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# Financial Reporting

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# 5 Government Financial Reporting

## Summary

Financial reporting is a key component of government's accountability framework. Financial reports must be reliable and accurate, and must be provided on a timely basis so that they are relevant.

Our review opinion of the 2009-10 Revenue Estimates included in the September 24, 2009 Budget Address was again qualified. Third party revenues were not estimated or included in the revenue estimates and therefore the budget was not prepared on the same basis as the consolidated financial statements. This is a requirement of generally accepted accounting principles (GAAP) for governments. We have again recommended these revenues be estimated to ensure compliance with GAAP.

During the fiscal year forecast updates are issued to forecast actual results to date to year end. A \$35.29 million adjustment made in preparing the December 19, 2008 forecast update was subsequently reversed at March 31, 2009 because government acknowledged the initial adjustment was made prematurely. We recommended adjustments to revenues or expenditures for future forecast updates be adequately supported.

The Minister of Finance tabled the Province's Public Accounts for the year ended March 31, 2009 on September 10, 2009. The Auditor General's opinion on the consolidated financial statements included in the Public Accounts was unqualified. In November 2009, we provided a management letter to the Minister of Finance with detailed audit findings and recommendations. While our quantitative findings were neither individually nor cumulatively significant enough to affect the audit opinion, all findings impact the integrity of the financial statements. In particular, we made recommendations concerning the Province's accounting policy on foreign exchange and improvements to the Province's general ledger.

In addition to the above findings and recommendations on government financial reporting, we also have comments on government's financial management processes and other matters.

We continued to express our concern regarding the amount and approval of additional appropriations. Additional appropriations totaling \$408 million were required for 2008-09. Since 2003-04, expenditures approved through additional appropriations have increased by \$307 million. We believe the process to approve additional appropriations reduces accountability to, and control by, the House

of Assembly. We also noted our concern with the practice of making advance payments on funding obligations as this potentially distorts future operating results. Advance payments for Assistance to Universities accounted for \$256 million of the 2008-09 additional appropriations.

We noted that the ability of the Office of the Auditor General to conduct audits of the Teachers' Pension Plan and the trustee of the Plan, the Teachers' Pension Plan Trustee Inc., is unclear from the wording of the Teachers' Pension Act. We have recommended the Minister of Finance amend this Act to ensure the Auditor General has the undisputed and unrestricted ability to conduct performance audits on the operations of the Teachers' Pension Plan.

Finally, we repeated our recommendation that Department of Finance management should obtain an independent external audit opinion on the governance and control framework of certain divisions within that Department, as a follow-up to an external audit conducted on those divisions in 2004 which resulted in a denial of opinion.

# 5 Government Financial Reporting

## Background

- 5.1 Government financial reporting serves many purposes and is provided to stakeholders in various forms. Reports may be prepared to meet the needs of specific users, such as credit rating agencies and lenders. Individual entities may produce reports, such as annual reports, to demonstrate how they have complied with legislation throughout the year, and to measure and report on their financial condition and on the performance of funds, programs and activities. Whatever the format or purpose, financial reports prepared by government are designed to provide information to a variety of users for numerous reasons, on past or future activities.
- 5.2 Financial reports are a means through which government fulfills its accountability responsibilities regarding the use of public funds and demonstrates its stewardship over those funds. Financial reports assist us in evaluating operating results and assessing the level of services the government provides. These financial reports must therefore be relevant, reliable, understandable and released on a timely basis if they are to be used to hold government fiscally accountable.
- 5.3 The Provincial Finance Act outlines the financial reporting cycle of the Province, from budget to actual results. The Act details financial reporting requirements as annual estimates (budget), regular forecast updates, and tabling of the Public Accounts (actual financial results). These reporting requirements are part of the government's accountability framework and contribute to oversight and the effective and efficient use of resources.

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## Budgets

- 5.4 Government uses the budget process to inform stakeholders of its fiscal plan and priorities for the upcoming year. The budget is a key policy document and, in Nova Scotia, forms the basis for the legal authority to spend throughout the year through the voting and approval of the Appropriations Act.
- 5.5 The budget is a critical component of government accountability against which forecast updates and actual performance are compared. As the provincial government manages billions of dollars of public funds each year, the budget process is essential to effective fiscal management.

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## Forecasts

- 5.6 Forecasts provide a comparison of activity to date to the approved budget for the year, and update the estimate of the surplus or deficit for the year based on results to date.
- 5.7 Forecast updates are an important element of accountability. They enhance transparency by providing current information on the government's financial situation, and contribute to effective management of public funds. In order to be an effective accountability tool and to provide appropriate information for decision making purposes and resource allocation, forecast updates must be prepared with due diligence and adequate oversight.

## Public Accounts

- 5.8 Financial statements are the final component in the financial reporting cycle. The Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Board (PSAB) notes that *"They serve as a means by which a government provides an accounting of its administration of public financial affairs and resources. [They]... are a principal means of communicating financial information to those not involved in the government's financial administration."*
- 5.9 The Province's annual Public Accounts are prepared by the Controller on behalf of the Minister and Deputy Minister of Finance. The Provincial Finance Act requires the Public Accounts to be tabled not later than September 30 of the calendar year in which the fiscal year to which the Public Accounts relate ends.
- 5.10 The Public Accounts include Financial Statement Discussion and Analysis (FSD&A), which is a recommended practice by PSAB, and the audited consolidated financial statements (CFS) of the government. The FSD&A provides comparative financial highlights of the CFS and information on certain financial indicators. The CFS provide audited financial information for two years as well as comparison of budget to actual results. As the budget reflects the plan approved by the House, the comparison of budget to actual enhances transparency. The information provided in the Public Accounts can be used for a variety of purposes, including:
- to evaluate the government's performance for the year as compared to budget and prior year; and
  - to form the basis of analyzing government's financial performance and condition.
- 5.11 The release of the Public Accounts is a key component in the accountability framework of the government, comparing actual results for the year

against the approved budget, and providing important information to all stakeholders, including taxpayers and members of the House of Assembly.

## Chapter Objective

5.12 The objective of this Chapter is to provide summary comments and recommendations on government financial reporting, specifically:

- the results of our review of the revenue estimates included in the September 24, 2009 budget address;
- observations on the December 19, 2008 forecast;
- information resulting from our audit of the Province's March 31, 2009 consolidated financial statements; and
- other financial reporting matters.

## Significant Observations

### Review of 2009-10 Revenue Estimates

5.13 *Background* – Under Section 9B of the Auditor General Act, the Auditor General is required to provide an opinion on the reasonableness of the revenue estimates included in the budget tabled with the House of Assembly. During the past year, two budgets were prepared – one dated May 4, 2009 and the second dated September 24, 2009. While an opinion was provided on the revenue estimates included with each of these budgets, we did not provide observations and comments related to the first budget since it was not tabled in the House of Assembly. Consequently, our comments below relate to the September 24, 2009 budget.

5.14 *Results of review* – The opinion on the revenue estimates indicates whether:

- at the date of the opinion (September 21, 2009), the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described by management, and provide a reasonable basis for the 2009-10 revenue estimates;
- the 2009-10 revenue estimates fairly reflect these assumptions; and
- the 2009-10 revenue estimates comply with the presentation and disclosure standards of the CICA.

