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# 6 Follow-up of 2007 to 2010 Financial Recommendations



## Summary

The overall rate of implementation of our recommendations related to financial reporting from our 2007 to 2010 audits is 67%. This rate is essentially unchanged from the prior year. A number of recommendations have been outstanding for many years, and a more timely response is needed.

Progress is being made on one long-outstanding recommendation. Since 2006, we have recommended that the revenue estimates included in the province's annual budget be prepared on a consolidated basis. We provide an opinion on the revenue estimates and that opinion has been qualified each year since 2001 because certain revenues are excluded and we cannot quantify the amount of the exclusion. We are pleased to report that progress is being made and that government now intends to implement this recommendation. We recommended in Chapter 2 of this report that it be implemented for the 2013-14 Budget.

Ten of 17 (59%) outstanding recommendations relate to internal controls. We continue to recommend that the Department of Finance establish and document internal controls for government, and that roles and responsibilities related to these controls be assigned. Government needs to take action on these recommendations, some of which have government-wide impacts.



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# 6 Follow-up of 2007 to 2010 Financial Recommendations

## Background

- 6.1 Financial reporting is an essential element in determining an entity's overall financial performance. It allows Nova Scotians to assess the government's performance, as well as its administration of public funds. We make recommendations each year in our chapters related to financial reporting which result from our legislated audit and review work. We believe these will strengthen government's financial reporting processes. This is the second year we have provided a chapter addressing the implementation status of financial recommendations only. The implementation status of recommendations resulting from performance audits conducted between 2007 and 2010 will be reported in the May 2013 Report of the Auditor General.
- 6.2 As in prior years, we requested that Government management complete a self-assessment of their progress towards implementing the incomplete recommendations in Treasury Board Office's Tracking Auditor General Recommendations system. As well, we asked management to provide us with documentation supporting the self-assessment provided. Our review process focused on whether information provided by management, as well as the self-assessments, were accurate, reliable and complete. Details of these recommendations and their status can be found on our website at [oag-ns.ca](http://oag-ns.ca).

## Review Objective and Scope

- 6.3 The objective of this assignment was to assess and report on the implementation status of recommendations concerning financial reporting and other financial management issues included in Reports of the Auditor General from 2007 to 2010.
- 6.4 Each department provides its self-assessment of progress on the implementation of our Office's recommendations in the Tracking Auditor General Recommendations system. Our review was based upon information included in that system as of October 18, 2012.
- 6.5 Our review was based on representations made by government management which we substantiated through enquiries of management and staff, as well as inspection of documentation. Moderate assurance, in the context of this assignment, means performing sufficient work to satisfy ourselves that the implementation status as described by government is plausible in the circumstances. Further information on



the difference between high and moderate assurance is available in the Canadian Institute of Chartered Accountants Handbook, Section 5025 – Standards for Assurance Engagements other than Audits of Financial Statements.

- 6.6 The criteria we used were based on qualitative characteristics of information as described in the CICA Handbook. Management representations on implementation status were assessed against three criteria.
- Accurate and neither overstate nor understate progress
  - Reliable and verifiable
  - Complete and adequately disclose progress to date

