



Standing Committee on
Government Operations and Accountability

**Report on the Review of the 2005 Report of the Auditor
General of Canada to the Legislative Assembly of Nunavut**

Third Session
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Legislative Assembly of Nunavut

June 2006

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Introduction and Background

The 2005 *Report of the Auditor General of Canada to the Legislative Assembly of Nunavut*, the 2003-2004 Public Accounts of the Government of Nunavut (GN) and the GN's Interim Financial Report (unaudited) for 2004-2005 were tabled in the Legislative Assembly on February 21, 2006.

Pursuant to the *Nunavut Act*, the Auditor General of Canada audits the accounts and financial transactions of the Government of Nunavut in order to express an opinion on the government's consolidated financial statements. The Auditor General also audits the financial statements of the Government of Canada, the Government of the Northwest Territories and the Yukon Government.

The Auditor General prepares an annual report to the Legislative Assembly in which management issues that arise during the course of the annual audit are brought to the attention of MLAs. The GN is provided with the opportunity to make management responses to the Auditor General's observations and recommendations.

The Legislative Assembly's Standing Committee on Government Operations and Accountability has the mandate to review the Public Accounts and the Report of the Auditor General. Standing Committee hearings on such annual reports as those presented by the Auditor General, the Information and Privacy Commissioner and the Languages Commissioner provide an opportunity for the issues raised by each independent office to be examined in a public, transparent manner. Government accountability is fostered through the requirement in the *Rules of the Legislative Assembly of Nunavut* that the Government table a comprehensive response to the Standing Committee's report and recommendations within 120 days of its presentation to the House.

On March 22, 2005, the GN tabled its response to the Standing Committee's November 2004 *Report on the Review of the 2004 Report of the Auditor General*.

The Standing Committee held three days of hearings in April 2006 to review the Auditor General's most recent report. These hearings were open to the public and media to observe, and broadcast on local cable television and FM radio. In addition to providing an opportunity for the Auditor General to appear before the Committee to speak to the issues raised in her report, Committee Members were able to pose questions to senior GN officials on their management responses to the Auditor General's recommendations. Inuktitut and English transcripts of the hearings have been posted on the website of the Legislative Assembly. This report, and the government's response to it, will also be posted on the Legislative Assembly website.

Acknowledgements

The Standing Committee would like to express its appreciation to the Auditor General of Canada, Sheila Fraser, for appearing before the Standing Committee in person to present and discuss her report. This appearance was Mrs. Fraser's fourth such appearance before a Standing Committee of the Legislative Assembly. The Standing Committee applauds Ms. Fraser's demonstrated commitment to her office's important Nunavut work.

The Standing Committee would also like to thank the following officials from the Office of the Auditor General: Mr. Andrew Lennox, Assistant Auditor General; Mr. Dale Shier, Principal; and Ms. Julie Charron, Principal. The Standing Committee would also like to thank the witnesses from the GN who appeared before the Committee in order to respond to questions posed by Members.

Observations and Recommendations

Part I: General Issues

In September 2004, the Members of the Legislative Assembly of Nunavut held their first Full Caucus Retreat of the Second Assembly. One of the key goals agreed to by all MLAs included, "Managing Nunavut's financial resources responsibly by acting decisively on the recommendations of the Auditor General and Legislative Assembly Standing Committees with respect to strengthened financial management across Government departments and Crown corporations." This commitment was reiterated in the GN's *Pinasuaqtavut* mandate document, which was tabled in the Legislative Assembly on November 26, 2004.

The Auditor General's 2005 Report presented a number of specific recommendations directed to the GN. The Standing Committee undertook a chapter-by-chapter review of the Auditor General's report, posing questions and comments to appropriate GN witnesses at each stage.

Members also took the opportunity to follow up, in detail, with witnesses on the contents of the Government's March 2005 response to the Standing Committee's November 2004 report. A status report on these issues is included in this document. As is noted in the Canadian Comprehensive Audit Foundation's 2006 publication, *Parliamentary Oversight – Committees and Relationships: Guidance on Reporting and Follow up*:

After initial consideration of a report, a committee often wishes to reinforce the progress made in implementing its recommendations, or those of the legislative auditor. Follow up is an important part of the accountability loop for Public Accounts Committees (PACs), and it is an

essential element of the government's accountability to the legislature. Unless the PAC reviews the status of implementation of report recommendations and other commitments made by witnesses, the public service may not appreciate the importance and consequences of the PAC's hearings.

During the Auditor General's 2006 appearance before the Standing Committee, the Committee again undertook a productive exchange with her on a number of themes and issues related to the financial management practices and capacity of the GN. The Committee continued to note with concern her observations regarding the need to significantly improve the timeliness of the production and tabling of the government's financial statements, Crown agency annual reports and other related documents. Although the 2003-2004 fiscal year ended on March 31, 2004, the audited financial statements for the year were not tabled in the Legislative Assembly until February 2006. By contrast, the 2004-2005 audited financial statements for the governments of all other Canadian jurisdictions had been tabled by November 2005. It is important to recall that the production and tabling of such documents is not a matter of discretion. It is the law. Section 44 of the *Nunavut Act* states:

The Commissioner shall, on or before December 31 of each fiscal year, lay before the Assembly a report, called the Territorial Accounts, for the preceding fiscal year of Nunavut, and the Assembly shall consider the report.

The Standing Committee was acutely concerned and disturbed by the following statement in the Auditor General's most recent report to the Legislative Assembly:

Six years after Nunavut's creation, I am surprised at how slowly financial management has improved. The government needs to do more in each of the six areas [of financial controls]. Financial management is certainly stronger now than when Nunavut was created. However, overall your current financial management is weak and fragile. It has not adequately reduced the risk of error, bad decisions, or fraud.

These themes dominated the Committee's hearings and deliberations. Other important issues raised by the Auditor General continue to include her Office's identification of "numerous cases of non-compliance with Nunavut's financial laws, including seeking the Legislative Assembly's approval to spend money after it had already been spent," the lack of clarity regarding the government's debt position and the government's structural and capacity challenges.

