

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 26 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 26 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, including the initial release of a summary performance report (i.e., *Nova Scotia Counts*) against *Government By Design*. The provision of such information and reporting to the House of Assembly on a timely basis is to a large part discretionary (i.e., not required by statute). We have suggested that government's plans and commitments for the continued evolution of the Planning and Accountability Framework be formalized and communicated to the House.

- The Auditor General's report on the 1998-99 revenue estimates, required under Section 65A of the Provincial Finance Act, was tabled in the House on June 4, 1998. In addition, summary comments and suggestions, as a result of our review procedures, were communicated to the Department of Finance May 30, 1998.
- The Auditors' Report, of the firm appointed under Section 65 of the Provincial Finance Act, on the Province's March 31, 1998 financial statements was released publicly July 31, 1998. In addition, the firm provided a letter to Finance as a result of the audit work summarizing certain observations and suggestions. That letter is reproduced in Appendix 2A to this chapter (page 33), and selected extracts are referred to in various chapters in this Report.
- 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. In June 1998, the government released a multi-year plan for further improvements to the accounting policies and presentation of the Province's financial statements.
- At the time this chapter was written, a resolution, under Section 13 of the Expenditure Control Act, for additional spending authority required for 1997-98 had been tabled in the House of Assembly, but was yet to be approved. In addition, the Executive Council approval, required under Section 23 of the Provincial Finance Act, of write-offs included in the financial statements as at March 31, 1998 was also outstanding. In our view, such approvals should be in place on a timely basis and preferably prior to the release of the financial statements.
- Accountability reporting on the procurement process within and across government should be improved. Efforts to provide for procurement-related reporting by government bodies using government's Corporate Financial Management System were near completion, but there were no corresponding efforts to ensure exception reporting by other Provincial public sector entities. The Procurement Branch of the Department of Finance is supposed to report policy exceptions to the Priorities and Planning Committee but there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the House of Assembly, and if such reporting was available on a timely basis.

SCOPE OF REVIEW

2.6 This assignment represents a continuous ongoing identification, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly.

2.7 In addition to considering the status of accountability-related initiatives undertaken by government, we have reviewed and provided commentary on selected matters, including the Province's non-consolidated financial statements published in the *Public Accounts* for the fiscal year ended March 31, 1998.

PRINCIPAL FINDINGS

2.8 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting are presented under the following headings:

- Planning and Accountability Framework
- Review of Revenue Estimates
- Audit of Province’s Financial Statements
- Commentary on Province’s Financial Statements
- Spending Authorities and Reporting
- Procurement Policies and Reporting
- Supplement to the Public Accounts

Planning and Accountability Framework

2.9 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. 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 the past year, efforts continued to implement various aspects of the framework and to make necessary improvements. The information and reporting documents prepared as a result of the framework provide an increased focus on defined outcomes at both the overall government and departmental levels. The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government.

2.10 The *Planning and Accountability Framework* is intended to support the provision of improved information and reporting on the plans and performance of government, including at the department or agency level. In this regard, we note that there is currently no statutory provision requiring such information on and reporting by government overall or by departments to be made available to MLAs on a predetermined and timely basis, or at all. For example, the information in the primary summary publications, *Government By Design* (i.e., the plans) and *Nova Scotia Counts* (i.e., the results, first released in fall 1998), is not required by statute, and is therefore being provided to the members of the House of Assembly at the discretion of the government.

2.11 We understand that departments are expected to provide full versions of their business plans (including outcome measure tables) on their Internet web pages. Further, in addition to the *Government By Design* and *Nova Scotia Counts* 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 also only available at the government’s discretion. We do acknowledge that the business plans of crown corporations are required to be tabled in the House under the provision of the Provincial Finance Act.

2.12 While as in previous years’ Reports, we acknowledge government’s initiatives under the *Planning and Accountability Framework*, we suggest that government’s plans and priorities for further implementation of this framework be formally documented and reported to the House.

Review of Revenue Estimates

2.13 Section 65A of the Provincial Finance Act provided the Auditor General with the following mandate ⁽¹⁾ with regard to the government's annual revenue estimates.

"The Auditor General shall annually review the estimate of revenue used in the preparation of the annual Budget Address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates."

2.14 We first exercised this mandate, which is unique within the Canadian legislative audit community, in 1994. The unqualified report on the 1998-99 revenue estimates (see Exhibit 2.3 on page 27), was tabled along with the supporting information for the June 4, 1998 *Budget Address*. Our coverage and report on the 1998-99 revenue estimates did not extend to the government's revenue projections for subsequent fiscal periods, nor did it include consideration of the expenditure estimates.

2.15 At the conclusion of our review of the 1998-99 revenue estimates, in addition to providing a copy of the Auditor General's report on revenue estimates for budget printing purposes, we also forwarded a letter to the Minister of Finance. That letter dated May 30, 1998 provided the following summary comments on matters regarding the 1998-99 revenue estimates.

As per earlier correspondence to your predecessor, my report relates only to the 1998-99 revenue estimates, as prepared by the Department of Finance, of \$4,382,718,000 for total ordinary revenue. More specifically, my report does not relate to the expenditure estimates nor the 1997-98 forecast information to be included in your Budget Address. Further, as in prior years, recoveries, user fees or other income netted against expenditures for appropriation purposes, and sinking fund earnings which are reported separately on the Province's Statement of Revenue and Expenditures are not covered during our review or by my report.

I would like to draw your attention to the following considerations with respect to the 1998-99 revenue estimates:

- *In recent years the Province has received significant prior year adjustments through the various federal-provincial fiscal arrangements. It is our understanding that Finance management staff used the most recent formal information from the Federal government - adjusted in certain instances for more current local conditions or considerations - in order to arrive at the estimates for 1998-99. However, it must still be acknowledged that such adjustments will occur during 1998-99 for prior years and, with respect to the current year, in future years, and that they could be significant.*
- *The Gaming Corporation Profits for 1998-99 in your revenue estimates includes an amount (approximately \$4 million) which is conditional upon changes to Atlantic Lottery Corporation's profit distribution methodology being approved by all of its shareholders. We note that such changes are dependent on discussions with and decisions by parties external to the Nova Scotia Gaming Corporation, the Department of Finance, and the government of Nova Scotia.*
- *In light of the potential for significant differences between estimate and actual - both in total and for individual revenue line items - consideration could be given to incorporating some basic information with respect to the sensitivity of the key*

⁽¹⁾As a result of statutory amendments passed in June 1998, this mandate is now part of the Auditor General Act.

revenue items, especially those that have been and are subject to some variability from estimate due to external factors and changes to key indicators. Such information has been incorporated into the government's Debt Management Plan included in Government By Design.

