

## **GOVERNMENT-WIDE ISSUES**

## 2.

**ACCOUNTABILITY INFORMATION AND REPORTING****BACKGROUND**

**2.1** Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so Members of the Legislative Assembly (MLAs) can hold government accountable. In its simplest terms, accountability means the obligation to answer for an assigned responsibility.

**2.2** 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. Exhibit 2.1 on page 33 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 Provincial public sector entities' 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 33 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 summary comments on the quality of accountability information and reporting to the MLAs, including the Province's financial statements.

**RESULTS IN BRIEF**

**2.5** The following are our principal observations this year.

- As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report*, was released December 20, 2001.

Performance information or reports provided by government to MLAs should be relevant, reliable and understandable. The implementation and evolution of such reporting, and the effective use of the information by government and MLAs for accountability purposes, will require a significant sustained commitment. The *Annual Accountability Report* represents an important step in the accountability reporting process.

- The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2002-03 revenue estimates was dated March 28, 2002 and tabled in the House on April 4, 2002 along with the Nova Scotia Budget for the fiscal year 2002-03.

In addition, summary comments and suggestions resulting from our review procedures were communicated to the Department of Finance. We suggested that policies and practices used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government be reviewed.

- The Province's March 31, 2002 summary consolidated financial statements were to be released in December 2002 as part of Volume I of the *Public Accounts*. The Auditor's Report, dated October 18, 2002, on the consolidated financial statements was unqualified.

Opportunities to improve control and accounting for the government's financial affairs were identified, including the following.

- The level of awareness and understanding within and across the Provincial public sector of statutory and policy requirements (and limits) related to the financial management and control of the public purse need to be improved.
  - The government's financial and accounting policies should include appropriate relevant extracts, references or linkages to external authoritative sources (e.g., Acts, Regulations, accounting standards) in order to support broader awareness and understanding of the policies.
  - Responsibility for accounting for restructuring costs should be transferred to the Department of Finance's Government Accounting staff, in order to ensure no significant errors or omissions occur, and an adequate management/audit trail is maintained.
  - Direction, guidance and, if necessary, support need to be provided so that entities covered by the Provincial Finance Act meet the prescribed deadline of June 30<sup>th</sup> for financial statement reporting on a timely and effective basis.
- The deployment of the financial information system SAP R/3 across the Provincial public sector is a major undertaking to be addressed through specific projects over the next several years. It is very important that there be a requirement, in the planning and approval process, for the benefits to be derived from each project to be clearly defined and measurable. Also, a formal requirement should be established for reporting on the realization of benefits. Such requirements would represent key ingredients in the accountability and management processes of this undertaking by government.
  - Among matters reported upon in previous years, yet to be dealt with by government, are the following.
    - The applicability of the Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.

- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

## SCOPE OF REVIEW

**2.6** This assignment represents an ongoing monitoring, 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 provide commentary on selected matters, including the Province's summary consolidated financial statements.

## 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.

- Accountability Report
- Government's Revenue Estimates
- Province's Summary Consolidated Financial Statements
- Corporate Financial Management Systems
- Other Matters

### *Accountability Report*

**2.9** For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there should be a standard framework in place. As a result of June 2000 changes to the Provincial Finance Act, there is now a statutory requirement for government to provide such information and reporting on outcomes to the House.

**2.10** The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government. It is important MLAs be provided sufficient, appropriate information on the government's progress towards its targets for program service and delivery levels. How such information or reporting is presented to MLAs, and used by them as part of the parliamentary process to hold government to account, will have a significant impact on its effectiveness.

**2.11** The government of Nova Scotia released its first report in response to a new requirement under Section 83 of the Provincial Finance Act. The report, titled *Annual Accountability Report*, was issued on December 20, 2001 and reports performance against the spring 2000 planning document *The Course Ahead for the fiscal year 2000-01 - The Government Business Plan*. Government departments were also required to prepare individual accountability reports for 2000-01, and make them available through the government's website.

**2.12** In spring 2002, this Office undertook a review of the preparation of the *Annual Accountability Report* as well as the reports prepared by four departments. The overall objective for this assignment was to assess the nature and extent of the supporting information behind the various representations on results achieved made in the accountability reports. In particular, the reports were assessed against the following criteria.

- There should be a link between the goals noted in the accountability report and the government (or departmental) business plan.
- The government (and departments) should report on the full range of priorities outlined in the business plan.
- There should be support for the results reported in the accountability reports. The support should be organized and available for review.
- The report should explain the degree to which the data supporting assertions is reliable.

**2.13** The following observations resulted from this assignment.

- All priorities established by the four departments in their 2000-01 business plans were reported on in their respective accountability reports. Overall government priorities were not as clearly defined in *The Course Ahead* and therefore the link between that document and the *Annual Accountability Report* is not as clear. We noted that the *Annual Accountability Report* included comments on many government activities, not all of which were identified in *The Course Ahead*.
- Guidelines for the preparation of the accountability reports had been provided by Treasury and Policy Board (TPB). These guidelines suggested content for the reports, but did not address the nature and extent of documentation to support the assertions made in the reports. Consequently, documentation to support the reports varied in each of the four departments we selected. Departmental staff noted they were unsure whether internal meeting notes related to the reports should be documented and filed. They were also unclear as to whether statistics and data obtained through departmental information systems should be copied and kept in a file related to these accountability reports. Finally, some of the information in the reports came from staff in each department who had knowledge of a particular program or priority. Again, there was uncertainty as to how much of this knowledge should be documented, and supported.

We noted that documentation was provided by departments to support many of the assertions in the *Annual Accountability Report* and that this documentation was maintained in a central file.

- The departmental accountability reports we reviewed include an Accountability Statement signed by the respective Minister and Deputy Minister. This statement notes “*The reporting of [departmental] outcomes necessarily includes estimates, judgements and opinions by [departmental] management.*”

The *Annual Accountability Report* does not include a statement describing the reliability of the data, but does refer the reader to departmental reports for further information.

