

**2002 Annual Report to
Nunavut Legislative
Assembly**

**Comments on our work related to
2000-2001 Financial Statements**

240 Sparks Street
Ottawa, Ontario
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25 November 2002

The Honourable Kevin O'Brien
Speaker of the Legislative Assembly of Nunavut
Legislative Assembly
Iqaluit, NU

Dear Mr. O'Brien,

This is my second annual report to the Legislative Assembly of Nunavut, in Inuktitut, English and French. I have prepared my report in accordance with Section 46(2) of the *Nunavut Act (Canada)*.

I thank the Government of Nunavut for their efforts in preparing their consolidated financial statements, and the collaborative way in which we resolved issues as they arose during my audit.

This report comments and makes recommendations on issues my Office noted while auditing Nunavut's March 31, 2001 consolidated financial statements. It also includes Nunavut management responses to these issues.

Yours sincerely,

Sheila Fraser, FCA

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Chapter 1 – Introduction

This chapter is an overview of our work and this report.

What we do

1. By law, the Auditor General of Canada is responsible for auditing the Government of Nunavut's financial transactions and financial statements. We, as auditors, give an opinion on whether these statements meet accounting standards for governments¹. Our opinion also says whether the government has followed important financial rules set by federal and Nunavut laws.

2. Our second audit opinion to the Legislative Assembly of Nunavut on the consolidated financial statements is included in the government's March 31, 2001 Public Accounts. The Public Accounts includes other information that we haven't audited². We also provide audit opinions on other Nunavut government financial statements. We discuss our audit opinions in Chapter 2 of this report.

3. Each year we supplement our audit opinions with an annual report on issues that we note during our audits. The government tabled its 2000-01 public accounts on May 16, 2002. Our observations and recommendations to the government throughout this report are based on our audit of the government's consolidated financial statements and other government financial statements for 2000-01, unless the report clearly states otherwise.

4. The focus of our audit work is to express opinions on financial statements, as to whether or not they are reliable. This will be explained further in Chapter 2. Readers of our reports should note that our audit work and our annual reports to the Legislative Assembly (this report) will not identify all issues which may be of interest to Members of the Legislative Assembly or other readers.

Theme of this second annual report

5. This is our second annual report to Nunavut's Legislative Assembly. There is a strong connection between the first report and this report.

6. The first report noted some specific issues which needed attention at that time, such as whether to lease or buy buildings. It also laid out a number of important ideas about accountability, financial health and financial management. We hope that readers refer back to our first report when they need background information to this report.

7. Improving financial management is the theme of this report. Chapter 3 defines it and shows how it may develop over time. We feel strongly that improvements to

¹ This and other key words and phrases used in this report are defined in the glossary in Appendix C

² If you are unfamiliar with the structure of financial statements, you might find it helpful to read Appendix B, "A Reader's Guide to Nunavut's March 31, 2001 Financial Statements."

financial management are important to help deliver high quality services to Nunavummiut.

8. But before we explore this theme, Chapter 2 of this report discusses our Nunavut audits. Chapter 2 also highlights a new type of audit we recently did for the first time: an audit of the Government of Nunavut's report on health indicators.

9. Chapter 3 introduces financial management, and discusses how it develops. Chapters 3 discuss how the government is decentralized, and how Crown corporations operate differently than departments. Both decentralization and the differences between departments and Crowns are important to the discussion of how to improve financial management.

10. Chapters 5, 6 and 7 all give specific examples where financial management in the government needs to be improved. Chapter 8 goes on to discuss some of the underlying issues such as the lack of accounting experience in the new government employees. These and other issues need to be addressed to help deal with the more specific issues discussed in the earlier chapters. Finally, Chapter 9 presents our recommendations to management.

Contact Information

11. For information, please contact our Office's Communications group at (613) 995-3708 or 1-888-761-5953 (toll free).

Chapter 2 – Our Nunavut work

This chapter discusses four topics related to our work.

First, it discusses the different roles of financial statement preparers and auditors.

Second, it discusses situations where we have been unable to issue ‘clean’ opinions on financial statements.

Third, it highlights some of the issues which we feel that the government should address in its future consolidated financial statements.

Finally, it discusses health indicators: a new report, and a new type of audit opinion.

The role of those who prepare financial statements

1. Managers in the government prepare financial statements, which show the income or revenue of the government, its expenses, and the difference between the two. There are a number of different financial statements within the government.

- For the Government of Nunavut itself, Nunavut's Minister of Finance—with help from staff from his department—prepares and publishes the government's consolidated financial statements. Since they are consolidated, they include the operations of all parts of the government including Crown corporations and revolving funds, not just departments.
- For Crown corporations, their management prepares and publishes annual financial statements. These financial statements become part of the Corporations' annual reports.

The role of auditors

2. When financial statements are audited, they become more credible. This is because an audit is an independent assessment, or opinion, on the financial statements. When we audit financial statements, we look at two main things.

