



FINANCIAL MANAGEMENT POLICY MANUAL

**Office of the Comptroller General
OCTOBER 2005**



Government of Newfoundland and Labrador
Department of Finance

Province of Newfoundland and Labrador

FINANCIAL MANAGEMENT POLICY

MANUAL

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SECTION ONE – GENERAL INFORMATION

This Section provides general information outlining the purpose and scope of the manual. It defines the Government environment, discusses the fundamental concept of *accountability* and explains the role of departments in the *financial management* process.

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1.0 Introduction: Financial Management Policy Manual

1.0.1 Purpose of the Manual

This manual is designed to provide employees of Government at all levels with current and complete *financial management* policies that are laid out in a user friendly manner. The preparation and maintenance of such a manual is necessary to facilitate the Comptroller General of Finance, Deputy Ministers and senior officials in fulfilling their responsibilities under the *Financial Administration Act*, other legislation and Government policy.

This manual outlines high-level discussion on significant *financial management* policies. It provides contacts for the various sections, as well as a list of reference materials for further research on various topics. Detailed policy direction may also be provided in other formats (e.g. directives, manuals specific to a particular topic, etc.) pursuant to legislative or other authority.

This *financial management* policy manual is issued pursuant to Section 7 of the *Financial Administration Act* and is authorized and approved by Treasury Board per TBM 2005-296. This manual supersedes the Management Manual, Volume I, Financial Policy and Procedures, Second Edition, dated 1987. The policies outlined in this manual are subordinate to legislation, Minutes in Council (MC's) and Orders in Council (OC's).

1.0.2 Layout of the Manual

The manual is organized so as to aid the user in reading through the sections and finding necessary information. There are five sections:

Section 1

General Information – outlines the purpose and scope of the manual; defines the Government environment; and discusses the fundamental concepts of transparency and *accountability*.

Section 2

Financial Reporting Process – addresses the three main areas of financial planning, control and reporting.

Section 3

Management and Control of Financial Resources – addresses general accounting and reporting for relevant financial resources.

Section 4

Management of Processes and Systems – addresses general management and control of financial processes and systems.

Section 5

Financial Monitoring and Review – addresses the audit function internal to Government, as well as the role of the Auditor General in the *financial management* and *accountability* processes of Government.

In outlining various policies and in order to provide a consistent approach in Sections 2, 3 and 4 of this manual, the following format is adopted:

- Policy Statement; and
- General Policies and/or General Policies and Controls.

The following conventions have been used throughout the manual:

- Words and terms bolded and italicized in this document have been defined in the Glossary at the end of the manual; and
- The names of Acts and other legislation are italicized.

A Topical Index is provided for ease in navigating the manual.

1.0.3 Accessing the Manual

This manual was prepared by the Office of the Comptroller General and replaces the Management Manual, Volume 1, Financial Policy and Procedures previously issued by this Office. This Office is responsible for the control and distribution of the manual as well as its maintenance.

The manual is available via the Internet on the Government web-site.

1.0.4 Policy Interpretation

Well written policy should:

- give outcomes;
- limit roles;
- address processes;
- structure relationships; or
- incorporate some combination of the above.

To accomplish the goal of well written policy, it is necessarily written at a high level to meet Government-wide goals. In writing at this level for all Government, questions on interpretation are likely to arise. These questions should be resolved in consultation with officials of the Office of the Comptroller General, the Budgeting Division/Department of Finance, the Government Purchasing Agency, and other relevant officials. In this way, consistency will be achieved among departments in policy interpretation. This is a critical component in the *financial management* of Government. Policy is only as good as the consistency it creates among varied users. Policies and procedures, as defined by various Government sectors, should be provided to the Office of the Comptroller General for updating this manual where appropriate.

1.0.5 Other Sources of General Information

General information as to the roles, responsibilities, key legislation and processes followed in the Province of Newfoundland and Labrador under the parliamentary system of Government with respect to *financial management* practices can be found in the Financial Management Handbook.

The Handbook, relevant pieces of legislation, policies and procedures, guidelines and other sources of direction and authority can be located as defined in the References section of this manual.

1.1 Introduction to the Government Environment

1.1.1 Legislative Structure of Government

The legislative structure of Government exists to ensure that the financial resources of the Province are protected and controlled in an *efficient, effective* and *economical* manner. Many departments, boards and related agencies compete for limited resources, and have vastly different mandates and public pressures. The legislative structure is therefore a means to facilitate the obligation of the House of Assembly to the people of the Province, to protect *public money*.

1.1.2 Legislative Authority

The primary legislative authority for *financial management* in this Province is the *Financial Administration Act*. Among other things, this *Act* establishes the authorities and responsibilities for the control and management of the Province's finances and the manner in which Government must render an account of its stewardship responsibilities. Additional authority and *accountability* are established in the *Executive Council Act* and the *Transparency and Accountability Act*.

1.1.3 Organizational Structure in Government

The *Financial Administration Act*, in conjunction with the *Executive Council Act* and other legislation, outlines the legislative structure of Government with respect to financial administration. There are also provisions relative to financial administration in the *Transparency and Accountability Act*, which is discussed in Section 1.2. The legislative structure is as outlined below:

Lieutenant-Governor

The Lieutenant-Governor, the Queen's representative in the Province, has governance functions relating to the House of Assembly that include summoning, proroguing and dissolving the House of Assembly; assenting to legislative bills in order for them to become law; and signing into force Orders in Council, Proclamations, and other official documents on the advice of Cabinet. This includes the signing of *general* and *special warrants*.

House of Assembly

The administration of the financial affairs of the Province is based upon the obligation of the members of the House of Assembly, as the elected representatives of the people, to ensure among other things that the public purse is properly managed and controlled. Control is exercised through legislation, which provides for various processes and procedures to hold Government accountable to the House of Assembly and the public for the way it manages the Province's financial and other resources.

Premier

As legislated in the *Executive Council Act*, the Premier of the Province may advise the Lieutenant-Governor with respect to appointments of Ministers to the Executive Council. In addition, he/she may advise the Lieutenant-Governor on appointments of an Attorney General and a Registrar General from the Council; establishment of Committees of the Council; and appointments of Deputy Ministers and Assistant Deputy Ministers of departments.

The Act in no way affects the traditional privilege of the Premier with respect to the organization and structure of the Executive Council.

Cabinet/Lieutenant-Governor in Council

The Executive Council (Cabinet) is appointed under the *Executive Council Act* by the Lieutenant-Governor on the advice of the Premier. Cabinet also establishes other committees of the Executive Council.

In terms of general financial administration, the Lieutenant-Governor in Council holds the authority to approve requests to issue *general* and *special warrants* for expenditures, grant *remission* of forfeitures, and approve *pre-commitments*, among other duties.

Committees of Cabinet

Under the *Executive Council Act*, the Lieutenant-Governor in Council on the advice of the Premier establishes Committees of Cabinet. These Committees are called upon to give detailed consideration of proposals and to make recommendations to Cabinet for its decisions on the proposals. Each Cabinet Committee is comprised of a number of Ministers with support for each Committee (excluding Treasury Board) usually provided by Cabinet Secretariat.

Treasury Board

Treasury Board is constituted under Section 3 of the *Financial Administration Act*, and is a Committee consisting of at least seven members of the Executive Council. It has power on all matters relating to *financial management*, administrative policy in the public service, and personnel management. It prescribes the manner and form of the financial accounts and estimates, and provides direction on the receipt and disbursement of *public money*. In exercising its responsibilities, Treasury Board will issue direction, usually in the form of certified copies of Minutes of Board Meetings (Treasury Board Minutes – TBMs).

The Board has delegated certain responsibilities to specific Executive personnel in the Department of Finance and Public Service Secretariat who provide support to the Board in meeting agendas and functionality. On behalf of the Board, these Executive may approve certain matters without reference to the Board (Treasury Board Authority – TBA), with this having the same authority as a TBM.

President of Treasury Board/Minister of Finance

The President of Treasury Board and the Minister of Finance are often the same individual. The President of Treasury Board is responsible for presiding over meetings of the Treasury Board and shall perform the duties, powers and responsibilities that the Board and Cabinet determine.

The Minister of Finance has specific responsibilities as outlined in the *Financial Administration Act*. These responsibilities include, but are not limited to: cash management functions; matters relating to the raising of loans and management of debt; the assumption of debt for the purpose of *settlement* of indebtedness guaranteed by the Province; and other duties. These duties may be delegated in part to the Deputy Minister of Finance where specifically noted in the *Financial Administration Act*, or other relevant, *Act*.

Ministers

Ministers are responsible for their respective department's *programs* and the overall administration in accordance with Government's policies and applicable departmental/program legislation. Specific responsibilities and other authorities are found in the *Executive Council Act*. Ministers may delegate authority and duties in those circumstances as outlined in both the *Financial Administration Act* and the *Executive Council Act*, among others.

Deputy Ministers (and Equivalent)

Deputy Ministers are appointed by the Lieutenant-Governor in Council, on the advice of the Premier as outlined in the *Executive Council Act*, and have the powers, duties, and responsibilities as listed in that *Act*, the *Financial Administration Act* and other various *Acts*. They receive direction from the Minister and Cabinet. A Deputy Minister is responsible for an assigned Head of Expenditure/Department for *commitments* incurred, payment requests and general financial and policy administration. He/she supports and provides advice to the Minister.

Comptroller General of Finance

The Comptroller General of Finance (Comptroller General) is appointed by the Lieutenant-Governor in Council to ensure control over the *Consolidated Revenue Fund*. This position is only removable by the Lieutenant-Governor on address of the House of Assembly. Legislated responsibilities and authority of the Comptroller General are outlined in the *Financial Administration Act*. The Comptroller General also has responsibilities pursuant to Executive direction. The main responsibilities of the Comptroller General are to:

- maintain more complete control over the *Consolidated Revenue Fund*;
- keep the accounts of the Province, including the *commitment* ledger;
- ensure that all payments of *public money* are made pursuant to authority of the Legislature and as outlined in the *Financial Administration Act*;

- prepare the *Public Accounts* of the Province;
- establish bank accounts for the Province;
- provide advice and support to other Executives;
- perform various reporting responsibilities;
- perform professional financial, analytical, and internal audit services; and
- carry out other duties as assigned by Cabinet.

Auditor General

The Auditor General is appointed by the Lieutenant-Governor in Council and confirmed in office by the House of Assembly. He/she assumes the role, responsibilities and duties as determined by the *Auditor General Act*. The Auditor General is responsible to provide the House of Assembly with timely, relevant information, necessary to enhance public sector *accountability* and performance. This role of the Auditor General complements the *accountability* relationship existing between all levels of Government through to the House of Assembly.

Chief Operating Officer of the Government Purchasing Agency

The Government Purchasing Agency (GPA) is an independent branch of the public service of the Province, and is the central procurement unit for the Province. The Chief Operating Officer (COO) is appointed by the Lieutenant-Governor in Council under the *Government Purchasing Agency Act* and has immediate authority over the day-to-day management and control of GPA. The COO reports directly to the Minister, and directly to the House of Assembly with respect to public tender exceptions, which are tabled in the House through the Speaker.

1.2 Transparency and Accountability

1.2.1 Transparency and Accountability Act

The *Transparency and Accountability Act*, assented to in 2004, puts into law the ways and means the Provincial Government will be open and accountable to the people of the Province. This *Act* provides a legislative framework for the conduct of fiscal policy, encourages better decision making by Government, strengthens **accountability** and ensures more informed public debate about fiscal policy. This *Act* provides for defined planning and reporting by departments and **public bodies**.

