

GOVERNMENT-WIDE ISSUES

2.

ACCOUNTABILITY INFORMATION AND REPORTING**BACKGROUND**

2.1 The need for quality accountability information and reporting, including the definition of basic accountability requirements in legislation, has been a topic of consideration in a number of jurisdictions. In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes.

2.2 Exhibit 2.1 on page 20 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departments' and crown agencies' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.3 Exhibit 2.2 on page 20 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.4 The purpose of this chapter is to provide updated summary comments on the quality of accountability information and reporting to the Members of the Legislative Assembly (MLAs), including the Province's financial statements. Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so that MLAs can hold government to account.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- Progress towards improving the quality of accountability information and reporting by government continued. Nova Scotia has received recognition nationally and internationally for its leadership in regards to its *Planning and Accountability Framework* initiatives, with a specific focus on the annual *Government By Design* publication. The continued provision of such information and reporting to the House of Assembly on a timely basis is discretionary (i.e., not required by statute).

- Improvements made to the Province's financial statements in recent years have resulted in the Province's financial position and annual results being accounted for and reported more completely and understandably than in the past. Certain issues or concerns remain to be resolved, including the preparation of full consolidated financial statements. Finance has indicated its intentions to deal with certain of these matters over time.
- On August 22, 1997, this Office released a Special Report on the Province's non-consolidated financial statements for the year ended March 31, 1997 which had been released publicly by the Minister of Finance.

SCOPE OF REVIEW

2.6 The objective of this assignment was to review the status of action taken or planned to improve the quality of accountability information and reporting to the House of Assembly.

2.7 In addition to considering the status of the *Planning and Accountability Framework* initiatives undertaken by government, we have reviewed and provide commentary on the Province's non-consolidated financial statements included in the *Public Accounts* for the fiscal year ended March 31, 1997.

PRINCIPAL FINDINGS

Nova Scotia Continuing to Demonstrate Leadership

2.8 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there must be an adequate standard framework in place requiring the provision of sufficient, appropriate, understandable and timely information or reports. As indicated in last year's Report, such a standard has been defined and is being implemented in Nova Scotia. The *Planning and Accountability Framework* is a government-wide initiative being coordinated through the Priorities and Planning Secretariat. During 1997, efforts continued to implement the various aspects of the framework and make necessary improvements. The information and reporting documents prepared (or to be prepared) as a result of the framework provide (or are to provide) an increased focus on defined outcomes at an overall government level as well as at the entity or program levels.

2.9 The elements of the framework in place, coupled with those in progress or planned, put Nova Scotia in a leadership role in relation to public sector accountability. Nova Scotia's leadership in this regard has received increased recognition nationally and internationally, including specific focus on and interest in the government's annual *Government By Design* publication. The effective implementation of such information and reporting mechanisms represents a significant challenge, requiring a sustained commitment by government.

2.10 Certain significant accountability-related statutory amendments or provisions were put in place in recent years which support the provision of improved and more timely information and reporting to the House. For example, amendments to the Provincial Finance Act (Section 73) now require business plans and other information for crown corporations to be tabled in the House each year.

2.11 The *Planning and Accountability Framework* will support the provision of improved information and reporting on the plans and performance of government, including at the department

or agency level. It was indicated that the information and reporting prepared using the framework is (and will be) tabled in the House. In this regard, we note that there is currently no statutory provision requiring such information and reporting to be made available to MLAs.

2.12 The 1997-98 *Government By Design* included the following summary descriptive note on page 2:

"...Government By Design is the planning document for government. It lays out the overall plan of government and the specific business plans of departments as well as the fiscal and debt management plans. A crucial aspect of the process is the identification of outcomes/performance measures, both for government and for departments.

Fundamental to accountability is the reporting mechanism. The publication Hitting the Targets is the results/reporting document for government. Not only will it report on the financial performance, it will also include the accomplishments of government and the achievement of outcomes for both government and departments. Released in early fall, it will report on the previous fiscal year in a timely, comprehensive, and easily understandable way.

We are in a transition year. The outcomes and measures are identified this year in Government By Design; the targets and the reporting will be published in Hitting the Targets. In future years, targets will be published in Government By Design, and the results of how the targets have been achieved will be published in Hitting the Targets.

Together, these publications provide Nova Scotians with a clear understanding of what we have accomplished and where we are going."