- Do the statements meet accounting standards?
- Have the people involved in the management of a Crown corporation or department followed, or complied with the major financial laws which set out what they are allowed to do?

3. When our audit shows that a set of financial statements are reliable and meet accounting standards for Canadian governments, we give a ‘clean’ audit opinion on the financial statements. Otherwise, we qualify our opinion, which means we have concerns about the financial statements that readers should consider.

4. We also audit whether managers follow, or comply with major laws. In our audit opinion we list the major laws we reviewed. When our audit shows compliance with major financial laws, we give a ‘clean’ audit opinion on authorities. Otherwise, we qualify our authorities opinion.

5. We issue several Nunavut audit opinions each year, on the financial statements issued by various Crown corporations, a revolving fund and the government itself. **Exhibit 1** summarizes the results of our financial statement audits.

6. **Reader’s guide.** Sometimes financial statements can be difficult to understand. **Appendix B** to this report is a reader’s guide to the government’s consolidated financial statements.

Situations where we were unable to issue ‘clean’ audit opinions

7. **Exhibit 1** shows where we have not been able to issue a clean audit opinion, either on the financial statements themselves, or on authorities. Below we discuss these audit qualifications.

Qualifications on how the government complied with spending laws

8. Our opinion on the government’s 2000–01 consolidated financial statements contains an authorities qualification because some government departments spent more money than was permitted. ‘Spending’ includes both cash payments and accounts payable at year-end.

9. By law, departments are not allowed to spend more money than the legislative assembly approves. Note 18 to the government’s 2000–01 consolidated financial statements states that five departments together spent a total of over \$32 million more than was authorized.

- Health and Social Services had over-expenditures of more than \$20 million. Costs of merging the former health boards into the government contributed to this over-expenditure.
- The Department of Education overspent by more than \$10 million. Most of this related to costs of merging the former education boards into the Government of Nunavut.
- Three other departments had smaller over-expenditures: between \$62,000 and \$562,000 each.

Exhibit 1
Our 2001 Nunavut audit opinions

Entity	Financial Statement Date	Date of our Audit Report	Our audit report was addressed to	Clean opinion?
Government of Nunavut (consolidated)	March 31, 2001	April 26, 2002	Legislative Assembly of Nunavut	No (1)
Nunavut Arctic College	June 30, 2001	October 19, 2001	Minister of Education	Yes
Nunavut Housing Corporation	March 31, 2001	October 31, 2001	Minister of the Nunavut Housing Corporation	Yes
Nunavut Development Corporation	March 31, 2001	July 30, 2001	Minister of Sustainable Development	No (1)
Nunavut Business Credit Corporation	March 31, 2001	(2)	Minister of Sustainable Development	(2)
Nunavut Petroleum Products Revolving Fund	March 31, 2001	June 28, 2001	Minister of Public Works and Services	Yes
Northwest Territories Power Corporation (3)	March 31, 2001	May 25, 2001	Ministers responsible for the Northwest Territories Power Corporation (3)	Yes
Workers' Compensation Board of the Northwest Territories and Nunavut (3)	December 31, 2001	March 30, 2001	Ministers of the Workers' Compensation Board of Northwest Territories and Nunavut (3)	Yes

(1) See accompanying text for details.

(2) Nunavut Business Credit Corporation's 2000-2001 financial statements are not yet final. See accompanying text for details.

(3) Operated in both Nunavut and the Northwest Territories. Nunavut Power Corporation was created on April 1, 2001.

Two qualifications related to the Nunavut Development Corporation

10. Our audit opinion on the Nunavut Development Corporation's (DevCorp) 2000-01 financial statements contain two qualifications, one on the financial statements, and a second on authorities.

11. DevCorp owns and operates several companies (subsidiaries) as well as owning parts of others with private partners (joint ventures). Each year, the government gives DevCorp a contribution. The contribution was over \$3 million this year. DevCorp then pays most of this money to its companies and joint ventures.

12. Qualification concerning DevCorp's financial statements. While financial controls in DevCorp's subsidiaries or joint ventures are still not strong, they are improving. Financial controls are described in Chapter 3. The auditor of two of the subsidiaries and joint ventures continues to report serious weaknesses in:

- collecting and recording the money they are owed
- paying for expenses without getting invoices
- controlling the inventory in an adequate manner.

13. Because DevCorp operates mainly through its subsidiaries and joint ventures, their weaknesses impact DevCorp's own financial statements. As a result of these weaknesses, we qualified our audit opinion on DevCorp's consolidated financial statements, and brought these serious matters to the attention of the Nunavut Legislative Assembly in our audit opinion dated July 30, 2001.

14. Authorities qualification concerning DevCorp's compliance with the law that created the corporation. The law which sets up DevCorp requires it to collect information on the jobs created through its activities. Such information is important, since it is one way that Members of the Legislative Assembly and others can assess how well the money paid to DevCorp—more than \$3 million in 2000–01—was spent.

15. However, DevCorp did not collect this information. Therefore, our authorities opinion contains a qualification which highlights this omission.