**2.14** We are aware that accountability reporting in government is still in its early stages, and that guidelines provided by TPB for the preparation of these reports are evolving as well. Management at TPB noted that these guidelines were not meant to be too prescriptive; departments should have a degree of flexibility in describing accomplishments for their program areas.

**2.15** Our concern with the guidelines for preparation of the 2000-01 accountability reports is that they did not address the need for an adequate management/audit trail to support assertions made in the reports. We reviewed the guidelines issued by TPB for the preparation of the 2001-02 accountability reports and note that the above concerns raised by departmental staff have been addressed, and that the guidelines now include documentation standards including suggestions for file content.

**2.16** Business plans prepared for 2000-01 were not required to include performance measures and targets related to each priority. As a result, accomplishments noted in the 2000-01 accountability reports were often described in subjective terms such as “progress continues to be made....” We understand that the business planning process is moving toward performance measures and targets and it is expected that future accountability reports will include more objective measures of results.

**2.17** We acknowledge the effort made and resources utilized to produce these accountability reports. They represent an important step in the accountability reporting process.

### ***Government’s Revenue Estimates***

**2.18** Section 9B (1) of the Auditor General Act provides the Auditor General with the following mandate with regard to the government’s annual revenue estimates.

*“The Auditor General shall annually review the estimates 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.”*

**2.19** The Auditor General’s Report on the 2002-03 Revenue Estimates was dated March 28, 2002 and tabled in the House along with the supporting information for the *Nova Scotia Budget* for the fiscal year 2002-03 on April 4, 2002. Exhibit 2.3 on page 34 is a copy of the Auditor General’s Report on the 2002-03 Revenue Estimates.

**2.20** At the conclusion of our review of the 2002-03 revenue estimates, we also forwarded a letter dated April 30, 2002 to the Minister of Finance providing the following summary observations on matters regarding the 2002-03 revenue estimates.

**2.21** *Further to my report, I would like to draw your attention to the following summary comments or observations:*

- *The additional qualification paragraph in my report on the 2002-2003 revenue estimates resulted due to the fact that your staff were not able to determine what adjustment, if any, to the personal income taxes (PIT) estimate should have been considered for national and provincial economic circumstances.*

*In this regard, it should be noted that data from the federal government used in estimating the PIT revenue was received in mid-February in advance of Statistics Canada’s updated - significantly revised - economic performance information released at the end of February 2002.*

*As appropriate, your staff adjusted their views on the national and provincial economic assumptions and indicators based on the updated information from Statistics Canada. However the new model that had been implemented by your staff for PIT had not yet been finalized. The part to deal with the impact of differences between the federal and provincial economic assumptions had not been developed. As a result, the PIT estimate is based on federal economic assumptions as opposed to those formally approved by Executive Council for purposes of the 2002-2003 revenue estimates.*

*Essentially this means that the PIT estimate, which was developed using data provided by the federal government using their own economic assumptions, has not been adjusted to reflect the different economic assumptions that your 2002-2003 revenue estimates are based on. The significance of this adjustment had not yet been quantified at the time of my reporting but will need to be taken into account in the accounting for the 2002-2003 PIT revenue, as well as for 2001-2002.*

- *As indicated in previous years, the estimating of provincial economic performance and revenues is subject to a number of risk factors, not all of which are directly controllable to any significant extent by Nova Scotia government. In such circumstances, it is not unreasonable for a prudent degree of caution or conservatism to be incorporated into the economic assumptions and revenue estimates.*

*Further, despite detailed models and data available which are used to project economic activities and revenue levels, ultimately a requirement remains for a significant amount of professional judgement (economic or otherwise). This exercise of professional judgement to determine the economic assumptions and revenue levels to be included in the estimates is an integral, important and appropriate element of your staff's process for estimating revenues. The commentary on key assumptions published with your budget address is to provide summary information that will assist readers in assessing the assumptions used and the revenue estimates.*

- *The Province continues to receive significant prior year adjustments (i.e., PYAs) through the various federal-provincial fiscal arrangements. It is our understanding that your 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 2002-2003 (as well as the forecast for 2001-2002, which is not specifically covered during my review). However, it must still be acknowledged that PYAs will most likely be identified during 2002-2003 for prior years and, with respect to the current year, in future years, and that they could be significant individually or collectively.*

*In this regard, further adjustments may be necessary to the PYAs (and the other revenue forecasts) for 2001-2002 included in the budget documents as a result of new updated information that becomes available prior to the finalization of the Province's March 31, 2002 summary consolidated financial statements.*

- *Again this year, we acknowledge that the Province continues to experience challenges as it relates to the timing and substance of some of the data provided by the Federal government that is relevant to Finance's economic and revenue modelling for forecast or estimate purposes. Government should continue its efforts and deliberations with Federal Finance and the Canada Customs and Revenue Agency (CCRA) to satisfactorily resolve such matters.*

- *The processes and practices for the measurement, recognition and recording of revenue (i.e., for estimate and for accounting purposes) flowing to the Province from or through the various federal-provincial arrangements or agreements are complex and not well understood outside of the responsible division of your department. This is not only due to the nature of the arrangements or agreements themselves, but also that information and support received from the Federal government is adjusted by Nova Scotia Finance staff for more current or local considerations. It is our understanding that these adjustments do not affect the total revenue ultimately received from the Federal government, but do affect the timing of when the revenue is recognized in the Province's accounts.*

*Again this year it is suggested the processes and practices for recognition and recording of tax and other revenue transfers from the Federal government be reviewed, including consideration of the related accrual accounting practices in other provinces. To the extent appropriate, my staff continue to be prepared to assist or provide advice during such a review. Further, it is our understanding that Federal Finance and CCRA will be implementing accrual accounting for financial reporting of federal taxes.*