However, the Standing Committee does recognize that there have been improvements in Nunavut's financial management practices since April 1, 1999. In a

number of cases, these improvements have come about as a result of the government implementing recommendations made by the Standing Committee and the Auditor General.

Examples of where the GN has earned praise for its transparency include the:

- Tabling of annual departmental business plans in the Legislative Assembly;
- Tabling of quarterly government-wide employment statistics;
- Tabling of annual reports on contracting and leasing activities;
- Tabling of annual reports on grants and contributions expenditures;
- Tabling of Ministerial Letters of Expectation to Crown agencies; and
- Including detailed information on prior years' actual expenditures in the GN's annual main estimates and capital estimates.

As part of its February 2006 Budget package, the government issued a report titled, *Strengthening Financial Management in the Government of Nunavut*. During the Standing Committee's April 2006 hearings, GN witnesses provided an update on the government's ongoing efforts to address the issues raised in the reports of the Auditor General. Most notably, the Standing Committee was advised that the government would be requesting approval from the Legislative Assembly in June of 2006 for supplementary funding to implement a number of initiatives outlined in the lead GN witness's opening statement to the Standing Committee (see appendices). These initiatives were also articulated in a May 1, 2006, GN News Release.

**Part II: Status of Standing Committee Recommendations and
Government of Nunavut Responses from the
2004 Report of the Standing Committee**

| Standing Committee Recommendation | Government of Nunavut Response | Status as of June 9, 2006 |
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| <p>Recommendation #1</p> <p>That the Government of Nunavut publicly disclose to the Legislative Assembly, on a quarterly basis, comprehensive information on its lending and borrowing activities under section 27 of the <i>Nunavut Act</i>, and that such information include the government's available borrowing capacity.</p> <p>The Standing Committee also recommends that the Government's 2003-2004 Public Accounts include this information.</p> | <p><i>Due to timing issues, the Government of Nunavut was not able to include this information in the 2003-2004 Public Accounts.</i></p> <p><i>The Government of Nunavut commits to include this information in the 2004-2005 Public Accounts.</i></p> <p><i>The Government does not agree with disclosing this information quarterly as there is very little change in the position. We commit to tabling an update yearly in the Public Accounts until such time as there are significant changes quarterly.</i></p> | <p>Outstanding. The GN has committed to including this information in its 2004-2005 audited financial statements. The audited financial statements have not yet been tabled in the Legislative Assembly.</p> |
| <p>Recommendation #2</p> <p>That the Government of Nunavut publicly disclose to the Legislative Assembly, on an annual basis, comprehensive information on the activities undertaken by the Crown Agency Council.</p> | <p><i>A formal report on the activities of the Crown Agency Council, for each fiscal year, will be tabled in the Legislature, at the first session subsequent to that fiscal year end.</i></p> <p><i>The annual reports for 2003-2004 and 2004-2005 will be tabled during the second session of the second Legislative Assembly.</i></p> | <p>The Crown Agency Council's first Activities Report, covering the period September 1, 2003 to October 31, 2005, was tabled in the Legislative Assembly on November 29, 2005.</p> |

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| <p>Recommendation #3</p> <p>That the Government of Nunavut table in the Legislative Assembly all letters of expectation, letters of instruction and Ministerial directives made to the Boards of Directors and/or management of Crown corporations at the earliest opportunity following the issuance of such instruments.</p> <p>In order to clarify the role and performance benchmarks expected of the Government of Nunavut's Crown corporations, formal letters of expectation should be issued and tabled no later than March 31, 2005. Any such future letters should also be tabled.</p> | <p><i>The Crown Agency Council has developed a process for drafting, approving and remitting Letters of Expectation, letters of instruction and ministerial directives.</i></p> <p><i>These letters will be issued by the responsible Minister for each Crown Corporation, for each upcoming fiscal year by March 31 of the current year. Once issued, a copy of the letters will be tabled in the Legislature, at the first session subsequent to March 31.</i></p> <p><i>The Letters of Expectation for the current year will be issued and tabled during the second session of the second Legislative Assembly.</i></p> | <p>Outstanding. Letters of Expectation to the Qulliq Energy Corporation, Nunavut Arctic College, Nunavut Housing Corporation, Nunavut Development Corporation and the Nunavut Business Credit Corporation were tabled in the Legislative Assembly on May 2, 2005.</p> <p>The Qulliq Energy Corporation's response to its Letter of Expectation was tabled in the Legislative Assembly on November 29, 2005. The NAC's response was tabled on June 9, 2006.</p> <p>2006 Ministerial Letters of Expectation have not yet been tabled.</p> |
| <p>Recommendation #4</p> <p>That the government's Public Accounts, Main Estimates and Capital Estimates present comprehensive information with respect to prior years' actual expenditures, including the final costs of completed capital projects.</p> | <p><i>This recommendation has been implemented.</i></p> <p><i>The 2005-2006 Main Estimates and Capital Estimates now present prior year actual expenditures.</i></p> <p><i>Due to the timing of the Estimates, the prior year actual expenditures used are from the 2003-2004 interim financial statements. The public accounts already included prior year actual audited expenditures.</i></p> <p><i>There is no published document currently that includes the final costs of completed capital projects. This information could be made available in a separate document.</i></p> | <p>Outstanding. Ministerial correspondence to the Standing Committee in January 2006 indicated that "The Department of Finance will prepare on an annual basis a listing of those multi-year projects that have been completed and also indicate the budgeted and actual costs, as well as the variance. This document will be provided to the Standing Committee prior to the review of the annual capital estimates in the fall of each fiscal year."</p> |