General financial policies, now incorporated into legislation with respect to transparency and **accountability**, include the following:

- No **public body** which is authorized to borrow under the articles of incorporation which established it, shall borrow money for its day-to-day operations without receiving the permission that establishes the borrowing limits for the relevant **fiscal year** from the responsible Minister and the Minister of Finance.
- No **public body** which has been authorized to borrow money, or otherwise incur debt, for the purpose of acquiring real property for its own use, or for the purpose of erecting, repairing, adding to, furnishing or equipping a building for its use, shall do so without the prior approval of its responsible Minister and the Minister of Finance.
- No **public body** which requires the approval of the Lieutenant-Governor in Council to borrow money or incur debt shall borrow money or incur debt without the appropriate approval.
- No **Government entity** shall maintain financial information in a manner which is not in keeping with generally accepted accounting principles.
- No entity shall prepare annual budgets without using **accrual accounting** and cash-based information.
- No entity which engages an external auditor in the preparation of its year-end financial statements shall engage auditing services without complying with the timelines for annual reports established by the Lieutenant-Governor in Council.
- No **Government entity** shall establish fiscal strategic directions or goals which are not in keeping with the strategic directions of Government.

The Act also incorporates reporting policies for **public bodies**, providing for specific timelines and detailed requirements with respect to the preparation and public release of plans and annual reports.

1.2.2 Modern Management

The modern management (also known as modern comptrollership) concept refers to the ability of an organization to have sound management and financial controls and practices, to focus on *accountability* and learning through organization-wide thinking, and to establish good performance measurement processes to report on planned results. Modern management practices employed by Government include:

Leadership

This involves creating a vision; establishing goals to set a direction for the organization; planning the objectives, priorities, and tasks for work; setting up an *effective* structure and resource allocation; and reviewing work outcomes against established goals and priorities. It requires the ability to creatively develop solutions and adapt quickly to change; communicate effectively; provide coaching, mentoring and information sharing opportunities for staff; and allow for exploration and discovery in the workplace.

Governance

This is the exercise of authority, direction and control. This involves those high-level and long-term activities primarily concerned with planning, goal setting, policy development, and progress toward strategic objectives. It entails a clear determination of the long-term course for an organization, as well as the opportunities and threats to that course. As part of the governance process, sound management principles and ethical behaviour must be paramount in the decision making process and shared amongst all organization levels.

Accountability

This requires Government to establish clear goals: to explain the strategies in use to meet these goals and associated objectives; to reveal the full cost of these strategies; and to report on the actual results. *Accountability* means the ownership of conferred responsibilities combined with an obligation to report to a higher authority on the discharge of these responsibilities and on the results obtained. *Accountability* includes:

- answering to the public;
- quality decision making;
- strong internal controls;
- knowledge of policies and procedures, with *effective* communication of this knowledge throughout the organization; and
- development and implementation of *risk management* practices.

Performance Measurement

This is a systematic process that enables an organization to track, manage and report progress towards its strategic goals and objectives. Performance measurement focuses on the desired quantitative and qualitative outcomes required for an organization to achieve

its mission and goals and is also a method of determining an organization's planned versus achieved results. This means Government must consistently review its performance to ensure it is meeting its defined objectives. Timely, accurate and understandable measures of performance must be developed and reviewed.

Learning and Growth

It is important that learning and growth activities are established that meet the organization's needs. Government must continue to develop the systems approach to ensure that training, education and development programs are providing the best opportunities for learning and growth in a financial environment that has limited resources.

Risk Management

As in any business, the successful operation of Government depends upon *risk management*. *Risk management* is about avoiding negative occurrences, and equally important, not missing out on opportunities. This requires a process to identify, analyze and treat potential risks, which, if left unaddressed, could prevent Government from attaining its goals and objectives. *Risk management* techniques must be developed that go beyond strictly financial issues and address operational and organization-wide risks.

1.3 Role of Departments in Financial Management

Financial management may be defined as the organizational function concerned with the *efficient* allocation and *effective* use of available resources to achieve optimal results in an organized and systematic way. Budgeting, accounting and other financial measures, including accurate and timely reporting systems, are a valuable means of providing management with the financial data necessary for objective analysis of current *programs* and *activities*, for realistic planning and control, and for decision making.

1.3.1 Delegation of Authority

Departments play a critical role in the acquisition of goods and services for Government. There must be a clear delegation of authority to ensure that *public money* is controlled in accordance with the *Financial Administration Act*. Although they retain ultimate responsibility, Ministers and Deputy Ministers must authorize selected departmental personnel to act on their behalf. Delegation of authority carries specific responsibilities, has limitations and requires adequate documentation.

Responsibilities

When delegating financial authority, restrictions must exist in order to maintain sufficient control and reduce risk proportionate with responsibility and level of knowledge.

- Delegation of authority must comply with legislative requirements outlined in the *Financial Administration Act*. In addition, the *Executive Council Act*, in establishing the various departments of Government, outlines the responsibilities of incumbent Ministers.
- Ministers and Deputy Ministers, in accordance with appropriate authority, must formally delegate and communicate financial authorities in writing and establish appropriate divisions of responsibility to ensure that controls are applied in the care of *public money*.
- Delegation should be made to appropriate officials where responsibility can be most *effectively* exercised and where *accountability* for results can be readily established.
- Functions that are delegated to departmental staff must be clearly communicated to those staff members.
- Departments must establish policies and procedures to ensure an adequate level of control over delegated authorities.

Limitations

As authorities are granted to successive subordinate levels, the extent of delegated authority will be correspondingly restricted in relation to the responsibility of the position.

- Delegated authority must not be re-delegated. When a person is delegated specific authority he/she cannot re-delegate this authority to another person.
- Authorities should be qualified by restrictions that place appropriate limits on the authority in relation to the responsibilities of the position. Additional restrictions may be needed in specific situations such as in remote offices, or in times of financial restraint.
- Authorities must be delegated to positions identified by title, not to individuals identified by name.
- Authorities should be restricted to specific locations and/or organizational functions.
- Transactions should be limited by an appropriate dollar value commensurate with the duties and responsibilities of the position.

Documentation

To ensure that a high level of control accompanies the delegation of financial authority, written documentation must be maintained in each department outlining the protocol for delegation of authority in a clear and concise manner.

- Departments must maintain a Financial Signing Authorities Chart. This chart will present a clear picture of the various relationships of delegated authorities and the restrictions and limitations assigned to each.
- Specimen signature cards must be used to identify the incumbent of a position to which signing authority has been delegated.
- There must be a formal designation in writing whenever signing authority is granted to persons appointed to a position on an acting or temporary basis.
- The requirement for written documentation must be communicated to all staff so that *accountability* for compliance exists at all levels within the department.

1.3.2 Financial Authorities

To fulfill the responsibilities delegated to them, departments must establish and maintain financial controls relating to three basic types of financial authorities. *Spending authority* is the legislated authority to facilitate the incurrence of a liability; *purchasing authority* is the legislated authority to acquire a good or service (after *spending authority* has been provided); and *payment authority* is the legislated authority to pay the liability for the acquired good or services. Additional information is provided as follows:

Spending Authority

Spending authority relates to the authority to enable incurrence of a liability, which by law must originate with the House of Assembly. The authority is generally in the form of

Supply Acts, *Special Warrants* under the *Financial Administration Act* or continuing statutory authority for specific expenditures.

Spending authority deals with all types of expenditures, for example, the acquisition of goods or services, salaries, grants, or any activity whereby a financial liability to Government is incurred. Officials authorized to incur expenditures must ensure that:

- they do not exceed the specified delegated authority granted to them;
- the proposed expenditure is a legitimate charge against Government funds;
- provision was made in the current year's approved Estimates for the program or activity involved; and
- the Comptroller General is notified (via *financial management system* features) before any *commitment* of funds is given so that funds may be reserved and available when payment becomes due.

Purchasing (Contracting) Authority

Assuming that *spending authority* exists and the intent is to acquire goods or services, there are legislative requirements related to *purchasing authority* for such goods or services. Specific legislation governing this authority includes the *Public Tender Act*, the *Government Purchasing Agency Act* and the *Executive Council Act*. In addition, the document entitled the "Guidelines Covering the Hiring of External Consultants" establishes a process for the acquisition of consulting services (see References).

Payment Authority

Payment authority is the authority to requisition payments and authorize their charge to the proper *appropriation* accounts. Officials with *payment authority* must ensure:

- that all requirements of the *Financial Administration Act* and any other relevant *Act* in relation to the payment are met, and that all applicable financial controls have been met; and
- that control over expenditures is exercised at the most senior level responsible for financial administration in the department.

Additional information on authority for expenditure and payment is found in the *Financial Management Circulars* and the Financial Management Handbook (see References).

1.3.3 Departmental Responsibility

A "department" means a department or branch of the Government. A Minister is responsible for each department. The total amount of *public money appropriated* by the Legislature and assigned to a particular department is referred to as the Head of

Expenditure, as exhibited in the annual Estimates. Together, the various Heads of Expenditure comprise the **Consolidated Revenue Fund**. A Deputy Minister has various responsibilities related to expenditures from the Head of Expenditure assigned to him/her. The term “department” is used generically throughout this section and particular responsibility would rest with departmental officials based on the structure, position and duties as approved by the Deputy Minister.

Effective financial management cannot occur without cooperation and input from departments. Therefore, departments are expected to actively contribute to upholding Government’s **financial management** policies and to enhance control of **public money** in Government. This requires departments to be accountable in the following ways:

- Departments must ensure that their financial operations are conducted in accordance with the *Financial Administration Act*, and any other statutes having financial implications, such as the *Public Tender Act*.
- Departments are obligated to follow any direction of the Comptroller General and Treasury Board and to apply the policies contained in this manual.
- Departments are responsible for financial accounting in accordance with the direction of the Comptroller General and the Department of Finance, as well as the Public Sector Accounting Board in following generally accepted accounting principles.
- Departments are responsible for ensuring all financial administration staff are thoroughly familiar with all accounting and administrative instructions and circulars issued by the Comptroller General and Department of Finance.
- Departments are responsible for making enquiries when any information it receives on financial administration is not clear to them as to meaning and/or implementation.
- Departments are responsible and accountable for making **effective, efficient** and **economical financial management** decisions.
- Departments are responsible to provide any necessary guidance on **financial management** and accounting policies to the **public bodies** for which they are responsible.

Key **financial management** functions are performed at the departmental level. Reference to departments refers to that portion of the department’s organizational structure that has **financial management** responsibilities. Included in these functions, many of which are addressed in later sections of this manual, are:

Uniform Classification of Accounts

Financial data must be recorded in accordance with the Government’s chart of accounts. The coding structure of the chart of accounts provides for the uniform categorization of

data flowing through the *financial management system*. This is essential for budgetary control and accurate financial reporting.

Budget Preparation

Departments must co-ordinate and assemble financial data for use in preparing annual budget requests, ensure this data is accurate and that their budget data accurately reflects program goals; is realistic and reliable; and is in accordance with guidelines issued by the Budgeting Division of the Department of Finance.

Budgetary Control

Departments must analyze and provide for timely reporting of significant budgetary variances by reviewing actual and planned performance, and initiating an *effective* system of corrective action and follow-up on these variances.

Departments must ensure that proper controls are in place and followed so that as *commitments* are incurred and expenditures are approved, they do not exceed *appropriations*.

Departments must ensure *pre-commitments* receive the required legislative approvals.

Accounting and Control of Expenditures

Departments must design and operate accounting and internal control processes where necessary, following the procedures, processes and forms as required by the Comptroller General for *effective* operation of the *financial management system* and meeting legislative requirements.

Departments must identify needs for program information and develop cost accounting processes and utilize the *financial management system* to generate such information.

Departments must analyze cost information and prepare reports that highlight areas requiring attention, taking corrective action as required.

Accounting and Control of Revenue

Departments must ensure the appropriate claiming, accounting for, and collection of revenue and other receipts. They must provide for appropriate safeguards over *public money* under their control.

Financial Reporting

Departments are responsible for the design, preparation and submission of departmental financial reports which are timely, accurate, and which meet the needs for which they were designed, including explanations on significant budgetary variances.

