the Office of the Auditor General to this follow-up assignment.
- 6.7 We have included 2009 in this timeframe as it is consistent with our Office policy of following up recommendations two years after they have been made; however, no recommendations related to financial matters were made in 2009.
- 6.8 Each entity is expected to document its self-assessment of progress on the implementation of our Office's recommendations in the TAGR system. Our review was based on information included in the TAGR system as of September 30, 2011. We provide each entity with attributes to consider when determining implementation status. We understand these attributes are consistent with those used by departments and agencies when assessing status for purposes of the TAGR system.
- 6.9 We performed additional procedures on those recommendations which government has assessed as *do not intend to implement*. We focused on the reasons why government has chosen not to implement these recommendations. If the rationale provided appears reasonable, we have removed the recommendation from our statistics and will not conduct further follow up on it.
- 6.10 Our review was based on representations by government management which we substantiated through interviews and examination of documentation. Moderate assurance, in the context of this assignment, means performing sufficient work to satisfy us that the implementation status as described by government is plausible in the circumstances. Further information on the difference between high and moderate assurance is available in the *Canadian Institute of Chartered Accountants (CICA) Handbook, Section 5025 – Standards for Assurance Engagements other than Audits of Financial Statements*.
- 6.11 Our criteria were based on qualitative characteristics of information as described in the CICA Handbook. Management representations on implementation status were assessed against three criteria.
- Accurate and neither overstate nor understate progress
  - Reliable and verifiable
  - Complete and adequately disclose progress to date



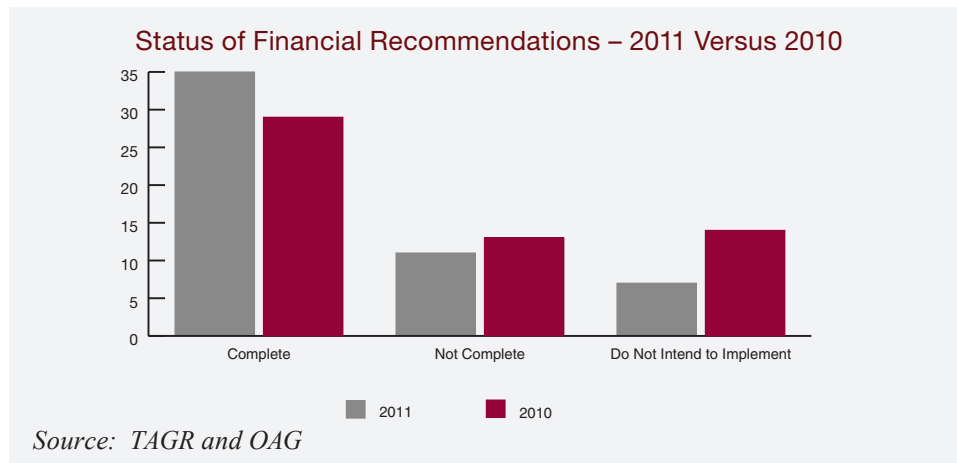
## Significant Observations

- 6.12 *Review results* – We performed a review of departments’ self-assessments, including an evaluation of supporting documentation. We provide moderate assurance to readers of this Chapter. Nothing came to our attention to cause us to believe that the representations made by government are not complete, accurate and reliable. We wish to emphasize that the work performed during this follow-up assignment is not an audit; therefore we provide only moderate assurance that these recommendations have been implemented. Only during a subsequent audit can we say, with high assurance, that the reported implementation status is accurate.
- 6.13 *Scope of review* – During this assignment we followed up the status of 57 recommendations, most of which were addressed to the Department of Finance. The remaining recommendations are the responsibility of the Departments of Economic and Rural Development and Tourism, Service Nova Scotia and Municipal Relations, and Treasury Board. Since responsibility for certain recommendations has been reassigned this year by the TAGR Steering Committee, the information reported in this Chapter has changed from that reported in Chapter 2 of our May 2011 Report. These changes were made by the Committee to ensure responsibility to implement the recommendations was assigned to the appropriate department or agency.
- 6.14 *Do not intend to implement* – Eleven recommendations were reported to us as *do not intend to implement*. We reviewed the information provided by government with respect to these recommendations and determined that the rationale provided for four of the recommendations is reasonable. These recommendations have been removed from further analysis and statistics. We disagree with government’s rationale for not implementing the other seven recommendations. We will continue to follow up the status of these recommendations.
- 6.15 The following exhibits summarize the implementation status of the remaining 53 financial recommendations made from 2005 to 2008. There are no recommendations for 2009.