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| <p>Recommendation #5</p> <p>That the Government of Nunavut’s policy and/or guidelines with respect to the awarding of performance bonuses be revised to explicitly prohibit the awarding of bonuses to executive-level officials whose departments violate the <i>Financial Administration Act</i> with respect to over-expenditures.</p> <p>This policy should apply to Crown corporation executive management who do not meet the terms and conditions of the letters of expectation that are issued by the Government.</p> | <p><i>In the awarding of performance bonuses, consideration is given to financial results.</i></p> <p><i>Deputy Heads and Senior Managers are held accountable for monitoring expenditures within approved departmental allocations.</i></p> <p><i>Financial results are a significant part of the evaluation but there are many other important considerations.</i></p> <p><i>Other relevant factors or circumstances may lead to over-expenditures and may be, partly or wholly, beyond management control.</i></p> <p><i>There have been completely unforeseen events with adverse financial effects; examples include matters of public safety and well-being.</i></p> <p><i>Revisions to the current policy and the guidelines with respect to the awarding of performance bonuses need to continue to take into account all the factors that impact the final financial results of a department, agency or Crown Corporation.</i></p> | <p>In its opening statement to the Standing Committee of April 25, 2006, the Government of Nunavut indicated that the Senior Personnel Secretariat of the Department of Executive and Intergovernmental Affairs “has been directed to enhance the Deputy Ministers’ mandate letters to provide additional focus on their accountability for results in the management of financial resources.”</p> <p>These mandate letters have not been tabled in the Legislative Assembly.</p> |
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| <p>Recommendation #6</p> <p>That the government introduce legislation no later than March 31, 2005, to move the financial year-end of Nunavut Arctic College (NAC) to March 31.</p> | <p><i>The Government has reviewed the option of changing the year end to March 31.</i></p> <p><i>The Government and NAC do not believe that this change would be beneficial.</i></p> | <p>Outstanding. During testimony before the Standing Committee on April 26, 2006, GN witnesses indicated that the issue would be reviewed. NAC is the only GN entity whose fiscal year-end is not March 31. The GN's 2005 response to the Standing Committee's recommendation in this area made no attempt to provide a substantive rationale for its position.</p> |
| <p>Recommendation #7</p> <p>That corporate business plans for Crown corporations and other non-departmental entities be tabled in the Legislative Assembly at the same time as the Government's annual Main Estimates and departmental business plans.</p> <p>Statutory requirements for the tabling of annual reports of Crown corporations and other bodies must be respected.</p> | <p><i>The requirement to have the business plans of the Crown Corporations tabled in the Legislative Assembly, at the same time as the Government's Main Estimates and departmental business plans, is being included in the Letters of Expectation being issued.</i></p> <p><i>These letters will be issued and tabled in the Legislature during the second session of the second Legislative Assembly. In addition, these letters will also include the statutory requirement for the tabling of the Annual Reports on a timely basis.</i></p> | <p>Mixed progress. For example, the 2006-2007 business plan for the Nunavut Development Corporation was tabled on November 18, 2005. However, the 2003-2004 annual report for the Nunavut Housing Corporation was not tabled until November 23, 2005.</p> |

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| <p>Recommendation #8</p> <p>That the Government of Nunavut fully review the policy rationale for creating the Qulliq Fuel Corporation, and that, as an immediate interim measure, the transfer of responsibilities currently under the PPD be cancelled at least until such time as the Auditor General presents a clean audit opinion with respect to the Qulliq Energy Corporation and the Nunavut Power Corporation.</p> <p>A comprehensive audit of the Petroleum Products Revolving Fund should be undertaken.</p> | <p><i>Cabinet has directed QEC to re-evaluate the IKUMA II report to address the Standing Committee's concerns regarding the rationale of establishing the Qulliq Fuel Corporation.</i></p> <p><i>This report will outline the intent of the transfer in terms of benefits and disadvantages from a broad policy and financial perspective. As such, in February 2005, Cabinet deferred the request to transfer PPD to QFC to April 1, 2006.</i></p> | <p>The GN's 2005-2006 main estimates included \$500,000 in requested funding for transferring the responsibilities of the Petroleum Products Division of the Department of Community and Government Services to the Qulliq Energy Corporation. The Legislative Assembly deleted this amount from the proposed main estimates on March 8, 2005. The transition has been deferred indefinitely.</p> |
| <p>Recommendation #9</p> <p>That the Government of Nunavut table in the Legislative Assembly, in the same manner as in its response to Written Question 8-2(1), which was posed in the House on May 12, 2004, by a Standing Committee Member, the aggregate amounts paid to all former Nunavut Power Corporation executives since April 1, 1999, for termination pay, negotiated settlements, lump-sum payments or any other form of monetary compensation in connection with the end of their employment with the Corporation.</p> | <p><i>The Department of Finance requested this information from the Power Corporation. Corporation officials are working with their lawyer to find a way to disclose the information without violating confidentiality.</i></p> | <p>This information was not revealed until April 27, 2006. The QEC informed the Standing Committee that "in the six years from April 1, 1999 to March 30, 2005, former executives at the President and Vice-President level of Qulliq Energy Corporation and/or its predecessor Nunavut Power Corporation were paid the aggregate sum of \$353,234.89 as monetary compensation in connection with the end of their executive employment with Qulliq Energy and/or Nunavut Power Corporation. In addition, the sum of \$77,353.06 was paid based on pre-existing contractual obligations (vacation pay-out, earned leave, removal or other existing obligations."</p> |

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| <p>Recommendation #10</p> <p>That the Government of Nunavut demonstrates that it respects the rule of law by either taking steps to reduce the Corporation's debt or to amend the relevant legislation to rectify the present situation wherein the Corporation is in violation of its legal debt limit.</p> | <p><i>Rate increases announced by the Minister of Energy along with a contribution by the GN would improve QEC's equity position. These measures would allow QEC to comply with its debt limit as set out in the Nunavut Power Utilities Act.</i></p> | <p>Resolved. The QEC is presently within its legal debt limit.</p> |
| <p>Recommendation #11</p> <p>That a recovery business plan for the Nunavut Power Corporation be developed and tabled in the Legislative Assembly during the timeframe in which the Government of Nunavut's 2005-2006 Main Estimates and departmental business plans are presented for scrutiny.</p> | <p><i>The CAC has issued a formal request for information to QEC. This included a request to QEC for a three-year Business Plan for 2006-2007, 2007-2008, and 2008-2009.</i></p> <p><i>The development of this business plan is ongoing and will be submitted to the Department of Finance.</i></p> <p><i>The plan will in turn be tabled in the Legislative Assembly during the period in which the GN's Main Estimates and departmental business plans are also subject to scrutiny.</i></p> | <p>The QEC has provided its 2006-2007 corporate business plan to the Standing Committee. It has not yet been tabled in the Legislative Assembly.</p> |