Departments must participate in the preparation, co-ordination and provision of information for reporting in the *Public Accounts* and interim financial statements.

Financial Audit

Departments must appraise the *efficiency* and *effectiveness* of *financial systems* and procedures, and the adequacy of internal accounting, financial, and budgetary controls.

Departments must act on recommendations arising from financial audits, and prepare follow-up reports on the actions taken.

Inventory Control

Departments must ensure the implementation, operation, and maintenance of an *effective* system to control the purchase, custody, and disposition of supplies and other inventory.

Fixed Asset Control (Tangible Capital Assets)

Departments must identify and record all fixed assets owned by the department.

Departments must implement, operate, and maintain a system for the orderly acquisition, custody, and disposition of fixed assets within the department. Departments must utilize Government's *financial management system* for proper recording and reporting of tangible capital assets.

Approval Control and Security Access

Departments are responsible for verifying the accuracy, authority, and completeness of vouchers and other documentation supporting financial transactions.

Departments must review transactions to ensure approval has been made by persons with properly delegated financial authority.

Departments must ensure that there is a segregation of duties for manual processes and for *financial management system* access to facilitate proper internal control over financial transactions.

1.4 Internal Control

Internal control is comprised of the *control environment*, accounting systems and control policies and procedures established and maintained by management to assist in achieving the orderly and *efficient* conduct of Government affairs.

Management should ensure they meet at least four main objectives when designing and implementing *effective* internal controls:

Maintaining Reliable Control Systems

Management must have reliable control systems to have accurate information for carrying out operations and producing reliable, timely financial information.

Safeguarding Assets

Management must provide for the security of physical and non-physical assets by controlling access and by comparison of assets with records of those assets.

Optimizing the Use of Resources

Management must ensure there is no unnecessary duplication of effort or waste, and discourage inefficient use of resources.

Preventing and Detecting Error and Fraud

Management must ensure procedures are in place to reduce errors and prevent misappropriation of Government assets or other fraudulent activity.

1.4.1 Control Procedures

Management should consider these basic control procedures as part of the internal control processes in their departments:

- authorization of transactions;
- segregation of duties;
- adequate documentation and recording of transactions and events;
- safeguards over access to, and use of, assets and records; and
- independent checks on performance and proper valuation of recorded amounts.

SECTION TWO – FINANCIAL REPORTING PROCESS

This Section discusses the financial reporting process. The administration of the financial affairs of the Province is based upon the obligation of the House of Assembly, as the elected representatives of the people, to ensure that *public money* is properly managed and controlled. This obligation is addressed mainly through the financial reporting process which includes the *Budget, appropriation* and funds control, and the *Public Accounts* and other types of financial reports.

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2.0 The Budget

The **Budget** documents include the Estimates, Budget Speech, Economy, Salary Details, and Budget Highlights. The financial plan of Government, the **Budget** is generally presented on an annual basis to the House of Assembly. Authority to spend **public money** must, by law, originate in the House.

The **Budget** is supported by the Estimates, the document which provides the details of planned expenditures and revenues and public debt information for the upcoming **fiscal year**, in turn supporting the **Budget** forecasts. Often the term **Budget** and Estimates are used interchangeably.

2.0.1 Appropriation and Authorization

Approval of specific funding amounts as outlined in the **Budget** and the subsequent expenditure of **public money** constitute a two-part process.

Appropriation

The House of Assembly is required to appropriate funding by granting approval for the individual amounts in the Estimates. Individual **appropriations** effectively establish the upper spending limit for each activity. Changes to **appropriations** are effected through the Transfer of Funds policy authorized by the Department of Finance; **Special Warrants** and Supply Bills (**General Warrants**).

Authorization

By Legislation, the Lieutenant-Governor must approve a Supply Bill, resulting in the issuance of a **General Warrant**, to provide the legal authority for departments to spend **public money** (see Section 2.1.1). The total amount of monies for which expenditure has been assigned to a particular department is referred to as the Head of Expenditure. The individual amounts are the **appropriations** that comprise the Head of Expenditure.

2.0.2 Responsibility for the Budget

Cabinet and Budget Committees

A **Budget** Committee, comprising of at least the President of Treasury Board/Minister of Finance and the Premier, is responsible for approving a draft **Budget** following a complete review of departmental submissions by the Budgeting Division of the Department of Finance. The full Cabinet is responsible for final approval of the **Budget**, and will notify each department in writing of major items affecting its Estimates.

Department of Finance

The Department of Finance, Budgeting Division, has overall responsibility for the preparation of the annual expenditures and consolidated **accrual** Estimates, and will provide overall direction to departments in the preparation of their budget submissions. The Budgeting Division will subject completed departmental budget requests to a

detailed review and make recommendations to Treasury Board on the required level of funding based on each department's request. The Department of Finance is also responsible to provide advice to Treasury Board on all matters relating to **financial management**. The Taxation and Fiscal Policy Branch is responsible for current account revenue projections, ascertaining Government's borrowing requirements, various economic analyses and drafting of the Budget Speech.

Departments, Crown Corporations, Boards and Agencies

Departments and those Crown Corporations, Boards and Agencies whose funding is outlined in the Estimates are responsible for the preparation of budget requests based on current and anticipated **program activities** for review by the Budgeting Division of the Department of Finance.

Other Crown Corporations, Boards and Agencies are responsible for the submission of information as defined and requested by the Department of Finance.

2.0.3 Estimates Structure

Policy Statement

The Estimates are structured based on the net expenditure requirements and projected revenues of Government for a **fiscal year** with provision for multi-year projections as directed by Government.

General Policies

The **Budget** shall outline the expenditure plans and revenue forecasts along with the projected overall financial position of the Province for the coming **fiscal year**.

The **Budget** shall outline gross expenditure requirements and deduct revenues from these requirements to show the net requirements of Government.

Program Structure

The program structure of the Estimates shall represent the manner in which Government divides the financial plan into areas of responsibility and **accountability**. The Estimates are classified into groups including Sector; Department; Program; Sub-Program; and Activity.

The Estimates are structured in a manner which separates the broad categories of revenues and expenditures of Government into lower classifications:

Revenues

- Current account revenues are provincially or federally generated sources such as taxation, fees and equalization payments.
- Related revenues (from provincial and federal sources) are a direct result of current and capital expenditure incurred.

Expenditures

- Non-budgetary transactions relate primarily to debt redemption and *sinking fund* payments, and generally do not affect the surplus/deficit.
- Budgetary expenditures are those incurred by Government in the course of achieving its policy and *program* objectives.
- Current account expenditures are those incurred in the normal operation of Government's *programs* in a twelve-month fiscal period.
- Capital account expenditures are those where benefits normally extend over more than one *fiscal year*.
- Statutory expenditures are those specifically authorized by *Acts* of the Legislature, and may fall under the category of current or capital account.
- Non-statutory expenditures require an annual authorized *appropriation* of the Legislature prior to the expense being incurred.

2.0.4 Budget Framework and Guidelines

Policy Statement

The **Budget** Committee establishes the fiscal framework of Government. This is the process whereby the overall guidelines and objectives for a particular **Budget** are established and overall parameters are set for formulation of the **Budget**.

Based on the decisions of the **Budget** Committee, the Budgeting Division of the Department of Finance shall prepare and issue detailed budget guidelines to be used by departments in the preparation of budget requests.

General Policies

The fiscal framework shall be based on the current and projected financial requirements of Government, existing and new revenues sources, and the Government's ability to borrow.

Detailed budget guidelines shall include the specific format to be followed in the preparation of requests, the backup documentation to be provided, any specific calculations to be made, and any other information which is required in each submission. Detailed budget guidelines shall be prepared and distributed to Departments to provide overall direction for:

- capital account budget submissions;
- current account expenditure forecasts; and

- multi-year financial plan preparation.

2.0.5 Preparation of Budget Requests

Policy Statement

Preparation of budget requests shall be the responsibility of individual departments, Crown Corporations, Boards and Agencies upon receipt of the budget guidelines.

General Policies

Each department, Crown Corporation, Board and Agency must assign overall responsibility for the budget preparation.

Each department, Crown Corporation, and Agency must determine the process to be followed in the preparation of budget requests.

2.0.6 Budget Monitoring and Control

Policy Statement

A budget monitoring process shall be in place to ensure adequate control of ***public money***.

General Policies

All legal requirements for the control of expenditure of ***public money*** under the *Financial Administration Act* must be upheld. This must be inherent in the budget monitoring process.

As outlined in the *Financial Administration Act*, responsibility for control of expenditure rests with the Minister of Finance, the Comptroller General, and the various Deputy Ministers and departments.

Treasury Board must have the following procedures in place to maintain budgetary control:

- Monitor the departmental spending ***programs*** on a continuous basis to ensure that funds are expended only for the purposes authorized by the Legislature.
- To require departments to provide information showing the current budgetary position.
- To conduct analyses of significant budget variances and suggest corrective measures to resolve these variances.

- To set all rates of pay and other employee benefits and control the number of positions in each department.
- To require departments to receive prior approval of the budget, where necessary, in the event of any change from the original budget plan.

2.1 Appropriations and Control of Funds

Adequate measures must be in place to ensure the proper utilization of the funds appropriated by the Legislature to defray the expenses of the public service. The House of Assembly, the Lieutenant-Governor in Council, Treasury Board, the Comptroller General and all Ministers and Deputy Ministers have important roles to play in the spending process, and in the monitoring, controlling and accounting for expenditures of *public monies*.

2.1.1 Legislative Authority

Policy Statement

No issue of *public money* shall be made out of the *Consolidated Revenue Fund* except under authority of the Legislature.

General Policies

This policy, consistent with legislation, requires that authorization of expenditures be approved through the legislature in one of the following forms:

- ***Main Supply Act*** - the primary authoritative source for Government expenditure - provides annual *appropriations* of a fixed amount of money based on the Estimates for a *fiscal year*, the authority for which expires at the end of the *fiscal year* concerned.
- ***Interim Supply Act*** – intended to supply funds on a status quo basis for existing Government *programs* in the interim period between the expiration of the preceding *fiscal year* and until such time as the new *Budget*, as reflected in the *Main Supply Act*, is formally approved.
- ***Supplementary Supply Act*** – tabled in the House of Assembly and summarizing any *Special Warrants* which may have been issued during the *fiscal year* and seeking the formal approval of the House and Crown; and issued in situations where funding is required for a new service while the House is in session.
- Continuing statutory authority whereby enabling legislation provides authority for specific expenditures, subject only to any authorizing statutes.
- ***Special Warrants***, which may be approved by the Lieutenant-Governor in Council to authorize funding in addition to that of the various *Supply Acts*, subject to the *Financial Administration Act*.

2.1.2 Responsibility of Treasury Board

Treasury Board acts as a Committee of Executive Council on all matters relating to *financial management* of the Province, including areas affecting *appropriation* control.

Policy Statement

Treasury Board will fulfill its responsibilities under legislation regarding ***appropriation*** control.

General Policies

Treasury Board must have adequate systems in place to analyze/monitor the controls that exist at the various levels throughout Government.

Treasury Board is responsible for monitoring of budgetary control, ***appropriation*** control and adjustments to ***appropriations*** through transfers of funds or issuance of ***special warrants***. (The Board may delegate specific responsibilities, e.g. monitoring of budgetary control is delegated to the Budgeting Division of the Department of Finance).

2.1.3 Responsibility of the Comptroller General of Finance

Policy Statement

All issues of ***public money*** will be made under the direction and control of the Comptroller General.

General Policies

These policies are consistent with the legislative requirements.

The Comptroller General shall exercise functional control over departments with regard to issues of ***public money*** out of the ***Consolidated Revenue Fund*** and will monitor departmental compliance with relevant legislation and executive directions.

