
6 Follow-up of 2010 Financial Recommendations



Summary

Seventy-seven percent of our 2010 recommendations related to financial reporting have been implemented. This is a 10% increase in the implementation rate for 2010 recommendations reported last year.

During the past year, a long-outstanding recommendation that the revenue estimates included in the annual budget be prepared on a consolidated basis was implemented. Our review opinion had been qualified each year since 2001 when accounting standards for consolidated financial statements were issued for the public sector. This year, the revenue estimates included in the 2013-14 Budget Address were prepared on a consolidated basis.

Two other recommendations have been made in successive reports. We have recommended that internal controls in government be identified and related roles and responsibilities for these controls be assigned. Some progress has been made toward implementation of these recommendations; however, they remain incomplete. Internal controls have government-wide impacts, and need to be addressed.

Details of all financial recommendations for 2010 along with their current status can be found on our website at oag-ns.ca.



6 Follow-up of 2010 Financial Recommendations

Background

- 6.1 Financial reporting is a key component of government's accountability framework; it is a means through which government fulfills its accountability responsibilities regarding the use of public funds and demonstrates its stewardship over those funds. Our annual report on government financial reporting contains recommendations which we believe provide practical, constructive advice to address issues raised by our financial audits and reviews.
- 6.2 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 Chapter reports 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 2010 audits. In 2011, we did not make financial reporting recommendations as the timing of our reporting changed; recommendations related to 2011 were released in our January 2012 report.
- 6.4 We requested that government management complete a self-assessment of progress in implementing the outstanding 2010 recommendations. We also asked management to provide supporting information. Our review process focused on whether the self-assessment 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.

Review Objective and Scope

- 6.5 The objective of this assignment was to review and report on the implementation status of recommendations related to financial audits and reviews conducted by this Office in 2010.
- 6.6 Each department to which we made recommendations is expected to document its self-assessment of progress on implementing our Office's recommendations in government's Tracking Auditor General Recommendations system. Our review was based on information included in that system as of October 19, 2013.



- 6.7 We reviewed those recommendations which government had assessed as do not intend to implement and focused on the reasons why government had chosen not to implement. If the rationale appeared reasonable, we removed the recommendation from our statistics and will not conduct further follow up on it.
- 6.8 Our review was based on representations by government management which we substantiated through interviews and examination of documentation, and provides moderate assurance. 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 given the circumstances. Further information on the difference between high and moderate assurance is available in the CPA Canada Handbook – Assurance, Section 5025 – Standards for Assurance Engagements other than Audits of Financial Statements.
- 6.9 Our criteria were based on qualitative characteristics of information as described in the CPA Canada Handbook. Management representations on implementation status were assessed against three criteria.
- Accurate – neither overstate nor understate progress
 - Reliable and verifiable
 - Complete and adequately disclose progress to date

Significant Observations

Conclusions and summary of observations

The overall implementation rate for financial recommendations made in 2010 increased from 67% to 77% during the past year. This is partly due to government's decision to implement a long-outstanding recommendation related to presentation of the revenue estimates included in the government's annual budget. Our review opinion on these estimates has been qualified each year since 2001 because the revenue estimates were not prepared on a consolidated basis as required under generally accepted accounting principles. However the 2013-14 revenue estimates were prepared on a consolidated basis.

- 6.10 *Review results* – We performed a review of departments' self-assessments including an evaluation of supporting documentation. 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.
- 6.11 *Scope of review* – During this assignment, we followed up on the status of 40



recommendations, most of which were addressed to the Department of Finance. The remaining recommendations are the responsibility of the Departments of Transportation and Infrastructure Renewal, and the Department of Health and Wellness. The scope of our review was reduced this year; last year we reported on the implementation status of recommendations made between 2007 and 2010.

- 6.12 *Review opinion on revenue estimates* – Since 2006, our financial reporting recommendations have included a recommendation that the revenue estimates included in the government’s annual budget be prepared on a consolidated basis. This is consistent with generally accepted accounting principles which require that the budget be prepared on the same basis as the Province’s annual financial statements. The financial statements have been prepared on a consolidated basis since 2001 when public sector accounting standards were revised to require consolidated reporting.
- 6.13 In the past, third-party revenues of certain government units, such as ancillary operations in district health authorities and municipal funding in school boards, were excluded from the revenue estimates. Additionally, no estimate of these third-party revenues was made and therefore we were unable to determine their significance to the estimates. Government developed processes and the revenue estimates were presented on a consolidated basis for the 2013-14 revenue estimates. As a result, our review opinion on the revenue estimates was unqualified. We are pleased to report that this recommendation has now been fully implemented and we commend government for its action.
- 6.14 *Do not intend to implement* – Two recommendations were reported to us as do not intend to implement. We disagree with government’s rationale for not implementing one of these recommendations.
- 6.15 Government does not intend to implement our recommendation to include variance analysis on the consolidated results in the financial statement discussion and analysis section of the annual Public Accounts. The existing analysis provides explanations for variances between budget and actual results for the general revenue fund only. However the Consolidated Statement of Operations and Accumulated Deficits includes budget and actual results for consolidated revenues and expenses. We believe additional information should be communicated to users on variances between consolidated actual and budgeted amounts. Variance analysis with related explanations for changes allows users to evaluate government results. It enhances transparency and supports government’s stewardship over resources. We believe this is a valid recommendation and as such Finance should make every effort to implement it.
- 6.16 We have accepted government’s decision not to implement our recommendation to change the Teachers’ Pension Act to allow audits to be performed by this Office. The recommendation was made in February 2010 because it was unclear whether the Teachers’ Pension Act allowed our Office to conduct performance audits of the Teachers’ Pension Plan. However, in December 2010, the Auditor

