

Thank you Mr. Chairman

Good afternoon / Ullaakkut

This is my third trip to Iqaluit and my third visit to your Legislative Assembly. I'd like to thank you for the warm reception I always receive.

I view my Office's work in Nunavut as an important part of my responsibilities as Auditor General. I am here today to present my second annual report to your Legislative Assembly.

I view my meetings with you as a very important part of the accountability process, and our work helps you to hold the government accountable for its actions.

I have two objectives in my Nunavut work.

- The first is to express audit opinions on the government's financial statements, and on the financial statements of your Crown corporations.
- My second objective is to raise issues that I hope will help the government to improve. I have no doubt that you are well on your way to establishing quality public government in Nunavut. But there is still more to do, and I hope that my reports can help focus attention on important issues.

I would like to lead into my second report by comparing it to my first report.

My first report touched on a number of issues such as leasing. Your Committee reviewed my findings, and issued its own report with 17 of its own related recommendations.

My second report has a central theme of the importance of good financial management to the government. It gives examples of areas which need improvement, and closes by outlining some of the steps required to ensure that improvements actually occur. These next steps relate to building the capacity for good financial management.

Mr. Chairman, I would also like to point out that the Report you are considering today relates to my audit work on your 2000-2001 fiscal year. These findings are almost 2 years old.

This delay concerns me. It is due to the length of time needed for the government to prepare its audited consolidated financial statements. The government tabled its 2000-2001 public accounts near the end of your May 2002 session. We tabled our report in the next session – November 2002 – and here we are today.

I'll comment later on the need to improve timeliness of the government's financial statements and our reports.

Because of the time that has passed, my comments today are on both our audit work for the year ended March 31, 2001, and include some comments related to more recent developments.

Your government has an important role in the lives of Nunavummiut, and you have made great progress already. But any new government faces challenges and must build the capacity to deliver quality services.

With this as background, I would like to highlight some of the observations in my second report.

The first area I want to touch on is improving financial reporting.

Mr. Chairman, the government's Bathurst mandate commits the Government to living within its means.

It is important for MLAs and others to have timely and meaningful financial statements which provide information on actual financial results so that they can assess the government's finances for themselves.

I want to come back to my comment on how long it takes the government to table its audited, consolidated financial statements in the Legislative Assembly. Both the government's 1999-2000 and 2000-2001 financial statements were tabled in May of the following year. Let's put this in perspective:

- It is 5 months after the December deadline set out in the Nunavut Act
- And it is 14 months after your year-end.

How does the 14 months compare to other governments? Both the Governments of Canada

and the Northwest Territories tabled their 2001-2002 public accounts in October 2002, about 7 months after year-end.

Mr. Chairman, Nunavut is a new government, while Canada and the NWT have been around for many years. So it would not be appropriate to simply compare the times and find Nunavut deficient. My point in mentioning the others is merely to indicate that there is much room for improvement in reducing the delay in tabling Nunavut's financial statements.

It is important to understand that the state of the government's financial management contributes directly to the current delays in issuing financial statements.

For example, each and every year the Government of Nunavut must do detailed calculations to determine how much formula financing agreement revenue to show in the government's financial statements.

The amount shown as formula financing revenue in the financial statements will be different than the cash actually received from Canada during the year. This is because the money Canada pays Nunavut throughout the year is an estimate only, and at the end of the year either Canada will owe Nunavut some additional formula financing money, or – if the payments from Canada were too large – Nunavut may have to pay some money back. Either way the difference is settled by Canada adjusting future payments.

This is an important calculation, since this one single agreement gives Nunavut about 75 percent of its consolidated revenue.

This calculation is vital and it will not go away. In my current report, I note that the 2000-2001 formula financing calculations were not completed until February 2002 -- about 11 months after year-end.

As of a few days ago, this work had still not been completed for 2001-2002.

From my perspective as auditor, as of a few days ago there are 3 major unresolved issues concerning our audit of your 2001-2002 financial statements.

- One is formula financing revenue which I just mentioned.
- The other two relate to Crown corporations which are included or “consolidated” into the government’s own financial statements.