2.13 In August 1997, government released part (essentially the financial part including the non-consolidated financial statements, along with other financial and economic performance information) of the *Hitting the Targets* document referred to above. It was indicated to us that the remaining part (that relating to accomplishments of government and the achievement of outcomes) required further editorial review and adjustment in fall 1997, and will now be titled *Nova Scotia Counts* and released in early 1998. In our view, such a delay should not be considered unreasonable, in light of the challenges associated with the initial preparation of such performance reports.

2.14 In addition to the *Government By Design* and *Hitting the Targets* publications, there are various other reports and publications currently available to the MLAs which can either directly or indirectly be utilized for accountability purposes. As noted in previous Reports, some of these are not required by legislation, and as such are available at the government's discretion. In fall 1997, the Priorities and Planning Secretariat had a research study and analysis in process, including consideration of the nature and extent of statutory accountability provisions in other Canadian jurisdictions.

2.15 Annual reporting standards and practices of departments and agencies need to be updated, expanded and strengthened to support the provision of sufficient, appropriate, understandable and timely information on the results or outcomes achieved in comparison to plans. Further, responsibility for monitoring compliance with annual reporting requirements needs to be clearly assigned. The Priorities and Planning Secretariat had a specific research study and analysis undertaken in this regard during 1997.

Action Taken or Planned by the Department of Finance

2.16 Chapter 2 of last year's Report included a number of comments and suggestions relating to accountability information and reporting to the House, including the Province's annual financial statements. In September 1997, Finance management provided us with a copy of their response to the comments included in our 1996 Report that affect that Department. Their response summarized the action taken or planned, assigned responsibility to specific Finance staff, and established due dates and outcomes (i.e., deliverables).

2.17 Appendix 2A on page 21 provides information extracted from Finance's response on matters included in Chapter 2 - *Accountability Information and Reporting* of our 1996 Report. For purposes of the appendix we have included Finance's comments regarding action taken or planned.

2.18 We want to acknowledge that Finance prepared and provided the response to us on their own initiative. It has been very helpful, and in some regards reflects upon the quality or level of organization and control senior management at Finance are working to put in place over their operations.

Audit of the Province's Financial Statements

2.19 Section 65 of the Provincial Finance Act creates an audit reporting relationship which is unique in Canada. Nova Scotia is the only jurisdiction in Canada where the legislative auditor does not audit and provide an opinion on the government's financial statements. The Province's financial statements are audited by a public accounting firm and the auditors' report (opinion) is addressed to the Minister of Finance. The audit opinion in other jurisdictions is addressed to the House of Assembly (or its equivalent).

2.20 This Office has and will continue to place appropriate reliance on the audit of the Province's financial statements as it relates to our mandate defined under the Auditor General Act. We will continue our efforts to monitor the results of this audit function and provide commentary on the overall completeness and adequacy of the Province's financial statements which are included in the *Public Accounts*.

2.21 In recent years, we have made reference to the annual *Management Report* issued by the external firm appointed under Section 65 of the Provincial Finance Act. The *Management Report* resulting from the audit of the Province's March 31, 1997 financial statements, as well as Finance's response to the comments and recommendations therein, were made available to us in September 1997. That report and Finance's response include information on various issues or concerns with respect to Provincial operations, and will be considered during our future planning for related assignments.

Commentary on the Province's Annual Financial Statements

2.22 The Members of the Legislative Assembly (and the public) require financial information on and reporting of the Province's financial position and results - both plans and performance - on a complete, understandable and timely basis. This view is consistent with the recommendations made by the Public Accounts Committee in its sub-committee report which was tabled in the House of Assembly in December 1996. Among other things, that report provides recommendations dealing with improvements to the Province's financial statements, including consolidation and timely release.

2.23 Since 1993, the Report of the Auditor General has included commentary on the Province's annual financial statements, one of government's primary financial accountability documents. While we have previously identified concerns relating to the completeness and adequacy of the Province's financial statements, improvements made to the statements, in the past three or four years, have resulted in the Province's financial position and results being accounted for and reported more completely and understandably than in the past.

2.24 The timeliness of financial reporting by government has been less of an issue, to some extent due to the Minister of Finance releasing the annual *Financial Report* (which has included the traditional non-consolidated financial statements of the Province) in August in recent years. As noted in previous years the release of the *Financial Report* is discretionary (i.e., not required by statute). However, the *Public Accounts* now must be released by December 31, within nine months of the fiscal year end.