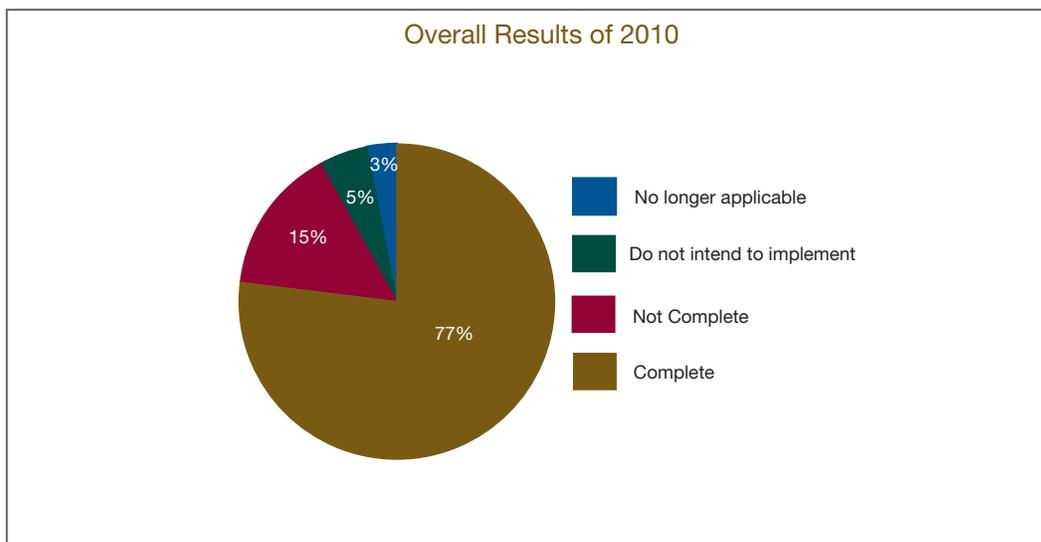


General Act was revised and we are no longer able to audit government trusts that are under joint trustee relationships. This is the governance arrangement of the Teachers' Pension Plan.

6.17 *Implementation status* – The following exhibit summarizes the implementation status of the 40 recommendations made in 2010.

Report and Chapter	Entity	Complete	Not Complete	Do Not Intend to Implement	Action No Longer Required	Total
February 2010 Chapter 5: Government Financial Reporting	DOF	17	2			19
Chapter 5: Government Financial Reporting	DTIR	1				1
November 2010 Chapter 5: Government Financial Reporting	DOF	12	3	2	1	18
Chapter 5: Government Financial Reporting	DTIR	1				1
Chapter 5: Government Financial Reporting	DHW		1			1
Total Number of Recommendations Made		31	6	2	1	40
		77%	15%	5%	3%	100%

DOF – Department of Finance
 DTIR – Department of Transportation and Infrastructure Renewal
 DHW – Department of Health and Wellness



6.18 The overall implementation rate this year is 77%, a 10% increase over last year's rate of 67%. This is partly due to the reduction of years reviewed.

6.19 *Disagreement on implementation status* – In 2010, we made a recommendation to the Department of Finance which dealt with the need to implement a formal and documented review and challenge of the assumptions used in the preparation of the petroleum royalties estimates. Currently, a staff member at the Department



of Energy develops these estimates using inputs and assumptions. Due to the impact of accounting for future costs associated with site remediation, the net amount of this revenue has declined significantly. However, the gross amount of the revenue against which the accrued remediation costs are offset is still significant (\$115 million for the year ended March 31, 2013). We believe the inputs and assumptions being used to generate these estimates should be subject to review by someone other than the individual preparing the estimate.

- 6.20 The Department of Finance told us that this recommendation was complete. Our review of their support indicates that the Department of Finance conducts a review and challenge of broad assumptions used in the model but not of other inputs. Through discussions with the Department, we determined that management does not intend to do any further review. They believe any further efforts to address this recommendation are the Department of Energy's responsibility. Discussion surrounding moving this recommendation to Energy was held during the prior year's follow-up engagement; however, to date, the Department of Finance has made no effort to work with government's Tracking Auditor General Recommendations steering committee to make this change. Accordingly, we have reported the status of this recommendation as do not intend to implement.
- 6.21 *Other comments* – Four of the six recommendations that remain incomplete for 2010 relate to internal controls over financial reporting. These recommendations include the following;
- the need for government to clearly establish and document internal controls; and
 - the assignment of roles and responsibilities for the design, implementation, operation and monitoring of internal controls as part of the corporate policy manuals.
- 6.22 While progress has been made towards implementing these recommendations, Government needs to take action to ensure they are completed in a timely manner. To date, the Department of Finance's internal controls project has focused on the control environment without proper assessment of the risks to financial reporting and the controls in place to mitigate those risks. We noted our overall concern with the current risk assessment in chapter 2 of this report. Without proper identification of the risks inherent in financial reporting it is impossible for Government to properly evaluate and prioritize these risks in order to develop a plan that effectively minimizes, monitors, and controls the likelihood and impact of each risk.