## Significant Observations

### Conclusions and summary of observations

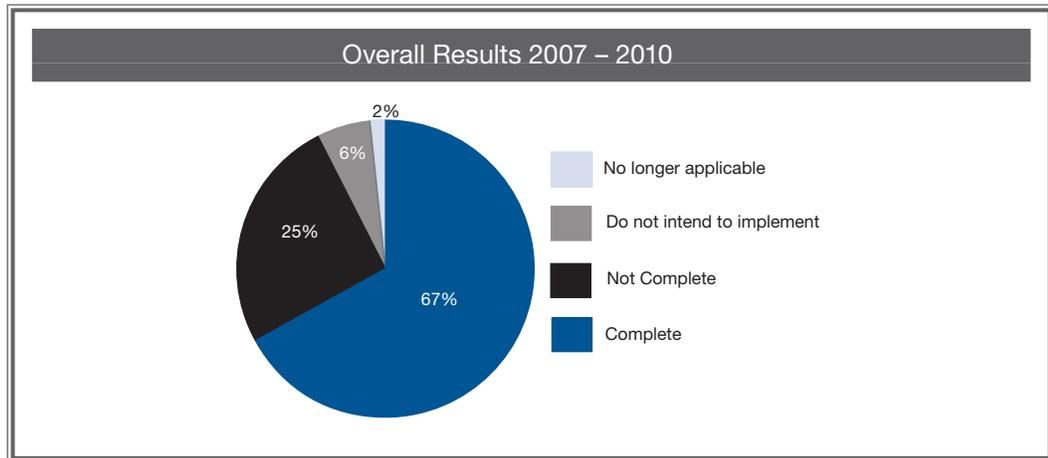
The overall implementation rate of our financial recommendations is essentially unchanged from the prior year. Several recommendations have been outstanding for many years and a more timely response is needed. Progress is being made in addressing our long-outstanding recommendation that the annual revenue estimates be prepared on a consolidated basis. Government needs to take action on other outstanding and repeat recommendations related to establishing and documenting internal controls and assigning responsibility for these.

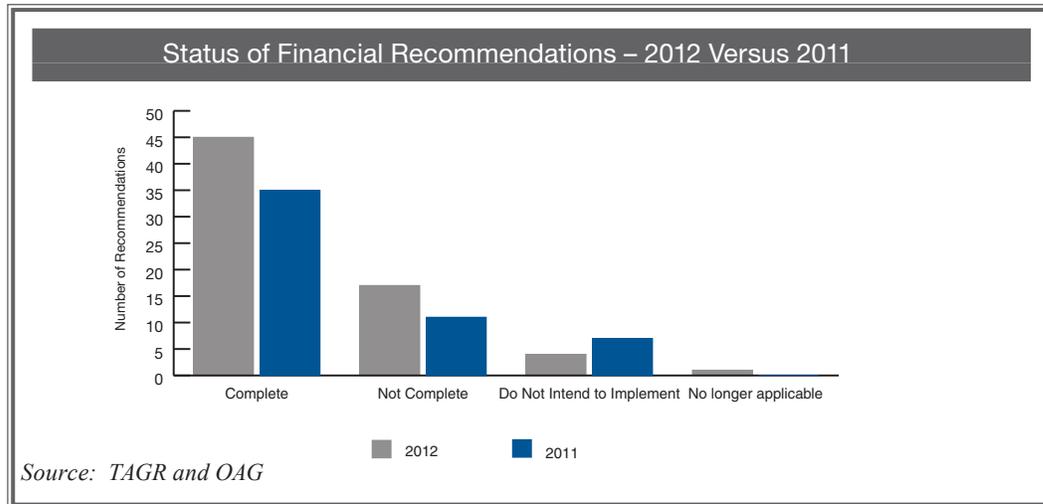
- 6.7 *Scope of review* – During this assignment we followed up the status of 67 recommendations primarily addressed to the Department of Finance. The remaining recommendations are the responsibility of the Departments of Health & Wellness and Transportation and Infrastructure Renewal.
- 6.8 *Review results* – 67 recommendations were made in reports from 2007 to 2010. To date, 45 (67%) have been implemented. This rate is essentially unchanged from the results reported in January 2012. The following exhibits summarize implementation results.

Report and Chapter	Entity	Complete	Not Complete	Do Not Intent to Implement	Action No Longer Applicable	Total
June 2007 Chapter 7: Government Financial Reporting	DOF		1			1
February 2008 Chapter 6: Government Financial Reporting	DOF	4				4



Report and Chapter	Entity	Complete	Not Complete	Do Not Intent to Implement	Action No Longer Applicable	Total
November 2008 Chapter 2: Government-Wide: Payments to Vendors	DOF	8	3			11
Chapter 7: Government Financial Reporting	DOF	6	3	1		10
February 2010 Chapter 5: Government Financial Reporting	DOF	16	3	1		20
Chapter 5: Government Financial Reporting	DTIR	1				1
November 2010 Chapter 5: Government Financial Reporting	DOF	9	6	2	1	18
Chapter 5: Government Financial Reporting	DTIR	1				1
Chapter 5: Government Financial Reporting	DHW		1			1
<b>Total Recommendations</b>		45 67%	17 25%	4 6%	1 2%	67 100%
DOF DHW DTIR	Department of Finance Department of Health and Wellness Department of Transportation and Infrastructure Renewal					