- *Based on a review of the material provided by the Nova Scotia Gaming Corporation (NSGC) and the Nova Scotia Liquor Corporation (NSLC) supporting the totals for gaming and liquor net profits included in your 2002-2003 revenue estimates the following comments are provided.*
  - *Both entities used economic assumptions that were different than those developed and used by your departmental management staff for purposes of estimating the larger federal and provincial source revenues. In this regard, it is noted that the corporations' 2002-2003 business planning and budgeting processes were essentially completed well in advance of the formal setting of economic assumptions for the 2002-2003 revenue estimates. Further, we had no information that would indicate that if these entities used the government's assumptions that there would be a significant change in their budgeted net profits.*
  - *NSLC included in its budget a provision for a 2% increase in compensation (i.e., in line with increases in other provincial entities), while NSGC and its operators budgeted for increases more than twice that level.*
  - *The NSLC's financial statements for the March 31, 2001 fiscal period had a qualified audit opinion due to non-compliance with generally accepted accounting principles (GAAP) as it relates to the accounting measurement of certain employee benefit costs and obligations. It is our understanding that this matter is to be resolved for NSLC's March 31, 2002 and future financial statement reporting. As such there will be a yet undetermined but most likely relatively minor impact in relation to total ordinary revenue on the actual results reported for 2001-2002 and 2002-2003, that had not been incorporated into the forecast or estimate respectively.*
- *In addition to the PIT model changes referred to earlier, certain other models used to estimate, forecast and account for federal and provincial source revenue line items were modified in the past year. In this regard, we provide the following comments for consideration.*

- *Although there is a small and closely-knit professional staff within Fiscal & Economic Policy, new models or changes to key models or other processes should be appropriately documented and formally approved prior to implementation.*
- *As a result of new models and other changes implemented in the past year, certain of the line item 2001-2002 forecasts were arrived at on a basis different than that used for the 2001-2002 revenue estimates or those used for the 2000-2001 financial statements. If the new approaches represent 'change in estimates' for accounting purposes they may have to be taken into consideration when preparing the financial statements for the year ending March 31, 2002.*

**2.22** In a response to the above matters dated July 29, 2002, the Minister of Finance advised that without the benefit of historic experience, the federal assumptions were the best alternative to provide as accurate a PIT review estimate as possible.

**2.23** The concern relating to the accounting measurement for fiscal 2001-02, raised in the fourth paragraph of the first bullet in paragraph 2.21, was ultimately resolved in November 2002, during the audit of the Province's financial statements.

***Recommendation 2.1***

*We recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.*

***Province's Summary Consolidated Financial Statements***

**2.24** 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. The adoption of generally accepted accounting principles (GAAP) as a basis of accounting in 1999 aided in filling this requirement. The use of GAAP as a basis of accounting provides an authoritative foundation or source upon which government can both choose and defend its accounting policy decisions.

**2.25** For provincial governments in Canada, GAAP is represented by recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's other accounting standards, pronouncements, or practices.

**2.26** At the time this Report was written, the government's summary consolidated financial statements (SCFS) for the March 31, 2002 fiscal year were to be released in December 2002 along with the Auditor's Report dated October 18, 2002, as part of Volume I of the *Public Accounts*. The Auditor's Report is reproduced in Exhibit 2.4 on page 35.

**2.27** During the course of our audit of the government's March 31, 2002 SCFS, various findings and observations were noted. The following summary observations are provided at this time. A more detailed management letter will be issued to the Department of Finance in early 2003.

**2.28** *Communicate statutory and policy requirements* - The June 2000 changes to the Provincial Finance Act provide for more oversight control by the Minister of Finance and Executive Council of financial management systems and significant transactions of all entities included in the

government's reporting entity. Communication to all Provincial public sector entities of the above, as well as other existing statutory or policy requirements significant to financial management and control, is critical in order to optimize the coordination and exchange of information required to achieve effective control of public money, property or debt.

**2.29** A number of matters have come to our attention that indicate a lack of awareness and understanding of statutory and policy requirements for financial management and control of the public purse. For example,

- Trade Centre Limited guaranteed a net profit for the World Junior Hockey Championship event without Executive Council approval (see Chapter 16 of this Report).
- Federal funds for early childhood development programs were available in 2001-02. The Department of Community Services created a privately incorporated society in late March 2002 in order to set up an accrued liability to this new entity, with an offsetting charge to the Department's program expenses, for Federal funds which were not going to be spent at March 31, 2002. We are not aware of any Executive Council or Department of Finance approval for the establishment of this entity, but the directors are all Department of Community Services employees.
- In February 20, 2002 correspondence to the Nova Scotia College of Art and Design and a financial institution, the Department of Education stated:

*"The Department of Education, subject to the Provincial Finance Act, hereby commits to maintain its current leasehold funding arrangements with the Nova Scotia College of Art and Design (NSCAD) to enable NSCAD to enter into a mortgage agreement. Payments to NSCAD will be directed first to the obligation of mortgage repayment. Payments under this funding arrangement amounted to \$1,827,342.00 for the year ending May 31, 2001.*

*This mortgage funding commitment to NSCAD shall continue for a term of twenty years or until repayment of the mortgage obligation, whichever occurs first. This funding commitment shall not exceed a total of twenty years from the date of the original mortgage."*

This funding commitment had not been reviewed and approved by Executive Council as required under the Provincial Finance Act.

- There was communication (between the Department of Transportation and Public Works and Transport Canada) relating to an undertaking to repay the Federal government \$27.5 million provided through the Strategic Highway Improvement Program agreement to partially fund the Cobequid Pass section of Highway 104. We are not aware of any approval by Executive Council for such a commitment or undertaking.

**2.30** In most of the above, it appears that entity management involved were not fully aware of or did not understand the legislated and policy requirements, especially in regards to the limits of their authority.