2.25 With respect to understandability of the Province's financial statements, it is important to note that they are, by their very nature, a summary, resulting from the selection of alternative accounting policies and disclosure practices. The impact or implication of these selections may not be fully understood or appreciated by other than a well-informed reader. This notwithstanding, one attribute of understandability of which readers should be assured is that of consistency. In situations where the government elects to change accounting policies, the onus is on government to ensure that such changes are appropriate, as well as fully and adequately disclosed in the notes to the financial statements. In most instances, such changes should result in a retroactive restatement of the prior year's comparative data, so that financial statement readers are still presented with information on a consistent and comparable basis.

2.26 Based on our review of the Province's 1997 financial statements and other information available to us, a Special Report was prepared by this Office and released on August 22, 1997. The following concluding remarks were noted on page 5 of that Report.

"As previously noted, in recent years various significant improvements have been made to the Province's financial statements. As a result, the Province's financial position and results are being reported more completely and understandably than in the past. In this regard, I acknowledge the decision to stop using an inappropriate accounting practice relating to the recording of capital commitments in the determination of net capital expenditures.

Additional opportunities for improvements to the Province's financial statements and related disclosures have been identified - by Finance, this Office, and others - for future consideration by Government. Nothing short of full and complete accounting for and reporting of the Province's financial position and results should be considered acceptable.

My Office will continue to provide appropriate independent commentary on and support for efforts to improve the Province's financial statements and other accountability information and reporting."

2.27 Finance's commitment to further improve the Province's financial statements is evident, not only by recent initiatives and changes, but also in the Department's section of the 1997-98 *Government By Design* where one of its priorities is noted as to "...continue efforts toward enhanced corporate understanding and compliance with (PSAAB) guidelines" (page 83). The "PSAAB guidelines" refers to the public sector accounting recommendations of the Canadian Institute of Chartered Accountants (CICA).

2.28 Finance is working on certain matters with respect to the Province's financial statements, including those listed in Appendix 2B on page 24, and has indicated its intentions to address these over time. Depending on how and when some of these are resolved, they may affect the Province's financial position and results reported for the fiscal year ending March 31, 1998.

CONCLUDING REMARKS

2.29 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and a program delivery or service perspective. The goal is better information and reports, not just more.

2.30 There have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans and priorities. The Department of Finance and the Priorities and Planning Secretariat have taken, and are still planning to take, steps to improve the nature and quality of the information and reports available, including an expanded focus on results and outcomes of departments and agencies in key areas.

2.31 Despite some specific concerns and acknowledging that further improvements will be necessary, the overall quality (i.e., in terms of completeness and understandability) of the Province's financial statements and related reporting is now much better than it was in the past.