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| <p>Recommendation #12</p> <p>That the responsible Minister table in the Legislative Assembly, in the interest of transparency, at the earliest opportunity, the above-referenced Nunavut Business Credit Corporation loans policy; lending regulations; loan monitoring policy and bid bond security policy.</p> | <p><i>The Letter of Expectation to be issued to the Nunavut Business Credit Corporation, and tabled during the current session of the Legislative Assembly, will include a specific requirement for the corporation to table its loans policy; lending regulations; loan monitoring policy and bid bond security policy. This information is to be tabled in the third session of the second Legislative Assembly.</i></p> | <p>Most of the requested items were tabled in the Legislative Assembly on November 28, 2005. Ministerial correspondence to the Standing Committee in January 2006 indicated that “The Bid Bond Security Policy is being worked on and when completed will be submitted for the NBCC Board’s approval and subsequent tabling in the Legislative Assembly.”</p> |
| <p>Recommendation #13</p> <p>That the Crown Agency Council formally review and report to the Cabinet and the Legislative Assembly its findings with respect to the Corporation’s transparency practices concerning the disclosure of the identity of individuals and companies that receive public monies from the Corporation, so as to minimize the risk of public perception of favouritism and interference with respect to loan award decisions.</p> <p>In the interim, the Standing Committee recommends that the Minister responsible for the Corporation resume the practice of annually tabling aggregate information, by community, on the Corporation’s loan portfolio.</p> | <p><i>The above-mentioned Letter of Expectation to the Nunavut Business Credit Corporation will include a request for information regarding the Corporation’s transparency practices.</i></p> <p><i>The Corporation’s response will be tabled in the third session of the second Legislative Assembly.</i></p> <p><i>It has been decided that a formal review is not warranted at this time.</i></p> <p><i>Once the information is received and analyzed, the next steps can be decided. In addition, the Corporation is being directed, through the Letter of Expectation, to annually table the aggregate loan portfolio information on a community basis.</i></p> | <p>Outstanding. The Corporation’s response to its Letter of Expectation has not yet been tabled.</p> |

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| <p>Recommendation #14</p> <p>That the Government of Nunavut table in the Legislative Assembly, on an annual basis, a comprehensive listing of its leased properties; and that the listing indicate the length and value of each lease and any associated leasehold-related contracts, in addition to identifying the entities with which the Government and/or Crown corporations have entered into a lease agreement.</p> | <p><i>This document has been tabled by the Department of Community and Government Services.</i></p> <p><i>The Department of Finance will be including, in the Year End Instructions Manual, a requirement that this document be prepared each year as part of the Government's financial reporting requirements.</i></p> <p><i>The information for Crown Corporations will be requested in the Letters of Expectation.</i></p> <p><i>The information will be tabled annually.</i></p> | <p>The Government of Nunavut's 2004-2005 Leased Properties Report was tabled in the Legislative Assembly on November 23, 2005.</p> |
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| <p>Recommendation #15</p> <p>That the Government of Nunavut table in the Legislative Assembly, on an annual basis, a comprehensive listing of RFP and tender awards, negotiated contracts and sole-sourced contracts made during the previous fiscal year.</p> <p>This listing should include information on the identity of contract recipients, in addition to the value of each award and/or contract. This tabling requirement should also extend to grants and contributions awarded by the Government to individuals and entities.</p> | <p><i>The report on grants and contributions awarded by all GN Departments is in the process of being translated and will be distributed to the Standing Committee members before the end of this week.</i></p> <p><i>The comprehensive listing of RFP and tender awards, negotiated contracts and sole-source contracts has been tabled separately by the Department of Community and Government Services.</i></p> <p><i>The Department of Finance will be including, in the Year End Instructions Manual, a requirement that these documents be prepared each year as part of the Government's financial reporting requirements and the information will be tabled annually.</i></p> | <p>The Government of Nunavut's 2004-2005 Contract Data Report was tabled in the Legislative Assembly on November 23, 2005. The 2004-2005 Procurement and Contracting Report was tabled in the Legislative Assembly on November 28, 2005.</p> <p>A GN-wide schedule of Grants and Contributions made in 2004-2005 has been provided to Members of the Legislative Assembly. The Standing Committee is hopeful that this information will be tabled in the Legislative Assembly.</p> <p>Comprehensive schedules of grants and contributions made by the Department of CLEY in 2003-2004 and 2004-2005 were tabled in the Legislative Assembly on March 9, 2005 and November 18, 2005.</p> |
| <p>Recommendation #16</p> <p>That the Government of Nunavut table in the Legislative Assembly a formal statement of policy with respect to the use of P3s.</p> | <p><i>The policy will be tabled in the third session of the second Legislative Assembly.</i></p> | <p>Outstanding. Ministerial correspondence to the Standing Committee in January 2006 indicated that the policy is "under development."</p> |

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| <p>Recommendation #17</p> <p>That the Government of Nunavut table in the Legislative Assembly the investment and divestment guidelines of the Nunavut Development Corporation no later than December 31, 2004.</p> | <p><i>The Letter of Expectation being sent to the Nunavut Development Corporation includes a request to table the Corporation's investment and divestment guidelines in the third session of the second Legislative Assembly.</i></p> | <p>Tabled in the Legislative Assembly on March 2, 2005.</p> |
| <p>Recommendation #18</p> <p>That the Government of Nunavut table in the Legislative Assembly all new policies formally adopted by the Executive Council and the Financial Management Board; all revisions to existing policies; and any exemptions granted to Crown corporations or other GN entities.</p> | <p><i>A list of policies adopted by the Executive Council since April 1, 1999, has been posted on the Government's website with links to the Policy Statement.</i></p> <p><i>The information is being reviewed extensively and in detail to ensure it is complete and up-to-date. The website will be updated periodically with new or revised policy statements.</i></p> | <p>A number of new or revised GN policies have been tabled in the Legislative Assembly since 2004.</p> |