- 6.9 17 recommendations are not complete. Of these, three recommendations have been repeated at least three times and account for eleven of the total recommendations government intends to implement. These recommendations relate to revenue estimates and internal controls. They are discussed further below.
- 6.10 *Opinion on revenue estimates* – Since 2006, we have recommended that government prepare its revenue estimates on a basis consistent with generally accepted accounting principles. We have qualified our opinion on these estimates every year since 2001, including for the most recent year (2012-13), because the revenue estimates do not include all revenues of the consolidated entity. Specifically, no estimate is made of third-party revenues in certain government agencies.
- 6.11 We are pleased to report that progress is being made in improving this situation, as discussed in Chapter 2 of this report. The implementation status of this recommendation has changed from do not intend to implement to work in progress as government develops processes to estimate these revenues. We recommended in Chapter 2 that these revenues be estimated for the 2013-14 budget.
- 6.12 *Failure to implement* – In the May 2012 Report of the Auditor General – Chapter 2: Follow-up of 2005-2010 Performance Audit Recommendations – we concluded there was a failure to implement recommendations made in 2005 and 2006 that were still outstanding. We noted in the Report that we would conduct no further follow-up on those recommendations.
- 6.13 There are several recommendations included in this year’s review of financial recommendations which date back to 2005 and 2006. One recommendation relates to the qualified opinion on the annual revenue estimates and is discussed above.



- 6.14 Certain other recommendations have been made in numerous Reports of the Auditor General since 2005, and continue to be made in 2012. These result from issues related to internal controls identified during our audit of the province's consolidated financial statements and include the following:
- the need for government to clearly establish and document internal controls;
  - the assignment of roles and responsibility for the design, implementation, operation and maintenance of these controls; and
  - the strengthening of elements in the province's internal control framework, including preparation of risk assessments and a system for monitoring of internal controls.
- 6.15 Government needs to take action on these recommendations. Ten of 17 (59%) outstanding recommendations relate to internal controls. Since these concepts have government-wide impacts, implementation will continue to be assessed until we are satisfied these recommendations are fully implemented.
- 6.16 *Disagreement on implementation status* – We encountered difficulties in determining the implementation status of a recommendation made to the Department of Finance. It dealt with the need to conduct an independent review of the various inputs used in the models developed by the Department of Energy to estimate petroleum royalties.
- 6.17 The Department of Finance has indicated this recommendation has been fully implemented. However, our review of their support reveals that the Department of Finance conducts a review and challenge of broad assumptions used in the model but not other significant inputs. The Department of Finance does not intend to conduct this additional review, and accordingly, we assessed the status of this recommendation as do not intend to implement and have reported this as the status in our statistics.
- 6.18 *Other comments* – We have accepted as complete several recommendations related to the annual audit of the province's consolidated financial statements. Some of these recommendations resulted from deficiencies or errors identified during the audit which were corrected in the subsequent year. In other cases, the deficiency continues but the action recommended was completed. The most significant example of this is the continuing difficulties our Office encounters in the audit of commitments and contractual obligations. Although Government Accounting has implemented the recommendation by providing additional information to departments for identifying and reporting commitments and contractual obligations, significant audit adjustments are made each year to the draft information provided during the audit. We continue to recommend improvements to the processes to identify and disclose these amounts.



- 6.19 *November Provincial Update* – On November 20, 2012, the Government issued its third Provincial Update on the Implementation Status of Auditor General Recommendations. Information for the Update was obtained from the Tracking Auditor General Recommendations system.
- 6.20 During this review, we assessed the implementation status of ten recommendations differently from what was indicated in the Tracking Auditor General Recommendations system. The status of six of these recommendations was adjusted in the system in time for accurate reporting in the November update. The remaining differences between our results and what was reported in the update were not significant. The status of eight of these recommendations changed from complete to not complete or do not intend to implement; two recommendations changed from not complete to complete.