Further, during the course of our review of the 1998-99 revenue estimates we noted that the 1997-98 revenue forecasts for personal and corporate income taxes reflect additional cash transfers received by the Province prior to March 31, 1998 as a result of changes to the instalment schedules implemented by the Federal government. Based upon the information available to us, due to the manner in which the Province accounts for income taxes, the 1997-98 revenue forecast is approximately \$40 million higher than it would have been if such a change had not been implemented. We suggest that the accounting for income tax revenues be reviewed.

Audit of Province's Financial Statements

2.16 Section 65 of the Provincial Finance Act created an audit reporting relationship which was unique in Canada.⁽²⁾ Nova Scotia was the only province in Canada where the legislative auditor did not audit and provide an opinion on the jurisdiction's financial statements. These financial statements were audited by a public accounting firm and the auditors' report (opinion) addressed to the Minister of Finance. The audit opinion in other jurisdictions is addressed to the House of Assembly or its equivalent.

2.17 Deloitte & Touche, the auditors appointed under Section 65 of the Provincial Finance Act, provided an unqualified Auditors' Report dated July 21, 1998 to the Minister of Finance. That report (see Exhibit 2.4 on page 28) was released publicly on July 31, 1998 along with the traditional non-consolidated financial statements in the *Financial Report 1997-98 - Hitting the Targets*, and will be published in the *Public Accounts*, Volume I due to be released prior to December 31, 1998.

2.18 In addition to the Auditors' Report, Deloitte & Touche issued a letter, dated August 28, 1998, in late October 1998 to the Deputy Minister of Finance. That letter (see Appendix 2A on page 33) provided summary comments on their observations under the following headings:

1. Department of Health
 - a) Receivables
 - b) Pharmacare
 - c) Ambulance Services
2. Department of Education
 - a) Loans
 - b) Public-Private Partnerships
3. Year 2000
4. Quality of Accounting Functions
 - a) General Bookkeeping
 - b) Interim Financial Statements
 - c) Cash Collection and Receivables
5. Internal Audit
6. Legislation Regarding Annual Surpluses
7. Derivative Financial Instruments
8. Public Sector Audit and Accounting Guidelines

2.19 Certain of the comments included in that letter have been considered and incorporated into this and other chapters of this Report.

⁽²⁾As a result of amendments to the Provincial Finance Act and the Auditor General Act passed in June 1998, beginning with the year ended March 31, 1999 the Auditor General will audit and report to the House of Assembly on the *Public Accounts*, including the Province's annual financial statements.

Commentary on Province's Annual Financial Statements

2.20 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 recent years, have resulted in the Province's financial position and results being accounted for and reported more completely and understandably.

2.21 The Members of the Legislative Assembly (and the public) require financial information 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 (PAC) in its sub-committee report which was tabled in the House of Assembly in December 1996. Among other things, that report provided recommendations dealing with improvements to the Province's financial statements, including consolidation and timely release.

2.22 In our view, the release of the annual financial statements in late July or early August in recent years, along with the current statutory requirements for quarterly financial reporting and for the *Public Accounts* to be released by the end of December, address the issue of timeliness. However, certain issues and concerns, including the preparation of full consolidated statements, remain to provide for the completeness and adequacy of the government's financial reporting in relation to professional standards and practices being used by other provincial jurisdictions (i.e. see Exhibit 2.5 on page 29).

2.23 Finance has indicated its intention to make necessary changes and improvements to the Province's financial statements. This commitment to improve the Province's financial statements is evident, not only by recent initiatives and changes, but also in the Department's section of the 1998-99 *Government By Design* where under the heading "*Achieving Financial Accountability*" the following priorities were noted for 1998-99.

"Implement the first stages of a multi-year plan to improve the presentation of the province's financial statements and bring the province into a position of leadership in complying with generally accepted accounting principles.

Improve the understandability of financial reports, in particular the public accounts, by substantially changing the presentation, content, and organization."

2.24 On June 4, 1998, the Minister of Finance tabled the document *Financial Accountability: A Blueprint for Success* which outlined in some detail government's plans and a tentative timeframe for implementing improvements to the Province's financial statements and related reporting. We acknowledge and support these plans to move the Province's financial statement accounting policies and disclosure more in line with established professional standards and accepted practices.

2.25 In this regard, the following is extracted from Deloitte & Touche's management letter to Finance with respect to the audit of the Province's March 31, 1998 financial statements:

8. Public Sector Audit and Accounting Guidelines

We have encouraged the Province, in past reports, to adopt accounting policies consistent with PSAAB recommendations as it is fast becoming the generally accepted method of accounting for Provincial Governments. The Province continues to make progress in this area, particularly this year when the Department of Finance released a document called

the Financial Accountability - A Blueprint for Success. This document essentially creates a timeline for planned compliance with PSAAB recommendations and would put the Province at the forefront of government reporting in Canada.

We applaud this initiative and encourage the Department of Finance to closely monitor this project to ensure the timelines laid out in the document are met."

2.26 Finance indicates that it has started research on a number of the items noted in the *Blueprint*, but does not expect to implement significant changes to the reporting on the Province's financial position and results at March 31, 1999. The main topic area targeted for implementation on a reporting basis by March 31, 1999 was tangible capital assets. Although government may be in a position to report on the tangible capital assets held as at March 31, 1999, it was indicated this information would not likely be used to adjust the results and financial position reported for the Province, but it may be reported as supplementary information.

2.27 *Basis of accounting* - The Province's financial statements for the fiscal periods 1997-98 and 1996-97 are not presented on the same basis of accounting. 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 changed this accounting practice for the fiscal year ended March 31, 1998. However, this change in policy should have been, but was not, made retroactively. If it had been accounted for properly, the comparative information for the 1996-97 period, as well as the results reported for 1997-98, would have been different.

2.28 Beginning with the fiscal year ended March 31, 1996 government implemented an inappropriate accounting policy which resulted in the recording of certain capital commitments as expenditures prior to being incurred. Capital commitments are not reported as expenditures as at March 31, 1998, but this change in accounting policy was not implemented retroactively as appropriate in the circumstances.

2.29 We are unaware of government's justification for not retroactively recording this change in the basis of accounting. However, we do note that for purposes of recording another unrelated change, as described in note 2 to the March 31, 1998 statements, Finance has, appropriately, made retroactive adjustments to the Net Direct Debt reported as at March 31, 1996. Why this change was made retroactively, while the change in the basis of accounting was not, could be interpreted as selective application of accounting principles.