16. Qualifications similar to last year. Both these qualifications are essentially the same as in our 1999–2000 DevCorp audit opinion, which we discussed in our first (2001) annual report to the Legislative Assembly.

The Nunavut Business Credit Corporation has not yet finalized its 2000–01 financial statements

17. As of late October 2002, the Business Credit Corporation was still completing its 2000–01 financial statements. As a result, we have not yet been able to finish our 2000-01 audit.

18. The Nunavut Business Credit Corporation has existed since April 1, 1999. At the beginning some administration was contracted back to the Government of the Northwest Territories because their staff had handled this responsibility before April 1, 1999 and had experience in this area. Thus, 2000–01 is the first fiscal year that the Nunavut Business Credit Corporation's own staff have had to deal with all aspects of preparing annual financial statements.

Issues for the government's future financial statements

19. Financial statements must change as the situation in a department or corporation changes. Over time there are new events that need to be recorded in the statements, and new government accounting standards need to be adopted. We think the following issues would strengthen the government's future consolidated financial statements.

20. Environmental Liabilities. Chapter 5 of our 2001 Report to the Legislative Assembly outlines why we think the government needs to assess environmental liabilities in Nunavut. Our 2001 Report describes the three main steps in this assessment.

21. The main purpose of such an assessment is to protect the environment and Nunavummiut. It is important to emphasize that we are not suggesting that Nunavut has serious environmental problems. However, the assessment we recommended in our 2001 Report could determine the extent of any environmental problems and estimate the cost of cleaning up any contaminated sites. From these costs, the government will be able to estimate its liability, if any, for the consolidated financial statements.

22. Last year the government agreed with the recommendation in our 2001 Report, but noted that an assessment requires a lot of work and could take over five years to complete. We encourage the government to continue to work towards an assessment of environmental liabilities in Nunavut.

23. Employment Benefits. Employment benefits include all future benefits that employees have earned because of their work to date. Examples include pensions, unused vacation leave, unused sick leave, and severance costs. There is a new accounting standard for governments which requires a more comprehensive review of employee future benefits than has been needed in the past.

24. The government will have to analyze all its benefits to see if its current accounting meets the new standard. In some cases, amounts already shown as liabilities in the government's financial statements will change.

25. In other cases, the government may have to record liabilities for certain benefits where liabilities never had to be recorded before. For example, the government does not currently record liabilities for sick leave. Under the new standard, in certain situations unused sick leave would have to be recorded as a liability and an expense.

26. The government has until 2004–05 to implement the new standard. However, because of the complexity of the standard, it will take some time to gather and analyze information needed before it can be implemented. We encourage the government to implement the new standard as soon as possible.

27. Both an assessment of environmental liabilities and a fuller assessment of employee benefits will give the government better information on its long-term financial obligations.

28. Comparison of budget to actual. It is difficult for Members of the Legislative Assembly to compare the government's financial results with its financial plans. One of the main reasons is that the government's budget documents (budget address, main estimates, supplementary estimates) are prepared on an unconsolidated basis (only departments), while the government's main financial statements are consolidated to include all parts of government, (departments, revolving funds and Crown corporations).

29. Because of this difference, the government's consolidated statement of operations and net debt in the consolidated financial statements do not include budget numbers. For this reason, budgets cannot be compared to actual results.

30. It is possible to add budget numbers to the statement of operations. But to be comparable, the budget reported in the financial statements will have to include all parts of government. Alternatively, the annual budget could be prepared on a consolidated basis which could then be compared to the consolidated financial statements.

Health indicators: a new report and a new type of audit

31. The bulk of this report relates to our 2000–01 audit work. But in September 2002 staff of the Department of Health and Social Services produced a new type of report entitled "Report on Comparable Health Indicators for Nunavut and Canada". We audited this report, and we think this new report is important enough to discuss it here.

32. All ministers of Health in Canada agreed to publish information which helps readers assess the health of residents. Nunavut published its report in September 2002. As of this writing, the full report is available on the Government of Nunavut's website at www.gov.nu.ca.

33. The report presents a snapshot of the health of Nunavummiut by publishing a number of health indicators, often with comparisons to Canada or other territories and provinces. Examples of the health indicators in the new report include life expectancy and satisfaction with the quality of health care.

34. We encourage anyone interested in Nunavut health care to read this new report.

Chapter 3 – A decentralized government

This Chapter discusses financial management and why it is important for the Government of Nunavut to continue to develop it in all parts of the government.

Last year the government set an objective of ensuring that basic financial management would be in place in the government within three years from 2001, or two years from now.

At present, different parts of the government are at different stages of implementing financial management.

Need for good financial management

1. Chapter 4 of our 2001 Report to the Legislative Assembly explained why it is important for the government to build its financial management. Good financial management helps the government to provide the best possible services to Nunavummiut by:

- controlling revenue and spending,
- ensuring that there is good information needed to make good decisions, and
- identifying and managing significant risks to the government.