The Comptroller General shall ensure that adequate safeguards are in place to enable him/her to meet the responsibilities under the *Financial Administration Act* for the purpose of maintaining control over the ***Consolidated Revenue Fund***.

To ensure compliance with the requirements of the *Financial Administration Act* and the policies and procedure issued by the Comptroller General related to receipts, payments, ***appropriations*** and control of funds, departments must develop departmental procedures relating to:

- reporting of ***encumbrances*** and of ***commitments***;
- responsibility for and control over payment processing activities;
- ensuring sufficient funds are available; and
- responsibility for, and control over, receipts of ***public money*** administered by the department.

2.1.4 Transfer of Funds

Policy Statement

Subject to specific direction from the Budgeting Division of the Department of Finance, departments may transfer funds between specified *Main Objects* within *Activities*, for the purpose of facilitating day-to-day program management.

General Policies

Departments are responsible for ensuring they operate in compliance with the Transfer of Funds Policy as issued by the Department of Finance (see References).

The Department of Finance will issue to each department a Transfer of Funds exception list, allowing for budgetary transfers of funds without reference to the Budgeting Division.

2.1.5 Commitment Control

Commitments are obligations to make a future payment as a result of a contract/agreement/purchase order for goods/services. They have the same characteristics as liabilities except that the transaction or event obligating Government has not yet occurred.

Encumbrance accounting is primarily unique to senior Governments (municipal, provincial, territorial and federal) whereby balances of *appropriations* are reduced as *commitments* are incurred and once actual liabilities are incurred (payment made), the *commitment* amount is relieved and the actual amount is charged against the balance of *appropriation* available (available funds).

Available funds are comprised of the *appropriation* less *commitments* and actual payments. No *commitment* can be entered into by a department and no payment can be made unless there are sufficient available funds.

Policy Statement

The Comptroller General shall establish and maintain a record of *commitments* in the Government's *financial management system* chargeable to each *appropriation* in such form as Treasury Board may prescribe.

General Policies

When a *commitment* is about to be incurred, sufficient funds must be set aside to ensure that money will be available when payment becomes due.

Deputy Ministers are required to notify the Comptroller General of all *commitments* pending, and the Comptroller General must certify that sufficient funds are available before the Deputy Minister enters into the *commitment*. The *financial management system* has been structured to facilitate this process electronically.

2.1.6 Pre-Commitment Control

A *pre-commitment* is an obligation arising from an agreement entered into in the current *fiscal year* for the delivery of a good or service to be provided and paid for in a future *fiscal year*.

Policy Statement

As required by the *Financial Administration Act*, departments must obtain the approval of Treasury Board and Cabinet prior to entering into an agreement that would result in a '*pre-commitment*' of funds.

General Policies

The practical application of relevant provisions in the *Financial Administration Act* has generally excluded insignificant amounts and obligations related to ongoing routine minor operational needs.

Significant capital expenditures are required to be *pre-committed* as outlined in the *Act*.

Additional direction for the control of *pre-commitments* is found in the *Financial Management Circulars* (see References).

2.2 Public Accounts

2.2.1 Preparation, Audit and Presentation of the *Public Accounts*

Policy Statement

The Comptroller General shall prepare the ***Public Accounts*** of the Province, comprised of annual financial statements and supplementary financial information, for each ***fiscal year*** on a timely basis. The ***Public Accounts*** shall be audited by the Auditor General and tabled in the House of Assembly via the Minister of Finance, in accordance with the *Financial Administration Act*.

General Policies

Accounting systems and practices of departments and ***public bodies*** controlled by Government should be structured in such a way as to facilitate the timely preparation and provision of required data to the Comptroller General within established timelines after the close of each ***fiscal year***.

Shortly after the close of each ***fiscal year***, additional information will be obtained from departments as required to prepare the financial statements of the ***Consolidated Revenue Fund*** in accordance with the annual direction of the Comptroller General.

Additional information will be obtained from ***public bodies*** outside the ***Consolidated Revenue Fund***, but controlled by Government, as required to prepare consolidated financial statements of the Province in accordance with the standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

2.2.2 Form and Content of the *Public Accounts*

Policy Statement

The ***Public Accounts*** of the Province shall consist of four volumes, including:

Volume I – Consolidated Summary Financial Statements

These are the combined audited financial statements of the ***Consolidated Revenue Fund*** and Government organizations which, in accordance with accounting standards, are controlled by and therefore accountable to Government. They present the consolidated financial position of the Province on an ***accrual*** basis.

Volume II – Consolidated Revenue Fund Financial Statements

These are the audited financial statements of the ***Consolidated Revenue Fund*** on an ***accrual*** basis.

Volume III – Consolidated Revenue Fund Supplementary Statements and Schedules

These present the revenues and expenditures, and the resulting annual surplus/deficit, of the *Consolidated Revenue Fund* on a *modified cash basis* (comparative to the Estimates).

Volume IV – Financial Statements of Crown Corporations, Boards and Authorities

This is comprised of reproductions of the audited financial statements of each Government organization in the *reporting entity*.

General Policies

The *Public Accounts* shall be maintained in a form that shows, among other things:

- the annual financial position and result of operations of the *Consolidated Revenue Fund* of the Province; and
- the annual financial position and result of operations of the Province's *reporting entity*, comprised of the *Consolidated Revenue Fund* consolidated with those *public bodies* controlled by Government.

The *Public Accounts* shall be prepared based on generally accepted accounting principles in accordance with accounting standards established for Governments by the Canadian Institute of Chartered Accountants, and any relevant legislation.

The *Public Accounts*, comprised of the *Consolidated Revenue Fund* and the Summary Consolidated Volumes, shall contain a Statement of Responsibility prepared by the Comptroller General.

The *Public Accounts* are available via the Internet on the Government web-site (see References).

2.2.3 Interim Financial Statements

Policy Statement

The Comptroller General may prepare interim financial statements throughout the *fiscal year* for such periods as determined by the Comptroller General.

General Policies

Departments are required to provide the Comptroller General with any and all information that he/she may request for the preparation of the interim financial statements.

2.2.4 Other Financial Reporting

Policy Statement

Departments are required to provide the Comptroller General with any and all financial information that he/she may request in order to carry out assigned duties and responsibilities.

General Policies

Departments are responsible for the design, preparation and submission of departmental financial reports which are timely, accurate and meet the needs for which they are designed.

Decentralized Reporting

The Comptroller General has provided departments with access to Government's *financial management system* and other reporting tools for decentralized reporting purposes.

Departments may prepare other financial reports from the Government's *financial management system* or other information systems for the purpose of *financial management* and providing required information.

The Comptroller General may provide additional financial information to departments where the requested information is required and not readily available to the department.

Additional information on decentralized reporting is available in the FMS User Manuals via the Internet on the Government web-site (see References).

SECTION THREE – MANAGEMENT AND CONTROL OF FINANCIAL RESOURCES

This Section addresses the requirement for adequate management and control in ensuring appropriate accounting and reporting for relevant financial resources within Government.

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3.0 Accounts, Loans and Other Receivables

Accounts receivable include all amounts claimed by the Government against debtors. Balances may arise from, but are not limited to, taxation and royalties; fines, forfeitures and penalties; accountable advances; provisions of goods and/or services; loans, interest and advances; overpayments; leases, licenses and permits; and other sources.

Policy Statement

Departments are responsible for the timely and complete recording, maintenance and collection of accounts receivable, and should establish written procedures and maintain records that match the requirements of its particular operations.

The Comptroller General is responsible by legislation for control over the ***Consolidated Revenue Fund***, which includes all ***public money*** received, except where otherwise provided by statute, in the form of cash, cheque or other.

3.0.1 Accounts Receivable Recording and Aging

General Policies

Departments are responsible for obtaining approval from Treasury Board for the issuing of credit for Government fees and services.

It is the responsibility of every department to utilize the accounts receivable system available through Government's ***financial management system***.

Departments should maintain aged trial balances for their accounts.

Procedural details relating to the maintenance of accounts receivable records in Government's ***financial management system*** are found in the Accounts Receivable User manual and appropriate ***Financial Management Circulars*** (see References).

3.0.2 Collection Activities

General Policies

Departments must establish and maintain rigorous accounts receivable controls and collection practices, and this applies even if Government provides for a central collection approach, external collection services or some combination.

Collection efforts by or on behalf of departments are to be on-going from the date the receivable becomes due to the date that it is collected, settled or ***written off***. Follow-up should be continuous and should become progressively more forceful in dealing with delinquent accounts.

3.0.3 Settlement and/or Remission of Debts

Settlements and/or *remissions*, once finalized, allow Government no further recourse for recovery of amounts.

General Policies

Treasury Board and departments may settle debt and claims owing, subject to financial limitations and other appropriate authorities as imposed by the *Financial Administration Act*, once it is ascertained that *settlement* and/or *remission* is the only recourse after collection efforts and all options have been exhausted within economic justification.

Authority levels and procedural requirements are detailed in the Settlement and/or Remission of Debt Guidelines (see References).

3.0.4 Write-off of Uncollectible Accounts/Loans Receivable

The *write-off* of a debt or fine under the *Financial Administration Act* does not affect the obligation of a person from whom the deficit was due to pay it or the right of the Crown to recover it.

General Policies

Treasury Board is charged with overall responsibility for *write-off* of uncollectible accounts.

Departments may *write-off* debt and others claims owing, subject to financial limitations and financial authorities as imposed by the *Financial Administration Act*. A *write-off* should be the last recourse, only completed after collection efforts and options have been exhausted within economic justification.

Authority levels and procedural requirements for *write-offs* are detailed in the Write-Off Guidelines document (see References).

3.0.5 Customer Setup

Policy Statement

The Comptroller General is responsible for the maintenance of customer accounts in the Government's *financial management system*.

General Policies

Departments should submit a written request, using the prescribed form, to the Comptroller General for the creation of new customer accounts, or changes to existing customer accounts, within Government's *financial management system*.

3.1 Accountable Advances

Accountable advances are funds advanced for the purpose of paying for work performed, goods supplied or services rendered when immediate cash settlement is required, and Government's normal purchasing and payment procedures are not practical in the circumstances. This is where as permitted by the Government Purchasing Agency or for other reasons as outlined in the policies.

3.1.1 Authority for Accountable Advances

Policy Statement

Accountable advances may be established by departments where the amounts required on hand are larger than normally required for a petty cash fund, and when:

- due to the nature of the transactions or the special circumstances involved, a supplier will not supply the goods or perform the services unless payment is made immediately once the goods or services are received; or
- it is a more *efficient* and *effective* alternative method of payment for small dollar amounts and is within any applicable policy.

Appropriate controls and safeguards should be in place considering the risk involved.

General Policies

Departments may establish accountable advances in accordance with the noted policy as approved by the Deputy Minister or delegate.

Departments may establish an accountable advance bank account if approved by the Comptroller General. Appropriate systems of internal control must be established.

Acquisition of goods and services shall be made in the manner and form prescribed by the Government Purchasing Agency, subject to the *Public Tender Act*. The *Financial Administration Act* requirements are to be followed.

Procedural/policy requirements are detailed in the *Financial Management Circulars* (See References).

3.1.2 Petty Cash

Policy Statement

Departments may acquire low dollar value items in accordance with applicable policy. These items can be paid for at the time of purchase through a departmental petty cash fund.

General Policies

Petty cash funds are restricted to the maintenance of a cash fund on hand. Bank accounts cannot be approved for operating petty cash funds, nor should custodians deposit such funds in personal bank accounts or co-mingle any other non-petty cash with the petty cash fund. Appropriate systems of internal control must be established.

The instructions issued by the Government Purchasing Agency (GPA) must be followed in all aspects of transactions involving acquisition of goods and services. These instructions are outlined in the GPA Customer Manual and/or directives issued by the GPA.