Report and Chapter	Entity	Complete	Not Complete	Do Not Intend to Implement	Total
<b>June 2005</b>					
Chapter 2: Government Financial Reporting	DOF	6		1	7
Chapter 3: Government Systems and Controls	DOF	1			1
	DERDT	1			1



Report and Chapter	Entity	Complete	Not Complete	Do Not Intend to Implement	Total
<b>December 2005</b>					
Chapter 2: Government Financial Reporting	DOF	3	3	2	8
	TB	1			1
	SNSMR		1		1
<b>June 2006</b>					
Chapter 2: Government Financial Reporting	DOF	1		1	2
Chapter 3: Government Systems and Controls	DOF	2	1		3
<b>December 2006</b>					
Chapter 2: Government Financial Reporting	DOF	3			3
<b>June 2007</b>					
Chapter 7: Government Financial Reporting	DOF			1	1
<b>February 2008</b>					
Chapter 6: Government Financial Reporting	DOF	4			4
<b>November 2008</b>					
Chapter 2: Government-Wide: Payments to Vendors	DOF	8	3		11
Chapter 7: Government Financial Reporting	DOF	5	3	2	10
<b>Total Recommendations</b>		<b>35</b> 66%	<b>11</b> 21%	<b>7</b> 13%	<b>53</b> 100%
DERDT	Department of Economic and Rural Development and Tourism				
DOF	Department of Finance				
SNSMR	Service Nova Scotia and Municipal Relations				
TB	Treasury Board				





Status of Financial Recommendations After Removing Four in 2011		
	2011	2010
Complete	35 (66%)	29 (52%)
Not complete	11 (21%)	13 (23%)
Do not intend to implement	7 (13%)	14 (25%)
Total	*53 (100%)	56 (100%)

\* Recommendation 2.1, December 2005 was split into two recommendations this year.

- 6.16 The overall implementation rate this year is 66%, a 14% increase over the implementation rate of 52% determined in May 2011, partly due to a change in our calculations. The number of recommendations assessed as *do not intend to implement* has decreased from the prior year because we reevaluated governments' rationale for not implementing several recommendations and determined it was reasonable. Accordingly, these recommendations have been excluded from our statistics. This has resulted in an improved implementation rate this year.
- 6.17 *Other comments* – A recommendation that has been made in several of these reports relates to the review opinion on revenue estimates. This opinion has been qualified for several years with respect to two CICA presentation and disclosure standards. First, third-party revenues of certain government units, such as ancillary operations in district health authorities and municipal funding in school boards, are excluded from the revenue estimates. Second, no estimate of these third-party revenues is made and therefore we are unable to determine their significance to the estimates. This presentation is not consistent with CICA standards. We have recommended that the revenue estimates include all revenues of the consolidated entity. Government has again indicated they do not intend to implement. This recommendation has been outstanding for a number of years and we urge government to reconsider their decision not to implement this recommendation, and to address this deficiency for the 2012-13 revenue estimates.
- 6.18 In addition, two recommendations resulting from our 2008 audit of payments to vendors related to internal controls concerning the government's SAP corporate accounting system are still outstanding. Both recommendations relate to ensuring access privileges are consistent with staff roles and responsibilities, and are reviewed on a periodic basis. Access privileges enhance segregation of duties which is a critical element in an effective control environment. Government should implement these recommendations as soon as possible.
- 6.19 Finally, one recommendation related to an audit of the governance and control framework of the Investment Management, Liability Management and Treasury Services, and the Capital Market Administration Divisions of the Department of Finance. We reported the results of this audit in our December 2005 Report and a recommendation related to the need for an independent external audit opinion remained outstanding. In 2011, we undertook an audit to address this

recommendation. The results of our follow-up audit on the Governance and Control Framework of the Liability Management and Treasury Services, Capital Markets Administration, and Compliance and Reporting Divisions are reported in Chapter 3 – Governance and Control Framework – of this Report.