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| <p>Recommendation #19</p> <p>That the Government of Nunavut undertake a comprehensive review of its energy-related subsidies.</p> <p>This review should be tabled in conjunction with the introduction of the Government's 2005-2006 Main Estimates, departmental business plans and Crown corporation corporate business plans.</p> | <p><i>A review of energy-related subsidies was conducted by the Department of Finance.</i></p> <p><i>For residential customers the threshold on the NESP (Nunavut Electricity Subsidy Program) will be raised from 700 to 1000 kilowatt hours ("kwh") for the October to March billing cycles, but will revert back to 700 kwh during the April to September period.</i></p> <p><i>The current rate for subsidized electricity will increase by 3.18 cents, from 15.22 to 18.40 cents per kwh. The commercial component of the support program remains unchanged.</i></p> | <p>A revised Nunavut Electricity Subsidy Program was announced in February 2005.</p> |
| <p>Recommendation #20</p> <p>That the Government of Nunavut periodically undertake zero-base budgeting exercises in the development of the annual Main Estimates.</p> | <p><i>The Government of Nunavut agrees that zero-based budgeting can be a useful tool.</i></p> <p><i>The Government's budgeting focus in the near term is the implementation of accrual-based budgeting. This in response to a concern raised by the Office of the Auditor General with respect to the comparison of the Main Estimates and the Public Accounts.</i></p> <p><i>The GN will re-examine this recommendation once accrual budgeting has been implemented. Both systems cannot be put into effect at the same time.</i></p> | <p>Outstanding.</p> |

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| <p>Recommendation #21</p> <p>That the Legislative Assembly's Standing Committee on Rules, Procedures and Privileges undertake a review of the appointments process and bring forward recommendations at the earliest opportunity.</p> | <p><i>The Crown Agency Council is researching this issue.</i></p> | <p>Outstanding.</p> |
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Standing Committee Recommendation #1:

That the Government of Nunavut, in its response to this report, provide an update on the implementation of recommendations noted as outstanding in the above status report.

Part III: Auditor General's 2005 Recommendations and Government of Nunavut Management Responses

Chapter 1

- **Auditor General's Recommendation:** While manual leave records remain in use, the government should continue training to reduce errors.
 - *The government agrees. Additional training will be provided as required.*

- **Auditor General's Recommendation:** The government's Internal Audit Services Branch should review all major cost-sharing agreements to identify opportunities for faster billing and collection.
 - *The government agrees. The Department of Finance will be working closely with other Government of Nunavut departments to ensure that they disclose all major cost-sharing agreements, and identify opportunities for faster billing and collection. In addition, there will be quarterly reporting of cost-sharing agreements to improve disclosure and collection.*

The Standing Committee concurs with the Auditor General's recommendations, and notes the government's responses. During its hearings, the Standing Committee posed questions on the status of implementing the GN's new human resources management system, *Personality 2000* (P2K). The Standing Committee was pleased to note that the Auditor General's Report stated that, "While our 2004-2005 audit work is not yet completed, it shows that the government has made significant progress in collecting receivables for two of the larger agreements."

Standing Committee Recommendation #2:

That the Government of Nunavut table a final report on the implementation of the P2K system, including its costs.

Chapter 2

- **Auditor General's Recommendation:** To ensure that employees with financial responsibilities can do their jobs, the government should continue training them to be aware of all necessary authorities.
 - *The government agrees. It will continue to hold information sessions on key Financial Administration Manual directives.*

- **Auditor General's Recommendation:** To monitor progress in reducing payments made without proper approval, the government should continue internal audit work on signing authorities.
 - *The government agrees. The work of the Internal Audit Services Branch will continue, including audits and training sessions.*

- **Auditor General's Recommendation:** The government should disclose debt for purposes of the debt cap in its 2004-05 audited, consolidated financial statements.
 - *The government agrees. This information will be included in the 2004-05 audited financial statements.*

- **Auditor General's Recommendation:** The government should develop procedures for monitoring the debt cap throughout the year.
 - *The government agrees. A Treasury function is being established in the Department of Finance, and will be operational for the 2006-07 fiscal year. Part of this function will be to monitor and report the Government of Nunavut's debt on a quarterly basis.*

The Standing Committee concurs with the Auditor General's recommendations, and notes the government's responses. During its hearings, the Standing Committee posed questions on the establishment of the Department of Finance's new Treasury function, including its work to develop an Investment Policy for GN funds. The Standing Committee also took note of a recent decision to separate the functions of the Deputy Minister of Finance from the functions of the Comptroller General.

Standing Committee Recommendation #3:

That the Government of Nunavut table a copy of its new Investment Policy.

Chapter 3

- **Auditor General's Recommendation:** The Government of Nunavut should take immediate steps to ensure that it asks the Legislative Assembly for approval of spending in advance rather than after the fact.
 - *The government agrees. It has implemented procedures to ensure that departmental appropriations are sufficient to fund expenditures and that approval is sought prior to actual spending of public funds. These procedures include enhancement of the budget variance report process and strengthening person-year controls. The government will continue to strengthen financial controls in this area.*

The Standing Committee concurs with the Auditor General's recommendation, and notes the government's response. During the Committee's hearings, Members repeatedly emphasized the critical importance of the government obeying its own laws when it comes to seeking the approval of the Legislative Assembly before public monies are spent. It is worth reiterating the Auditor General's observation in her report that:

It is simply not normal for governments in Canada to overspend. Other governments usually manage to live within budgets set by their legislatures. Nunavut's failure to do this is another indication that the government urgently needs to improve its financial management.

The Committee also took careful note of the following observation offered by the Auditor General during her appearance:

I can tell you that overspending votes is very rare. Certainly at the federal level, I can recall one incident where it happened, and that department was ... put under a severe management structure because it was judged to not have good financial management control. There were some very senior people who were no longer around after that happened.