Here I would like to make an important link. Crown corporations are a large and important part of the government, and issues in Crowns can affect the government as a whole. So when I refer to building financial management capacity in the government, it is important to note that I mean all parts of government, including Crowns.



As I just mentioned, the government's audited financial statements are consolidated – they include departments, revolving funds and Crown corporations. If anyone wants to look at the Government's financial health, it is really important to look at consolidated information in order to see the government's overall financial picture.

It is also important for readers to be able to compare the government's actual annual surplus or deficit with the plans contained in the budget.

But the government budgets on an unconsolidated basis – basically only departments.

At present, readers of the consolidated financial statements cannot compare budgets and actuals because the “statement of operations and net debt” does not state budgets.

Budgets are excluded from the consolidated financial statements because it would be misleading to compare unconsolidated budgets to consolidated results. This would be comparing apples to oranges.

In the long term, the government may choose to begin budgeting on a consolidated basis, and this problem will disappear. But until then, it might make sense for management to restate the unconsolidated budgets into a consolidated form, then include these broader numbers right on the face of the government's financial statements.

This would allow MLAs to compare actual annual surpluses or deficits with plans, and ask the government to explain any significant differences.

My report encourages the government to make this change to its audited, consolidated financial statements.

Now I'd like to turn to financial management.

Financial management is a catchall phrase for the many tasks the government needs to do in order to control spending and protect assets.

Let's give some examples.

- Controlling spending requires both staying within budget, and ensuring that payments are only made when necessary.
- Protecting assets requires both protecting physical assets, and collecting money which is owed to the government.

Financial management is kind of abstract. Mr.

Chairman, it may even be safe to say that it is not very exciting. But it is very, very important.

I would like to give some examples from my report to show why financial management is so important and where improvements are needed.

One element of financial management is controlling spending, and one element of this is staying on budget.

It is important for all well-managed organizations to control expenses. But in government, there is also the tradition and law that the Legislative Assembly controls spending, and Departments should never spend more than is approved by the Legislative Assembly.

I would like to point out that under your laws “spending” is defined on an accrual basis. That is to say, it includes both cash payments and any accounts payable at year-end.

I should also point out that your government frequently goes to your Assembly near year-end or even after year-end to approve spending retroactively.

This is not in the spirit of Legislative Assembly control of spending, and it is important to make sure that the government does not ask the Assembly to approve decisions which have already been made. I hope that no-one becomes complacent about the Legislative Assembly's control of spending public money since the government should be getting the Assembly's permission to spend money before it is spent, not after.

Mr. Chairman, I'd like to give another example from my report which shows why financial management is important. And that is collecting money that belongs to the Government.

Paragraph 4 of Chapter 6 of my report notes there are several cases where Nunavut is behind in submitting documents to Canada that are needed for Nunavut to receive money from Canada.

My report goes on to describe the most serious of these cases. By March 2002, Canada owes Nunavut some \$32 million for health care billings going back to the first year of Nunavut's existence.

In this case, Nunavut's agreement with Canada requires it to submit detailed claims to Canada in a form acceptable to Canada. The basic problem is that Nunavut has been unable to prepare the claims.

Mr. Chairman, I hope that it is self evident that it would be better for Nunavut to have the \$32 million in its own bank account rather than leaving the cash with Canada.

Coming back to my earlier example of spending public money, it is equally important that the government have controls in place to ensure that money is only spent when authorized by the Legislative Assembly.

These are two examples of why financial management is important to the Government of Nunavut, and why it is important to Nunavummiut.

The last chapter of my report discusses some of the issues associated with building the capacity throughout the Government to allow good financial management.

This is a fundamental issue. Your Committee may wish to consider asking government officials about their plans for building financial management capacity in the government. If plans are still being developed, your Committee may wish to ask for an update in the near future.

Mr. Chairman, those are my opening remarks on my second report to the Nunavut Legislative Assembly. My officials and I would be happy to answer any questions you may have about my report.

In closing I would like to point out that your Committee's work is an important part of holding the government accountable. I am pleased that I had this opportunity to appear before your Committee.

Thank you very much / Qujannamiik