- 5.15 Consistent with prior years, the opinion on the 2009-10 revenue estimates was qualified with respect to the CICA's presentation and disclosure standards. Specifically, the opinion was qualified for two reasons as discussed in the following paragraphs.
- 5.16 First, there was a reservation of opinion because revenues of certain government units were excluded from the revenue estimates. These revenues relate primarily to the Departments of Health (district health authorities) and Education (school boards). Canadian generally accepted accounting principles require the revenues of these government units to be reported as separate line items in the Government's revenue estimates.
- 5.17 The estimates for these revenues, which consist of, for example, third party revenues such as ancillary operations in health authorities, or municipal funding in school boards, are included elsewhere in the budget as an offset to related expenses for these governmental units and are therefore presented on a net basis. This presentation is not consistent with CICA standards which require that the revenue estimates be presented on the same gross basis as the consolidated financial statements.
- 5.18 In addition, because these revenues are excluded, the related departmental budget is not complete. This means all revenues and expenditures of the department are not subject to review and challenge in the budget process.
- 5.19 Second, because management does not have support for these third party revenues, there is a scope limitation on our review of the revenue estimates. We were unable to perform a review of these third party revenues, which would include determining their nature and scope.
- 5.20 In each of the past several years we have recommended that the revenue estimates include all revenues of the consolidated entity so that the revenue estimates comply with Canadian generally accepted accounting principles. This was never intended as a recommendation to revise the way in which the government prepares its budget for operating purposes. Rather, it is a recommendation made for the sole purpose of advising that the presentation of the revenue estimates included in the annual budget should be on a gross basis to ensure consistency with the consolidated financial statements of the Province.
- 5.21 Government hired a consultant to undertake an independent review and analysis of the Province's current and future financial position. One of the objectives of Phase 2 of that review was to recommend an approach to resolving this qualification on future revenue estimates. The Phase 2 Report, released on November 20, 2009, recommended a schedule of all revenues be prepared for inclusion in the budget documents, and for examination by our Office. We encourage government to adopt this recommendation.

#### Recommendation 5.1

The Department of Finance should include estimates of all revenues of the consolidated entity in the Provincial budget in order to comply with Canadian generally accepted accounting principles.

- 5.22 The qualified opinion on the 2009-10 revenue estimates is indicative of deficiencies in the budget process as it relates both to completeness of revenues at specific departments (Health and Education as discussed above) and also accountability to the Department of Finance, which has overall responsibility through the Minister and Deputy Minister, as per the Provincial Finance Act, to examine and compile the annual estimates, including the budgeted revenue figures.
- 5.23 To effectively carry out its budget mandate, the Department of Finance must be able to hold all department management accountable for the timely preparation and presentation of budget information. Essentially, the Department of Finance has been given the responsibility to prepare the annual estimates without being provided the authority to compel departments to provide all necessary information. As a result of the review of the 2008-09 revenue estimates, we recommended changes be made to ensure information is provided by departments to prepare a complete budget. No changes to this aspect of the budget development protocols were undertaken in the current year and therefore we repeat our recommendation below.

#### Recommendation 5.2

The Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of the revenue estimates.

- 5.24 *Approval of assumptions* – As a result of our review of the 2009-10 revenue estimates we provided a management letter with observations and suggestions on a number of subjects. This letter included a recommendation related to the approval process for key economic indicators and other assumptions.
- 5.25 A presentation is made to Treasury Board on a number of key national and provincial economic indicators and assumptions supporting the revenue estimates. The approval of these indicators and assumptions is formally documented in a minute letter from Cabinet. However, other key indicators such as foreign exchange and interest rates, and natural gas and oil prices, are not part of this approval process. Since these assumptions support other revenue items such as petroleum royalties, interest revenue and motive fuel taxes, they should be subject to the same approval process.

### Recommendation 5.3

All key economic and other assumptions used in the preparation of the revenue estimates should be approved by Treasury Board.

## Preparation of Budget Forecast Updates 2008-09

5.26 *Observations* – Financial forecasts are to be prepared and tabled in the House of Assembly on at least four occasions during the year, as prescribed by Section 8B(1) of the Provincial Finance Act. For the year ended March 31, 2009, forecasts were presented as follows.

- On August 25, 2008, in which the estimated surplus was \$355.4 million
- On December 19, 2008, in which the estimated surplus was \$212.9 million

5.27 Because the date of the 2009-10 budget was significantly past March 31, 2009, the budget included actual results for the year ended March 31, 2009.

5.28 Forecast updates are key accountability documents in the annual financial reporting cycle of budget to actual results. The December forecast notes “*Government initiated a review of its expenditure plans to see where it is possible to achieve savings. This was necessary to ensure that the province met its commitment to maintain a surplus and reduce debt*”. This was to be done while also considering the impact reduced expenses might have on client groups, business and industry. The forecast is therefore part of the financial management process of the Province, including the allocation of resources and future spending initiatives.

5.29 The Office of the Auditor General is not required to audit or review forecasted information. However, during the audit of the March 31, 2009 Public Accounts, one matter came to our attention with respect to the preparation of the December 19, 2008 forecast update.

5.30 The consolidated financial statement balance sheet includes a provision for the cost of remediation of the Sydney Steel Corporation (SYSCO) and adjacent sites, including the Sydney Tar Ponds Agency (STPA). As a result of the review of expenditure plans in preparing the December 19, 2008 forecast update the provision was reduced by \$35.29 million.

5.31 At the start of the audit, we were provided with an internal report prepared by senior management of the Sydney Tar Ponds Agency to support the reduced general ledger balance recorded at that time. The report explains the need to reduce the provision at December 2008 to reflect only those

future costs required to complete the project. During the audit, the journal entry made to reduce the provision in December 2008 was reversed and the balance of the provision reinstated.

- 5.32 Senior management at both the Departments of Finance, and Transportation and Infrastructure Renewal (TIR), have provided support for reinstating the provision to its pre-December 19, 2008 balance. A memo provided during the audit noted that since the decision to reduce the provision, additional contamination had been found at the site, new spending requirements had been identified, and certain costs provided in support of the reduction were being questioned. For these reasons, the \$35.29 million reduction of the provision was considered premature and was reversed.
- 5.33 We agree with the assessment that the reduction of the provision was premature. An adjustment of this magnitude, to a project as complex as the clean-up of the tar ponds and adjacent sites, should not have been made until testing of all sites had been completed, and uncertainty around issues such as future site use had been settled. Department of Finance management noted the need for independent detailed costing. This is a critical step in estimating the provision and should have preceded the reduction in December 2008.

**Recommendation 5.4**

An independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites should be conducted. The balance of the provision should be adjusted to reflect this estimate.

- 5.34 The Minister of Finance is responsible for the preparation of the forecast updates. With respect to the above transaction, we were informed the reduction of the provision was reviewed by management staff of both Department of Finance and Treasury and Policy Board (now Treasury Board), and that assertions from TIR management were relied upon.
- 5.35 The process to review and challenge significant adjustments to budgeted amounts should be improved. For example, the Department of Finance could consider that adjustments to the budget above a certain threshold be accompanied by adequate, and if required, independent, support. This would avoid the need to revise reported amounts.

**Recommendation 5.5**

The Department of Finance should require adequate support for adjustments to departmental budgets reported in the forecast updates.