**Recommendation 2.2**

*We recommend that government increase the level of awareness and understanding within and across the Provincial public sector of statutory and policy requirements (and limits) related to the financial management and control of the public purse.*

**2.31** *Release of updated management manuals* - Treasury and Policy Board (TPB) has been working on updating the government's management manuals. The Minister of Finance is responsible for the establishment of financial and accounting policies for government. The establishment of financial and accounting policies provides employees involved in those functions with a clear understanding of what is expected to be done and thus reduces the chance of error.

**2.32** Controls could be improved if all approved policies were available in a financial management and accounting policy manual accessible by all staff involved in those functions. We understand that a draft manual was compiled and given to TPB for review and approval over a year ago.

**2.33** Using the internet for communication of the financial management policy manual of government will also allow all entities in the government reporting entity (GRE) to be easily aware of government's policy statements, directives and other guidance, and to use them when establishing or amending their policies and practices.

**Recommendation 2.3**

*We recommend government move forward with the release of the updated management manuals and that the government's financial and accounting policies include appropriate relevant extracts, references or linkages to external authoritative sources (e.g., Acts, Regulations, accounting standards) in order to support broader awareness and understanding of the policies.*

**2.34** *Informed central controllership function required* - The scope and mandate of the Department of Finance's controllership function, as it relates to implementation of accounting policy decisions and reporting standards within the government's reporting entity, need to be clearly defined and communicated. Further, Finance's Government Accounting Division needs to be made aware of significant transactions or decisions, and be more directly involved, on a timely basis, in determining the accounting consequences and other considerations.

**2.35** This year, as in the past, we noted that Finance's Government Accounting Division often has to deal with identified accounting matters on a reactive, after-the-fact, basis. The information flow to Government Accounting on significant financial transactions or decisions by and across government should be improved so accounting policy considerations can be effectively dealt with on a more timely and proactive basis.

**2.36** In this regard, the Government Accounting Division, through the government's website, can review Executive Council decisions that take the form of Orders in Council (OICs) to identify potential accounting issues and begin to deal with them on a more timely basis. However, for other decisions made by Executive Council or Treasury and Policy Board, not requiring an OIC, but having unique or significant accounting consequences, Finance staff need to have more timely and direct access to information. Mechanisms need to be established to ensure Finance's Government Accounting staff are made aware of and have ready access to supporting information to complete

their job in an effective manner. For this to happen, Finance has indicated that senior financial and other executives within government need to forward accounting issues or concerns to Government Accounting on a timely basis.

**2.37** *Achieving and maintaining compliance with GAAP* - Accounting standards are not static. Standard setters in Canada and internationally are always working on developing new or revised pronouncements in important areas. This is true for the CICA Public Sector Accounting Board which is the primary body issuing recommendations on public sector accounting in Canada. The following are the more significant matters in progress or on which PSAB has recently released recommendations. New formal recommendations or guidance in these areas could require accounting policy or statement presentation changes in the future:

- retirement and other post-employment benefits;
- foreign currency translation;
- liabilities, commitments and contingencies;
- government transfers;
- reporting entity;
- reporting model; and
- financial statement discussion and analysis.

**2.38** The government, with leadership from the Department of Finance, needs to continue and possibly expand its efforts to monitor PSAB initiatives as well as relevant accounting recommendations from CICA and internationally, in order to ensure adjustments necessary to government's financial planning, budgeting and reporting remain in accordance with generally accepted accounting principles and are implemented on a timely and effective basis.

**2.39** In September 2001, PSAB's Section 3250 Retirement Benefits was updated to encompass all retirement benefits as opposed to just pension benefits. The revised Section 3250 requires charging costs of health-related retirement benefits over the working life of employees, rather than as benefits are paid in the future.

**2.40** The government had, in past years, already started to account for retirement or long-term service awards which are now covered by the scope of the new PSAB section. Based on the information available to us, accounting for health-related retirement benefits is the significant element that will need to be addressed in order to comply with the new PSAB recommendations.

**2.41** It is our understanding that while earlier adoption is acceptable, in the absence of specific transitional provisions, "*PSAB encourages the adoption of its Recommendations as soon as practicable*".

**2.42** If the necessary information is readily available, new or changes to existing PSAB recommendations should be implemented retroactively. Finance had actuarial work completed to determine the magnitude of accounting for the obligations and costs for the health retirement benefits as at March 31, 2002 and for the year then ended. A commitment of \$484.5 million has been disclosed in Note 12(c) of the Province's March 31, 2002 financial statements. In addition, Exhibit 2.5 on page 36 provides a summary analysis of these obligations of \$453.4 million as at March 31, 2002, as determined by various actuaries. The difference of \$31.1 million between the commitment and Exhibit represents interest related to these commitments.

**2.43** Some of the entities which are part of the government reporting entity have accounting policies which are not in accordance with GAAP. Finance should direct all entities to move to GAAP which is the appropriate basis of accounting.

**2.44** *Improve accounting control for restructuring* - The government's March 31, 2002 SCFS reported \$65.4 million as restructuring costs. Certain costs in this account are associated with specific departments. Restructuring costs should be allocated to departmental expenses as much as possible.

**2.45** Again this year we found that a variety of expenses are being charged as restructuring costs which should be reported against other appropriations. For example,

- salary negotiation costs;
- costs related to implementing pay for performance;
- costs for implementing new computerized financial systems in the Provincial public sector;
- costs accrued for potential settlement of law suits; and
- costs related to the campaign for fairness.

**2.46** The accounting control and processes for this account need to be examined. Due to unnecessary complexity of the accounting during 2002 and an inadequate management/audit trail, significant time was required by Department of Finance Government Accounting staff to analyze the transactions posted by Treasury and Policy Board. This analysis resulted in significant adjustments to the balance in the general ledger at year end, including correction of double counting of expenses of approximately \$84 million. Further, the audit of the final balance was delayed and required significant additional efforts by this Office.