2.30 *Reporting of annual results* - As suggested in previous reports, in the absence of retroactive changes to accounting policies, the only change to the Province's Net Direct Debt should be the annual surplus or deficit reported. However, we acknowledge that to fully implement this recommendation further adjustments to how the government accounts for its pension costs and for pension valuation adjustments may be necessary.

2.31 As has been the practice in the past, in the Province's March 31, 1998 financial statements, the government has accounted for the net change in deficiencies of certain crown agencies through charges recorded directly on the *Statement of Net Direct Debt*, as opposed to through the *Statement of Revenue and Expenditures*. Further, additional spending authority for these items is not obtained through the Provincial Finance Act or the Expenditure Control Act. In our view, to the extent such items represent provisions for guarantees likely to be honoured, they should be accounted for as expenditures in the calculation of the annual surplus or deficit report in the traditional non-consolidated financial statements.

2.32 *Funding for pension plans* - Under the heading “Pension and Retirement Obligations” in note 1 (i.e., Financial Reporting and Accounting Policies) to the Province’s March 31, 1998 financial statements, the following information is provided:

“Pension plans established under the Public Service Superannuation Act and the Teachers Pension Act are normally subject to formal triennial actuarial valuations. The last formal actuarial valuation for the Public Service Superannuation Pension Plan was March 31, 1995, and the Teachers’ Pension Plan was July 31, 1994. The pension liability for these plans is calculated on an actuarial basis using the Province’s best estimates to update the most recent formal valuations. The pension expense comprises the Province’s share of estimated current service contributions. Adjustments to net unfunded liabilities between reporting dates are charged or credited to Net Direct Debt.”

2.33 Note 4, titled “Pension and Other Obligations”, provides information on the accounting as at March 31, 1998 for the Public Service Superannuation Fund (PSSF) and the Nova Scotia Teachers’ Pension Fund (NSTPF). In this regard, we provide the following summary comments.

- The NSTPF was due for a formal triennial actuarial valuation as at July 31, 1997, and it was not completed prior to or available for purposes of the Province’s March 31, 1998 financial statements. The Province’s statements were prepared using *best estimates* to update the most recent formal valuation of the NSTPF which had been completed as at July 31, 1994. Further, the lack of a current formal valuation has significantly delayed the finalization of that Fund’s financial statements as at March 31, 1998.
- The PSSF was to be due for a formal triennial actuarial valuation as at March 31, 1998. The Province’s financial statements, finalized and released on July 31, 1998, appear to have been based upon updates to the March 31, 1995 valuation. The finalization of the PSSF’s March 31, 1998 financial statements was to be delayed pending the completion of the expected formal triennial actuarial valuation report. However, in October 1998, Finance pension management staff provided us a copy of a full actuarial valuation of the PSSF completed as at December 31, 1996, and reported upon July 31, 1997. Since this valuation was completed within the last three years, an extrapolation to March 31, 1998 would be acceptable for financial statement purposes. The earlier valuation report was not provided to us as auditors for the PSSF on a timely basis. It also appears that Deloitte & Touche and Finance’s accounting staff did not have access to it, since the Province’s March 31, 1998 statements refer to the March 31, 1995 valuation.
- Based upon the information in Note 4 to the Province’s statement, the PSSF valuation adjustment recognized in the *Statement of Net Direct Debt* was determined after taking into account the effect of certain changes and adjustments which required statutory amendments. While these adjustments were not fully consistent with the policy outlined in Note 1 to the Province’s statement, and government could have waited until the necessary statutory amendments were in place before accounting for such items, it is Finance’s opinion that the accounting approach taken was conservative and appropriate under the circumstances.

2.34 In November 1998, an actuarial report on the PSSF as at October 31, 1998 was completed. That report indicated that after taking into account the planned changes and adjustments, the PSSF had a surplus of \$38.6 million, with a funding ratio of 101.6%.

2.35 A copy of the *Actuarial Cost Certificate* from the report of the Fund’s actuaries (i.e., Morneau Sobeco) is included in Exhibit 2.6 on page 30 of this chapter. It indicates that total

current service cost exceeds contributions by \$3.73 million. In this regard, we acknowledge that the *Blueprint* tabled in the House in June 1998 identified the need to review how government's pension costs and obligations are accounted for and reported in the Province's statements.

2.36 *Contingencies and commitments* - Among other contingencies and commitments summarized in Note 8 to the Province's March 31, 1998 statements are the following specific items.

Environment Sites

Various province owned sites located throughout the province are considered environmental or contaminated sites. Studies are ongoing to assess the nature and extent of the damage and to develop a remediation plan. The Province's liability in remediating these sites is not determinable as at March 31, 1998 and no provision for these costs has been recorded in these financial statements.

Long-Term Disability Plan

The Long-Term Disability plan, which is funded on an equal basis by the Province and its employees, has an estimated unfunded liability as at March 31, 1998 of approximately \$44.8 million. [As per a December 1, 1992 actuarial valuation.]

As agreed to through a contractual arrangement between the Nova Scotia Government Employees Union and the Province, the Province is not required to fund this shortfall, therefore, no liability has been recorded in these financial statements.

2.37 When the costs of remediation for the various environmental sites are determinable, it will be necessary to account for the associated costs and liabilities in the Province's statements.

2.38 In the past, we have taken exception to the government's accounting position for the Long-Term Disability Plan. Further, we note that the March 31, 1997 annual report of the Plan indicates that actuarial liability has increased significantly since December 1, 1992.

2.39 *Emerging financial accounting and reporting issues* - Standards and practices for accounting and financial reporting are not static. They have and will continue to change, and this will impact upon what constitutes appropriate financial accounting and reporting for provincial governments.

2.40 There are usually various topics or issues being reviewed and studied by accounting standard setting bodies. At this time, there are issues being considered (or reconsidered) by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants which may have an impact on financial accounting and reporting by the Province including government partnership arrangements; employee future benefits; consolidation; and leases.

2.41 In the *Blueprint*, Finance recognized the need to consider emerging issues, and it has a strategy in place to deal with such topics. Further, staff from Finance and this Office monitor, and in certain instances make individual contributions to, these standard setting activities.

Spending Authorities and Reporting

2.42 *Additional appropriations* - At the time this chapter was written, a resolution under Section 13 of the Expenditure Control Act, for additional spending authority required for 1997-98 had been tabled (i.e., on November 26, 1998) in the House of Assembly, but was yet to be approved. As a result, there continued to be expenditures reported in the Province's financial statements exceeding the authorized spending limits then in place for 1997-98.