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## Audit of the March 31, 2009 Consolidated Financial Statements

### *Introduction*

- 5.36 The Province's consolidated financial statements (CFS) are included in Volume 1 of the Public Accounts. The Auditor General is required to report annually to the House on these financial statements, under Section 9(1) of the Auditor General Act.
- 5.37 The Minister of Finance tabled Volume 1 of the Public Accounts on September 10, 2009. An unqualified audit opinion dated July 15, 2009 was issued on the March 31, 2009 consolidated financial statements.
- 5.38 A management letter including detailed audit findings, recommendations and other comments was provided to the Minister in November 2009. The unqualified audit opinion on the CFS indicates that there were no quantitative findings, either individually or cumulatively, which were significant enough to impact our opinion. However, the management letter included several recommendations for improvements to be implemented by the Department of Finance. We discuss the key findings and recommendations in the following paragraphs, under these headings:
- required communication of audit results;
  - systems and controls;
  - audit misstatements and accounting policies;
  - general ledger maintenance and other reportable matters;
  - audit completion; and
  - accounting and auditing standards.

### *Required communication of audit results*

- 5.39 *Responsibility for the consolidated financial statements* – The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles for the public sector is the responsibility of the Department of Finance's Government Accounting Division. Government management are also responsible for the maintenance of adequate accounting records and internal controls; prevention and detection of fraud and errors; safeguarding of assets; selection and application of suitable accounting policies; and appropriate disclosure of financial information in the financial statements.
- 5.40 Our Office is the legislated auditor of these financial statements. We plan and perform the audit in accordance with Canadian generally accepted auditing standards. Our audit included such tests of accounting records and other auditing procedures as we considered necessary in the circumstances. Due to the inherent limitations of an audit, there is an unavoidable risk

that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed. Accordingly, we plan and perform our audit procedures to provide reasonable, but not absolute, assurance of detecting fraud and errors that have a material effect on the financial statements.

- 5.41 Based on our audit, we concluded the consolidated financial statements presented fairly, in all material respects, the financial position of the Province as at March 31, 2009, and the results of the operations, changes in net debt and cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles for the public sector.
- 5.42 *Review of supporting information* – Professional standards require that an auditor review, prior to release, any information or other documents to be released concurrently, or in combination, with financial statements upon which the auditor has, or will be providing, an opinion. We reviewed, but did not audit, the information in the Financial Statement Discussion and Analysis (FSD&A) section of Volume 1 of the March 31, 2009 Public Accounts. We did not find any inconsistencies between the information in the FSD&A and the information in the consolidated financial statements.
- 5.43 *Management judgments and estimates* – Government’s preparation of the Province’s consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to future actual results differing from government’s assumptions upon which the accounting estimates are based. At the conclusion of this year’s audit there were no significant outstanding concerns with the estimated accounting balances used in preparing the March 31, 2009 consolidated financial statements.

### ***Systems and controls***

- 5.44 *Responsibility of the auditor* – As part of our audit, internal controls were studied and evaluated to the extent considered necessary under Canadian generally accepted auditing standards. This was done to establish a basis for determining the nature, timing and extent of audit procedures necessary to express an opinion on the Province’s consolidated financial statements and to otherwise assist in planning and performing the audit. Our work was not designed to determine whether internal controls are adequate for management’s purposes and will not necessarily disclose all conditions requiring attention by management.
- 5.45 Further, as it relates to the internal controls of the agencies consolidated in the Province’s financial statement reporting entity, reliance has been placed on the audit work of public accounting firms appointed to report

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on the financial statements of those agencies. Chapter 7 in this Report includes information and commentary on selected weaknesses in internal controls, and other deficiencies, which were reported to those entities by their auditors.

- 5.46 *Responsibility for internal control* – Roles and responsibilities concerning internal controls are delegated throughout government. While the Provincial Finance Act includes general references to the roles and responsibilities of the Minister and Deputy Minister in this regard, additional guidance needs to be developed, and effectively communicated on a more comprehensive basis. This would include the roles and responsibilities of departmental and crown agency governing bodies and senior management in the design, implementation, operation and maintenance of internal controls.
- 5.47 Government has not prepared its own descriptions and evaluation of government-wide control systems. Such documentation is critical to management’s ability to monitor internal control. We have commented on the need for action in this area in our Reports in 2003, 2004, 2005, 2006 and 2008.
- 5.48 In Chapter 7 of the November 2008 Report of the Auditor General – Government Financial Reporting – we noted that a project had begun to support the annual certification requirement by management on the CFS, and to address recommendations related to the documentation of internal controls made by this Office in prior years. A Steering Committee has been formed for this project - Internal Controls over Financial Reporting - and a draft *Program for 2009/10* was presented to the Committee in June 2009. Final approval of the Program by the Committee is anticipated in the upcoming months. We are concerned about the ability of the Committee to meet the objectives of the Program given it has not been approved at this point in the 2009-10 fiscal year.
- 5.49 The draft Program notes several key elements in maintaining internal controls over financial reporting such as a formal management assessment of controls, a risk-based approach in developing controls, and the need to clearly document processes and controls. It is a significant step toward addressing our prior recommendations on deficiencies in documenting and communicating internal controls. However, the Program relates only to the Consolidated Fund for the year ended March 31, 2010. Since the annual certification by management relates to a system of internal controls for the consolidated financial statements, and not just the Consolidated Fund, our prior recommendations on internal controls over financial reporting on a government-wide basis still need to be implemented.

**Recommendation 5.6**

Management should document internal controls for government and include these in the Management Manuals.

**Recommendation 5.7**

Management should assign roles and responsibilities for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls.

5.50 *Reconciliations* – Reconciliations are a fundamental financial reporting control as they provide management with assurance that the general ledger balances are accurate. Reconciliations are prepared to ensure transactions are recorded completely and accurately, and are a key control in preventing fraud. Without regular reconciliations, there is a risk that management is making decisions based on incorrect or outdated information.

5.51 Reconciliations to trustee statements for sinking fund assets were not prepared during the year by the division responsible for recording sinking fund assets transactions - the Capital Markets Administration Division. As a result, the general ledger did not reflect the results of changes in sinking fund assets at any time during the year, with the exception of recording instalment payments. The error related to recording the results of the sale of certain assets, described in paragraph 5.55 below, might have been identified prior to the audit and corrected had reconciliations been performed during the year.

5.52 In prior years, reconciliations to the trustee statements were prepared on a monthly basis and transactions were recorded each month in the general ledger. This year, a total of \$4.2 billion in gross adjustments was needed during the audit to adjust the general ledger sinking fund accounts (earnings, assets and unamortized foreign exchange) to the amounts presented in the consolidated financial statements.

**Recommendation 5.8**

The Department of Finance's Capital Markets Administration Division should prepare monthly reconciliations to trustee statements and the general ledger should be updated each month to reflect the results of transactions.

*Audit misstatements and accounting policies*

5.53 *Accounting errors* – As noted above, we issued an unqualified opinion on the March 31, 2009 consolidated financial statements. In forming this opinion, we considered any unresolved, unadjusted errors or differences in determining whether the statements were presented fairly in accordance

with GAAP. Management has represented, and we have concluded, there were no errors or differences that would, individually or collectively, materially affect the Province's reported financial position, results of operations, changes in net direct debt or cash flows.

