

# 7 GOVERNMENT FINANCIAL REPORTING

## BACKGROUND

- 7.1 Members of the Legislative Assembly need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.
- 7.2 The Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province under the provisions of the Provincial Finance Act. Certain of these assignments include the need for Executive Council approval or ratification of planned actions.
- 7.3 The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. Further, Section 73 of the Provincial Finance Act requires that crown corporations' business plans, audited financial statements and proposed public financing be tabled in the House of Assembly each year.
- 7.4 As a foreign registrant of the Securities and Exchange Commission in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.
- 7.5 In addition to required financial reporting, government periodically releases other financial information or reports publicly.
- 7.6 For the Province's financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

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## CHAPTER OBJECTIVES

- 7.7 The Auditor General Act provides a broad mandate for the Office to examine and report on the use and control of public resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual reporting by the Auditor General on the Province's consolidated financial statements (an audit - high assurance) and government's revenue estimates (a review - moderate assurance).
- 7.8 The annual financial statements of various crown entities and trusts, depending on statutory or other arrangements, are audited and reported upon by either the Auditor General or a public accounting firm. We consider the results of those financial statement audits, as well as other government financial reporting, during the conduct of the Office's discretionary performance audits.

- 7.9** The purpose of this chapter is to provide summary comments and observations on the government's financial reporting, including:
- information on the results of our review of the government's 2007-08 revenue estimates included in the March 23, 2007 budget documents; and
  - our planning for the audit of the Province's March 31, 2007 consolidated financial statements.

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## RESULTS IN BRIEF

**7.10** The following summarizes our principal observations in this chapter.

- Significant steps have been taken towards preparing and presenting the government's revenue estimates in full accordance with generally accepted accounting principles (GAAP). Department of Finance and other staff are to be commended for the progress they have made in improving government's financial reporting. We encourage the government to take further steps towards achieving full GAAP compliance.
- The Auditor General's opinion on the 2007-08 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House of Assembly on March 23, 2007 along with the government's budget documents. The opinion was qualified because the revenue estimates were not presented on the same consolidated basis as the Province's consolidated financial statements. As well, the Department of Finance was not able to provide support for third-party revenues of certain consolidated government units because the budget was not completed on a consolidated basis. As a result, the Auditor General was unable to form an opinion on the reasonableness of these revenues or the support for their underlying assumptions.
- A management letter detailing observations from our examination of the government's 2007-08 revenue estimates was provided to the Department of Finance in May 2007.
- The Department of Finance is planning to release the Province's March 31, 2007 consolidated financial statements before the end of August. This is earlier than the legislated date of September 30, 2007. We commend and support the Department of Finance in its efforts to improve the timeliness of the Province's consolidated financial statements.
- Our audit of the Province's March 31, 2007 consolidated financial statements will be completed between May and July 2007. We plan to provide our opinion on the Province's March 31, 2007 consolidated financial statements by August 2, 2007. The scheduled date assumes government will meet year-end accounting and audit-readiness requirements on a timely basis and that our access to required information will be unrestricted.

- We are pleased to acknowledge that progress has been made on eliminating access to information problems reported in the December 2006 Report of the Auditor General. We look forward to working further with government's senior management to fully resolve this issue. Nevertheless, we caution that any restrictions placed on our access to information during the course of our audit of the Province's March 31, 2007 consolidated financial statements could affect our ability to conduct the audit and could impact our opinion.
- Additional appropriations of \$120.2 million for 2006-07 expenses were approved on March 30, 2007 by Order in Council 2007-189. The amount of additional appropriations required for March 31, 2007 could change as a result of finalizing figures in the March 31, 2007 audited financial statements of the Province. No special warrants have been approved since our last Report.

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## PRINCIPAL FINDINGS

### Results of Review of Government's Estimates of Revenue

- 7.11** The Auditor General's Report on the 2007-08 Revenue Estimates, required under Section 9B of the Auditor General Act, was tabled in the House of Assembly on March 23, 2007 along with supporting information for the 2007-08 Nova Scotia budget (see Exhibit 7.1). It contained a reservation of opinion related to a scope limitation and non-compliance with generally accepted accounting principles (GAAP).
- 7.12** In May 2007, we sent a management letter to the Department of Finance including detailed observations from our examination of the government's 2007-08 revenue estimates.
- 7.13** We are pleased to acknowledge the Department of Finance has taken significant steps to move towards preparing and presenting the revenue estimates included in the budget in full accordance with GAAP. The review opinions of both 2006-07 revenue estimates included a number of qualifications, as noted in Chapter 2 of the December 2006 Report of the Auditor General. Many of these qualifications were not required in the opinion provided on the 2007-08 revenue estimates; although there was still a reservation of opinion for this review based on two qualifications discussed below. However, staff of the Department of Finance and other relevant departments should be commended for the steps they have taken to move towards preparing and presenting the revenue estimates in full accordance with GAAP and in providing all information required by my Office to conduct our review.
- 7.14** A reservation of opinion was issued this year as a result of our review of the 2007-08 revenue estimates. There was a qualification because the revenue estimates were not presented on the same consolidated basis as the Province's consolidated financial statements. As well, because the budget was not completed on a consolidated basis, the Department of Finance was not able to provide support for third party revenues for certain government units. As a result, the Auditor General

was unable to form an opinion on the reasonableness of these revenues or the support for their underlying assumptions.