Financial management model guides the government towards improvements

2. Chapter 4 of our 2001 Report also noted that the Government of Nunavut is young, and management needs to actively take the steps needed to improve financial management. The Report also introduced a five-step financial management model which the government can use to assess its progress in improving financial management. **Exhibit 2** reproduces the model from our 2001 report.

3. Last year we recommended that the government work towards implementing essential financial controls: Level 2 in the model. Management agreed with our recommendation, but noted that it could take three years to implement essential controls.

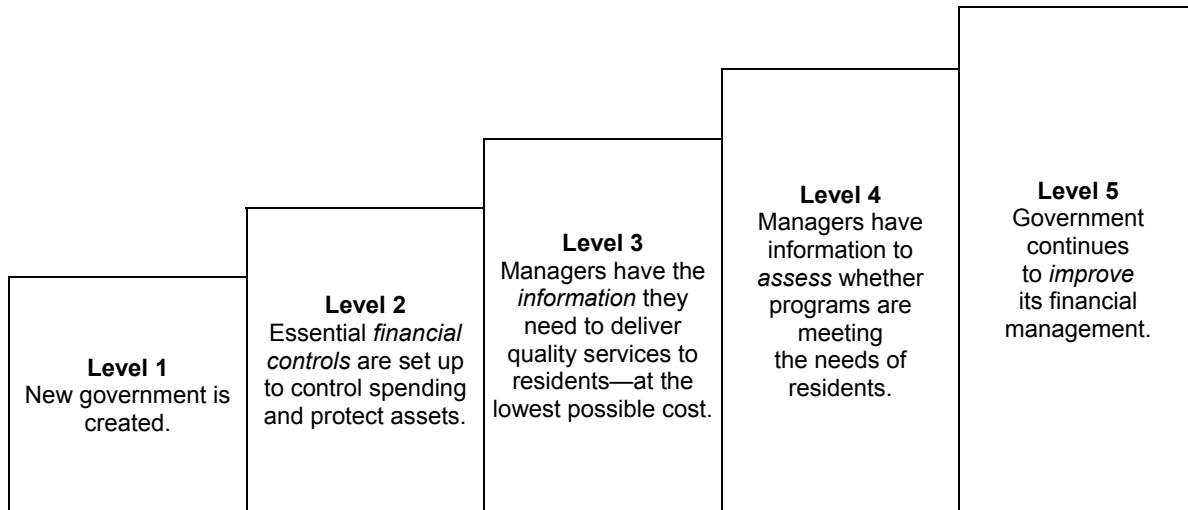
4. Now, one year later, the remainder of this report focuses on areas where the government needs to improve financial management to meet the objective.

5. In all our comments which follow, we encourage readers to consider that most governments in Canada have existed for decades. Because of this, it is not appropriate to compare Nunavut's financial management directly with other, more mature governments.

At the same time, financial controls are important. The sooner they are in place, the better.

Exhibit 2

Five steps in building good financial management



Financial management normally improves over time...but management needs to take steps to make improvements happen

Source: Adapted from Office of the Auditor General of Canada's financial management capability model.

Different parts of the government are at different levels

6. The Government of Nunavut has different departments, Crown corporations, regions, revolving funds, and agencies. It also has decentralized financial management and accounting. This means that the various departments, regions and Crown corporations manage and process their transactions independently. The challenge for the government, in implementing good financial management, is to bring the entire government to “Level 2”. For a number of reasons, this is not an easy task.

7. First, not all parts of the government are the same age and have not had the same chance to develop their financial management. For example, while most Nunavut Crown corporations have existed since April 1, 1999, some had arrangements where the Government of the Northwest Territories provided assistance after division. In addition, the Nunavut Power Corporation did not come into existence until April 1, 2001, after the period covered by this report.

8. Second, with decentralized financial management and accounting, any one department, region, or Crown corporation generally has only a small staff of managers and accountants. Until the government is able to train Nunavummiut for accounting and financial management jobs, the government has to compete with other parts of Canada for trained accountants. With decentralization, trained accountants are currently spread thin across the government.

9. Financial management is a responsibility of all employees. In small groups, there may not be enough people to have a good separation of financial duties. This separation is important to prevent any one person from becoming so involved in all aspects of transactions that fraud or irregularities are possible. With small groups, organizing duties to reduce the risk of fraud or irregularities is difficult.

Chapter 4 – Crown corporations are important, but different

Crown corporations are an important part of the Government of Nunavut, but they are different than departments. This chapter describes some of the differences.

Introduction

1. Crown Corporations are separate entities that operate independently of departments. They each have their own laws and regulations that govern how they are set up and run. These laws are called enabling acts. In addition, the *Financial Administration Act* sets out laws that govern all of them. **Exhibit 3** lists Nunavut Crown corporations.
2. To help appreciate the size of Crown corporations, **Exhibit 4** shows the proportion of total government spending done by the various parts of the government. Nunavut’s Crown corporations spend about 20 percent of all spending in the Government of Nunavut.