Additional procedural/policy requirements are detailed in the *Financial Management Circulars* (see References).

3.1.3 Cashier Allowances

Policy Statement

Cashier allowances can be provided to employees of Government when they have responsibility for the receipting, depositing and control over *public money*.

General Policies

The issuing of cashier allowances is at the discretion of departments if the funds are available. Appropriate systems of internal controls must be established.

The department's Deputy Minister's approval is required prior to initiating any new cashier allowances, with appropriate notification to the Comptroller General.

Procedural/policy requirements are detailed in the *Financial Management Circulars* (see References).

3.1.4 Travel and Other Advances

Policy Statement

An official journey authorization voucher or equivalent must be prepared and properly authorized for approval of a trip advance or standing travel advance.

General Policies

Depending on the travel destination, prior authorization must be obtained as outlined in the current Government policy, as appropriate.

Travel policies are detailed in the Human Resources Policy Manual, with additional procedural/policy requirements detailed in the *Financial Management Circulars* (see References).

3.2 Capital Assets

Capital assets are non-financial assets having physical substance that are acquired, constructed or developed, and have an estimated period of useful life normally in excess of one year. Capital assets include tangible capital assets amortized over their useful lives, which are higher value items exceeding specified dollar thresholds set by Government and include roads, buildings, equipment, land, software and vehicles, etc.; and some furniture and equipment. Also included are other assets valued below the dollar threshold for capitalization and are fully expensed when acquired. Departments are responsible for asset management and reporting of these assets for inclusion in the *Public Accounts* of the Province.

3.2.1 Asset Management

Policy Statement

Departments are responsible for the management of capital assets.

General Policies

Departments are responsible for recommending capital asset investments, and should provide an accurate accounting of the use of, and investment in, capital assets.

Departments are responsible for capital asset acquisitions and disposals in compliance with established legislation and purchasing policies, facilitated through the Government Purchasing Agency where appropriate (See Section 4.3).

Departments are responsible for the establishment of adequate internal controls for the management and maintenance of capital assets.

Departments are responsible for the safeguarding of assets against unauthorized use, damage, theft, etc.

Departments may avail of the services of the Government Purchasing Agency for the removal of surplus, obsolete, or unserviceable assets by public tender, auction, transfer or destruction.

3.2.2 Recording and Reporting

Policy Statement

The Comptroller General is responsible for recording and reporting of tangible capital assets and other physical assets in the accounts of the Province for financial statement purposes, based on information provided by the departments.

General Policies

Departments are responsible for ensuring that all capital assets are appropriately recorded and reported in accordance with applicable policies.

Recording

Departments should record tangible capital assets at historical cost, or at estimated historic cost if insufficient information is available to reasonably determine actual cost.

Reporting

Departments are responsible for submission of periodic tangible capital asset information as required by the Comptroller General in designated formats.

The Comptroller General shall subject all tangible capital assets to amortization, with the exception of land and work-in-progress assets, using the prescribed amortization method.

Capital assets which are valued below the dollar thresholds and not capitalized must be inventoried and accounted for in the same manner as materials and supplies

3.2.3 Other References

Additional information, details, policies and procedures are found in the *Financial Management Circulars*, The Tangible Capital Assets – Policies and Guidelines document, Departmental Capital Asset Monthly Update Instructions, the FMS User Manual for Fixed Assets, and the CICA Public Sector Accounting Board (PSAB) Handbook (see References).

3.3 Inventory

Within Government, inventories consist mainly of materials and supplies that will subsequently be expended or consumed directly as departments carry out their internal operations. Inventory items also include inventories held for re-sale. For purposes of inventory management, capital assets which are valued below the dollar thresholds and are not capitalized, must be inventoried and accounted for in the same manner as materials and supplies.

3.3.1 Inventory Management

Policy Statement

Departments are responsible for maintaining an inventory system and procedures that provide for the accounting and control of items held in inventory.

General Policies

Departments must consult with the Comptroller General before acquiring, developing or making changes to computerized inventory systems to ensure that the changes are compatible within the Government's ***financial management system*** or utilize Government-wide systems that may be provided.

Departments are responsible to ensure the following:

- Sufficient inventory levels are maintained to sustain normal departmental operations while minimizing investments in inventories.
- The inventory system provides accurate information for financial reporting and forecasting of inventory requirements.
- Inventory acquisition is in compliance with established purchasing policies and facilitated through the Government Purchasing Agency where appropriate (See Section 4.3).
- Adequate control is maintained over the receipt and issue of inventory items to facilitate proper utilization of inventories.
- Periodic comparison of physical quantities on hand to inventory records to detect inventory losses.
- Adequate safeguards to prevent against losses through unauthorized use, damage, obsolescence etc.

In particular, departments are responsible for developing procedures to ensure ***effective*** controls and segregation of duties in the following areas:

- receipt and storage of goods;
- release of goods from inventory;
- return of unused goods to inventory;
- departmental transfers; and
- disposal and *write-off* of goods.

Departments should not avail of unexpended balances of *appropriations* to build up inventories beyond normal levels.

3.3.2 Inventory Valuation, Recording and Reporting

Policy Statement

Departments are responsible for the maintenance of adequate inventory records and provision of data for reporting purposes.

General Policies

Departments are encouraged to use the FIFO (first in, first out current cost) method for valuation of inventory. The Comptroller General should be consulted before any alternative method is considered.

Departments must report the value of inventory on hand as at 31 March of each *fiscal year* and at any other required time, to the Comptroller General for inclusion in the accounts of the Province, as directed by the Comptroller General.

3.4 Assets Held in Trust

Trusts are defined as property that has been conveyed or assigned to a trustee to be administered as directed by agreement or legislation. A Government department or organization acts as trustee on behalf of those beneficiaries specified in the agreement or statute. Assets held in trust are not available for *appropriation* and are excluded from the Government *reporting entity* for financial statement purposes.

The *Financial Administration Act* provides legislated authority for the issue of *public money* received in trust.

3.4.1 Trust Accounts

Trust accounts administered by the various departments are to be disclosed in the *Public Accounts* of the Province.

General Policies

The Comptroller General is responsible for disclosing applicable information, as provided by departments, with respect to trusts under administration by the departments in the *Public Accounts* of the Province.

Departments are responsible for administering trusts subject to enabling legislation or specific agreements establishing those trusts.

Reporting

Departments are responsible to report all trust accounts on hand as at 31 March or at any other required time, to the Comptroller General for inclusion in the accounts of the Province, as directed by the Comptroller General.

3.5 Accounts Payable

Disbursements from the *Consolidated Revenue Fund* include payments related to accounts payable for goods and services received by Government. Other liabilities may include, but are not limited to, payroll; grants; loans; income support; repayments of debt; revenue refunds and other.

3.5.1 Recording and Reporting

Policy Statement

Departments are responsible for the timely, complete and accurate recording of accounts payable, and for ensuring such payments are legally due.

General Policies

Departments should ensure that accounts payable are properly recorded in the period that goods are received or services rendered.

Departments are responsible to follow the procedures as detailed in the annual year end schedule and year end processing instructions provided by the Comptroller General.

Departments will provide detailed information on accounts payable, when requested, at the discretion of the Comptroller General.

3.5.2 Authority for Payments – Goods and Services

Policy Statement

No payment shall be made for goods and/or services unless it has been approved by the appropriate authority and is in compliance with relevant legislation, policy and procedures. (Refer to Section 1.3.2).

General Policies

Departments must ensure that requests for payment of liabilities such as grants, payroll, contracts, etc. comply with applicable policy and related directives and procedures.

Each Deputy Minister is required to submit to the Comptroller General a specimen of his/her signature and the specimen signature of any person authorized to approve payment requisitions on his/her behalf.

Administrative control over various areas of accounts payable and other disbursements of *public money* is established under the *Financial Administration Act*. Specific procedures relating to the processing of accounts payable and other payments through Government's *financial management system* are found in the Accounts Payable User Manual and applicable *Financial Management Circulars* (see References).

3.5.3 Requisitioning, Certification and Payment

Policy Statement

Departments should ensure that those involved in payment processing take prompt action so that payments can be systematically processed and suppliers paid on a timely basis in accordance with direction provided by the Comptroller General, and as is required by any contractual agreement, purchase order, etc.

General Policies

Departments are responsible for immediately documenting receipt of goods and services received in good order when work is performed, goods are received or services are rendered.

Departments are responsible for the *certification* of claims/invoices and the preparation of payment vouchers for processing through Government's *financial management system*.

No payment shall be made except upon the request, via an appropriately authorized document, submitted to the Comptroller General and when properly recorded by the department in Government's *financial management system*.

3.5.4 Arrears and Assignments of Debt

Policy Statement

Departments must take all appropriate courses of action to collect amounts due to them by debtors. After exhausting all reasonable collection efforts, debtors who are also Government vendors should be referred to the Comptroller General for collection by way of payment offset.

General Policies

Departments must forward all arrears and assignment of debts requests, on the prescribed form for possible payment interception, to the Comptroller General for appropriate action.

Departments should not accept third party payment assignments unless Government is legally bound to do so, or if it is in Government's interest to do so.

Additional information and details are found in the *Financial Management Circulars* (see References).

3.5.5 Cheque Control

Policy Statement

All matters related to the distribution of processed cheques, holding of unclaimed cheques, and the cancellation of cheques are at the discretion of the Comptroller General.

General Policies

In the interest of internal control, cheques will be mailed directly to payees or deposited electronically to payee specified bank accounts, except in those situations where alternate arrangements are deemed essential.

This policy applies to the *settlement* of the general accounts payable of the Province. Special provision is made for other disbursements, such as payroll and pension cheques.

3.5.6 Vendor Setup

Policy Statement

The Comptroller General is responsible for the maintenance of vendor accounts in the Government's *financial management system*.

General Policies

Departments should submit a written request, using the prescribed form, to the Comptroller General for the creation of new vendor accounts, or changes to existing vendor accounts, within Government's *financial management system*.

Departments should ensure that the 'one time vendor' facility is only utilized for those payees not expected to have multiple payments.

3.6 Accrued Liabilities and Other Debt

Liabilities are recorded in the *Public Accounts* for all amounts due for work performed, goods or services received or for charges incurred in accordance with the terms of a contract and for accrued liabilities.

Policy Statement

Departments are responsible for the timely recording of accrued liabilities, including those due to other departments, agencies or outside entities (including individuals).

3.6.1 Accrued Liabilities

Accrued liabilities are defined as developing but not yet enforceable claims by another party, which are accumulating with the passage of time or the receipt of service. An accrued liability arises from the purchase of services (including the use of money) which at the date of accounting have only been partly performed, are not yet billable and have not yet been paid for. Examples of accrued liabilities include debt servicing costs, interest, vacation pay earned, etc.

Examples:

Accrued Employee Benefits

These benefits include annual leave, overtime, salaries and salary benefits earned by employees but unpaid at the end of a *fiscal year*.

Deferred Revenue

Deferred revenue represents those amounts received but not earned, and is considered a liability account.

Unfunded Pension Liability (Net)

This liability represents the total pension obligation less pension assets for employees who participate in several of Government's pension plans and have earned future entitlements.

Retirement Benefits - Group Health and Life Insurance

These benefits represent the liability associated with Government's share of health and life insurance premiums earned by employees to be paid on or after their retirement from Government.

Unrealized Foreign Exchange Gains (Losses)

These exchange gains or losses represent the unrealized amounts that result when foreign currency denominated monetary items are translated at an exchange rate different from that at which it was previously recorded or carried, for reporting purposes.

General Policies

Departments should report accrued liability balances to the Comptroller General for inclusion in the ***Public Accounts*** of the Province, or for other reasons as and when requested by the Comptroller General.

Departments should consult with the Comptroller General where there is any doubt as to the existence and/or amount of a liability.