- 5.54 The most significant misstatements identified during this year's audit are discussed in the following paragraphs.
- 5.55 In November 2008, \$212 million US sinking fund assets were sold. This sale resulted in a gain of approximately \$18 million due to the difference in the exchange rate at the time of sale compared to the exchange rate at March 31, 2008, the last date at which the asset had been translated into Canadian dollars. The gain should have been recognized in income during 2008-09 as it related to a completed transaction and was measurable. Instead, the gain on sale of these assets was recognized as a deferred asset and will be amortized to income over a number of years. Income was therefore understated by \$18 million for the year ended March 31, 2009.
- 5.56 At the time of sale, approximately \$38 million of net cumulative exchange losses had been deferred on these US sinking fund assets. These net losses resulted from the deferral of the exchange rate differences at each year end to the date of sale. Under GAAP, these amounts may be deferred and recognized into income over the life of the asset. However, when the asset is sold, any cumulative unamortized deferred amounts must be recognized in income at the time of sale as there is no longer a basis for deferral. Since the net cumulative exchange losses were not recognized in income at the time of sale, income was therefore overstated by \$38 million for the year ended March 31, 2009.
- 5.57 The appropriate accounting treatment of these deferred amounts was the most significant issue during the audit. The net impact of the two items was a \$20 million overstatement of income. This net amount, although significant, was below materiality and therefore an appropriate unqualified audit opinion was issued on the March 31, 2009 consolidated financial statements. However, the unamortized foreign exchange account balance remains overstated at March 31, 2009.

**Recommendation 5.9**

The Department of Finance's Capital Markets Administration Division should adjust the balance of the unamortized foreign exchange account to recognize all deferred gains and losses on monetary items that have been sold, and to ensure the account only includes deferred amounts related to existing monetary items.

- 5.58 Generally accepted auditing standards require that all but trivial known errors identified in the Province's consolidated financial statements during

the year-end accounting or audit processes be corrected. Any unresolved, unadjusted errors are considered when preparing the auditor's report on whether the statements were presented fairly in accordance with GAAP. All but trivial errors should be corrected to enhance the accuracy of the financial statements. We have commented on this in past years and again recommend that action be taken to correct identified errors.

#### Recommendation 5.10

The Department of Finance's Government Accounting Division should ensure all non-trivial known errors identified during the audit are corrected.

- 5.59 *Other matters* – Additionally, there were a number of other accounting, disclosure and audit issues which arose and were communicated to government staff at various points in the audit process. Some of these issues were resolved either by review of additional information provided to us or by adjustments to the financial statements.
- 5.60 *Significant accounting policies* – Note 1 to the March 31, 2009 consolidated financial statements indicates that, for purposes of the Province's statements, Canadian GAAP for the public sector is represented by the accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.
- 5.61 As noted above, the most significant issue in this year's audit related to the sale of \$212 million US sinking fund assets. The results of this transaction were not appropriately recognized in the financial statements in accordance with GAAP, and we have recommended that the related accounts be adjusted during 2009-10.
- 5.62 The audit of this transaction included a review of the Province's accounting policy related to unamortized foreign exchange. This policy states that unamortized foreign exchange gains and losses on sinking fund assets are amortized over the life of the monetary issue (interpreted as the debt) to which they relate. This is not in accordance with PSAB GAAP which requires that amortization of deferred foreign exchange gains and losses be over the life of the sinking fund asset itself.

#### Recommendation 5.11

The Province's stated accounting policy with respect to unamortized foreign exchange gains and losses should be revised to ensure it is in accordance with GAAP.

- 5.63 We also identified certain areas in which further improvements to the consolidated financial statements are needed to ensure full compliance with GAAP. These are summarized in the following paragraphs.
- 5.64 We have determined that Canadian Blood Services (CBS) is a Government Partnership Arrangement as defined by PSAB. This entity should be included in the government reporting entity and the results of its operations should be consolidated. We prepared a position paper supporting the treatment of Canadian Blood Services as a Government Partnership Arrangement. The Department of Finance's Government Accounting Division does not agree with our conclusion on CBS, and has provided us with an updated analysis of their position regarding this entity. We did not have sufficient time to formally respond to the updated analysis but will do so in the upcoming year.
- 5.65 Government has determined the amount or threshold for capitalizing asset purchases into various classes of tangible capital assets (TCA). We have concerns with the high level of TCA thresholds used by government for certain classes of TCA. We were advised by Government Accounting that further analysis of the thresholds will continue to ensure the thresholds are appropriate. We expect that matters related to this issue will also be resolved for next year's audit.

***General ledger maintenance and other reportable matters***

- 5.66 *Assets and liabilities* – Last year, we noted numerous accounts receivable and advances, and accounts payable and accrued liabilities balances that had remained unchanged since the end of the prior fiscal year. Inactive general ledger accounts may not represent true assets and liabilities as defined by PSAB. We were advised that, during 2008-09, Government Accounting has cleared certain inactive accounts to operations, and other accounts remain under review to ensure those amounts included in assets and liabilities meet the definitions under PSAB. This review should be completed and action taken before the end of the 2009-10 fiscal year. We again recommended that unsupported amounts be eliminated.

**Recommendation 5.12**

The Department of Finance's Government Accounting Division should analyze all inactive asset and liability accounts to determine whether they should be maintained in the general ledger. Accounts which do not meet the definition of an asset or liability should be removed and the result recognized in operations.

- 5.67 *Business areas in the general ledger* – The Province's general ledger is divided into a number of business areas, each of which is used to record transactions related to a department or other unique entities such as certain special operating agencies of government (STPA, for example).

5.68 During the audit, we noted there are business areas used to record transactions for entities that are not part of the government reporting entity. There are also business areas to record transactions of other entities which use the Province's bank accounts rather than establishing their own bank account. The Government Accounting Division should determine if it is appropriate for the Province's general ledger to include business areas of stand-alone entities, or to include business areas to record transactions for operations which are not part of the government reporting entity. Any business areas not considered appropriate should be removed from the general ledger.

**Recommendation 5.13**

The Department of Finance's Government Accounting Division should remove all inappropriate business areas from the Province's general ledger.

5.69 We noted during the audit that certain business areas were not accounted for properly during the preparation of the consolidated financial statements. Balances due to and from the Province in several of these business areas were not eliminated on consolidation. This resulted in offsetting overstatements of both assets and liabilities of approximately \$24 million.

**Recommendation 5.14**

The Department of Finance's Government Accounting Division should ensure the business areas are appropriately reflected in the consolidated financial statements.

5.70 *Accounting for Sydney Steel Corporation* – We found that improvements had been made in the accounting for Sydney Steel Corporation (SYSCO). However, accounting for SYSCO continues to be complicated, due mainly to the numerous accounts in the general ledger used to recognize SYSCO transactions.

5.71 Recommendation 5.13 relates to business areas in the Province's general ledger. This may have an impact in accounting for SYSCO transactions. Further improvements could be made by, for example, limiting transactions to one department, and by separating Sydney Tar Ponds Agency (STPA) transactions from those of SYSCO for the revenues, expenses and recoveries that relate only to STPA.

**Recommendation 5.15**

The Department of Finance's Government Accounting Division should simplify the general ledger accounts used to record SYSCO transactions.

5.72 *Contingencies and contractual obligations* – Initial information relating to contractual obligations provided by the Department of Health was

inaccurate because it did not consider agreements for long-term care facilities signed as at March 31, 2009. The amount subsequently provided to support the financial statements required further adjustment because it considered all agreements, including those signed subsequent to March 31, 2009 which were not a contractual obligation at year end. The total of all signed agreements at the audit report date was \$3.4 billion; \$1.6 billion has been disclosed as a contractual obligation and the remaining \$1.8 billion as a subsequent event.