Exhibit 3

Nunavut Crown Corporations

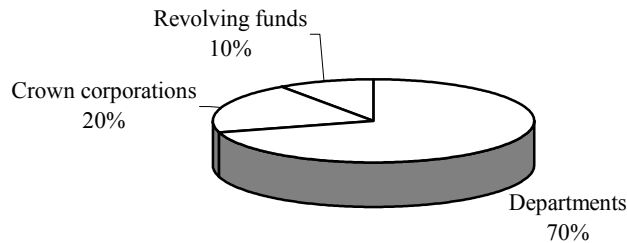
Entity	Legislative Authority	Date Created
Nunavut Arctic College	<i>The Public Colleges Act</i>	1995
Nunavut Housing Corporation	<i>Northwest Territories Housing Corporation Act</i>	April 1, 1999
Nunavut Development Corporation	<i>Northwest Territories Development Corporation Act</i>	April 1, 1999
Nunavut Business Credit Corporation	<i>Northwest Territories Business Credit Corporation Act</i>	April 1, 1999

See also discussion of the **Northwest Territories Power Corporation** and the **Workers’ Compensation Board of the Northwest Territories and Nunavut** in this chapter.

Exhibit 4

Percentage of total expense spent by departments, revolving funds, and Crown corporations of the Nunavut Government

Percent of spending



Crown corporations include Nunavut's approximate share of the **Northwest Territories Power Corporation's** activities.

Departments exclude contributions to Crown corporations.

3. In addition to the Crown corporations listed in Exhibit 4, the **Workers' Compensation Board of the Northwest Territories and Nunavut** operates in both Territories, and the **Northwest Territories Power Corporation** continued to operate in Nunavut until March 31, 2001 under a joint management arrangement with the Government of the Northwest Territories.

Crown corporations are different

4. Under Nunavut laws, Crown corporations operate differently than departments and revolving funds. Three differences are noted below.

5. **Reporting relationships.** Departments and revolving funds report directly to ministers, and in turn they are accountable to the Legislative Assembly.

6. Most Nunavut Crown corporations have boards of directors that oversee the Corporation's management and operations. Boards of directors are accountable to ministers, who are accountable to the Legislative Assembly.

7. **How the government influences Crown corporations.** Ministers are in charge of their departments, although they assign many duties to their deputy ministers and staff.

8. Ministers influence Crown corporations in different ways. By law, Crown corporations have to submit annual operating and capital budgets and a corporate plan to the minister for approval. In general, Crown corporations are not allowed to carry out any activities not authorized by the last documents approved by the minister.

9. In addition, Nunavut laws allow the Cabinet to issue formal directives to Crown corporations through the Minister of Finance, and Crown corporations are required to disclose any directives in their financial statements. The implication is that directives to Crown corporations are a tool that should only be used rarely.

10. Finally, most Nunavut Crown Corporations need annual contributions from the government to allow them to operate. In practice, this financial reliance can give the government influence over Crown corporations.

11. Reporting. Nunavut laws require Crown Corporations to provide annual reports including audited financial statements to their minister within three months of year-end or within five months if the Minister of Finance allows an extension. The minister is then to table the annual report in the Legislative Assembly as soon as possible. Chapter 8 of this report discusses delays in tabling annual reports in the Legislative Assembly.

Chapter 5 – Improving overall financial management

This chapter discusses government's policies and how activities such as records management and reconciliations can be improved.

1. This chapter discusses some general steps that should be taken to improve financial management.

Policies

2. Government policies can be set at different levels. On behalf of the Legislative Assembly, Cabinet sets broad policies which focus the government's priorities and direction. On the other hand, administrative policies guide day to day government operations.
3. Administrative policies give staff information on what is, or what is not allowed in government, and outline the ground rules that staff must follow in their work. To be useful policies need to cover all important areas, be up-to-date, and be communicated to staff.
4. It is not clear which administrative policies apply to Crown corporations. Should policies for Crown corporations be the same as those for departments, or should boards of directors be able to set their own policies?

Budgetary controls

5. Budgetary controls include comparisons of budgeted revenue and expenses to actual results throughout the year, along with other more detailed steps to monitor operations. Comparisons need to be made often enough that management can take corrective actions when budgets are not being met. In large organizations, the comparisons are typically made every month.
6. The Nunavut Arctic College has a June 30 year-end. Its Board of Governors did not give final approval for the budget for the year ended June 30, 2001 until June 2001, the last month of the fiscal year. Throughout the year there were no interim financial statements to help staff monitor the College's financial situation. Chapter 6 notes how management of accounts receivables suffered from this lack of attention.

Activities which support good financial management

7. Good financial management requires many activities. Below we comment on two areas.

8. Records management. Procedures to allow staff to store and retrieve important documents are known as records management. Most departments and Crown corporations in the Government of Nunavut have had some of their documents transferred from the Government of the Northwest Territories, and most have decentralized operations with documents filed in a number of locations across Nunavut.