***Recommendation 2.4***

*We recommend that, if there continues to be a separate restructuring appropriation, accounting responsibility for it be transferred to Finance Government Accounting staff, in order to ensure no significant errors or omissions occur, and an adequate management/audit trail is maintained.*

**2.47** *Improve accounting control for Federal-Provincial revenues* - In prior Reports, we have suggested that the accounting policies and practices for Federal-Provincial revenues be subject to review. Our experiences on this year's audit of the Province's SCFS have provided more support for the requirement for a thorough and comprehensive review.

**2.48** The following highlights the more significant matters of concern identified in the area this year.

- The management/audit trail for the accounting measurement and recording of receivables and payables related to Federal-Provincial revenue payments is inadequate. The significance of this situation is compounded by the magnitude of the entries made to these balances. One receivable and one payable account are used for all Federal-Provincial revenues. Staff were not able to provide us with an accurate segregation of the receivable/payable balances related to each revenue line item. We

were able to reconcile the overall balances to ensure the financial statements were presented fairly. However, in order to properly manage the balances, there should be separate receivable/payable accounts for each revenue line item.

- The Federal-Provincial receivable and payable accounts are used to record year-end accruals resulting from staff use of economic models and other assumptions to estimate the revenue and receivable/payable for a particular line item for accounting purposes. Due to the substance or nature of the items being accounted for, there should be a clear segregation in the accounting records between the known receivable/payable amounts for each of the revenue line items and the amounts booked for the estimated accruals.
- PSAB allows for the estimation of self-assessed tax revenues and transfer payments as long as reliable methods are developed to support the amounts. Historically, Finance has used economic models to assist and support the budgeting and accounting for these revenues. As reported earlier in this Chapter (see Recommendation 2.1), we have recommended that the current accounting policies and practices in this regard be reviewed. Finance management has indicated that they plan to conduct such a review during 2003.

**2.49** *Other observations* - As in the past, during this year's audit a variety of accounting or other related issues were identified for follow-up with the Department of Finance and others across government.

- Government Accounting staff assistance notwithstanding, we raised a number of accounting issues and requests for additional supporting information fairly early in this year's audit process that were not responded to on a timely basis. As a result, completion of required audit work was delayed at the expense of other audit work normally completed by our staff involved. In our view, the quality and timing of year-end accounting and reporting is not, but should be, a priority for all deputy head and senior financial executives (i.e., not just those at Finance).
- Unless final financial statements and requested supplementary supporting information from Provincial public sector entities included in the Province's SCFS is available when required, SCFS cannot be finalized for release on a timely basis. For March 31, 2002 year end, a number of entities were not successful in meeting the June 30<sup>th</sup> deadline prescribed in the Provincial Finance Act for provision of financial statements to the Minister of Finance. While there may be reasonable explanations for certain entities missing the reporting deadline in the past year, management of each entity covered by the Provincial Finance Act is responsible for ensuring that its statements are submitted to the Minister of Finance by June 30<sup>th</sup>.

#### ***Recommendation 2.5***

*We recommend the Department of Finance senior management provide necessary direction, guidance and, if necessary, support so that entities covered by the Provincial Finance Act meet the prescribed deadline of June 30<sup>th</sup> for financial statement reporting on a timely and effective basis.*

- The status of Workers' Compensation Board as a trust, accounted for external to the government reporting entity for SCFS purposes, needs to be reassessed in light of

recent statutory and policy changes which impact the level of control government can exercise over the Board and its operations. This may be further compounded by new recommendations pending from PSAB on the reporting entity for financial reporting by governments.

- As in prior years, government's budget for 2001-02 was prepared on a basis that was not consistent with that used for SCFS purposes. As a result the SCFS do not include disclosure of the original budgeted amounts for the line items on the Statement of Operations, which is required for full PSAB compliance. To compensate for this omission, government has included in the discussion and analysis included in Volume I of the *Public Accounts* 'unaudited' supplementary information which compares the accounting results to the original budget.
- We have reported previously that, in our view, the Government's Tangible Capital Assets (TCA) policy thresholds, for deciding which asset acquisitions are to be capitalized for accounting purposes, are too high. In early 2002-03, Finance Government Accounting initiated a review of the TCA policy.
- The Province's SCFS indicate there were \$38.9 million of miscellaneous trusts under administration as at March 31, 2002 (\$35.8 million - 2001). We noted that certain of the items included in this total did not represent trusts, but rather were special funds established by government for specific, defined purposes.

Only actual trusts should be reported in the trusts under administration total, with special fund or other accounts being accounted for directly in the SCFS. The impact on the SCFS of appropriate adjustments will depend to some degree on whether the special funds and other accounts requiring adjustment are assessed as externally or internally restricted assets and revenue.

### ***Corporate Financial Management Systems***

**2.50** There are various financial systems and products being used within and across the Provincial public sector. The following comments deal with a significant and continuing initiative to implement new financial information systems to support the management, control, accounting and reporting of financial performance of government, and Provincial public sector entities.

**2.51** *SAP deployed to core government* - In April 1996, the Department of Finance undertook a major information technology project to implement a new Corporate Financial Management System (CFMS). The primary application software, which was selected as the result of a Request for Proposals in December 1995, was SAP R/3 (SAP).

**2.52** The project ran for a period of one year and SAP was implemented on April 1, 1997 as planned. The design of SAP is based on the use of modules which focus on specific business areas. The modules and functions which were initially implemented included general ledger, budgeting, funds management, cash management, accounts payable, project accounting, procurement, goods receipt, inventory and accounts receivable.

**2.53** In our 1998 Annual Report, Chapter 9, we summarized the results of an audit of the CFMS and SAP. The audit had been conducted by a national public accounting and consulting firm under contract jointly to the Department of Finance and the Office of the Auditor General.