The Standing Committee was pleased to be informed by the GN's lead witness that the government's preliminary information indicates that no department overspent its approved appropriation for the 2005-2006 fiscal year. The Standing Committee is hopeful that the audited financial statements for this fiscal year confirm this projection. The Standing Committee also noted information from the government indicating that the Senior Personnel Secretariat of the Department of Executive and Intergovernmental Affairs "has been directed to enhance the Deputy Ministers' mandate letters to provide additional focus on their accountability for results in the management of financial resources."

The Standing Committee, in its scrutiny of the GN's annual main estimates and departmental business plans, has consistently noted the issue of the growth in the size of the public service since the creation of Nunavut in 1999. According to the GN's own departmental business plans, the total number of PYs in 2004-2005 was approximately 3,040, not including the approximately 150 positions in the Qulliq Energy Corporation. The number of PYs in 2006-2007 is projected at approximately 3,410. This is an increase of almost 370 positions, or 12%, in just two fiscal years.

The growth in management positions is also of concern. To illustrate, in January of 2000, according to the GN's own Inuit Employment Plan report, there were 233 positions classified as middle management. That number has since grown to approximately 430 positions, an increase of around 85%. By contrast, the number of administrative support positions has actually decreased by almost 15%. It remains unclear to the Standing Committee as to how this growth in the management level has delivered better programs and services to Nunavummiut and their communities.

The GN plans to spend over \$300 million in 2006-2007 on compensation and benefits (see appendices), an amount which accounts for over 30% of its total spending. It is important to be mindful of the fact that a dollar spent on compensation and benefits for employees is a dollar that is not available for other spending, such as community infrastructure, new housing or increased financial assistance for young people to attend university or pursue other post-secondary educational opportunities.

The GN's recently-commissioned April 2006 *Review of GN Financial Structures* Report states that:

There are a total of 319 financial positions spread over 11 communities. This represents around 9% of the total staff complement of approximately 3,500 positions. A more appropriate and affordable proportion of financial support staff is in the neighborhood of 5% to 6% of overall staff resources.

This report indicates that 26% of these positions are currently vacant.

Standing Committee Recommendation #4:

That the Government of Nunavut table detailed variance reports when the Mid-Year Fiscal Update is delivered in the fall of each year.

Standing Committee Recommendation #5:

That the Government of Nunavut review the proportion of its total staff complement that is assigned to financial support positions.

Chapter 4

- **Auditor General's Recommendation:** The government should set a timetable for implementing accrual accounting at an appropriate date in the future.
 - *The government agrees. A plan will be developed to fully implement accrual accounting in the future.*

- **Auditor General's Recommendation:** Through its Crown Agency Council, the government should continue to monitor the progress of Crown corporations in tabling their annual reports on a timely basis, and work with individual corporations to improve timeliness of the overall process.
 - *The government agrees. Letters of expectation were sent to the five major Crown corporations in May 2005. The letters clearly outlined requirements that these public agencies must follow with respect to daily operations, long-term planning, financial operations, and reporting. Responses to the letters were to be tabled during the November 2005 legislative session. A process has been put in place as a tool to help monitor compliance with these guidelines on an ongoing basis.*

- **Auditor General's Recommendation:** The government should ensure that appropriate technical resources such as accountants with specialized knowledge and Inuktitut translators are available at key times to allow the financial statement process to move along smoothly.
 - *The government agrees. The government will increase its efforts to ensure that appropriate resources are available for this purpose.*

The Standing Committee concurs with the Auditor General's recommendations, and notes the government's responses. The status of Crown agencies' responses to Ministerial Letters of Expectation is noted earlier in this report. The Standing Committee does recognize the challenges facing the government with respect to fully implementing accrual accounting. Indeed, this issue is raised in the May 2006 Report of the House of Commons Standing Committee on Public Accounts, which recommends that the Government of Canada "extend full accrual accounting to budgeting and appropriations and set a firm timeline for its completion."

Chapter 5

- **Auditor General's Recommendation:** The government should complete its ongoing assessment of environmental damage in time to allow recording of environmental liabilities, if any, in its 2005–06 financial statements.
 - *The government agrees. It has been working with the federal government to complete this assessment since 2001, but the results will not be ready in time for liabilities to be recorded in the 2005–06 financial statements. The government will increase its efforts to complete the assessment as soon as possible.*
- **Auditor General's Recommendation:** The government should set a specific fiscal year by which it will solve the ongoing problem that financial statement readers cannot compare actual results to the government's plans.
 - *The government agrees. The Department of Finance has established a Senior Fiscal Advisor position to take the lead in the conversion to accrual-based budgeting. Accrual-based budgeting is projected to be implemented by 31 March 2008.*

- **Auditor General's Recommendation:** Through its Crown Agency Council, the government should provide leadership in helping Nunavut's Crown corporations to assess the impact of new accounting standards relating to interests in third parties. If the new standards apply, the government should also provide leadership in helping the Crown corporations implement the new standards by the 2005–06 deadline.
 - *The government agrees. The Department of Finance will provide guidance on the standards relating to interests in third parties.*

The Standing Committee concurs with the Auditor General's recommendations, and notes the government's responses. During its hearings, the Standing Committee posed questions on the status of the issues raised in this chapter. The Standing Committee took note of comments from GN witnesses which indicated that some information concerning the government's environmental liabilities may, in fact, be ready for inclusion in the GN's 2005-2006 financial statements. The Standing Committee is hopeful that this will occur.