3.6.2 Contingent Liabilities

A contingency is an existing condition or situation involving uncertainty as to a possible obligation that will ultimately be resolved when future events occur or fail to occur. An example of a contingent liability is a loan guarantee.

General Policies

Departments are required to record and report to the Comptroller General on all items for which the Province may become contingently liable.

3.7 Debt Management and Investments

The Department of Finance has, among other duties, responsibility for the annual borrowing program and servicing of the provincial debt; cash management and short-term investment/borrowing activities; management of *sinking fund* operations; and management of *financial risk* associated with the direct debt portfolio.

3.7.1 Debt Management

Policy Statement

The Department of Finance shall arrange for capital market borrowings, when cash requirements dictate and it is deemed prudent to do so, subject to the legislative requirements of the *Financial Administration Act* and other authorities.

General Policies

The Department of Finance shall borrow in the capital markets to meet budgetary shortfalls and to fund non-budgetary requirements such as the rollover of maturing debt and special payments to the pension plans.

The Department of Finance shall monitor financial markets for opportunities to reduce debt-servicing costs while keeping debt related risk to an acceptable level.

Treasury Bills

The Department of Finance shall, as authorized by the *Financial Administration Act* and other authorities, maintain a Treasury Bill Borrowing Program.

The Treasury Bill Borrowing Program will be used to provide cost savings over the use of alternative financing and maintain an access to short-term markets, while mitigating exposure to short-term interest rate fluctuations.

Temporary Borrowings

The Department of Finance shall monitor cash flows on a daily basis, and address short term cash shortages by issuance of cash management Treasury Bills or by utilizing a line of credit (overdraft) with the Province's principal banker.

Debt Servicing

The Department of Finance shall be responsible for the timely and accurate payment of principal, interest and *sinking fund* contributions on the Province's debenture debt.

The Department of Finance shall be responsible for monitoring foreign exchange markets in order to purchase the foreign currencies required to service non-Canadian dollar debt.

Sinking Funds

The Department of Finance shall be responsible for the investment and administration of the *sinking funds* created for retirement of debt.

Monies in the *sinking fund* shall be invested in accordance with the provisions of the *Financial Administration Act*.

3.7.2 Investments

Policy Statement

The Department of Finance shall provide *efficient* treasury management to maximize return on cash resources and minimize borrowing costs, subject to legislative and other authorities.

The Department of Finance shall invest monies, subject to surplus cash availability and the legislative requirements of the *Financial Administration Act*.

General Policies

Treasury management shall focus on the *efficient* use of idle cash resources through cash forecasting, investment of surplus funds and borrowing to cover shortfalls.

The Department of Finance shall continuously monitor cash flows and provide management of cash resources by arranging short term financing at the lowest possible cost and maximizing interest earnings on short-term investments.

The Department of Finance shall be limited to particular types of investments, as detailed in the *Financial Administration Act* and other applicable legislation.

3.7.3 Monitoring and Reporting

General Policies

The Comptroller General is responsible to report the debt and investments of the *Consolidated Revenue Fund* in the *Public Accounts* of the Province.

The Department of Finance is responsible to account for the debt and investment transactions in the *financial management system* on a timely basis and in accordance with generally accepted accounting principles.

The Department of Finance is responsible for the submission of timely and accurate information relating to debt management and investments to the Comptroller General for inclusion in the *Public Accounts* of the Province or for other reasons as and when directed by the Comptroller General.

SECTION 4 – MANAGEMENT OF PROCESSES AND SYSTEMS

This Section outlines the various management processes and systems essential for proper management control within Government.

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4.0 Revenue Management

4.0.1 Control of Public Money

Policy Statement

Government is responsible for the control of all **public money** for the Province. This is achieved through claiming, recording, collecting and safeguarding of all **public money** to which it is entitled.

General Policies

All **public money** unless otherwise provided for by statute shall be paid promptly to the credit of the **Consolidated Revenue Fund** in the manner prescribed by Treasury Board.

Departments are responsible for establishing specific procedures to be followed and records to be maintained to ensure that all **public money** is adequately accounted for as per the *Financial Administration Act*, Treasury Board and the requirements of their particular operations and **programs**.

4.0.2 Revenue

Revenues may be classified as current account or related revenue, as described in Section 2.0.3., and are derived from provincial and federal sources. The main source of provincial revenues is tax revenue consisting of personal and corporate income tax, gasoline tax and various others taxes. Non-tax revenues include fees and charges for goods or services provided as well as licenses, permits, rents, fines, penalties, etc.

Federal revenues include statutory subsidies and payments under Federal-Provincial fiscal arrangements such as cost-shared agreements, and equalization and other transfers.

Policy Statement

All departments should aim to collect revenue prior to or at the point of sale (immediate cash settlement).

In situations where immediate cash settlement is not possible or feasible, departments must have controls in place to ensure revenue is claimed in the most **efficient, effective,** and **economical** manner appropriate to the circumstances.

General Policies

Procedures and guidelines for the receipt, deposit and recording of, and accounting for, **public money** shall apply equally to all revenue regardless of classification.

These procedures shall be the responsibility of each department administering **public money**.

Provincial Revenues

Departments must have controls in place for credit sales and services to ensure accurate recording of the sale, verification of customer receipt of the goods/services, and collection of the receivable.

Fees and Charges

Each department should review its activities regularly to ensure that, where appropriate, a system of fees and charges is in place for services provided and that the rates are realistic, bearing in mind that as administrative costs increase consideration should be given to adjusting the rates accordingly.

Except where there is specific legislation extending the power to another person or body, any proposed introduction of, or changes in, fees and charges must be submitted to Treasury Board for consideration.

Federal Revenues

When revenue is derived from cost-shared or any other *programs* from the Federal Government, departments should ensure prompt issuing of claims. An account receivable should be set up immediately when the amount of the claim has been determined.

Departments are responsible to report detailed information to the Comptroller General, with respect to Government of Canada revenue received during the write-back period after the end of the *fiscal year*, in accordance with instructions from the Comptroller General.

Refunds of Public Money

Where *public money* has been erroneously paid or collected by Government, it shall be deposited to the Newfoundland Exchequer Account to be repaid in accordance with the *Financial Administration Act*.

Requests for refunds of *public money* should be submitted to the Comptroller General over the signature of the Deputy Minister of the department to which the revenue was credited, or his/her designate.

Remittance of Public Monies Net of Fees

Departments are responsible for the establishment of agreements, with any of those third parties who collect, manage or account for *public money*, to promptly remit to the *Consolidated Revenue Fund* net of service fees and expenses. Amounts may also be remitted on a gross basis and an invoice submitted for the payment of any applicable service fee or expense. Revenues should be recorded on a gross basis with fees or expenses charged to an *appropriation*. Additional information and detail is found in the *Financial Management Circulars* (see References).

4.0.3 Receipting

Policy Statement

The Comptroller General has responsibility for the centralized control of receipting of revenues on behalf of the Province. Departments may be delegated responsibility to receipt where it is *efficient, effective* and *economical* to do so, and to provide the necessary services to the public.

General Policies

All remittances (i.e. revenues received in the form of cash, money orders, cheques, credit card or debit card) should be prepared for deposit on a timely basis.

The Central Cashier's Office is responsible for maintaining information on postdated cheques, as per the procedures outlined in the appropriate *Financial Management Circulars* (see References).

Departments are responsible for advising the public to identify on their remittances the reason for payment, or to ensure that remittance advices (invoices) accompany payment as applicable.

Departments are responsible to request written approval of the Comptroller General prior to initiating a departmental process for receipting of monies, taking into consideration factors noted in the appropriate *Financial Management Circulars* (see References).

Departments delegated the authority to receipt *public money* must maintain proper internal controls and account for receipts in the *financial management systems* as may be directed the by Comptroller General (see Section 4.0.6).

4.0.4 Debit and Credit Cards

Policy Statement

The Comptroller General will establish all accounting and banking policies in relation to credit and debit card services and pre-authorized debit.

General Policies

Credit and Debit Card Services

Departments must apply and receive approval from the Comptroller General to avail of credit and debit card services.

Detailed policies and procedures are outlined in the Credit and Debit Card Services Policies and Procedures document, Departmental AR User Guide, *Financial Management Circulars* and other sources (see References).

Pre-Authorized Debit

Departments must apply and receive approval from the Comptroller General to avail of Pre-Authorized Debits.

Detail policies and procedures are outlined in the Pre-Authorized Debit Policies and Procedures document (see References).

4.0.5 Special Purpose Money

Special purpose money is included in the definition of *public money*, but is not treated as revenue. It is usually received from an outside source for a special purpose as denoted by that source.

Special purpose accounts may be established by the Comptroller General to account for these special purpose funds, which may be expended without *appropriation*. The *Financial Administration Act* provides legislated authority. The Comptroller General may establish the criteria as to what constitutes special purpose funds.

Policy Statement

Where money has been received for a special purpose, it should be applied for that purpose, and accounted for accordingly.

Departments must seek the approval of the Comptroller General to establish that *public money* received for a special purpose meets the criteria set by the Comptroller General.

Additional information on special purpose money is found in the *Financial Management Circulars* (see References).

4.0.6 Cash Control

Policy Statement

The Comptroller General is responsible for the overall control of *public monies* received and disbursed, except where statutory authority places responsibility for the administration and control of funds with other persons or bodies such as Crown Corporations, Boards or Commissions.

General Policies

All remittances to the Government should be made payable to the Newfoundland Exchequer Account, and forwarded to Central Cash, a receipting facility maintained by the Comptroller General for the receipt of *public money*.

Cash should be deposited at appropriate times to a *bank transfer account* (see Section 4.0.3) for transfer to the Newfoundland Exchequer Account, in accordance with the procedures as established in the *Financial Management Circulars* (see References).

4.0.7 Physical Security of Cash

Departments are responsible for ensuring adequate controls exist for the security and safeguarding of cash funds in their possession.

Departments should consider specific cash control features as listed in the *Financial Management Circulars*, including the Circular entitled “Issuance of Departmental Receipts (see References).

4.1 Banking

4.1.1 Bank Accounts

Policy Statement

All banking arrangements for Government require the prior approval of the Comptroller General, except where specific authority is granted by law to other persons or bodies such as Crown Corporations, Boards or Commissions.

General Policies

The official operating account for the ***Consolidated Revenue Fund*** is the Newfoundland Exchequer Account. The Comptroller General is authorized to establish accounts with accredited banks or financial institutions for the deposit of ***public money***.

Departments should carry out their banking at a branch of Government's main banker. Requests for alternate arrangements at other banks should be submitted to the Comptroller General.

Departments and other agencies, Boards, and Crown Corporations are responsible to ensure that adequate systems are in place to control funds in other bank accounts.

Other Policies

Transfer Accounts

Bank transfer accounts may be established in situations where the Comptroller General has determined that the account is necessary for ***efficiency*** of departmental operations.

The bank transfer account must have no chequing or withdrawal privileges. The only method of clearing the account must be by periodic transfer to the Newfoundland Exchequer Account.

Night Deposit Service

Departments requiring night depository access must request approval, in writing, from the Comptroller General.

Automated Banking Machines (ABM's)

The Comptroller General may approve departmental automated banking machine accessed accounts in situations where these accounts are the only practical means to deposit money to a Government bank account.

Specific limitations with respect to the use of the banking cards and other ABM use are detailed in the ***Financial Management Circulars*** (See References).

4.2 Payroll

4.2.1 Public Service Payroll

Policy Statement

All payroll processing must ensure each employee is paid the appropriate amount at the end of each pay period, meeting all legal, provincial and federal requirements.

General Policies

All payroll personnel must adhere to the following processes to ensure the proper accounting and control over payroll processing.

All payroll actions including but not limited to: new hires; transfers; promotions; terminations; etc. must have appropriate supporting documentation and authorization.

All data keyed must originate from an appropriately authorized source document.