2.43 The following is extracted from the notes to the Province's financial statements for the year ended March 31, 1998. Those statements were released publicly July 31, 1998.

10. Expenditures in Excess of Estimates

Pursuant to Section 13 of the Expenditure Control Act, a resolution to authorize program expenditures to the extent of \$184.0 million for the fiscal year 1997-98 is required and planned to be obtained in the fall (1998) sitting of the Legislative Assembly. The majority of this expenditure was by the Department of Health (\$140.6 million).

2.44 The Auditor General Act requires that the Auditor General identify any instances where appropriations are exceeded. Chapter 18 of this Report presents our reporting in this regard for the fiscal year ended March 31, 1998.

2.45 Our overall concern this year, as in past years, is that the timing of approval (by the Executive Council under Section 28 of the Provincial Finance Act or by the House of Assembly of a resolution under Section 13 of the Expenditure Control Act) is such that effective control of spending authorities is not being achieved to the extent appropriate or intended by the statutory provisions.

2.46 In November 1998, the resolution required under Section 13 of the Expenditure Control Act was submitted to the House of Assembly in order to obtain additional spending authority for expenditures incurred in 1997-98. As a result, the Members of the House of Assembly were asked to deal with spending authority well after the related expenditures were incurred. This appears to be contrary to Section 13 of the Expenditure Control Act which reads "*expenditures in excess of the amount authorized ...may only be made **after** [emphasis added] a resolution has been passed by the House of Assembly authorizing the expenditure.*" In our view, the timing of such approvals does not allow for effective control of spending authority by the House.

2.47 *Approval of write-offs* - At the time this chapter was written, the Executive Council approval required under Section 23 of the Provincial Finance Act had not been obtained for the write-offs accounted for in the March 31, 1998 financial statements of the Province and various funds. In our view, such approvals should be more timely.

Procurement Policies and Reporting

2.48 Prior years' reports included a separate chapter on procurement. Our procurement-related work for the current year was aimed at providing summary comments on the status of government issued policies and procedures. Specific comments on any procurement-related coverage are included in other chapters of this Report. For example, the results of procurement-related audit coverage at the Nova Scotia Alcohol and Gaming Authority are discussed in Chapter 14 on page 166.

2.49 It is our understanding that, while planned statutory provisions relating to authority of the government's procurement policy are not yet in place, all Provincial bodies are expected to adhere to the procurement policies established by the Province. Further, all exceptions from the procurement policy are to be reported to the Procurement Branch of the Department of Finance, which subsequently must report to the Priorities and Planning Committee.

2.50 To assist in the attainment of the policy objective on procurement (see Exhibit 2.7 on page 31), the Procurement Branch has undertaken several initiatives. During the year, two new policies and procedures were developed by the Procurement Branch to assist in the procurement process. There were also four policies finalized and made available during the year. Exhibit 2.8 on page 32 provides a summary listing of the current publications of the Procurement Branch as well as the status of the publications for the government and Provincially-funded entities such as academic

institutions, school boards, hospitals and crown corporations commonly referred to as the ASH sector.

2.51 *The Province of Nova Scotia, Policy on Government Procurement, Section 12, Information and Reporting*, issued January 1, 1996 states “where a procurement is to be undertaken that is an unsolicited proposal, is sole sourced, or is to be for a price other than the lowest tender, the Deputy Minister in the client department or equivalent officer must submit it to the Priorities and Planning Committee for approval.” Section 12 further requires if the Priorities and Planning Committee grants approval, the Minister and Deputy Minister of the Department of Finance must be formally notified.

2.52 To ensure Section 12 is complied with, Finance’s Procurement Branch undertakes bi-weekly audits of transactions processed through the government’s internal corporate financial management system (CFMS) which was implemented April 1, 1997 (see Chapter 9 in this Report). Irregularities noted are provided to departments for explanation and action. The Procurement Branch is not currently reporting exceptions to the Priorities and Planning Committee pending the CFMS programming required to extract the necessary information and to ensure the information is complete. Upon completion of the programming, the Procurement Branch is expecting to generate an initial procurement exception report covering the first two quarters of the current fiscal year (i.e. 1998-99) only. This report is expected to be available to the Priorities and Planning Committee by early 1999, with subsequent reporting on a quarterly basis. Currently, the Priorities and Planning Committee is dealing with procurement policy exceptions when the committee is notified by departments/agencies.

2.53 ASH sector entities which maintain financial systems separate from CFMS are not directly monitored by the Procurement Branch. The responsibility to enforce the government procurement policy lies with the Minister responsible for each such entity (oversight department), as outlined in the *Government Procurement Process, ASH Sector, Department of Finance, Procurement Branch, January 1997* publication. ASH sector entities are required to “provide Procurement with a quarterly report listing all contracts valued in excess of the Atlantic [Procurement] Agreement thresholds that were not conducted through the public tendering process.” The publication further requires the Procurement Branch to “provide Priorities and Planning Committee and the Atlantic Procurement Coordinating Committee with quarterly reports outlining all reportable exceptions to the Atlantic Agreement.” Although specific exception reporting is not required by the oversight department there is a requirement to report exceptions to the Procurement Branch. The Procurement Branch is not receiving these reports and there are no controls in place to ensure these reports are received. Currently, the Procurement Branch has no planned initiatives to directly monitor the ASH sector.

2.54 In this regard, Finance has indicated that when the Procurement Policy was created, reporting by the ASH sector was deemed to be a low priority item. Rather than rely on reports to assess ASH compliance, the view was that private sector complaints and reviews by oversight departments would be sufficient to ensure compliance. Therefore, the reporting provisions established were principally intended to satisfy expectations associated with the Atlantic Procurement Agreement. Further, it was indicated that since reporting by the ASH sector has not been emphasized by the Atlantic Procurement Coordinating Committee and will not be required under the terms of the Agreement on Internal Trade, it is Procurement’s intention to eliminate reporting requirements for ASH sector entities when the Procurement Policy is next revised.

2.55 At present, the Procurement Branch is expected to report policy exceptions to the Priorities and Planning Committee but there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the Members of the House of Assembly, and if such reporting was available on a timely basis.

Supplement to the Public Accounts

2.56 *The Supplement to the Public Accounts* (Supplement) includes detailed information on staff salaries and other payments made for government departments and certain agencies which use the government's corporate financial management system (CFMS). We are not aware of any statutory provision or current policy directive requiring this level of detail to be published. Further, we note that the *Supplement* only covers departments of government (i.e., similar information is not published for all crown corporations, agencies or other Provincial public sector entities).