- 5.73 Although the amounts disclosed in Note 12 to the CFS – Contingencies and Contractual Obligations – do not impact current operations, they are an indication of amounts that may become liabilities of the Province in the future. For this reason, departments should be aware of the PSAB recommendation related to contingencies and contractual obligations to ensure accurate measurement and disclosure, and Government Accounting should ensure information provided by departments during the preparation of the financial statements is complete.

**Recommendation 5.16**

**The Department of Finance’s Government Accounting Division should instruct departments of the specifics in determining the amount of contractual obligations at year end.**

***Audit completion***

- 5.74 *Timing of release* – The consolidated financial statements were issued on September 10, 2009, in advance of the legislated requirement of September 30. Our audit opinion was dated July 15, 2009. The audit deadline was met through cooperation from line departments and other entities included in the consolidated financial results of the Province.
- 5.75 In each of the last two years, the CFS have been issued in early August. Early release of the financial statements increases their relevance for decision making purposes in the current year. Government Accounting has indicated they are committed to an earlier release of the March 31, 2010 statements. We encourage this schedule and will work with Government Accounting to achieve this goal.
- 5.76 *Difficulties encountered completing audit* – Each year, a schedule of audit deliverables, including due dates, is provided to departments. For the most part, the audit working papers and other documentation we requested from departments were received as requested and in a timely matter. However, we encountered significant deficiencies in audit support related to information provided from the Capital Markets Administration Division, both in terms of delays in the receipt of information, and in the adequacy and accuracy of the information provided.

5.77 We require accurate information by the due date, and as requested, to complete the audit as our resources are scheduled based on the due dates included in the schedule of audit deliverables. It is evident, based on the audit of the March 31, 2009 CFS, that processes must be developed to ensure the accuracy and timeliness of audit support.

**Recommendation 5.17**

The Department of Finance's Government Accounting Division should monitor departments' progress, including significant divisions within departments, in providing information to the Office of the Auditor General as detailed in the schedule of audit deliverables.

*Accounting and Auditing Standards*

5.78 *New accounting standards* – There are new accounting pronouncements and some in process that will have an impact on the government's future financial reporting. The following are more significant matters on which PSAB has recently released final or revised pronouncements or is developing new or revised pronouncements, or issuing statements of principle.

- Tax revenue
- Government transfers
- Liability for remediation and mitigation of contaminated sites
- Financial instruments

5.79 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. The nature and impact of required or planned accounting changes should be disclosed as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

5.80 In addition, there are several accounting topics which impact crown corporations and other agencies whose results are consolidated with those of the Province. These include:

- financial reporting by certain government organizations;
- financial reporting by not-for-profit organizations;
- financial statement presentation for not-for-profit organizations;
- entity-level financial statements;
- financial instruments; and
- capital disclosures.

- 5.81 The impact of these changes on the financial statements of crown corporations and other agencies will have to be considered during the consolidation process.
- 5.82 Finally, we note that the move to international accounting standards is fast approaching. PSAB recently approved an amendment to the Public Sector Accounting Handbook which will outline the appropriate GAAP for use by public sector entities. Publicly accountable enterprises in Canada, which include government business enterprises, are to adopt International Financial Reporting Standards starting January 1, 2011. Other government organizations will need to determine which GAAP is appropriate based on the guidance provided by PSAB. The scope and impact of this transition may be significant to the Public Accounts.
- 5.83 Government Accounting should take the lead in ensuring there is an analysis prepared or provided by each entity in the government reporting entity to determine the accounting standards most appropriate to their organizations. Government Accounting should also consider the financial reporting objectives of the consolidated financial statements in providing guidance to entities to determine appropriate accounting standards.

**Recommendation 5.18**

The Department of Finance's Government Accounting Division should take appropriate steps to ensure all government reporting entities adopt the appropriate GAAP based on amendments to the Public Sector Accounting Handbook.

- 5.84 *New Auditing Standards* – The Canadian Auditing and Assurance Standards Board is adopting International Standards on Auditing as Canadian Auditing Standards (CAS) for the audits of financial statements for periods ending on or after December 14, 2010. As a result, the audit of the CFS for the year end March 31, 2011 will be conducted under CAS rather than the existing standards. The new standards will require us to be more involved in the audit of significant entities included in the consolidated financial statements. The Province's consolidated financial statements will also require formal approval prior to their release, and the date of this approval will become the date to which we will now perform our subsequent events procedures. The impact of revised procedures to accommodate these new standards will be communicated in audit planning documents.

## Other Financial Reporting Matters

### *Introduction*

- 5.85 During the audit of the consolidated financial statements and throughout the rest of the year, we became aware of other financial reporting matters

for inclusion in this Chapter. We provide details of each of these under the following headings.

- Additional appropriations
- Teachers' Pension Fund
- Audit of governance and control framework
- Assistance to Universities
- Special warrants
- Cash and other losses

### *Additional appropriations*

5.86 *Required reporting* – We are required under Section 9 of the Auditor General Act to report on any appropriations that were exceeded during the year. Executive Council approved Order-in-Council 2009-159 effective March 31, 2009 approving additional appropriations of \$256 million. OIC 2008-659 approved additional appropriations of \$59 million earlier in the year. Subsequent to year end, OIC 2009-379 approved \$92.9 million.

5.87 *Significance of additional appropriations* – In total, additional appropriations of \$407.9 million were approved for the year ended March 31, 2009. This is in excess of any amount approved in prior years. The exhibit below notes total additional appropriations in each of the last six years. With the exception of 2005-06, additional appropriations increased steadily. Expenditures authorized through additional appropriations have increased by over 400% since 2003-04.

### Additional Appropriations (in millions of dollars)

Year	Revenue Estimates	Actual Revenue	Variance	Additional Appropriation
2008-09	\$8,108	\$8,135	\$27	\$408
2007-08	\$7,674	\$8,179	\$505	\$385
2006-07	\$6,589	\$7,293	\$704	\$222
2005-06	\$6,098	\$6,318	\$220	\$111
2004-05	\$5,574	\$5,855	\$281	\$159
2003-04	\$5,302	\$5,356	\$54	\$99

Source: *Volume 1, Public Accounts*

5.88 The following exhibit reveals that additional appropriations have been used to authorize an increasing percentage of total expenditures, including capital purchases, again with the exception of 2005-06, and with a slight decrease in 2008-09.

**Additional Appropriations as a Percentage of Total Expenditures**  
(in millions of dollars)

Year	Total Expenditures	Additional Appropriation	Additional Appropriation as % of Expenditure
2008-09	\$8,977	\$408	4.5%
2007-08	\$7,976	\$385	4.8%
2006-07	\$7,520	\$222	3.0%
2005-06	\$6,964	\$111	1.6%
2004-05	\$6,589	\$159	2.4%
2003-04	\$4,797	\$99	2.1%

Source: *Volume 1, Public Accounts*

5.89 In each of the past several years we have reported our concerns with the increasing extent and use of additional appropriations. Additional appropriations have become an extension of the budget process, without the challenge and debate accompanying the vote on the annual Appropriations Act.