9. It is important for management to be able to locate important documents. In addition, we need to review a variety of documents during our audits. While management was ultimately able to provide us with documents we needed for our audits, there were some delays in locating them. Some examples are:

- The Government of Nunavut had difficulty locating expense vouchers and signed copies of revenue agreements.
- The Nunavut Arctic College had difficulty locating expense vouchers and pay records.
- The Nunavut Development Corporation had difficulty locating summaries of cash receipts.

10. Reconciliations. Good financial management requires monthly reconciliation of accounting information. A reconciliation is a detailed comparison of information from two different sources. They may be between the government's own accounting records and outside information, such as bank statements. Or they may be between different parts of the government's own accounting records.

11. Reconciliations are important. For example, if a bank reconciliation of a government bank account is not done, the government or crown corporation may not know if it is receiving, through bank transfer, all the money it expected.

12. Reconciliations need to be done promptly. Reconciliations may also reveal certain types of errors where the government needs to file a claim against an outside organization, or perhaps even reveal fraud. If reconciliations are not done promptly, opportunities to correct problems or claim reimbursement from others may be missed.

13. During our 2000–01 audits, we noted many examples of late reconciliations:

- The Government of Nunavut had approximately \$1 million of student loans receivable as of March 2001. But March 2001 student loans were not reconciled until six months after year end. March 2002 student loans remain unreconciled as of October 2002, seven months after year-end.
- Together, government departments have over 30 bank accounts. Many bank reconciliations for the period ending March 31, 2001 were not approved until September 2001, six months after year-end.
- When we began our audit of the Nunavut Arctic College, its bank reconciliations had not been completed for several months.

- The Nunavut Housing Corporation's own records of housing units had not been reconciled to records belonging to Local Housing Authorities.
- The Nunavut Development Corporation's detailed inventory records had not been reconciled to summary accounting records, or adjusted for the results of actual inventory counts.

14. A special type of reconciliation is needed whenever the government replaces its computers or software. A **conversion reconciliation** is needed to ensure that all information in the old system has been transferred accurately to the new system.

15. In June 2001 the Nunavut Arctic College replaced both its computer hardware and software. There was some evidence that management had attempted to reconcile the conversion, but documentation of this important reconciliation was poor. Ultimately, after considerable audit work, we were able to conclude that there were no errors in the conversion which were large enough that they could have affected the 2000–01 financial statements as a whole. However, other problems remained, and as late as December 2001 the College's staff were still working to reconcile two different parts of its accounting system.

Chapter 6 – Improving revenue management

The Government needs to collect all the revenue to which it is entitled so that it can fund as many government programs as possible.

This chapter gives examples of where revenue management can be improved.

1. There are always more worthy uses for government money than there is money available. So it is important for the government to collect all the money owed to it in order to fund as many government activities as possible. Activities to monitor and collect revenue are called revenue management.
2. This chapter notes areas where revenue management needs improvement. In this chapter we discuss both revenue and accounts receivable because they are closely related. Whenever an entity or organization owes the government money, this is called an account receivable. Monitoring and collecting accounts receivable is an important part of revenue management.
3. The government collects revenue both from the public, for services it provides, and from other parties such as the Government of Canada, in the form of contributions. In all, there are dozens of individual revenue sources that the Government of Nunavut needs to manage to ensure it is receiving all the money it is due.

Situations where Nunavut needs to submit documents

4. For most revenue sources from Canada, Nunavut is required to submit some sort of documentation to claim revenue or to remain eligible for future funding. There are several cases where Nunavut is behind in submitting documents. The following is one example.
5. The Department of Health and Social Services has an agreement with Canada to reimburse the Territory for certain costs related to hospital and physician services. The agreement requires Nunavut to submit audited reports to Canada prior to receiving the final payment.
6. The government has had difficulty finalizing these reports. Consequently, as of March 2000 Nunavut had an account receivable from Canada of about \$2 million. By March 2001, the receivable had grown to about \$14 million. Consolidated financial statements and our audit for 2001–02 are not yet complete, but the government estimated that the amount had grown to about \$32 million by March 2002.
7. It is important for Nunavut to submit the necessary audited information as soon as possible in order to convert the \$32 million into cash.