Exhibit 2.1

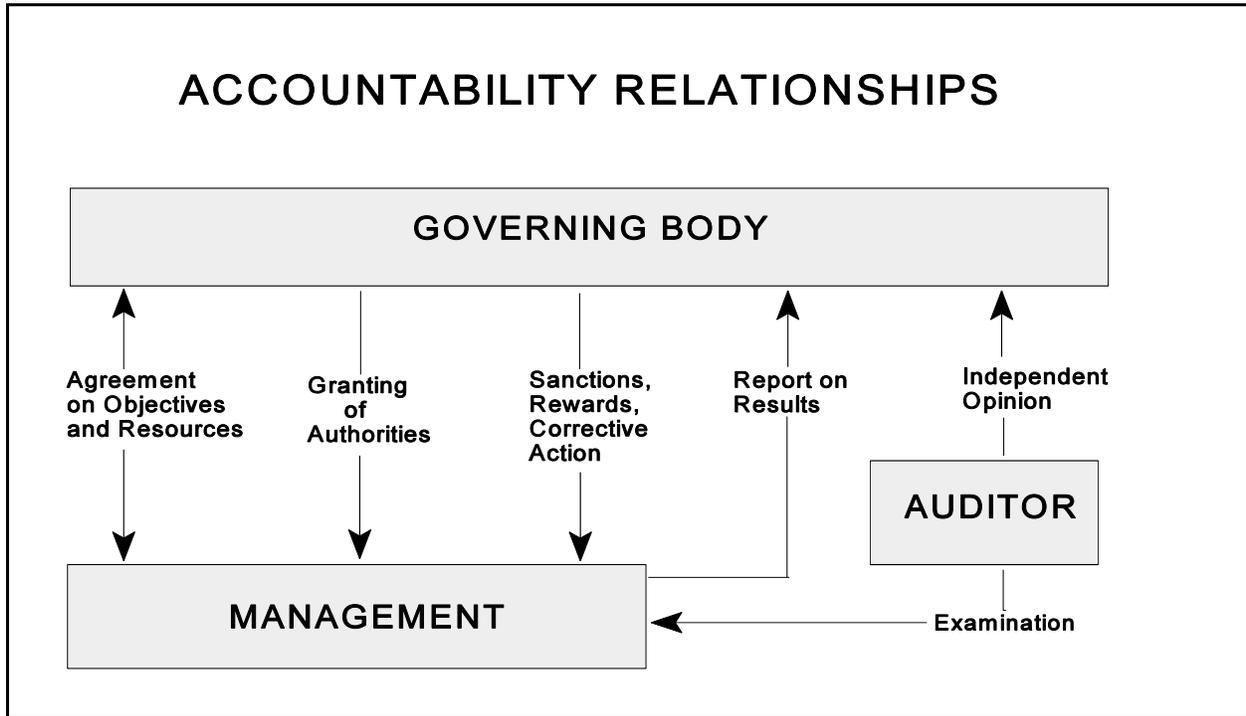
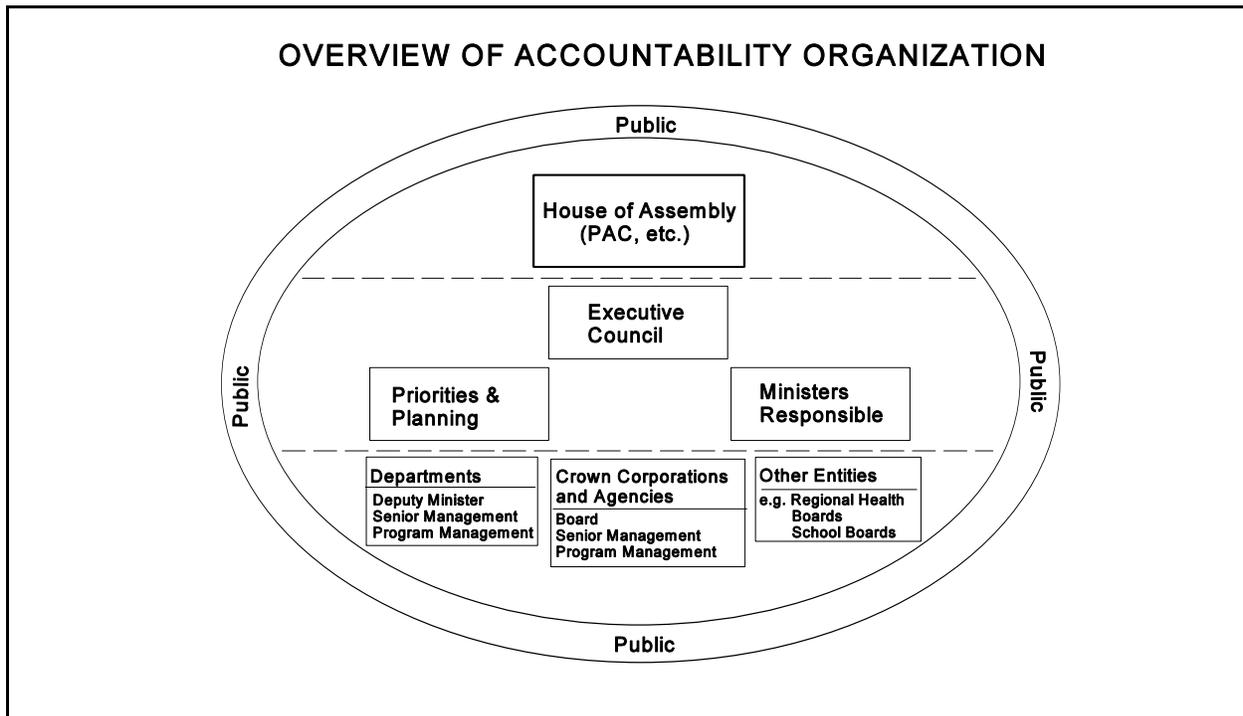