5.90 The most significant source of additional appropriations in 2008-09 related to Assistance to Universities. This is discussed later in this Chapter beginning at paragraph 5.105. This additional appropriation resulted from the decision to advance scheduled funding to the universities from one year to the prior year. It is our view that additional appropriations should be used to authorize unforeseen increases in expenses, instead of being used to advance payments in one year that could properly relate to the subsequent year.

5.91 In the November 2008 Report of the Auditor General, we suggested that Cabinet consider engaging the full House of Assembly in the process to approve additional appropriations. That did not happen during the past year. However, we note that with respect to the 2009-10 budget, the advance on the payment to universities scheduled for 2010-11 has been included in the estimates for 2009-10. While it is not possible to predict whether additional appropriations will be needed in 2009-10, including an amount in the budget that had previously been a significant source for additional appropriations increases the transparency of the budget and overall financial management process.

5.92 *Timing of approvals* – According to Section 13 of the Provincial Finance Act, no further contractual obligations or commitments may be charged to

an exhausted appropriation. However, there is an inconsistency within the Act. Section 28 of the Act allows up to ninety days after the tabling of the Public Accounts for the approval of additional appropriations related to the appropriations in the Public Accounts. Management has acknowledged this inconsistency. Last year we recommended that the Provincial Finance Act be amended and we repeat this recommendation below.

**Recommendation 5.19**

**Department of Finance management, in conjunction with Executive Council, should ensure the Provincial Finance Act is amended to eliminate the existing inconsistency with respect to additional appropriations.**

***Teachers' Pension Fund***

- 5.93 Chapter 2 of the April 2009 Report of the Auditor General – Government-wide: Audit Committees – reported the results of an audit on compliance with best practices for audit committees by entities within the Nova Scotia public sector. The audit was conducted through a survey of numerous provincial public sector entities, followed by more detailed audit work in several entities.
- 5.94 One of the entities surveyed and selected for additional audit work was the Nova Scotia Teachers' Pension Fund, an entity included in Note 8 of the consolidated financial statements as a Trust Fund Under Administration. The Minister of Finance had been the sole trustee of the Fund until April 1, 2006. On that date, under a joint trust agreement between the Province and the Nova Scotia Teachers' Union, the Teachers' Pension Plan Trustee Inc. (TPPTI) replaced the Minister of Finance as trustee.
- 5.95 We noted in the April 2009 Report that TPPTI had obtained a legal opinion indicating that it was not subject to audit by the Office of the Auditor General. We were subsequently informed that opinion extended as well to the Fund itself.
- 5.96 The December 31, 2008 audited financial statements of the Fund noted:

*“The Teachers' Pension Fund (the “Fund”) was established by the Teachers' Pension Act (the “Act”). It is the funding vehicle for the Teachers' Pension Plan (the “Plan”), a pension plan which covers public school and community college teachers. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas are contained in the Act and in the Regulations made under the Act.”*

- 5.97 Contributions to the Plan are made by teachers and matched by the

Province. This is a significant expenditure of public funds. Contributions in excess of benefit payments, since the Plan's inception, as well as significant unmatched contributions by the Province, have accumulated to approximately \$3 billion in investments at December 31, 2008 (the last fiscal year end of the Fund). However, the funded status of the Plan is an issue. The Fund's December 31, 2008 audited financial statements indicate the funding deficiency has increased from 10% at December 31, 2007 to almost 30% at December 31, 2008.

- 5.98 The following exhibit notes the market value of investments and the pension liability as determined by the Plan's actuary for each of the last five years. The funded status shown represents the extent to which assets cover the liability to current and future pensioners. It should be noted that, in addition to the contributions in 2005, the Province provided an additional \$142 million as part of the change in governance of the Plan (i.e. as part of the change in trusteeship of the Minister of Finance from 100% to 50%).

**Financial Results of the Teachers' Pension Plan**  
(in billions of dollars)

Year Ended December 31	2004	2005	2006	2007	2008
Investments	\$3.883	\$4.410	\$4.814	\$4.648	\$3.710
Pension Liability	\$4.774	\$4.684	\$4.951	\$5.066	\$5.180
Funded Status (%)	81.7%	93.6%	96.1%	90%	70.8%

*Source: Volume 2, Public Accounts*

- 5.99 The ability of the Office of the Auditor General to conduct audits of the Fund and TPPTI is unclear from the wording of the Teachers' Pension Act. We acknowledge that the Plan's financial statements are audited each year by a private sector auditor appointed by the trustee. However, because the Province contributes public money to this Plan, it is our view that this money is subject to performance audit by the Office of the Auditor General under Section 8 of the Auditor General Act. In addition, the Province includes its share of the liability for the Plan in the consolidated financial statements. This totaled \$51.5 million at March 31, 2009 (March 31, 2008 - \$47.2 million). These are clearly public funds and it is in the public interest that the stewardship of these funds be subject to audit. However, the legal opinion obtained from TPPTI restricting us from auditing TPPTI or the Fund makes it difficult to perform audits under our Act.

**Recommendation 5.20**

The Minister of Finance should ensure the Teachers' Pension Act is amended such that the Auditor General has the undisputed and unrestricted ability to audit the operations of the Teachers' Pension Plan.

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*Audit of governance and control framework*

5.100 An audit of the governance and control framework of the Investment Management, Liability Management and Treasury Services, and the Capital Markets Administration Divisions of the Department of Finance was conducted by an external audit firm and completed in 2004. The resulting report, issued in December 2004, identified several control weaknesses which resulted in a denial of opinion. The auditors grouped the significant deficiencies into two categories.

- Those related to the governance model including the need for an oversight body in both the Liability Management and Treasury Services, and Investment Management Divisions, and a more comprehensive risk management plan for the Liability Management and Treasury Services Division
- Those related to internal controls including improved segregation of duties in each of the Liability Management and Treasury Services, Investment Management, and Capital Markets Administration Divisions

GOVERNMENT  
FINANCIAL  
REPORTING

5.101 A significant portion of the activity of the Investment Management Division related to investments in the two public service pension plans. These activities are now part of the activities of the Nova Scotia Pension Agency. However, substantial short term investment activity is conducted through the Liability Management and Treasury Services Division. In addition, the Liability Management and Treasury Services, and Capital Markets Administration Divisions are responsible for the Province's \$12 billion in unmatured debt (including over \$8 billion in derivative instruments) and \$2 billion in sinking fund assets. The transactions processed by these divisions are significant and complex.

5.102 In 2007, the Internal Audit Centre conducted a follow-up to the 2004 audit of these Divisions. The objective of that engagement was to determine whether the recommendations of the 2004 audit had been implemented, or, if not implemented, that strategies had been developed to mitigate related risks. The results of the follow-up note that one significant issue from the 2004 audit was resolved through the establishment of a separate function (a middle office) to ensure that investment and debt management activities comply with legislation and Department of Finance policies. In addition, an Executive Director has been appointed in recent months. The oversight provided by this new position is a positive addition to the governance structure.

5.103 During the audit of the March 31, 2009 consolidated financial statements, we found deficiencies in the reconciliations processes in the Capital Markets Administration Division, as noted in paragraphs 5.50 to 5.52. We

also identified an error in recording the sale of sinking fund assets (see paragraph 5.55).

5.104 We have repeatedly recommended an audit by an external, experienced private sector firm be conducted to obtain an unqualified audit opinion, and note this again this year.