Managing Nunavut Arctic College revenue

8. We noted several revenue management problems in the Nunavut Arctic College (the College).
9. **Course revenue.** The College develops and delivers a large number of courses under contract for a variety of sponsors operating in different locations. Course revenues are important, since in total they represent about 25 percent of the College's revenue.
10. During our audit, we noted that as at October 2001, the College had not completed financial analysis for projects completed in April and May, and had not invoiced sponsors for the same period. If the College delays in sending out invoices, the money owing could be at risk of being lost. On one occasion, one sponsor refused to pay an additional \$15,000 because the College was late invoicing the sponsor. This amount was the difference between the College's expenses to develop the course and the amount the sponsor had already paid.
11. **Monitoring accounts receivable.** In our section on budget controls (Chapter 5), we noted that government entities need to monitor areas important to them. As part of their responsibility to monitor accounts receivable, entities need to take prompt action to collect overdue accounts.
12. The College's accounting system does not automatically group together accounts receivable from the same organization. In these situations it is important for management to analyze receivables to make sure that amounts owing from any one organization or party do not grow too large.
13. As part of our audit work, we review receivables to determine if they are likely to be collected. At the College, we noted a number of accounts that involved one sponsor, which totalled \$800,000 and which had been outstanding for several months.
14. In February 2002, management collected most of the \$800,000, almost one year after it was due. The extensive time required to collect these accounts receivable contributed directly to delays in completing the audit.
15. **Residence revenue.** The College maintains residences for the use of its students. Students living in residence pay a fee to the College.
16. During our audit we observed that, based on the College's own records, revenue for residences had decreased from the prior year. Again based on the College's records, the vacancy rate for residences was around 80 percent.
17. The money that students pay to live in residence is too small to affect the College's financial statements. However, in light of the overall housing shortage in Nunavut, the high vacancy rate that the College reports may be important to the government as a whole.

Analyzing government revenue

18. The government receives about 75 percent of its total revenue from Canada under the Formula Financing Agreement.

19. The Formula Financing Agreement makes it clear that it is Canada that calculates the amounts paid to Nunavut under the agreement. However, Nunavut has a responsibility to analyze its own revenue in order to give Canada information needed for its calculations.

20. This is because changes to certain types of revenue that Nunavut receives cause changes to the revenue from the Formula Financing Agreement as well. It is complex to determine which changes to revenues also change revenue from the Formula Financing Agreement. Staff from the Government of Nunavut have to do detailed analysis to calculate these changes.

21. For example, if the government increases fuel tax rates, then revenue from the Formula Financing Agreement does not change. But if fuel tax revenue increases because more fuel is sold, then the revenue from the Formula Financing Agreement will decrease.

22. This year the government did not complete its own analysis of other revenues until February 2002, about 11 months after year-end. In the future, this analysis will need to be done more quickly if the government's consolidated financial statements are to be issued sooner (see Chapter 8).

23. Nunavut has many revenue sources which need to be analyzed to determine their effect on the revenue from the Formula Financing Agreement. There is a need to improve this work.

Collecting miscellaneous accounts receivable

24. There are problems with the way that the government manages miscellaneous accounts receivable. After the government has recorded allowances for doubtful accounts, these problems are not significant to the government's financial statements as a whole. At the same time, we feel that work is needed to see if any of these receivables can be converted to cash.

25. Receivables transferred from the Government of the Northwest Territories. A number of accounts receivable were transferred to Nunavut when the territories were divided. The government has had problems matching cash received to the related accounts receivable. As of March 31, 2001, a balance of about \$1 million remained. But efforts to collect these amounts are hampered because of the problem matching receivables to cash received. In other words, it is difficult to tell who owes the \$1 million.

26. Other accounts receivable. As of March 31, 2001, the government's Baffin region still had some \$3 million of accounts receivable that were over 90 days old.

27. The government had undertaken some work to analyze and attempt to collect both types of accounts receivable noted above.

Chapter 7 – Improving payment management

The government needs to control payments to make sure payments are correct and authorized.

This chapter notes that signing authorities and leave records can be improved.

1. Managing payments is an important element of good financial management. It is essential that there are adequate controls to ensure that payments are correct and have proper authority. Proper authority means that the person or persons who are authorized to approve a particular payment have done so before the payment is made. This chapter notes areas for improvement.

Signing authorities

2. Ultimately the Legislative Assembly authorizes all government spending. Staff within government need to approve individual payments. Signing authorities for payments is delegated to individuals in the government. Generally, as the amount of the payment or the commitment to make a payment increases, the position of the staff member who is authorized to approve the payment must become more senior in level.

3. This tiered delegation of signing authority is designed to reduce risks of making inappropriate payments by ensuring that larger or riskier payments are authorized by more senior staff. Complying with signing authorities is an important part of good financial management of payments.

4. It is important that staff with signing authority understand how signing authorities are delegated, and when they have signing authority and when they do not. It is equally important that staff who actually process transactions check to ensure that the person who approved a transaction has the authority to do so.

5. **Departments.** During our audit of government departments, we found numerous issues with signing authorities. Signing authorities in departments are complex. There are authorities for approving a purchase before it occurs, and there are separate authorities for approving actual payments. Also, different staff have different dollar limits on the amounts they can approve, and some staff can only approve certain types of payments.

6. We found that the complex approval structures are not always understood, and not always enforced. As a result, payments were made in Departments without approval by appropriate staff.

7. **Nunavut Arctic College.** During our audit of the Nunavut Arctic College, we also noted several cases where staff signed payments for amounts that were above the limits that they were approved to authorize.

Leave records

8. Controls over leave are a type of control over payments. Each department maintains their own manual leave records for their employees. Staff in each department review timesheets, and record leave taken by each employee on a manual leave card for each employee.