2.57 The reporting thresholds (i.e., the amounts above which detailed information is provided) for the *Supplement* were as follows:

Salaries	\$	25,000
Travel	\$	3,500
All other payments	\$	5,000

2.58 These reporting thresholds have not been updated or amended in a number of years, and as a result the *Supplement* continues to grow.

2.59 We suggest that after consideration of the information and accountability needs of MLAs and other interested parties, government establish compensation and other disclosure standards applicable to all departments, crown corporations, agencies and other Provincial public sector entities. For example, implementation of disclosure standards similar to those established by security or other financial regulatory bodies for executive and management compensation would provide meaningful information to MLAs and other interested parties.

2.60 It was indicated that in addition to continued availability on the government's Internet website (<http://www.gov.ns.ca>) Finance is considering improvements to the content and presentation of the *Public Accounts*, including the *Supplement*. Finance's goal is the provision of useful information, using what other jurisdictions provide as a reference point.

CONCLUDING REMARKS

2.61 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.

2.62 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.

Exhibit 2.1

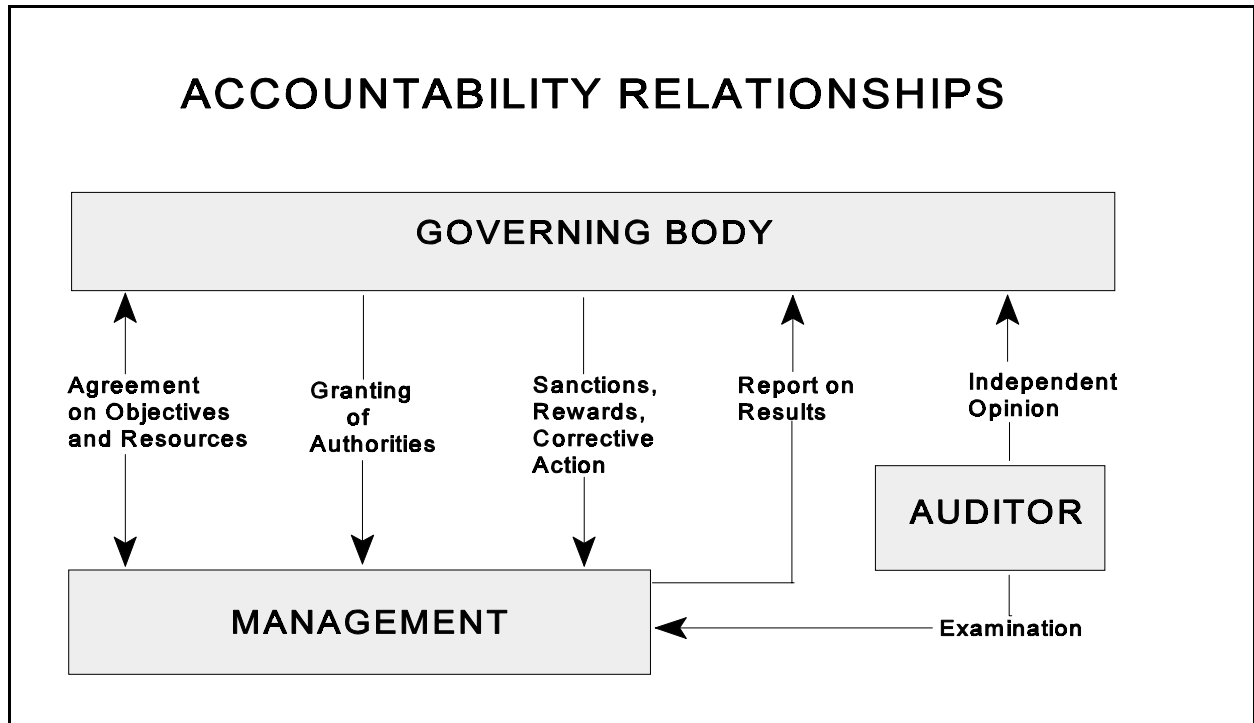
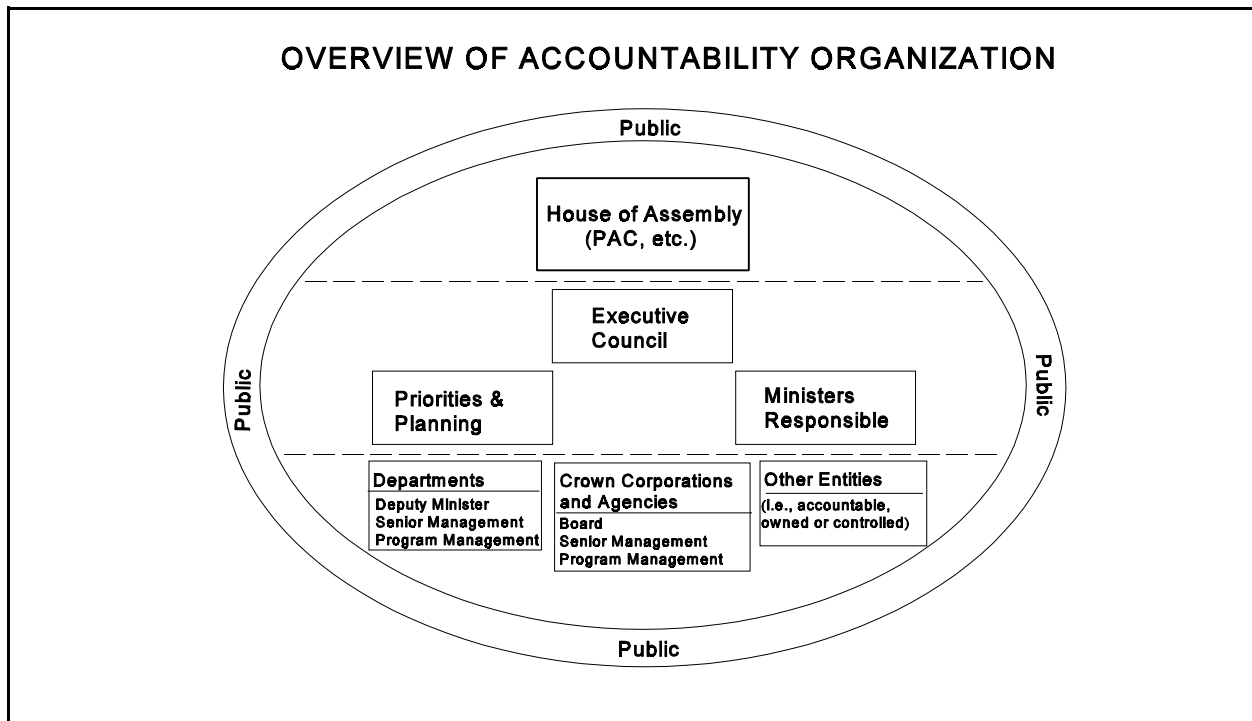