**2.54** The scope of the audit included coverage of the business and control environment surrounding CFMS as well as the management process surrounding the original CFMS

implementation project. There were a total of 223 recommendations to address identified control weaknesses. Since the completion of that audit we have been monitoring, annually, the progress made in addressing the recommendations. The most recent status report provided to us by the Department of Finance reflected progress to June 2001. At that time the status showed:

Completed or Alternative Solution	177
Disagree	20
Work in Progress	10
Complete as Part of Upgrade	9
Budget or Resource	<u>7</u>
	<u>223</u>

**2.55** The Department is presently in the process of reviewing and updating the status of all items not completed. The corporate internal audit group has taken responsibility for the status update.

**2.56** *SAP deployed to broader public sector* - Over the past two or more years there has been significant effort focusing on the deployment of SAP across the Nova Scotia public sector including municipalities, universities, school boards, hospitals, etc. The Province, effective June 2000, expanded its SAP licenses under the *mySAP.com* program. The SAP licensing contract now entitles the Province to run 125,000 public sector employees through SAP's human resources and payroll modules and the government owns the rights for a total of 86,100 SAP users for all of the modules included in the contract.

**2.57** Over the past year the Province has been upgrading its hardware infrastructure surrounding SAP and as a result will soon be in a position to provide a centralized and fully supported SAP infrastructure for any Provincial public sector entities wishing to use the service. The overall effect of these initiatives is to make SAP available to public sector entities regardless of size, and to those that otherwise may not have been able to do so. Also, as part of this initiative, the Province is helping to build and deploy standard implementation templates that will focus on specific sectors such as municipalities and school boards. This will provide a standardized structure and consistent reporting format for these entities.

**2.58** In order to strategically plan and manage these projects, the Province is planning the establishment of a new accountability structure having the necessary authority and focus to fulfill a defined mandate. The SAP Project Office (SAP PO) will be established under the Office of Economic Development.

**2.59** The draft mission of the SAP PO is

*"...To provide a collaborative and integrated leadership framework, through developed program management standards, methodologies, processes and tools, to achieve the benefits and value realization of the Province of "e" initiative and supporting the broader Nova Scotia public sector in delivering efficient and effective programs and services."*

**2.60** The draft mandate of the SAP PO is

*"...The SAP PO will establish program strategies and recommend standards, tools, processes and methodologies associated with the implementation of the mySAP Public Sector solution. Further, the SAP PO will provide advice and guidance to Sector specific project teams and communicate to the Executive Steering Committee and other stakeholder communities as required, on Program progress."*

**2.61** The Province is planning to establish the SAP Executive Steering Committee to provide advice, guidance and recommendations on SAP requested, planned and ongoing initiatives, to the SAP PO and the Business Technology Advisory Committee (BTAC).

**2.62** The stated draft mission of the SAP Executive Steering Committee is

*“...On a broader provincial public sector, the SAP Executive Steering Committee plays an advisory role and strategic direction setting body by analyzing, evaluating and recommending SAP initiatives for consideration and approval by BTAC.”*

**2.63** The stated draft mandate of the SAP Executive Steering Committee is

*“...The SAP Executive Steering Committee will approve the SAP PO Program Charter and validate the Program’s critical success factors. The Committee approves the directions or recommendations made by the SAP PO regarding SAP requested initiatives and priority status including resourcing needs, funding and forecasted expenditures, reviews and monitors SAP initiatives progress while mitigating identified risks, ensures effective communication by promoting the benefits to the various public sector audiences and supports the overall SAP initiative by effecting sound resource management processes.”*

**2.64** This group would be focused at a high program level only. The individual implementation projects would be accountable to their respective departments and sectors and would have their own steering committees directing and managing progress. The Executive Steering Committee is focused on the effectiveness of the overall program as well as priority setting, but the accountability for the projects rests with the departments and sector leads.

**2.65** In regards to the SAP PO and the SAP Executive Steering Committee, the Province is presently in the process of establishing and assembling these bodies, both of which will fall under the Office of Economic Development.

**2.66** The implementation of SAP has now been completed or planned in the following areas:

- core provincial government;
- all 7 Regional School Boards;
- of the 55 municipal entities;
  - 6 have already implemented, including the Regional Municipalities of Halifax and Cape Breton
  - 4 have begun the process
  - 6 are ready to begin the process
  - 12 have initially declined
  - 27 have yet to decide
- all 7 Regional Housing Authorities;

- University College of Cape Breton; and
- preliminary feasibility and planning are now underway to consider and assess SAP for the District Health Authorities.

**2.67** As indicated earlier, there are a variety of SAP functional modules available for implementation. There are differences across the Provincial public sector as to which specific modules have been implemented. Certain of the entities which have implemented SAP are now considering the deployment of additional modules beyond those originally implemented. For example, the Nova Scotia government and the Regional School Boards are now participating jointly in a project to implement the SAP human resources module including payroll.

**2.68** As well, there has been a special e-business related project underway through Service Nova Scotia and Municipal Relations. This is a “Proof of Concept” project related to providing a single point of entry to Provincial services and real-time online transactions via the internet. This project has been developed based upon the use of the SAP Portal. Testing is to be completed in fall 2002.

**2.69** The deployment of SAP across the Provincial public sector is a major undertaking which will be addressed through specific projects over the next several years. It is very important that there be a requirement, in the planning and approval process, for the benefits to be derived in each and every project to be clearly defined and measurable. Also, a formal requirement should be established for reporting on the realization of benefits. Such requirements would represent key ingredients in the management and accountability processes.