Chapter 6

- **Auditor General's Recommendation:** The government should review the appropriateness of continuing to allow all Crown corporations to operate their own main financial computer systems.
 - *The government agrees. The operation by Crown corporations of their own main financial computer systems will be reviewed by the Department of Finance in consultation with the Crown corporations and any affected government departments.*
- **Auditor General's Recommendation:** The government should identify and address gaps in formal computer systems used for key accounting and financial management functions.
 - *The government agrees. It will initiate a review of systems currently used for key accounting and financial management functions in 2006-07.*

The Standing Committee concurs with the Auditor General's recommendations, and notes the government's responses. During its hearings, the Standing Committee posed questions on the status of the government's actions to address these issues. The Committee was informed that an interdepartmental Information Technology (IT) Committee has recently been reactivated in this regard. The Standing Committee is,

however, cognizant of the experience in the First Legislative Assembly of Nunavut (1999-2004), when significant supplementary appropriations were requested by the government to cover spending needs in the area of IT. The Standing Committee stresses the need for IT systems to be affordable and appropriate to the GN's decentralized structure. The Standing Committee has taken note of a recent GN Request for Proposals (RFP) to acquire an Income Support application for the Department of Education. This gap was identified in the Auditor General's report.

Chapter 7

- **Auditor General's Recommendation:** The government should seek short-term options for rapidly moving accounting resources where they are needed across departments and Crown corporations to deal with changing needs.
 - *Although the government agrees with this objective, it has been difficult to achieve in the past and will continue to be in the foreseeable future because of ongoing resourcing constraints. The Department of Finance plans to fill two Senior Fiscal Advisor positions in 2006–07 in order to provide additional accounting-related support for departments and Crown corporations.*

The Standing Committee concurs with the Auditor General's recommendations, and notes the government's responses. During its hearings, the Standing Committee posed questions on the challenges facing the government in the area of capacity-building. The Standing Committee is mindful of such issues as the ongoing shortage of staff housing and the challenges in recruiting qualified accounting professionals.

Standing Committee Recommendation #6:

That the Government of Nunavut undertake a preliminary evaluation, following the end of the 2006-2007 fiscal year, of the new Staff Housing Policy's impact on recruitment and retention, and that the results of the evaluation be tabled in the Legislative Assembly.

Chapter 8

- **Auditor General's Recommendation:** To achieve breakthroughs in financial management, the Government of Nunavut should recentralize certain accounting operations. In doing so, the government needs to make key decisions, including how to structure recentralized functions and how far to go toward a centralized accounting structure.
 - *The Government of Nunavut is aware of this issue and has recently initiated "The Review of GN Financial Structures Project." The purpose of this review is to analyze internal financial capacity and recommend a detailed plan for improving the Government of Nunavut's ability to plan, control, and forecast expenditures, and to enhance the timely and accurate production of the Public Accounts. A final report is scheduled to be delivered by 31 March 2006. The scope of the review includes the assessment of government-wide financial management capacity to effectively manage and account for resources in the following areas: risk management and control, information, and management of resources.*

- **Auditor General's Recommendation:** The government should develop training programs that will help Land Claims Agreement beneficiaries to become professional accountants and develop other senior-level financial management skills.
 - *The government agrees. The Department of Finance will continue with efforts to train beneficiaries for more senior accounting and financial management positions. Also, it will establish a comprehensive human resources development plan to strengthen financial management capabilities.*

The Standing Committee conditionally concurs with the Auditor General's recommendation concerning the issue of the GN's accounting structure, and notes the government's response. The Standing Committee concurs with the Auditor General's recommendation concerning the issue of training of beneficiaries of the Nunavut Land Claims Agreement (NLCA), and notes the government's response. During its hearings, the Standing Committee explored, in detail, the decentralization issue with witnesses from the GN and the Office of the Auditor General. The Standing Committee has taken note of the government's intent to further review the structure and location of its accounting operations, and its commitment to ensure that any decentralized communities that are involved in recentralization initiatives will retain their total number of GN positions.

The issue of education and training is key to the success of Nunavut and Nunavummiut. Justice Thomas Berger's March 2006 report, *The Nunavut Project*, addresses a number of related issues and notes the Auditor General's recommendations concerning the need for training programs for NLCA beneficiaries to successfully pursue accounting and financial management careers. The Standing Committee is fully cognizant of the long trail ahead of any individual wishing a career in these challenging field – the knowledge and skills necessary for success require personal commitment and years of effort. The idea of basing a program for educating Nunavummiut to become professional accountants on the Akitsiraq model - an idea that many MLAs have raised - is worthy of serious consideration.

Standing Committee Recommendation #7:

That the Government of Nunavut proceed with a review of the structure and location of its accounting operations, and that such a review involves the concomitant identification of replacement positions for impacted communities.

Standing Committee Recommendation #8:

That the Government of Nunavut undertake a feasibility study with respect to establishing a program, based on the Akitsiraq Law School model, to train Nunavummiut to become professional accountants.

Part IV: Other Issues and Recommendations

Issue #1: Status Report on Implementation of the Auditor General's Recommendations

The Auditor General's report was tabled in February 2006. The Standing Committee is of the view that the government should provide a detailed status report on its progress in implementing the recommendations with which it has stated its agreement. This report should be tabled during the fall 2006 sitting of the Legislative Assembly, which will take place approximately six to seven months into the 2006-2007 fiscal year. This report would complement the government's Mid-Year Fiscal Update, which is traditionally provided at this time.

Standing Committee Recommendation #9:

That the Government of Nunavut table, during the fall 2006 sitting of the Legislative Assembly, a detailed status report on its progress in implementing the recommendations made in the 2005 *Report of the Auditor General to the Legislative Assembly*.

Issue #2: Report on the 2006 Northern Crown Forum

This event took place in Iqaluit from April 24-26, 2006. Its deliberations focused on issues of corporate governance. In light of past issues raised by the Auditor General and the Standing Committee concerning Crown governance in Nunavut, the work achieved at this forum would be noted with interest by Members of the Legislative Assembly and the public.

Standing Committee Recommendation #10:

That the Government of Nunavut table a report on the April 2006 Northern Crown Forum by the fall 2006 sitting of the Legislative Assembly.

Issue #3: Backdoor Tabling of Documents

Nunavut's MLAs recently amended the *Rules of the Legislative Assembly* to allow for the backdoor tabling of statutorily-required documents when the legislature is not in session. The government has begun to take advantage of this provision, as it allows

for items to be made available to Nunavut's MLAs in a more timely fashion than previously possible. The Standing Committee encourages the government to take advantage of this provision.