#### Recommendation 5.21

We again recommend that Department of Finance management should obtain an independent external audit opinion on the governance and control framework of the Liability Management and Treasury Services, and Capital Markets Administration Divisions.

#### *Assistance to Universities*

5.105 *Memorandum of Understanding* – On March 31, 2008, the Province signed a Memorandum of Understanding (MOU) with the Nova Scotia universities to provide funding for 2008-09, 2009-10, and 2010-11. The MOU specifies funding for each of these years, as follows.

- 2008-09 – \$216,294,347
- 2009-10 – \$318,745,347
- 2010-11 – \$348,745,347

5.106 \$256 million of the \$318.8 million in funding scheduled for 2009-10 was paid in 2008-09. This advance payment caused the appropriation for Assistance to Universities to be significantly overspent in 2008-09. An additional appropriation of \$256 million provided the necessary authority for these payments in 2008-09. An amendment to the MOU, dated March 30, 2009, revised the 2008-09 funding to \$472,294,347 and the 2009-10 funding to \$62,745,347.

5.107 The Estimates for the 2009-10 fiscal year include the final payment under this MOU even though the schedule in the signed agreement does not require payment of this amount until the 2010-11 fiscal year. Accordingly, the appropriation for Assistance to Universities includes \$341.6 million of the \$348.7 million funding scheduled for 2010-11; as noted in paragraph 5.105. Without this advance payment, the 2009-10 appropriation of \$455.8 million would be \$114.2 million. In both 2008-09 and 2009-10, the majority of the advance related to operating funding for the universities.

5.108 Recognition of these amounts in advance of the scheduled payments is acceptable under GAAP. However, the practice of advancing payments on any funding which the Province has a continuing obligation to provide is not consistent with good financial management. This could potentially result in a year in which there is little expense related to this funding, when

in fact there has been no change in the actual funding obligation. This distorts the budget and actual results of the Province from one year to the next, and decreases the usefulness of the financial reporting process.

### ***Special warrants***

- 5.109 *Required reporting* – Section 9A of the Auditor General Act requires that we report whether any special warrants have been issued. A special warrant is issued under Section 29 of the Provincial Finance Act for expenses that have not been provided for by the Legislature and are immediately and urgently required for the public good.
- 5.110 Two special warrants were issued since our last Report. OIC 2009-261, dated May 13, 2009, authorized \$130 million for expenditures related to Tangible Capital Assets. OIC 2009-313, dated July 2, 2009, authorized \$1.13 billion to fund operating and capital needs to October 31, 2009. The Legislature was not in session when either special warrant was issued. In addition, no appropriation had been granted by the Legislature for the year ended March 31, 2010 to that date. These special warrants allow for expenditures that would be in excess of those allowed under Section 27 of the Provincial Finance Act. This Section allows spending for services of up to one-half of the prior year's spending on such services when there has been no approved appropriation for the year.

### ***Cash and other losses***

- 5.111 Section 9A (1) (e) of the Auditor General Act requires that we report every case in which we have observed that “... *there has been a deficiency or loss through fraud, default, or mistake of any person.*”
- 5.112 There is no longer a requirement in the Management Manuals for departments and crown entities to report losses to this Office. However, during the year, the Department of Justice reported cash losses totalling \$746, and property losses of \$1,500. We appreciate receipt of this information.

**Response: Department of Finance**

Thank you for the opportunity to review and respond to the draft of Chapter 5 “Government Financial Reporting” in your February 2010 report. We offer the following comments, which may be included in your report as the response of the Department of Finance.

***Indicators of Government Financial Condition***

While the Department of Finance recognizes that the report “Indicators of Financial Reporting” which was produced by the Office of the Auditor General, is no longer an appendix to Chapter 5 Government Financial Reporting, management felt it necessary to still provide comment.

It is management’s responsibility to determine the format and type of reporting within Generally Accepted Accounting Principles (GAAP). It is also management’s responsibility to implement, or not, Statements of Recommended Practice (SORPs). SORPs are recommendations for preparers to follow if they choose to provide certain financial information but SORPs are not required for an entity to remain GAAP compliant. “Indicators of Financial Reporting” is a SORP and management has chosen not to produce this report as we felt most of the content is already available in other financial reports. This is a legitimate choice of management.

Furthermore, by producing this report, the Office of the Auditor General blurs the line between the preparer of financial reporting and the reviewer of such information. Therefore we believe that it is inappropriate for the Office of the Auditor General to produce such financial reports.

***Review of the 2009-2010 Estimates***

***Recommendation 5.1***

***The Department of Finance should include estimates of all revenues of the consolidated entity in the Provincial budget in order to comply with Canadian generally accepted accounting principles.***

Management recognizes that the annual budget includes revenue for only the Consolidated Fund and not all revenues of the Government Reporting Entity. The inclusion of all revenues, and the associated offsetting expenses in the annual budget, would require changes in the provincial budgeting process and additional resources to coordinate this additional information. Recently Government requested an external review to provide options to address this recommendation. These options, which were just recently received, will be considered.

A further point of clarity that is important for readers to understand is that the Public Sector Accounting Handbook does not include presentation or disclosure

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standards for budgeting. The underlying accounting policies are consistent and in accordance with GAAP. It is also understood throughout the budget process that a reconciliation to the presentation format of the actual results will be required for the public accounts.

***Recommendation 5.2***

***The Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of the revenue estimates.***

The Province's budget process is complex and is completed within a limited time frame. Line departments are pushed for the timely provision of information, but at times this is not possible.

Management will review opportunities to improve the process.

***Recommendation 5.3***

***All key economic and other assumptions used in the preparation of the revenue estimates should be approved by Treasury Board.***

Management agrees with this recommendation.

***Preparation of Budget Forecast Updates, 2008-2009***

***Recommendation 5.4***

***An independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites should be conducted. The balance of the provision should be adjusted to reflect this estimate.***

As noted in the text of your chapter, management agrees that an independent detailed costing is required to adequately assess the provision. This work should commence in 2009-2010 and the provision will be adjusted accordingly upon completion and acceptance of the costing.

***Recommendation 5.5***

***The Department of Finance should require adequate support for adjustments to departmental budgets reported in the forecast updates.***

Management is generally in agreement with this recommendation provided there is an understanding that timing issues can be encountered where management must be able to rely on departmental representations and not be dependent on documentary evidence being provided prior to a forecast being released. A forecast represents management's best estimate at the time. While adjustments like this do not occur frequently, management will endeavor to improve such adjustments in the future.

RESPONSE:  
DEPARTMENT  
OF FINANCE

*Audit of the March 31, 2009 Consolidated Financial Statements*

***Recommendation 5.6 and 5.7***

***Management should document internal controls for government and include these in the Management Manuals.***

***Management should assign roles and responsibilities for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls.***

Management agrees with both of these recommendations. It should be noted that the Internal Controls over the Financial Reporting project and the annual certification requirements will become more robust over time. The focus however will remain with the Consolidated Fund, and the interactions between the Consolidated Fund and consolidated entities. Management will advise consolidated entities on the need to assign and document internal controls within their organizations.

***Recommendation 5.8***

***The Department of Finance's Capital Markets Administration Division should prepare monthly reconciliations to trustee statements and the general ledger should be updated each month to reflect the results of transactions.***

Management agrees with this recommendation.