Exhibit 2.2



*Exhibit 2.3***REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE ESTIMATES OF REVENUE FOR THE FISCAL YEAR 1998-99 USED IN THE PREPARATION OF THE BUDGET ADDRESS**

I am required by Section 65A of the Provincial Finance Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual Budget Address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year 1998-99 (the 1998-99 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of May 30, 1998. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 1998-99 revenue estimates of \$4,382,718,000 for total ordinary revenue. My examination does not cover the 1998-99 expenditure estimates, the 1997-98 revenue forecast, sinking fund earnings, nor the recoveries, user fees or other income netted against expenditures for appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 1998-99 revenue estimates; and
- the 1998-99 revenue estimates as presented reflect fairly such assumptions.

Since the 1998-99 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider the 1998-99 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
May 30, 1998

*Exhibit 2.4***REPORT OF THE AUDITORS
APPOINTED UNDER SECTION 65 OF THE PROVINCIAL FINANCE ACT****Auditors' Report**

The Honourable Donald R. Downe
Minister of Finance
Province of Nova Scotia
Halifax, Nova Scotia

Sir:

We have audited the statements of financial position of the Province of Nova Scotia as at March 31, 1998 and 1997 and the statements of revenue and expenditures, net direct debt and changes in financial position for the years then ended. These financial statements are the responsibility of the Province. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by senior officials, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Province of Nova Scotia as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with the accounting policies stated in the notes to the financial statements.

Deloitte & Touche
Chartered Accountants

Toronto, Ontario
July 21, 1998

*Exhibit 2.5***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 on a timely basis. The need for consolidated budget information will require further consideration as part of the move to full consolidated financial statements.

Reporting entity - Finance continues to review the Province's reporting entity for financial statement purposes. Among other considerations, this involves assessing which Provincial public sector entities should be included for consolidated financial reporting, and which of those will be accounted for as government organizations or alternately as government business enterprises. The implementation of a financial reporting entity in accordance with current CICA recommendations will result in the Province's financial position and results being presented on a more complete and appropriate basis.

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 pension costs and 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. The accounting for annual pension costs is currently done based on contributions, which may or may not result in an accurate measure of the cost of services. 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.

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 and worked on by Finance, with input from this Office and departments.

Exhibit 2.6

**ACTUARIAL COST CERTIFICATE
ON THE NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN
AT OCTOBER 31, 1998**

Revenue Canada Registration Number 0284521

1. The Plan has a surplus of \$38.65 million, resulting in a funded ratio of 101.6%
2. The total current service cost for the 12 months starting November 1, 1998 is \$64.81 Million, which compares with the employees' and matching employer contributions of \$61.08 Million, resulting in a deficit of \$3.73 Million or 0.68% of covered pay. This deficit is expected to increase each subsequent year for a period of about 8 to 10 years due to an increase in the average age of the active members.

If the experience matches the actuarial assumptions in future years, i.e. if there is no gain or loss with regard to the assumptions, the present surplus of \$38.65 Million is expected to be sufficient to pay for the current service deficits that occur over at least the next 5 years (the estimated present value of the current service deficits over the next 5 years is \$34.3 Million).

In our opinion, the assumptions made in the valuation upon which this Certificate is based are adequate and appropriate and the methods employed are consistent with generally accepted actuarial principles. Also, based on various tests which we made regarding the accuracy of the membership data provided to us in connection with this valuation, we are of the opinion that such data fairly represents the Plan's membership.

MORNEAU SOBECO

*Exhibit 2.7***EXTRACT FROM
POLICY ON GOVERNMENT PROCUREMENT****POLICY OBJECTIVE**

The objective of this policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that procurement is carried out in an open, fair, consistent, efficient, and competitive manner.

The Government of Nova Scotia is committed to

- *ensuring that the government's requirements for goods, services, construction, and facilities are met through an open and fair process that provides the highest degree of competition and value to the Province*
- *ensuring that all bidders have reasonable notice and opportunity to tender*
- *fostering economic development by giving every capable Nova Scotia supplier the opportunity to do business with the government*
- *encouraging Nova Scotia businesses to be competitive and to sustain quality product development*
- *adhering to the Agreement on Internal Trade and the Atlantic Procurement Agreement, which create economic opportunities for Nova Scotians*
- *being accountable to the public for procurement decisions*

Exhibit 2.8

POLICIES AND GUIDELINES FOR PROCUREMENT		
<u>Document</u>	<u>Status</u>	<u>Date Released or Estimated Release</u>
Policy on Government Procurement Policy	Available	January 1996
Various Brochures Concerning doing Business with Government	Available	December 1996
Environmentally Responsible Procurement Policy	Available	December 1996
Government Procurement Process	Available	January 1997
Government Procurement Process - ASH Sector	Available	January 1997
Procurement and the Nova Scotia Economy	Available	January 1997
Departmental Guide to the Preparation of a RFP	Available	January 1997
Departmental Guide to the Evaluation of a RFP	Available	January 1997
How to Complete a RFP - The Proponent's Guide to RFP Preparation	Available	January 1997
Departmental Guide to Vehicle Rentals	Available	January 1997
Guide to the Submission & Evaluation of Unsolicited Proposals	Available	July 1997
A Process to Develop Cooperative Business Solutions	Available	October 1997
Procurement Manual Policies and Procedures	Available	October 1997
Engineering/Architect Procurement Process	Available	March 1998
Facilities Procurement Guide	Available	April 1998
Construction Contract Guidelines	Available	December 1998
Availability of Surplus Government Assets for Non-Profit Organizations	Available	December 1998
Supplier Complaint and Dispute Settlement Process	Draft	January 1999
A Procurement Process to Support the Development of Public Private Partnerships	Draft	January 1999

*Appendix 2A***MANAGEMENT LETTER OF AUDITORS APPOINTED UNDER SECTION 65 OF
THE PROVINCIAL FINANCE ACT****Deloitte &
Touche****Deloitte & Touche
Chartered Accountants**P.O. Box 2087
5161 George Street, Suite 800
Halifax, Nova Scotia B3J 3B7Telephone: (902) 422-8541
Telecopier: (902) 423-5820

August 28, 1998

Mr. Bernard Smith, CA
Deputy Minister of Finance
Province of Nova Scotia
1723 Hollis Street, 7th Floor
P. O. Box 187
Halifax, NS B3J 2N3

Dear Mr. Smith:

We have recently completed our audit of the accounts for the Province of Nova Scotia for the year ended March 31, 1998. Our examination was conducted primarily to enable us to formulate an opinion on the financial statements of the Province. Accordingly, it included such tests and other procedures, as we considered necessary in the circumstances.