- 7.15** We acknowledge that addressing the above qualifications would be a major undertaking which would require significant changes to the existing budget process in order to move to consolidated budgeting. We understand that a number of challenges would have to be addressed and that this issue cannot be dealt with in a short time period. However, it is a significant issue which needs to be addressed.

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### **Recommendation 7.1**

**We recommend further steps be taken to move towards preparing and presenting the revenue estimates included in the budget in full accordance with generally accepted accounting principles.**

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## **Planning for the Audit of the Province's Consolidated Financial Statements**

- 7.16** Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the government's annual consolidated financial statements.
- 7.17** The Department of Finance is planning to release the Province's March 31, 2007 consolidated financial statements before the end of August. This is earlier than the legislated date of September 30, 2007. We commend and support Department of Finance staff in their efforts to improve the timelines of the Province's consolidated financial statements.
- 7.18** The majority of our audit work on the Province's March 31, 2007 consolidated financial statements will be completed between May and July 2007. We plan to provide our opinion on the Province's March 31, 2007 consolidated financial statements by August 2, 2007. The scheduled date assumes government will meet year-end accounting and audit-readiness requirements on a timely basis and that our access to required information will be unrestricted.
- 7.19** The following are some of the key control issues we will consider when finalizing our strategy and approach to the 2006-07 financial statement audit.
- Deficiencies identified in the service auditors' report on general environmental controls for the centralized SAP infrastructure (see June 2006 Report of the Auditor General, Chapter 3, paragraph 3.14 to 3.26). An update of this report is expected in May 2007 related to the March 31, 2007 fiscal year.
  - Deficiencies identified in the SAP application controls audit completed under contract for this Office (see June 2006 Report of the Auditor General, Chapter 3, paragraph 3.8 to 3.13).

- Deficiencies identified in the SAP HR application controls audit completed under contract for the Department of Finance, the Public Service Commission, and this Office (see December 2006 Report of the Auditor General, Chapter 3, paragraph 3.9 to 3.15).
- Denial of opinion and deficiencies identified in the audit of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions completed by a private sector firm during 2004 (see December 2004 Report of the Auditor General, Chapter 3, paragraphs 3.18 to 3.21). The Department of Finance 2006-07 Business Plan has a target date of March 31, 2007 for completion of an audit assessment regarding implementation status of the original recommendations. It was to be completed by the Internal Audit and Risk Management Centre of the Department of Finance or outsourced. We were informed that some planning steps have been taken to address this issue but the audit assessment has not yet been completed.

**7.20** Accounting standards and pronouncements comprising GAAP continue to evolve. New developments could require changes to government's financial reporting. For the March 31, 2007 consolidated financial statements, revisions to the tangible capital asset standards of the Public Sector Accounting Board (PSAB) now require tangible capital assets to be recorded at gross values as opposed to net values. During our audit, we will examine the effects of these revisions on the consolidated financial statements to ensure they are appropriately reflected.

**7.21** The financial statements of various crown corporations and agencies of government are audited by other auditors. As appropriate under generally accepted auditing standards, we will rely on the work and reporting of these other auditors.

**7.22** The December 2006 Report of the Auditor General noted that significant steps have been taken to address certain areas in which the Province's consolidated financial statements were not yet fully in compliance with GAAP. Certain areas were identified where further actions were required in order to achieve full compliance with GAAP. (see December 2006 Report of the Auditor General, Chapter 2, paragraph 2.21) During our audit of the March 31, 2007 financial statements, we will follow up on the following areas.

- Budget information should be included on the Statement of Change in Net Direct Debt.
- All revenues which are netted directly against expense accounts should be included in gross revenues.
- We will consider the proper accounting treatment of Canadian Blood Services.
- Tangible capital asset balances of entities included in the consolidated financial statements should be adjusted to comply with the government's relevant accounting policy requirements for thresholds and amortization.

- Further research and review of the Province's tangible capital assets threshold limits should have been completed by the Department of Finance to ensure the thresholds allow for the fair and consistent presentation of the balance on the consolidated financial statements.

**7.23** The Auditor General will express an opinion as to whether the Province's consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Province of Nova Scotia in accordance with generally accepted accounting principles for the public sector. Our audit will be carried out in accordance with generally accepted auditing standards.