Exhibit 2.2



Appendix 2A

Follow-up to Chapter 2 in 1996 Auditor General's Report Summary of Action Taken or Planned Extracted from Finance's September 1997 Response		
Par. #	Office of the Auditor General's Comments or Recommendations	Summary of Action Taken or Planned
2.14	<p>...consider the various recommendations included in the PAC Sub-Committee report...</p> <p>vi - timely interim reporting against plans, budget</p> <p>vii - Public Accounts supplement should include information for crown corporations, agencies and other Provincial public sector entities.</p> <p>viii - additional appropriations, warrants reviewed by the House on a timely and effective basis</p> <p>ix - consolidated estimate or budget information with comparison to actual</p> <p>x - adopt PSAAB recommendations</p> <p>xi - annual surplus/deficit should be the only change in net direct debt, in the absence of extraordinary or retroactive adjustments</p> <p>xii - amend Provincial Finance Act so Public Accounts are released with Financial Report, or at least within nine months of year end.</p>	<p><i>Quarterly Reports published.</i></p> <p><i>We will be evaluating the Public Accounts presentation and contents for the reports for the year ended March 31, 1998.</i></p> <p><i>Shared responsibilities with Departments. Completed when information is available and the department and Finance are comfortable that the authority is required.</i></p> <p><i>Will consider as we look at preparing consolidated financial statements. Consistency of fiscal years may be a problem.</i></p> <p><i>Ultimately, it is the Province's intention to comply with PSAAB, however, this will require much analysis and planning.</i></p> <p><i>This recommendation will be evaluated as the Province considers each PSAAB recommendation individually.</i></p> <p><i>The Public Accounts (Volumes I and II) for the year ended March 31, 1997 will be available for release by December 31, 1997.</i></p>
2.25	<p>...the issues of full consolidated financial statements and certain costs and other adjustments being charged directly to the <i>Statement of Net Direct Debt</i> rather than being reported on the <i>Statement of Revenue and Expenditures</i> as part of the annual surplus or deficit...Nothing short of full and complete accounting for and reporting of the Province's surplus or deficit and its liabilities should be considered acceptable.</p>	<p><i>The Province will continue to provide supplementary consolidated financial information.</i></p> <p><i>We will consider preparing fully consolidated financial statements as part of our review of PSAAB recommendations and determine a conversion plan at that time.</i></p>

Par. #	Office of the Auditor General's Comments or Recommendations	Summary of Action Taken or Planned
2.28	...where the government elects to change accounting policies...ensure that such changes are appropriate...fully and adequately disclosed in the notes to the financial statements...in most instances, such changes should result in a retroactive restatement of the prior year's comparative data...	<p><i>Accounting changes are disclosed in the notes to the financial statements.</i></p> <p><i>Retroactive application will be considered in instances where the information is readily available.</i></p>
2.31	<p>Provide the following comments for consideration:</p> <ul style="list-style-type: none"> ■ Consolidated financial information, and preferably full consolidated financial statements, should be available publicly at the same time as the traditional non-consolidated statements. ■ The Workers' Compensation Board of Nova Scotia (WCB) and Halifax-Dartmouth Bridge Commission have not been accounted for as part of the Province's consolidated reporting entity. ■ Significant adjustments recorded directly to net direct debt for purposes of the non-consolidated statements have not been included in the consolidated (i.e., total) surplus or deficit of the Province reported in the <i>Consolidated Financial Summary</i>. 	<p><i>In theory, this is beneficial. In practice, consolidated financial statements will require a lot of effort. Since our resources are limited, the emphasis over the short term will be on timely release of non consolidated F/S until the preparation of consolidated financial statements is well established.</i></p> <p><i>The Workers' Compensation Board is not part of the Government Reporting Entity. We will evaluate the Bridge Commission to determine if it should be part of the reporting entity.</i></p> <p><i>This will be reviewed as a component of PSAAB compliance as we move toward fully consolidated financial statements.</i></p>
2.35	Finance needs to clearly define its accounting policy on what will be recorded directly to the <i>Statement of Net Direct Debt</i> ...we strongly recommend that, in the absence of extraordinary or retroactive adjustments due to changes in accounting policies, the annual surplus or deficit should be the only factor causing a change in the Province's net direct debt. All other items should flow through the <i>Statement of Revenue and Expenditures</i> , and be included in the determination of the reported surplus or deficit for a fiscal year.	<p><i>This will be reviewed as a component of 2.31.</i></p>
2.36	<p>Completeness of reported liabilities - WCB unfunded actuarial liability should be reported.</p> <p>WCB - Province's liability as a self insurer should be reported.</p>	<p><i>The only liability is the self-insured portion.</i></p> <p><i>It was reported at March 31, 1997.</i></p>