During the course of our audit, certain observations were made which we wish to bring to your attention. All such matters have been discussed with appropriate senior personnel, and our major observations were discussed with you and the Minister of Finance during our meeting of July 21, 1998.

Our comments are provided in the following sections:

1. DEPARTMENT OF HEALTH
 - A) RECEIVABLES
 - B) PHARMACARE
 - C) AMBULANCE SERVICES
2. DEPARTMENT OF EDUCATION
 - A) LOANS
 - B) PUBLIC-PRIVATE PARTNERSHIPS
3. YEAR 2000

**Deloitte Touche
Tohmatsu
International**

Appendix 2A (Cont'd)

4. QUALITY OF ACCOUNTING FUNCTIONS
 - A) GENERAL BOOKKEEPING
 - B) INTERIM FINANCIAL STATEMENTS
 - C) CASH COLLECTION AND RECEIVABLES
5. INTERNAL AUDIT
6. LEGISLATION REGARDING ANNUAL SURPLUSES
7. DERIVATIVE FINANCIAL INSTRUMENTS
8. PUBLIC SECTOR AUDIT AND ACCOUNTING GUIDELINES

We understand that you plan to follow up on each of the recommendations in this report. Please do not hesitate to contact us if we may be of assistance in this regard.

We wish to express our appreciation for the excellent cooperation extended to us by members of all departments during the course of our audit. We shall be pleased to meet with you at any time, should you wish to discuss further any matters raised in this report.

Yours very truly,

Deloitte & Touche

Chartered Accountants

*Appendix 2A (Cont'd)***1. DEPARTMENT OF HEALTH****a) Receivables**

As of March 31, 1998, the Department had accumulated accounts receivable from a number of hospitals and, in particular, the Queen Elizabeth II Health Sciences Centre and the Cape Breton Regional Health Care Complex. Such advances totalled \$52 million, net of an allowance for doubtful accounts. Management is of the opinion that these amounts will be recovered in future periods through a combination of expense reductions and increases in non-traditional sources of revenues, rather than through increases in future appropriations from the Province. In order to protect its investment in these accounts receivable, the Province requested three-year business plans from all of the Health Boards that address the profitability of the related hospitals, as well as the financing of these receivables. We have had an opportunity to review some of the first drafts of these business plans and have determined that work needs to be done to ensure that the plans more specifically address the issues noted above, namely the systematic payment of these receivables to the Province. We have conveyed this concern to the Deputy Minister of Health and we understand that the Department has met with the respective hospitals and conveyed this concern to them.

We recommend that the Department of Health continue to work with all of the Health Boards in preparing the business plans to ensure that they address the relevant issues. The Department of Health has stated that these receivables will be paid by other than appropriations from the government. It is, therefore, important to ensure that the business plans provide for this in a reasonable time period, and that the Province receives ongoing financial information in order to monitor and assess the status of the accounts.

b) Pharmacare

Financing the costs of the Seniors Pharmacare program is currently structured to be on a 50/50 sharing basis between the Province and the senior citizens. The seniors pay their portion through a combination of annual premiums and co-pay formula when they purchase prescription drugs. History has shown that the combination of premiums collected plus co-pay from the seniors has not been sufficient to cover 50% of the cost. The most recent audited financial statements for the Insured Prescription Drug Trust Fund are for the year ended March 31, 1997. These statements show a deficit in excess of \$5 million. It is expected that the year ended March 31, 1998 will show a larger deficit. We understand that a committee is currently in place, with representation from the Department of Health as well as from the Board of Insured Prescription Drug Trust Fund to review and assess the various options available to resolve the financing problem.

We recommend that the Department continue to monitor the progress of the committee and encourage the committee to present their recommendations as quickly as possible. We remind the Department of Health that if loans are made by them to the Fund - they must be repaid from other than Provincial future appropriations.

c) Ambulance Services

EMC Limited is responsible for the operations and deployment of ambulances across the Province. The Province currently provides funding to the company for providing this service. During the course of our audit, we learned that there is no formal agreement between the Province and EMC to provide an official framework for this relationship. Our understanding is that there is a committee within the Department of Health which is charged

Appendix 2A (Cont'd)

with the responsibility of preparing an agreement. While we recognize the nature of this essential service, we also remind management that negotiating this agreement after the relationship has begun may impact the Department's negotiating position.

We recommend that the Department finalize the agreement as quickly as possible on the basis of normal market pricing and conditions.

2. DEPARTMENT OF EDUCATION

a) Loans

During the year, the Department advanced operating monies to various school boards and recorded them as accounts receivable. The amount of the original advances was in excess of \$6 million. Later in the year, upon reviewing the transaction, and carefully considering the ability of the boards to repay these amounts, the Province decided that because the amounts would, in all probability, be repaid from an increase in future Provincial funding, the amounts were recorded as ordinary expenses. This was not the original intent of the Department.

We recommend that the Province be cautious about loaning funds for the operations of the school boards, or any other government organizations who primarily depend on operational funding from the Province. The Province should not lend money to departments or other related entities unless it is clear at the outset that it will be repaid from other than Provincial future appropriations.

b) Public-Private Partnerships

The Public-Private partnership concept for school construction has grown extensively during the year, both in terms of projects and in terms of the development of architectural and operating standards.

As of March 31, 1998, only one signed lease is in place, that being the lease for O'Connell Drive School in Porter's Lake. Other schools that are substantially complete structurally are located in Sydney, Hants East Middle School, and Horton High School. At year-end, there were no leases in place for these schools and the Province has had to finance their construction and carry a net receivable of \$35 million in respect of these schools.

It is the Province's intent to complete the financing negotiations for these schools which will result in the collection of receivables and operating leases. It is based upon this intent, as well as the assumption that the Province find a willing third party to lease the schools, that the Province has recorded these net receivables. Should these circumstances change, the Province will have to reconsider its current accounting treatment. **We recommend that the Province finalize arrangements for these schools as quickly as possible.**

3. YEAR 2000

As you are aware, under the terms of our engagement, we will not provide any assurances, nor will we express any opinion, that the Province's systems or any other systems, such as those of the Province's agencies, service providers, subsidiaries, or other entities, are Year 2000 compliant. However, during our visits to your offices, we made inquiries about the Province's activities to address the Year 2000 issue. We have not performed any procedures to test the accuracy or completeness of the responses to our inquiries, but we have included our observations resulting from these inquiries, in the following paragraphs.