#### ***Recommendation 2.6***

*We recommend that BTAC establish a formal policy requiring identification of benefits as part of the planning and approval process for major IT projects, and requiring reporting of realization of benefits subsequent to implementation. The specific benefits expected to be derived from the deployment of SAP, as well as for any other business solution products that may be implemented, should be appropriately defined in a manner that is clear and measurable as part of the planning and approval process. Further, there should be a formal requirement for reporting the realization of the benefits to BTAC in accordance with the realization time lines set out in the approved plans.*

**2.70** *Audit coverage* - We had planned to perform detailed audit work on the CFMS/SAP for core government during 2002. However, due to significant changes and upgrades to the SAP infrastructure which are currently underway, we decided to defer the audit until 2003. During 2002 the hardware infrastructure supporting SAP was changed from HP to SUN and a new operating system was implemented (SOLARIS UNIX). As well an upgrade is currently underway to a new release of SAP which will also result in significant changes to the security structure.

**2.71** As the result of all these changes, which would have significantly affected the scope of our audit, we performed only a preliminary survey of CFMS/SAP. This survey provided us the opportunity to ask questions and gather certain key documents which will be used to assist us in the detailed planning of our audit. It also provided us the opportunity to research and define our security access requirements as auditors for future coverage of SAP.

### *Other Matters*

**2.72** The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the House of Assembly.

**2.73** *Follow-up matters* - In previous years, the Auditor General's Report has included various recommendations in Chapter 2. Action has been taken on many of these. The following is a summary highlighting areas where we believe action is still warranted.

- Approvals for additional spending authority required (e.g., additional appropriations) and write-offs should be in place on a timely basis.
- Accountability would be enhanced if procurement policy exceptions were reported to the House.
- Government continues to work on finalizing necessary updates and amendments to its Management Manuals relating to financial management. While we appreciate the reasons for delays in completing this initiative, we urge government to finish this matter as soon as possible.
- The applicability of the Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.
- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

**2.74** As noted elsewhere in this Report, our Office is implementing certain changes to the Report of the Auditor General and our follow-up processes. Significant recommendations will be highlighted in each Chapter, and three years after the period to which a Report applies, the Office will conduct a specific audit following up on recommendations.

**2.75** *Statutory reporting requirements* - This Office supports timely reporting to the House. However, statutory reporting requirements need to be reasonable, realistic and achievable. Statutory provisions sometimes specify reporting requirements (e.g., deadlines) that for practical purposes cannot be met. For example, the statutory provisions for the Public Service Superannuation Fund and for the Sydney Steel Corporation Superannuation Fund require reporting by April 30, for fiscal years ending March 31, which is not likely to be achieved.

### **CONCLUDING REMARKS**

**2.76** 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.

**2.77** There have been a number of 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 Treasury and Policy Board have taken, and are still taking, steps to improve the nature and quality of the information and reports available.

**2.78** The government's implementation, in order to comply with generally accepted accounting principles, of new and pending accounting recommendations from the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board will continue to put significant pressure on the achievement of government's fiscal plans.

---

Exhibit 2.1

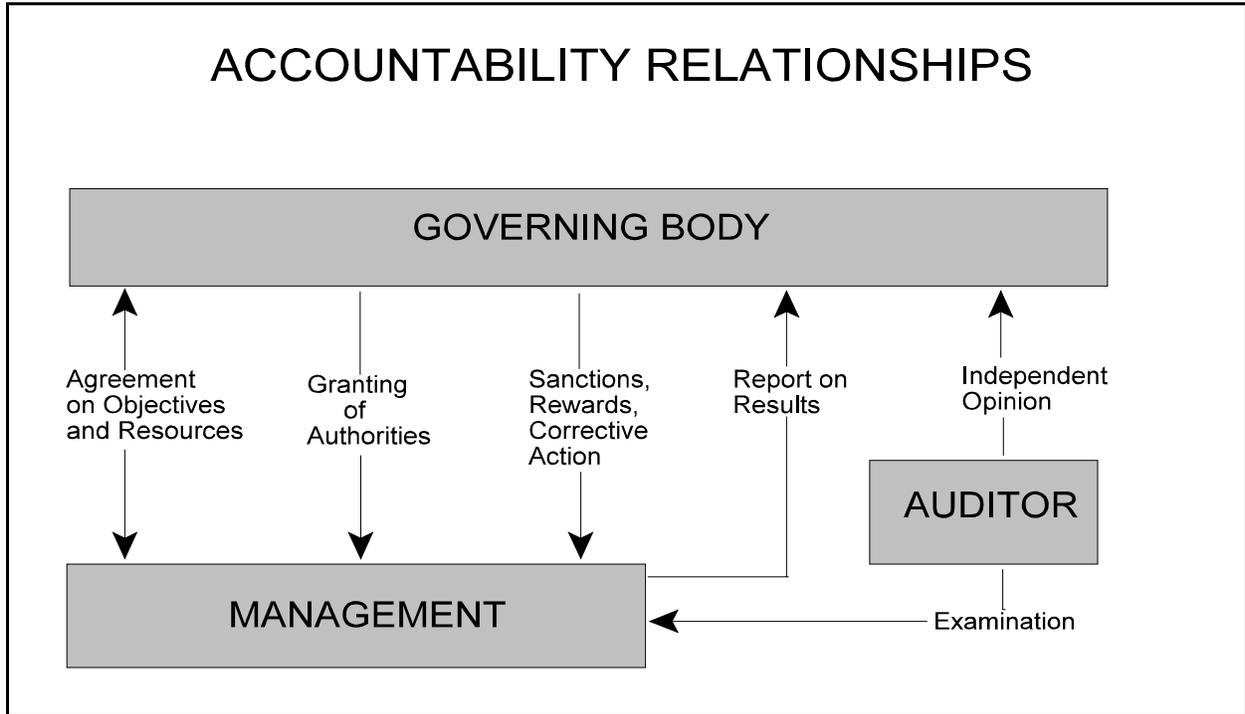
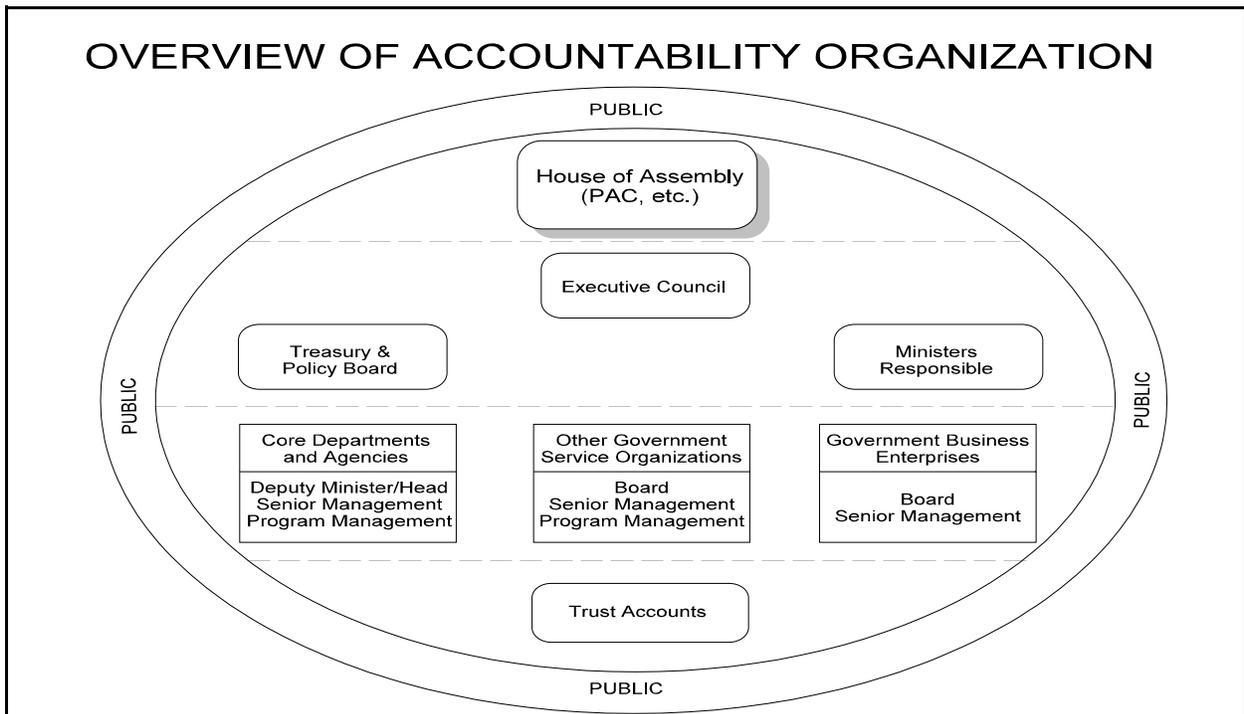