Departments must ensure the proper collection and input of payroll data into the payroll system. They are responsible for:

- the validity and correctness of data keyed;
- provision of necessary payroll data to central payroll for central administration;
- payroll verification;
- processing of overtime and other special payments; and
- other related functions as detailed in the Public Service Payroll Procedures Manual (see References).

Central Payroll is responsible for centralized payroll events including but not limited to:

- preparation of T4's;
- general increases and payroll adjustments, including retroactive pay;
- administrative functions including reconciliations and adjustments at fiscal and calendar year ends; and
- other related functions as detailed in the Public Service Payroll Procedures Manual (see References).

The functions of payroll preparation, verification and distribution of pay and maintenance of leave and attendance records should be segregated to the maximum extent possible.

4.2.2 Payroll Records

Policy Statement

Departments and Central Payroll are responsible for maintenance of applicable payroll, accounting and statistical records for all employees.

General Policies

Daily attendance and overtime records must be maintained and approved, and there must be properly authorized Leave Request forms on file to account for employee absences from work.

Departments must maintain individual personnel files for each employee.

Departments must ensure that all reports generated are properly reviewed with changes noted and actioned on a timely basis.

4.2.3 Payroll Reporting

Policy Statement

To meet Federal regulatory requirements, internal processes must be followed to ensure all earnings are properly reported to individuals and appropriate Federal authorities within the prescribed time frames.

General Policies

Departments must ensure that taxable benefits are recorded as necessary through the payroll system, to facilitate Federal reporting requirements by Central Payroll.

Central Payroll must establish procedures and controls for the timely and accurate issuance of required Federal information returns and other documentation, including but not limited to records of employment and T4's.

Central Payroll must ensure accurate remittances are made as required.

4.2.4 Payroll Direct Deposit

Policy Statement

Mandatory payment by direct deposit will be made to all employee groups currently identified as requiring only this method of payment; all other groups will be strongly encouraged to do so, with the eventual goal of moving all payments to direct deposit.

General Policies

To take advantage of the *efficiencies* with utilizing one business process for payroll system payments and recognizing the advantages of electronic direct deposits,

departments must ensure all applicable employee groups are paid by direct deposit as required and that all remaining employees/individuals be strongly encouraged to use direct deposit.

4.3 Purchasing

The Government Purchasing Agency (GPA) is the central body responsible for the procurement of goods and services on behalf of Government departments. GPA acquires all goods and services in accordance with applicable legislation, policies and procedures, and agreements.

4.3.1 Authority and Delegation

Policy Statement

Departments are financially responsible for requisitions submitted to the Government Purchasing Agency, and for ensuring approvals are in accordance with the delegation of authority within the department as well as established policies and procedures. Where ***purchasing authority*** has been delegated to a department, the department must ensure that all acquisitions are made in accordance with that delegation.

General Policies

Delegation

The Government Purchasing Agency has delegated certain ***purchasing authority*** to the various departments for the acquisition of goods and services, as follows:

- low dollar value purchase authority;
- immediate operational requirements purchase authority; and
- special purchase authority (a written request for this authority must be submitted to the Government Purchasing Agency).

4.3.2 Purchasing Procedures

Policy Statement

There is a shared responsibility for compliance with procurement legislation and policies and procedures. Any employee involved with the procurement process should be well versed in legislative and policy/procedural requirements.

General Policies

Procedural Information

Departments are responsible for complying with the purchasing procedures as established in the Government Purchasing Agency Customer Manual (see References).

Commitments

Departments must notify the Comptroller General (via *FMS*) before any *commitment* of funds is initiated so that sufficient funds will be reserved and available when payment becomes due (see Section 2.1.5).

Professional Services

Departments are responsible for following approved guidelines established for the hiring of external consultants (see References).

Compliance

The Government Purchasing Agency shall perform periodic reviews of departmental purchasing. Departments are responsible to ensure all purchasing documentation is maintained to support compliance with the *Public Tender Act*.

4.4 Financial Systems

The Comptroller General is functionally responsible for the central accounting systems of Government, including information imported from a department into the central financial and banking systems. These systems are commonly referred to as the **Financial Management System** (FMS) and form the books of the Province. Financial systems also include those systems that carry financial information for integration with Government's main financial accounting system.

These policies outline the requirements to be considered for approval, acquisition, development, customization, and improvements of existing or new financial systems; system processing controls required in a financial system; and the responsibilities of all departments, the Office of the Chief Information Officer and the Comptroller General regarding financial systems.

4.4.1 Office of the Chief Information Officer

The Office of the Chief Information Officer (OCIO) is responsible for information technology and information management coordination, planning, budgeting, policy development, expenditures and procurement of information technology goods and services and the development and operation of computer systems and infrastructure for Government departments, agencies, boards and commissions which are directly supported by the administrative support services of departments.

4.4.2 Approval of Financial Systems

Policy Statement

The OCIO and departments must consult with the Comptroller General on anticipated development, enhancement or acquisitions of financial accounting systems.

The OCIO on behalf of departments must obtain prior approval from the Comptroller General for each new financial system or major changes to existing financial systems.

General Policies and Controls

The OCIO on behalf of departments is responsible for designing, developing, implementing and operating those financial systems which may be distinctive to the department or program specific and not utilizing Government's main **financial management system**.

Departments are to ensure financial systems controls and procedures comply with requirements of relevant legislation and regulations, as well as the relevant financial control requirements of the *Financial Administration Act* and the requirements of the Comptroller General.

The OCIO and departments must provide the Comptroller General with an adequate opportunity to review the system for internal control or financial administration concerns during or after periods of system development.

The Comptroller General may review new financial systems to the extent considered necessary to ensure they contain adequate internal controls, and they conform to legislation, Government policy and sound *financial management* practices.

The Comptroller General may conduct ongoing reviews to the extent considered necessary to confirm that adequate internal controls continue to exist.

4.4.3 System Processing Controls

Policy Statement

Departments are to ensure financial systems have adequate internal controls over the processing of financial information.

General Policies and Controls

Departments are to ensure that the functions of initiation, authorization, and recording of transactions and custody of assets are separated to ensure no employee or group of employees has exclusive control over a financial transaction or group of transactions.

Departments are to ensure that all inputs to the system are complete and accurate and all transactions are valid and properly authorized.

Departments are to ensure that accuracy of data is maintained during processing and computations are carried out accurately.

Departments are to establish procedures to ensure errors are detected, corrected and corrections re-entered into the system.

Departments are to ensure the system facilitates tracing of input documents and transactions through to the output reports and vice versa.

Departments are to ensure the system output provides the information needed to confirm:

- all authorized transactions are processed promptly and accurately; and
- adequate consideration is given to the Comptroller General's requirements respecting accounting records and financial statements.

Departments are to ensure that all aspects of the financial system are adequately documented.

4.4.4 E-Commerce

Policy Statement

The OCIO on behalf of departments must contact the Comptroller General prior to beginning Electronic Service Delivery (ESD) projects involving cash receipting and accounting implications.

General Policies

The Comptroller General is responsible for all accounting and banking policies in relation to Electronic Commerce initiatives that may arise from ESD or other related projects. All payment processes and *settlements* for these initiatives must be established in consultation with the Comptroller General.

Departments must retain information in conformance with the Electronic Commerce Policies and Guidelines, other policies and other specifications as applicable (see References).

4.4.5 Other References

Financial Management Circulars issued by the Office of the Comptroller General contain specific direction, policies and procedural information relating to Government financial systems, and electronic commerce initiatives (see References).

Additional information on procedural aspects of the Government's main *financial management system* may be found on the Government web-site (see References).

SECTION 5 – FINANCIAL MONITORING AND REVIEW

This Section addresses the audit function internal to Government, as well as the role of the Auditor General in the *financial management* and *accountability* processes of Government.

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5.0 Internal Audit and Consulting Services

5.0.1 Internal Audit

Responsibility for internal audit is vested in the Comptroller General, through Order in Council. The *Financial Administration Act* gives the Comptroller General access to all departmental records and systems in order to fulfill his/her responsibilities.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve Government operations. The internal audit activity is concerned primarily with:

- assessing the extent of *effective* and *efficient* use of physical and financial resources;
- reviewing and evaluating *programs*, *activities* and *financial management systems* of Government departments, agencies and Crown entities; and
- providing special financial review and investigative services.

The internal audit function is an important element of the *accountability* process as it provides senior management with an independent review of their operations and specific recommendations for improvement. Assistance to implement recommendations accepted by departments is provided if requested and resources are available.

The internal audit function is complementary to the role of the Auditor General (see Section 5.1) in that both groups complete various reviews and evaluations, promoting the *accountability* relationship within Government. However, internal audit is a specific tool that can be utilized by Deputy Ministers to provide some assurance that their departments have *effective* internal control systems. It can provide senior management with assurance about the *efficiency* and *effectiveness* of key financial, administrative and operational activities, along with suggestions for improvement.

5.0.2 Consulting Services

The Comptroller General provides consulting and other professional services to the Executive and departments in the areas of: *financial management*, accounting and systems; financial policy development and implementation; financial reporting; and operational support in order to facilitate the *efficient* and *effective* management of *programs* and resources and promote *accountability* and quality reporting for Government.

The Comptroller General provides for the monitoring, research and analysis of current accounting issues, including those that have an impact on the *Financial Administration Act*.

5.0.3 Departmental Responsibilities

Departments have varied responsibilities with respect to availing of central internal audit and consulting services, including the following:

- completion of an engagement letter which sets out the agreed terms of a professional engagement (where applicable);
- sign off on approvals by the Deputy Minister;
- review of draft reports, which are vetted through departmental officials;
- responding to final reports, which are generally issued to the Deputy Minister, and taking appropriate action on recommendations; and
- the release to others of a report prepared at the request of a department subject to the approval of the Deputy Minister and subject to other applicable legislation.

Departments are responsible to request assistance from the Comptroller General where appropriate.

Departments are responsible for providing the Comptroller General with access to all information, records and systems as are considered necessary to fulfill the duties of the Comptroller General.

5.1 Office of the Auditor General

(This section is provided courtesy of the Office of the Auditor General.)

5.1.1 Responsibility for Financial Monitoring

The *Auditor General Act* appoints the Auditor General as the auditor of the accounts and financial statements of the Province. This results in an opinion as to fair presentation of these financial statements. In addition, the Auditor General is the auditor of the financial statements of a number of Crown agencies as to the fair presentation of their financial statements.

Section 17 of this *Act* requires every department of Government, every Crown Agency, and every Crown controlled corporation to provide the Auditor General with access to all information necessary for the performance of the duties of the Auditor General under the *Act*.

5.1.2 Lines of Business

The Office of the Auditor General has five primary lines of business, each of which contributes to ***financial management*** monitoring in Government.

Financial Statement Audits

Financial statement audits performed by the Auditor General will result in the expression of an opinion as to the fair presentation of the ***Public Accounts*** of the Province or the financial statements of a Crown Agency. These audits are conducted in accordance with generally accepted auditing standards established by the Canadian Institute of Chartered Accountants (CICA). Issues identified during a financial statement audit may lead to recommendations that are addressed in:

- a letter to the auditee; and/or
- the Auditor General's Report to the House of Assembly

Financial statement audit work performed by the Auditor General includes the following:

- The annual examination of the Province's Consolidated Summary Financial Statements and the Statements of the ***Consolidated Revenue Fund*** which have been prepared by Government. Comments on these financial statements and comments on the ***reporting entity*** are reported in a management letter and may also be included in a report to the House of Assembly;
- The examination of the accounts of departments. Comments on these examinations are reported in a management letter and may also be reported in a report to the House of Assembly; and

- The annual examination of the financial statements of certain Crown agencies. Each year the Auditor General performs an audit of these financial statements and expresses an opinion on the financial statements and when appropriate, issues a management letter.