Issue #4: Financial Administration Manual of the Government of Nunavut

The GN's Department of Finance is undertaking revisions and updates to its Financial Administration Manual, which provides the detailed rules and procedures for the day-to-day management of the government's resources. The Standing Committee urges the government to review its practices with respect to the timely payment of Northern firms. The Standing Committee also expects the government to adhere to section 4.3(c) of FAM Directive 302, which provides for the Chair of the Financial Management Board (FMB) to provide the Standing Committee with a quarterly report, by department, that identifies all capital adjustments made in that quarter.

Issue #5: Auditor General's Reports to Parliament

During its April hearings, the Standing Committee expressed its appreciation to the Auditor General for her commitment to Nunavut and the North, as illustrated by her recent visit to Arctic Bay and her Office's establishment of an advisory panel on Inuit issues. Her May 2006 Report to Parliament included observations on issues of importance to Nunavummiut, including the federal food mail program. The Standing Committee looks forward to the Auditor General continuing her work in this area.

Issue #6: Fuel Tax Rebate Program

The GN recently introduced a new Fuel Tax Rebate Program, which was announced in the 2006 Budget Address. A significant focus of this program is to attract new mining exploration and development. This is a goal that is supported by the Standing Committee. Although the *Petroleum Products Tax Act* allows the government to make regulations concerning rebates, no new regulations have been published to date in the *Nunavut Gazette*. The Standing Committee is of the view that it is important for the government to rigorously evaluate the actual success of its programs in achieving their stated policy goals.

Standing Committee Recommendation #11:

That the Government of Nunavut's 2006-2007 financial statements include data on the Fuel Tax Rebate Program, and that the government

use this information to undertake an evaluation of the program's success in achieving its goals.

Issue #7: Public Reporting of Losses of Public Money and Property

Volume III of the annual Public Accounts of Canada includes detailed information on the losses incurred by the federal government as a consequence of theft, fraud, loss and damage. The GN's annual financial statements do not include such information. The Standing Committee is of the view that the government will be better able to protect taxpayers' interests if it begins to systematically account for its losses in these areas, as the information can be expected to help the government identify ways to improve its safeguards.

Standing Committee Recommendation #12:

That the Government of Nunavut's 2006-2007 financial statements include detailed information on losses of public money and property incurred through theft, fraud, loss and damage.

Issue #8: Translation and Tabling Issues

The issue of translation of the government's annual Public Accounts continues to be problematic, as the Inuktitut translation of this highly complex and technical document may not be ready for significant periods of time following its initial completion. In February 2005, following consultations with the Standing Committee on Rules, Procedures and Privileges and the Full Caucus of the Legislative Assembly, the Speaker of the Legislative Assembly issued translation and tabling guidelines for certain categories of documents. Documents required by statute to be tabled in the Legislative Assembly are currently required to be presented in both Inuktitut and English, and are not permitted to be tabled unless both versions are available at the same time. The Standing Committee is of the view that while the document should continue to be tabled in both Inuktitut and English, in cases where it is initially available in only one language, it should be permitted to be tabled when ready in the language in which it is available, with the appropriate translation to follow upon completion.

Standing Committee Recommendation #13:

That the Standing Committee on Rules, Procedures and Privileges review the issue of translation requirements for statutorily-required documents with a view to ensuring that MLAs receive documents at the

earliest opportunity, while requiring that complete and accurate translations are ultimately made available through the tabling process.

Issue #9: Annual Reporting of Performance Bonuses Paid to GN Employees

For a number of years, Members of the Legislative Assembly have been required to pose detailed Written Questions in the House in order to obtain information concerning the amounts paid annually to GN employees in performance bonuses. The Standing Committee is of the view that the government should table this information on an annual basis.

Standing Committee Recommendation #14:

That the Government of Nunavut annually table aggregate information by department and Crown agency on the amounts paid in performance bonuses to its employees during the previous fiscal year.

Issue #10: Government Contract Regulations

Section 5(1) of the *Government Contract Regulations* made under the *Financial Administration Act* allows the Executive Council (Cabinet) to direct a government contract authority to enter into a contract notwithstanding any other provision of the regulations. In circumstances where the Cabinet chooses to exercise its authority under this provision, it is required to record its reasons for doing so, but it is not required to make its reasons public. The Standing Committee is of the view that when the Cabinet believes that circumstances exist to justify the exercise of this provision, it is important that its reasons for doing so are made clear to the public.

Standing Committee Recommendation #15:

That the Government of Nunavut report annually to the Legislative Assembly on the exercise of section 5(1) of the *Government Contract Regulations*. This information could appropriately be included in the GN's contracting activities report, which is tabled annually.

Issue #11: 2006 Activities Report of the Crown Agency Council

As noted earlier, the Crown Agency Council's first activities report was tabled in November 2005. The Standing Committee is aware that the CAC has been undertaking work in such areas as preparing a Handbook for Crown agencies and

addressing areas where financial and human resources management practices diverge between the GN's departments and its Crown agencies. The Standing Committee looks forward to updates on the status of these initiatives in the CAC's 2006 activities report.

Issue #12: Auditor General's Performance Audit of the Workers' Compensation Board of the Northwest Territories and Nunavut

The Standing Committee looks forward to reviewing the Report of the Auditor General on this matter.

Conclusion

The Standing Committee's hearings on the 2005 *Report of the Auditor General to the Legislative Assembly of Nunavut* constituted the second such exercise of the Second Legislative Assembly. In light of the findings presented in the Report, it is clear to the Standing Committee that much work continues to lie ahead of the government and its Crown agencies with respect to building a strong, transparent and accountable financial management framework for the territory's public entities. The Standing Committee looks forward to continuing to fulfill its responsibility of ensuring that the decisions taken by the government in the public interest are subject to full review and scrutiny.

Appendices

- Standing Committee Chair's Opening Remarks on the Occasion of the Appearance of the Auditor General
- Auditor General's Opening Statement to the Standing Committee
- Government of Nunavut Opening Statement to the Standing Committee
- News Releases
- 2006-2007 Government of Nunavut Expenditures by Object