***Recommendation 5.9***

***The Department of Finance's Capital Markets Administration Division should adjust the balance of the unamortized foreign exchange account to recognize all deferred gains and losses on monetary items that have been sold, and to ensure the account only includes deferred amounts related to existing monetary items.***

Management will review our long standing and previously accepted accounting policy relating to unamortized foreign exchange gains and losses, and will make any changes necessary, to ensure it continues to be in accordance with GAAP.

***Recommendation 5.10***

***The Department of Finance's Government Accounting Division should ensure all non-trivial known errors identified during the audit are corrected.***

Management feels that the financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2009. Management is committed to correcting all known errors identified during the course of the audit; however, certain errors are not corrected due to the timing of identification (i.e. the publication schedule of Volume One of the Public Accounts requires

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financial statements to be finalized approximately one week prior to release). Management feels that any known errors not corrected are immaterial or insignificant items or matters and in accordance with paragraph .14 of the introduction to public sector accounting standards.

***Recommendation 5.11***

***The Province's stated accounting policy with respect to unamortized foreign exchange gains and losses should be revised to ensure it is in accordance with GAAP.***

Management will review our long standing and previously accepted accounting policy relating to unamortized foreign exchange gains and losses, and is committed to making any changes, deemed necessary, to ensure it continues to be in accordance with GAAP.

***Recommendation 5.12***

***The Department of Finance's Government Accounting Division should analyze all inactive asset and liability accounts to determine whether they should be maintained in the general ledger. Accounts which do not meet the definition of an asset or liability should be removed and the result recognized in operations.***

Management agrees with this finding. During 2008-09 approximately 40 inactive general ledger accounts were reviewed and closed. This maintenance will continue during 2009-10.

It should be noted that there are a number of accounts receivable/advances and accounts payable/accrued liability accounts in the general ledger that, while unchanged, are not inactive and contain valid balances which meet the definitions of assets and liabilities under PSAB.

***Recommendation 5.13***

***The Department of Finance's Government Accounting Division should remove all inappropriate business areas from the Province's general ledger.***

Management agrees with this recommendation. Government Accounting will establish criteria for including business areas in SAP to ensure the 9900 Business Areas are appropriately reflected in the consolidated financial statements.

***Recommendation 5.14***

***The Department of Finance's Government Accounting Division should ensure the business areas are appropriately reflected in the consolidated financial statements.***

RESPONSE:  
DEPARTMENT  
OF FINANCE

Management agrees with this recommendation. Government Accounting will implement additional year-end procedures in its consolidation process to ensure the 9900 Business Areas are appropriately reflected in the consolidated financial statements.

***Recommendation 5.15***

***The Department of Finance's Government Accounting Division should simplify the general ledger accounts used to record SYSCO transactions.***

The accounting for SYSCO is complicated. Management remains committed to streamlining the consolidation process for SYSCO.

***Recommendation 5.16***

***The Department of Finance's Government Accounting Division should instruct departments of the specifics in determining the amount of contractual obligations at year end.***

Educational refreshers on Contingencies and Contractual Obligations will be conducted throughout 2009-10. Management will also implement additional year-end procedures to ensure that line departments provide a complete analysis of contractual obligations at year end.

***Recommendation 5.17***

***The Department of Finance's Government Accounting Division should monitor departments' progress, including significant divisions within departments, in providing information to the Office of the Auditor General as detailed in the schedule of audit deliverables.***

Management agrees with this recommendation. Although the majority of information was submitted in a timely manner, there were a few sections that caused delays. Government Accounting will implement additional year-end processes in its year end planning process to ensure timely information is provided to the Office of the Auditor General.

***Recommendation 5.18***

***The Department of Finance's Government Accounting Division should take appropriate steps to ensure all government reporting entities adopt the appropriate GAAP based on amendments to the Public Sector Accounting Handbook.***

The Department of Finance closely monitors the activity of the Public Sector Accounting Board and Canadian Institute of Chartered Accountants in regards to the evolution of GAAP. Staff members regularly respond to statement of principles and exposure drafts. Certain staff members also participate on PSAB standard setting task forces. Further, other departments/entities that would be

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impacted by new accounting standards are contacted for input or to consider submitting a separate response.

Management continues to be committed to GAAP compliance and therefore places a high priority on monitoring the developments in this area. The Controller and members of Government Accounting continue to participate in teleconferences with the other Canadian governments to discuss new proposed standards (PSAB, CICA and IFRS) and their possible impacts on government financial reporting.

Management will be proactive and notify the relevant entities within the government reporting entity (GRE) affected by this amendment to the Public Sector Accounting (PSA) Handbook. Government Accounting will be available to assist and support entities in this matter, while ensuring that these entities adopt the most appropriate GAAP.

***Recommendation 5.19***

***Department of Finance management, in conjunction with Executive Council, should ensure the Provincial Finance Act is amended to eliminate the existing inconsistency with respect to additional appropriations.***

Management, in consultation with Executive Council, will review the existing inconsistency with respect to additional appropriations.

***Recommendation 5.20***

***The Minister of Finance should ensure the Teachers' Pension Act is amended such that the Auditor General has the undisputed and unrestricted ability to audit the operations of the Teachers' Pension Plan.***

Management will not be implementing this recommendation. It should be noted that there is a requirement for the pension fund to be audited by a qualified auditor.

***Recommendation 5.21***

***We again recommend that Department of Finance management should obtain an independent external audit opinion on the governance and control framework of the Liability Management and Treasury Services, and Capital Markets Administration Divisions.***

Management will consider an independent audit on the governance and control framework of the Liability Management and Treasury Services and Capital Markets Administration divisions. It must be observed that the sale of sinking fund assets were recorded in accordance with long standing and previously accepted accounting policy, and an audit pertaining to governance and control frameworks, would not have addressed this issue.

RESPONSE:  
DEPARTMENT  
OF FINANCE

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**Response: Department of Transportation and Infrastructure Renewal**

***Recommendation 5.4***

***An independent analysis of the costs necessary to complete the remediation project of Sydney Steel Corporation and adjacent sites should be conducted. The balance of the provision should be adjusted to reflect this estimate.***

RESPONSE:  
DEPARTMENT OF  
TRANSPORTATION  
AND  
INFRASTRUCTURE  
RENEWAL

The Department is in general agreement with the findings of the Auditor General. The Department would like to point out, however, that some of the ongoing uncertainties regarding site remediation and the resolution of all outstanding issues pertaining to the former steel mill and Tar ponds sites may prevent the preparation of a full and accurate estimate of total costs for several years. While some of the uncertainties regarding issues identified in earlier reports to the OAG have been resolved, several others will be addressed within the next year and others may not be resolved for some time.

Currently, work is proceeding on the preparation and award of tenders for a comprehensive assessment of contamination issues on the High Dump and Front End (federal land boundary) which will provide more detailed estimates of costs to remediate these areas. As well, the recent contract awards for the construction of the new Grand Lake Water system allows better cost projections for this particular project. These activities will address some of the considerations raised in reversing the December 2008 Sysco adjustment, however, other issues such as the ongoing class action lawsuit against Sysco remain unresolved.

While every effort is being made to obtain independent analyses of the extent of contamination and the eventual remediation costs for the entire site, there is still considerable uncertainty surrounding these projects. As new and more accurate information becomes available, the Department will be in a better position to quantify the cost and adequacy of the existing provision.