Par. #	Office of the Auditor General's Comments or Recommendations	Summary of Action Taken or Planned
2.37	Timely release of consolidated financial statements.	<i>Public Accounts to be released December 31, 1997 and will contain consolidated financial summary information.</i>
2.38	Public Accounts released prior to December 31.	<i>Volumes I and II to be available for release December 31, 1997.</i>
2.41	Accrual of commitments of \$50 million inappropriate	<i>This has been debated.</i>
15.14	Public Accounts do not include all entities owned or controlled by the Province.	<i>This will be evaluated for the Public Accounts for the year ended March 31, 1998.</i>
17.6	<p>Additional Appropriations/Special Warrants</p> <ul style="list-style-type: none"> - Expenditures were incurred before the approvals were received - Need to clarify the provisions of the Expenditure Control Act - Special warrant approved for the Innovation Fund which could have been more appropriately dealt with in the Estimates. 	<p><i>Until finalization of year end it is difficult to implement. As well, department and the Department of Finance want to be comfortable with amounts to ensure authority is required.</i></p> <p><i>In 1997 session some clarifications were made.</i></p> <p><i>The Innovation Fund is a revolving fund. Expenditures from the Fund are authorized by BTAC and Departments have to repay the Fund at terms predetermined by BTAC.</i></p>

*Appendix 2B***PROVINCE'S FINANCIAL STATEMENTS
SUMMARY OF OPPORTUNITIES FOR IMPROVEMENT**

Consolidated financial statements - Full consolidated financial statements for the Province should be a primary financial accountability report for government. Consolidated financial information, and preferably full consolidated financial statements, should be available publicly at the same time as the traditional non-consolidated statements. Finance has indicated that it is considering consolidated budget information as part of the move to full consolidated financial statements.

Reporting entity - Finance is reviewing the Province's reporting entity for financial statement purposes. Among other considerations, this initiative will assess whether specific Provincial public sector entities are to be included in consolidated financial reporting, and which ones will be accounted for as government organizations or alternately as government enterprises.

Reporting of annual results - Finance needs to clearly define its accounting policy on what will be recorded directly to the *Statement of Net Direct Debt*. In this regard, it is recommended that, in the absence of extraordinary or retroactive adjustments due to changes in accounting policies, the annual surplus or deficit should be the only factor causing a change in the Province's net direct debt. All other items should flow through the *Statement of Revenue and Expenditures*, and be included in the determination of the reported surplus or deficit for a fiscal year. It is acknowledged that implementing such a policy would represent some further challenges to the annual budget preparation process. Finance has indicated that this is the reporting basis it intends to move towards over time.

Accounting for tangible capital assets - Alternatives and issues relating to the implementation of recent recommendations by the CICA on the accounting for and reporting of tangible capital assets by governments are being studied by Finance, with input from this Office and departments.

Accounting for pension obligations - Since 1993, Finance has implemented changes so that government's pension obligations (i.e., liabilities) are more fully accounted for in its financial statements. Finance has previously indicated that since items such as annual or periodic pension valuation adjustments do not lend themselves to accurate and reliable budgeting, it is appropriate for them to be recorded to net direct debt rather than in the calculation of the annual surplus or deficit. While such items may be challenging to determine, both from a budgeting and an accounting perspective, they still represent items that should be considered when assessing the government's fiscal performance.

Change in accounting policies - The disclosed basis of accounting used for the March 31, 1997 financial statements was not fully appropriate in relation to generally accepted accounting principles, due to certain capital commitments being accrued as expenditures for the fiscal years ending March 31, 1996 and March 31, 1997. Finance has indicated that this accounting practice will be changed for the fiscal year ended March 31, 1998, but has yet to indicate if the change in policy will be made retroactively as is appropriate under the circumstances.