Appendix 2A (Cont'd)

We understand the Province has decided to take a two-tiered approach to address the Year 2000 compliance issue. The first line of responsibility for Year 2000 compliance has been charged to each of the Departments and/or government related agencies. Each must identify all potential exposures, create remediation plans, effect solutions where appropriate, and do it within their specific budgets. In addition to this, the Province has created a separate project office for the Year 2000 that reports to the Deputy Minister of the Technology and Science Secretariat. This office is to provide administrative and technical support and assess the Province's exposure as a whole. While this is a different approach than most Private entities where one Senior official has full authority for the project, we understand that the Province's approach is similar to that of the federal government.

We have been informed by various personnel that the departments are at varying levels of preparedness. We are advised that some have completed detailed inventory lists of potential exposures, others are in the process of doing this. Some have detailed plans, including timelines for completion as well as contingency plans in the event things do not happen as anticipated; others are not that far along. We remind management that the Year 2000 is not that far away. As the date approaches, access to remedial resources will clearly decrease so it is very important to maintain constant monitoring and produce frequent progress reports so that management can take appropriate action to meet the deadline.

Obviously, the Year 2000 issue is of critical importance to the Province. It is not just the individual Departments that must be assessed, but through association, the Province will be involved with problems that arise in agencies, crown corporations, hospitals, school boards, etc., any one of which may have a significant impact on the Province. **We strongly encourage the Province to stay closely informed on the status of the Year 2000 efforts in all of its departments, affiliates, and suppliers.**

4. QUALITY OF ACCOUNTING FUNCTIONS

a) General Bookkeeping

In our report of last year, we noted that while the basic bookkeeping by the various departments' staff is adequate, there were some shortcomings. Those shortcomings included inconsistent preparation of bank reconciliations, subledger reconciliations that were not performed on a timely basis, and several immaterial account balances that were not subject to any monitoring activity.

In performing this year's audit, we noted good improvement. In particular, there was considerable improvement in the preparation of the bank and subledger reconciliations. There remain some unmonitored balances, but we understand that this issue will be addressed, as resources become available. We commend the Province for these improvements.

b) Interim Financial Statements

In addition to the above, we still encounter, in most departments, a pre-occupation with income statement accounts, but a lack of regular analysis of the balance sheet accounts until year end. This could have implications regarding the Province's quarterly reports.

Appendix 2A (Cont'd)

We recommend that, in addition to income statements, the Province issue full financial statements, including a balance sheet, in its quarterly reports. In addition, the Province should establish a plan to implement the preparation of full financial statements on a monthly basis for management purposes. We understand that both of these matters are currently being studied by the Department of Finance.

c) Cash Collection and Receivables

Also, in past reports, we commented that cash collection practices were inconsistent across government departments and generally below commercial norms. We were also critical of the lack of consistency in identifying and making provisions for doubtful accounts.

Again, we have noted improvements in these areas. The Department of Business and Consumer Services has assumed certain cash collection functions for programs in other departments, resulting in both efficiency and consistency of procedures. We also noted an improvement in the identification and provisions for doubtful accounts prior to the audit commencement. Management has taken a much more pro-active approach in this regard and we commend them for doing so.

In spite of these improvements, there is still work to do, as many receivable accounts are not subject to regular aging analysis, which is a useful management tool in collecting accounts receivable and assessing credit risk. **We recommend that as the Province moves forward, it make use of all the tools available in its new SAP system to assist in the management of cash collections.**

5. INTERNAL AUDIT

In past reports, we have made recommendations that the Province adopt a more corporate approach to the internal audit function rather than specific department allocation of personnel. It is our feeling that organizing internal audit in this fashion will allow the Province to obtain greater overall efficiency and benefits.

Our understanding is that a government-wide internal audit working group is now in place, which meets on an informal basis to share ideas and best practices. There is some concern that the focus of the group is more on departmental issues rather than addressing the larger overall picture of financial risks of the Province as a whole.

We recommend that the Deputy Minister of Finance act as Chair of this working group, assist in determining the priorities of the internal audit function, and ensure that they address the risk areas for the government, as a whole.

6. LEGISLATION REGARDING ANNUAL SURPLUSES

Legislation was introduced in the March 31, 1997 fiscal year that states that annual surpluses are to be applied to reduce taxes and/or reduce the Province's debt. In our 1997 report, we noted that the legislation lacked certainty on how, and when taxes are to be reduced (whether retroactively or subsequently), and to that end, we made a recommendation that policies and/or amendments to the legislation be developed to clarify these matters.

Appendix 2A (Cont'd)

In the current year, a surplus of \$38.5 million was realized, part of which was set-up as a provision to reduce Harmonized Sales Tax paid in the 1998 fiscal year, and the balance was reported on the Statement of Net Direct Debt. As new legislation or policy has not been introduced, it is still unclear whether the tax reduction is recorded in the proper period and specifically that the portion allocated to debt retirement has been reflected in the Public Debt Retirement Fund.

We, again, recommend that policies and/or legislative amendments be developed to clarify these matters. We further recommend that a continuity schedule of the Public Debt Retirement Fund be prepared and included in the financial statements of future periods.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Province continues to make increasing use of derivative transactions to manage its foreign exchange and interest risk profiles and to reduce overall debt servicing costs. As pointed out in previous reports, derivatives are not subject to traditional controls and it is, therefore, important to develop and employ sufficient and new controls to ensure risk is minimized within acceptable limits. To that end, during 1997, the Department of Finance prepared a draft policy and procedures document for derivative financial instruments. This document is still in draft form and, therefore, has not been formally authorized as policy.

We recommend that the draft policy and procedures document be appropriately reviewed, changes made and approval formalized as soon as possible to give formal effect to the controls contained therein.

8. PUBLIC SECTOR AUDIT AND ACCOUNTING GUIDELINES

We have encouraged the Province, in past reports, to adopt accounting policies consistent with PSAAB recommendations as it is fast becoming the generally accepted method of accounting for Provincial Governments. The Province continues to make progress in this area, particularly this year when the Department of Finance released a document called the Financial Accountability - A Blueprint for Success. This document essentially creates a timeline for planned compliance with PSAAB recommendations and would put the Province at the forefront of government reporting in Canada.

We applaud this initiative and encourage the Department of Finance to closely monitor this project to ensure the timelines laid out in the document are met.