Exhibit 2.2



*Exhibit 2.3*

**REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE  
ESTIMATES OF REVENUE  
FOR THE FISCAL YEAR ENDING MARCH 31, 2003  
USED IN THE PREPARATION OF THE APRIL 4, 2002 BUDGET ADDRESS**

I am required by Section 9B of the Auditor General 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 ending March 31, 2003 (the 2002-03 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 6, 2002. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2002-2003 revenue estimates of \$5,306,658,000 for total ordinary revenue. My opinion does not cover the 2001-2002 forecast, the 2002-2003 expense estimates, sinking fund earnings, nor the recoveries, user fees or other income netted against expenses 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.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statements reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2002-2003 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2002-2003 revenue estimate for total ordinary revenue, but included elsewhere in the 2002-2003 estimates, and have not been included in my examination.

During 2001-2002, the Department of Finance used a new model to support the estimating of revenue from personal income taxes. The change in model was required due to the move in 2000 from calculating provincial income taxes based on basic federal taxes to a tax on net income. The new model had not been fully implemented at the time of our review. The effect on the 2002-2003 revenue estimate of any further adjustments required to the model can not be determined at this time.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matters discussed in the preceding paragraphs, 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 2002-2003 revenue estimates; and
- the 2002-2003 revenue estimates as presented reflect fairly such assumptions.

Since the 2002-2003 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and variations may be material. Accordingly, although I consider, except for the matters discussed above, the 2002-2003 revenue estimates to reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
March 28, 2002

*Exhibit 2.4***AUDITOR'S REPORT**

*To the Members of the Legislative  
Assembly of Nova Scotia*

I have audited the consolidated statements of financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2002 and the consolidated statements of operations, net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2002 and the results of its operations, changes in net direct debt and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

E. Roy Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
October 18, 2002

*Exhibit 2.5*

**ESTIMATED ADDITIONAL RETIREMENT BENEFIT<sup>(1)</sup> OBLIGATIONS  
TO BE ACCOUNTED FOR UNDER REVISED ACCOUNTING STANDARD PS3250**

	Actuarial Obligation March 31/02	% Allocation of Premiums Employer	% Pensioner	Actuarial Estimates of Current Service Cost 2001-02	Actual Interest Cost 2001-02
Public Service Superannuation Plan	\$ 150,302,000	65%	35%	\$ 4,247,000	\$ 10,255,000
Members' Retiring Allowance Act	964,107	65%	35%	42,176	63,588
Teachers' Pension Plan	284,788,788	100%	0%	7,905,562	18,721,804
Sydney Steel Corporation Superannuation Plan (Sysco)	<u>17,329,165</u>	100% <sup>(2)</sup>	0%	<u>-</u>	<u>1,189,405</u>
	<u>\$ 453,384,060</u>			<u>\$ 12,194,738</u>	<u>\$ 30,229,797</u>

(1) Includes health and dental benefits and, for certain Sysco pensioners, life insurance coverage as well.

(2) Sysco pensioners contribute a nominal amount each month toward their prescription drug plan. Coverage under this plan ceases at age 65. Life insurance benefits are fully paid by the Province.

## **DEPARTMENTAL AUDITS**