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## OTHER MATTERS

### Access to Information

**7.24** In the December 2006 Report of the Auditor General we discussed the issue of restrictions on the Auditor General's access to information. We recommended that Treasury and Policy Board and the Department of Finance work with the Office of the Auditor General to clarify boundaries regarding access to information provided under the Auditor General Act. We are pleased to acknowledge that progress has been made in identifying and eliminating access problems. For example, the Auditor General's opinion on both of the 2006-07 Revenue Estimates tabled in the House included a scope limitation due to a number of restrictions in access to information. In the 2007-08 review of the revenue estimates, a scope limitation exists for a single restriction in access to information but central government did not possess this information and could not make it available to us. Access to Treasury and Policy Board and Executive Council minute letters was partially restricted last year. During our work on the 2007-08 revenue estimates review, we had full access to information requested relating to these minute letters.

**7.25** A number of meetings have been held with senior management of Treasury and Policy Board, the Department of Justice, the Department of Finance and the Office of the Auditor General in order to move towards clarifying the boundaries of the access to information allowed under the Auditor General Act. We look forward to working with these parties further to fully resolve this issue. Nevertheless, we caution that any restrictions placed on our access to information during the course of our audit of the government's March 31, 2007 consolidated financial statements could affect our ability to conduct the audit and impact our opinion.

### Additional Appropriations and Special Warrants

**7.26** Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the December 2006 Report of the Auditor General, Chapter 2. We provide the following updated comments.

- 7.27** Under the provisions of Section 28 of the Provincial Finance Act, on March 30, 2007 Executive Council approved Order in Council 2007-189 approving additional appropriations for 2006-07 of \$48,692,000 for program expenses and \$71,500,000 for capital purchase requirements. The amount of additional appropriations required for March 31, 2007 could change as a result of finalizing figures in the March 31, 2007 financial statements of the Province.
- 7.28** We note that since our last Report, there have been no special warrants approved by Executive Council under Section 29 of the Provincial Finance Act.

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## CONCLUDING REMARKS

- 7.29** Significant steps have been taken to move towards preparing and presenting government's revenue estimates in full accordance with generally accepted accounting principles. In order to achieve full compliance, the budget would need to be completed on a fully consolidated basis. We encourage government to take further steps towards achieving this result.
- 7.30** The Department of Finance is planning on releasing the consolidated financial statements of the Province for March 31, 2007 at least one month earlier than the legislated deadline. We encourage and support the Department in this endeavor as it will contribute to the quality of the consolidated financial statements through improved timeliness of financial reporting.
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## Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2008 used in the preparation of the March 22, 2007 Budget Address

Exhibit 7.1

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, 2008 are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 22, 2007 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of \$8,017,687,000 as described in the financial forecast of Revenues By Source, (Schedule 13 of the Nova Scotia Budget Assumptions and Schedules) (the 2007-08 revenue estimates). My examination did not include, and my opinion does not cover, the budget speech, the 2006-07 forecast, the 2007-08 expense estimates or the actual figures in Schedule 13 for the fiscal years ended March 31, 2003-2004, 2004-2005 and 2005-2006. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services 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.

Third party revenues of certain government units are excluded from the 2007-2008 revenue estimates. These revenues are included elsewhere in the budget as offsets against expenditures of the respective government units rather than as part of the revenue estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements, a requirement of generally accepted accounting principles in such circumstances. To the extent of these exclusions, the 2007-08 revenue estimates are not presented in accordance with generally accepted accounting principles. In addition, management was unable to provide support for these third party revenues and therefore I was unable to complete my review of them or determine the amount of these revenues.

In my opinion, except that certain third party revenues have been excluded from the revenue estimates as noted in the preceding paragraph:

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by department management, and provide a reasonable basis for the 2007-08 revenue estimates; and
- the 2007-08 revenue estimates as presented reflect fairly such assumptions; and
- the 2007-08 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2007-08 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variance may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

Jacques R. Lapointe, CA•CIA  
Auditor General

Halifax, Nova Scotia  
March 22, 2007



## DEPARTMENT OF FINANCE'S RESPONSE

The Department of Finance is pleased to be able to provide a management response to Chapter 7, Government Finance Financial Reporting of the Report of the Auditor General. Significant steps have been taken toward the reporting of revenue estimates in the provincial budget.

While these steps have not entirely removed the qualification of the revenue review, staff should be commended for their efforts. The final requirement for an unqualified revenue review would be a move to consolidated budgeting. I am pleased that the Auditor General has acknowledged that such a move would be a major undertaking, one which I do not anticipate in the foreseeable future. The Department looks forward to the pending audit of the 2006/07 Public Accounts. With the cooperation and assistance of the Office of the Auditor General as well as staff at central and line departments, the expedited release of our financial statements will prove beneficial to the readers of the Public Accounts. I am also confident there will be continued clarity with the Auditor General on what entities should be included in our consolidated statements. As well, the audit of the Public Accounts will show improvements of key control issues that were identified in previous Auditor General reports.