Legislative Audits

A legislative audit provides the House of Assembly with an independent professional assessment of public sector *accountability*, thereby facilitating informed judgments on the manner in which the public sector discharges its responsibilities. Legislative audits may include:

- Evaluation of *accountability* relationships, management practices and control systems;
- Determination of compliance with legislation and other authorities; and
- Performance audits of program results compared to established criteria.

The results of all legislative audits are first reported to the department or agency being reviewed and then included in a report to the House of Assembly.

Monitoring Crown Agency Reports

The Auditor General monitors the financial statements and reports of all Crown Agencies. There are in excess of 80 Crown Agencies in the Province which have financial transactions and prepare financial statements. The financial statements of over 30 of these agencies are audited by the Auditor General while the remaining entities are audited by private sector auditors. Many of these audits must be completed in time to consolidate the agencies' financial statements with the *Public Accounts* of the Province. Section 14 of the *Auditor General Act* provides the Auditor General with the authority and responsibility to monitor these entities and also provides the authority to perform a legislative audit.

The Auditor General maintains a database of Crown Agencies and relevant information to enable *effective* monitoring of these agencies and reports annually to the House of Assembly on the results of this monitoring process.

Special Assignments

Under Section 16 on the *Act* the Auditor General may accept assignments from the House of Assembly, the *Public Accounts* Committee or the Lieutenant-Governor in Council. The results of this work are reported to the body making the request and are summarized in a report to the House of Assembly.

Reporting

The reporting work of the Auditor General focuses on the publishing aspects of all external reports. It crosses all other lines of business since all audits require some form of reporting. Specifically, reports produced by the Auditor General must be timely, concise,

and clear as to content. Format and design and achieve consistently high quality. The Auditor General reports at least annually to the House of Assembly on the results of the various legislative reviews of departments and Crown Agencies, on the results of the audit of the financial statements of the Province and on the operations of the Office. When the Auditor General completes a financial statement audit an auditor's report is issued in accordance with generally accepted auditing standards, which expresses an opinion on the financial statements issued. The Auditor General also issues a management letter as a result of each of these financial statement audits. Section 12 of the *Act* requires that the Auditor General report, at least annually, on:

- the work of the Office;
- whether, in carrying out the work of the Office, the Auditor General received all the information including reports and explanations required;
- the results of the examination of the Province's financial statements; and
- the audits, examinations and inquiries performed under the *Act*.

A report of the Auditor General shall include the results of the examination of the accounts of the Province and shall call attention to anything the Auditor General considers significant including instances relating to:

- collections of *public money*;
- disbursements of *public money*;
- instances where accounts have not been faithfully and properly kept;
- instances where assets acquired, administered or otherwise held are not adequately safeguarded or accounted for;
- instances where accounting systems and management control systems that relate to revenue, disbursements, the safeguarding or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with; and
- any factors or circumstances relating to an expenditure of *public money* which in the opinion of the Auditor General should be brought to the attention of the House of Assembly.

REFERENCES

Accountability Division Publications - available on-line at:

<http://www.exec.gov.nl.ca/ComptrollerGeneral/pubs.htm>

- Achieving Excellence 2000: A Guidebook for the Improved Accountability
- Achieving Excellence 2000: A Handbook for the Improved Governance of Public Bodies
- An Orientation for Public Sector Bodies – 10 Modules
- Excellence in Activity Planning – Master Template for Category 3 Public Bodies 2004
- Excellence in Business Planning – Master Template for Category 2 Public Bodies 2004
- Excellence in Governance – A Handbook for Public Sector Bodies
- Excellence in Strategic Planning 2002 (revised 2004) – Master Template
- Guidelines for Annual Performance Reports: Category 1 Public Bodies
- Guidelines for Annual Reports: Category 2 Public Bodies
- Guidelines for Activity Reports: Category 3 Public Bodies
- Modern Management – Managing Together – Accountability Framework Information Booklet

Financial Management Circulars - available on-line at:

<http://www.exec.gov.nl.ca/ComptrollerGeneral/circulars/default.htm>

Financial Management Handbook - available on-line at:

http://www.exec.gov.nl.ca/comptrollergeneral/pdf/finanacal_man.pdf

Human Resources Policy Manual - available on-line at:

<http://www.exec.gov.nl.ca/hrpm/>

Oracle FMS User Manuals - available on-line at:

<http://www.exec.gov.nl.ca/comptrollergeneral/oraclemanuals/default.htm>

- Accounts Payable
- Accounts Receivable
- Discoverer Viewer – Decentralized Reporting Manual
- Financial Analyzer – Budget System – Department Users Guide
- Financial Analyzer – Budget System – Budget Division Users Guide
- Fixed Assets
- General Ledger
- Inventory
- Purchasing

Statutes and Regulations, House of Assembly - available on-line at:
<http://www.gov.nl.ca/hoa/sr/>

Government Purchasing Agency (available from GPA)

- Customer Manual

Department of Finance (Policies and Guidelines)

- Available from the Office of the Comptroller General
 - Consultant's Guidelines
 - Credit and Debit Card Services
 - Delegated Write-Offs Guidelines
 - Electronic Commerce
 - General Policies for Cellular Phones (Including Blackberry Units)
 - Overtime Monitoring Guidelines
 - Pre-Authorized Debit
 - Settlement of Debt Guidelines
 - Tangible Capital Assets Policies and Guidelines
- Available from the Budgeting Division
 - Transfer of Funds Policy

Office of the Comptroller General (Policy and Procedures manuals)

- Expenditure, Control and Compliance (ECC) Policy and Procedures Manual (*internal*)
- Revenue and Payroll Policy and Procedures Manual (*internal*)
- Financial Management Systems (FMSP) Policy and Procedures Manual (*internal*)
- Professional Services and Internal Audit Policy and Procedures Manual (*internal*)

GLOSSARY

Accountability - a relationship based on the obligation to demonstrate and take responsibility for performance in light of agreed expectations.

Accrual Accounting - a method of accounting whereby revenues are recorded when earned/due and expenditures are recorded when liabilities are incurred.

Activities – represent the lowest division of the Program Estimates and constitute a specific service or function being funded. Activities are also called Subheads of expenditure.

Appropriation – a vote of money by the House of Assembly to permit payment of public money for specific purposes.

Bank Transfer Accounts – those accounts set up strictly as temporary depositories to safeguard departmental funds pending transfer to the Newfoundland Exchequer Account.

Budget – the financial plan of Government that is generally presented annually to the House of Assembly.

Certification (for Payment) – the acknowledgement by the official concerned that the expenditure is a legitimate charge against the funds allotted for the program or activity under his/her direction and constitutes a recommendation that payment be made.

Commitment – an obligation arising out of an agreement between the Government and another person to make payment from an appropriation of the Legislature (also known as *Encumbrance*).

Consolidated Revenue Fund – (CRF) contains the public money over which the legislature has the power of appropriation, and is the main fund of Government, used for the payment of public services.

Control Environment – reflects the collective effect of various overall factors that establish, enhance or reduce the effectiveness of specific internal control policies and procedures.

Economy – that element of performance that measures the relationship between resources and their costs, achieved when appropriate resources are acquired at the lowest possible cost.

Effectiveness – is that element of performance that determines whether desired results have been achieved within an acceptable timeframe.

Efficiency – relates to the productive utilization of resources within an acceptable timeframe.

Encumbrance – *see Commitment*.

Financial Management – the organizational function concerned with the efficient allocation and effective use of available financial resources to achieve optimal results.

Financial Management Circulars – brief documents issued to assist departments in the handling of selected financial operations, and designed to clarify financial principles legislated by the *Financial Administration Act*. Circulars also address accounting policies and procedures.

Financial Management System (FMS) – the main financial management system of the Province and commonly referred to as the FMS.

Financial Management Systems – include any systems, both manual and computerized, that account for any or all of the following:

- Revenues, including tax revenue, receipts for goods and services, transfer payments from other jurisdictions, grants received by the Government, or gifts;
- Expenditures, including payments for goods and services, grant payments, revenue refunds and credits, or transfer payments to other parties;
- Assets, including fixed assets, inventories of goods for consumption or sale, investments, land, accounts receivable, assets held in trust by the Government for other parties; and
- Liabilities, including accounts payable, amounts borrowed, pension fund liabilities or liabilities relating to assets held in trust by the Government.

Fiscal Year – is the financial year of the Province starting April 1st of each year and ending on March 31st of the subsequent year.

General Warrant – a legal document signed by the Lieutenant-Governor in Council upon approval of the Budget by the House of Assembly, representing approval to spend public money as per the Supply Act and supported by the detailed Estimates.

Government Entity – all departments of Government created under the *Executive Council Act*, and public bodies.

Interim Supply Act – an Act of the Legislature granting a sum of money to provide funding at the commencement of a fiscal year, pending the passage of the *Main Supply Act* for that year.

Main Objects – a standard classification system used to categorize all expenditures by type of goods and services (i.e. Salaries, Supplies, Purchased Services, etc.) and revenues, also called Subdivisions.

Main Supply Act – the primary authoritative source for Government expenditure, the *Main Supply Act* provides annual appropriations of a fixed amount of money based on the Estimates for a fiscal year, the authority for which expires at the end of the fiscal year concerned.

Modified Cash Basis – a method of accounting whereby expenditures are recorded in the year in which payments are made, with exceptions made in April for goods or services received prior to March 31, which are charged back to the previous fiscal year. In the case of Federal revenues, receipts received up to the end of April can be written back to the previous year if related to expenditures of that fiscal year.

Payment Authority – is the legislated authority to pay a liability for acquired goods or services.

Pre-Commitment – is an obligation to make a payment in a future fiscal year with respect to an “agreement” entered into in the current fiscal year for the purchase and delivery of a good or service to be provided in a future fiscal year.

Programs – are overall areas of responsibility into which each department is divided, or major groupings of the significant functions and responsibilities performed or delivered by a department.

Public Accounts – represent the overall financial results or actual activities of Government throughout a fiscal period, presented in the financial statements of the Province.

Public Body – is a board, corporation, commission or similar body, established by order of the Lieutenant-Governor in Council, under an Act of the Legislature, or by Minute of Council.

Public Money – is all money received, held or collected, for or on behalf of the Province by the Minister (of Finance) or any other public officer in his official capacity or any other person authorized to receive, hold or collect such money, and includes:

- all revenues of the Province;
- monies borrowed by the Province or received through the issue and sale of securities; and
- monies paid to the Province for a special purpose.

Purchasing Authority – is the legislated authority to acquire a good or service, after spending authority has been provided.

Remission – refers to the authority under the *Financial Administration Act* to direct the forgiveness (cancellation), compromise (settlement), or abatement of any debt, fine, penalty, etc., due to the Government.

Reporting Entity – for financial statement purposes, this includes the accounts and financial activities of organizations, as approved by Treasury Board, which are controlled by Government. These organizations are accountable for the administration of their financial affairs and resources either to a Minister of Government or directly to the Legislature.

Settlement – in the context of the *Financial Administration Act*, refers to the act of settling an account; a payment or adjustment of an account (see Remission).

Sinking Funds – monies set aside to retire specific debt or debentures in the future. These may be mandatory or voluntary, and as such are generally considered restricted assets.

Special Warrants – signed by the Lieutenant-Governor in Council to provide additional funding for a department where there is an urgent need for a new service which had not been foreseen by the Legislature, or there is an urgent need and there is insufficient legislative provision (funding available) for a continuing service.

Spending Authority – is the authority, which must by law originate in the House of Assembly, to enable incurrence of a liability.

Supplementary Supply Act – an *Act* summarizing any Special Warrants which may have been issued during the fiscal year. An *Act* assented to where funding is required for a new service while the House is in session.

Unfunded Pension Liability – is the total pension obligation less pension assets as determined by an actuary.

Write-Off – an amount deleted from the books of account, in whole or in part, of the recorded dollar value of assets.

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