9. During our audit work, we found many errors in recording employee leave. This needs to be improved because leave records control the amount of time staff can take off and still get paid.

Chapter 8 – Next Steps

This chapter discusses some of the background work that needs to be done so that the government can improve its financial management by correcting the problems noted in Chapters 5, 6 and 7.

The underlying issue: improving financial management

1. Our reports normally include recommendations to address the issues we identify in our work. Chapters 5, 6 and 7 all give examples of specific problems that need correction. We have not presented recommendations chapter by chapter, since it is important to first look at the issue underlying the individual problems.
2. The underlying issue is simply that the Government of Nunavut is new, and has not yet been able to implement essential financial management throughout all of its departments, Crown corporations, revolving funds, and regions. All the issues discussed in this report are illustrations of gaps in financial management that need to be closed.

Building a foundation

3. Last year management committed to implementing basic controls throughout government within three years—two years from now.
4. The following are needed to build a foundation of sound financial management throughout government which will allow the government to address the individual issues we note in this report.
5. There are four elements to continuing to build good financial management:
 - find staff for technical positions from other parts of Canada when the positions cannot be staffed by Nunavummiut at this time
 - train Nunavummiut for future technical jobs
 - continue the training of existing government employees for their existing jobs
 - continue to develop the relationships needed to build financial management in all parts of the government.

The first two steps are discussed in Chapter 4 of our first (2001) report to the Legislative Assembly.

6. The third step is on-the-job training. Continued training will help to address many of the issues noted in this report. For example, staff need additional training in how

to use signing authorities properly. They also need additional training in how to maintain employee leave records without errors.

7. The fourth step is continuing to build those relationships within the government which are key to good financial management. These relationships are essential because financial management in Nunavut is decentralized (Chapter 3), and not all departments and Crown corporations within the government operate in the same way (Chapter 4).

8. The Department of Finance will have an important role in continuing to build financial management. Nunavut laws appoint a Comptroller General who by law has overall responsibility for financial management in the Government of Nunavut. The Comptroller General is the Deputy Minister of Finance.

9. Relationships between the Department of Finance and other departments and revolving funds are developing. For example, the Department of Finance now gives other departments clear instructions on which information they must provide to the Department of Finance. This ensures that Finance has enough information to prepare the government's annual financial statements.

10. Finance is also trying to encourage departments to call on it for help when necessary. In response to one of our recommendations last year, the Department of Finance established six accounting positions to work with other departments. To date, three of the six positions have been staffed. There is a good opportunity for Finance to offer support to, and build relationships with departments and revolving funds.

11. To date less work has been done to define and build the day-to-day relationship between the Department of Finance and Crown corporations. We think that building these relationships will be important for a number of reasons.

- Crown corporations are a large part of the total government, and financial management in Crown corporations is important.
- Crown corporations face the special challenge of preparing annual financial statements.
- The government's own financial statements include or consolidate Crown corporations. Thus the government needs to have Crown corporations complete their financial statements before the government can complete its own consolidated financial statements.

Tabling audited financial statements sooner

12. There have been delays in tabling audited financial statements in the Legislative Assembly. Below we discuss the requirements, some of the reasons for the delays, and why this relates to the overall issue of financial management.

13. **Legal requirements.** Nunavut's laws require Crown corporations to give their minister an annual report within three months of year-end or within five months if the

Minister of Finance approves an extension. The annual report must include audited financial statements. The minister responsible for a Crown corporation is required to table the annual report in the Assembly as soon as possible.

14. Canada's *Nunavut Act* requires the government to table its annual consolidated financial statements in the Legislative Assembly by the end of December each year.

15. Timely financial statements important. We support timely tabling of audited financial statements and annual reports since they are an important part of the accountability cycle³.

16. However, the timeliness of tablings to date has been poor. The Legislative Assembly tracks tablings required by law, including annual reports and financial statements. As of this writing, a list of required tablings, deadline dates, and dates of actual tablings is available on the Assembly's website at www.assembly.nu.ca. This list shows that as of October 21, 2002, only two Crown corporations had tabled their 2001 annual reports in the Legislative Assembly. We have not audited this information.

17. There is another reason that timely completion of Crown corporation financial statements is important. As noted above, the government cannot finish its own consolidated financial statements until the Crown corporations finalize their financial statements.

18. Improving overall financial management will also improve timeliness of financial statements. There are things that the government and Crown corporations can do to make sure that they complete their financial statements and submit them by the required date. For example, at present, translators are in short supply, and there can be considerable delays if staff wait until the entire annual report (for Crown corporations) is complete before translation. Text of the annual report and text in the financial statements could be translated before the numbers in the financial statements are finalized. Late changes could be tracked and made before printing.

19. In our view the best way of improving the timeliness of financial statements is to improve financial management throughout all of government. The main reason to have good financial management is to protect the government's assets, and give Nunavummiut better quality in their government services. But the types of financial management problems we note in this report also cause significant delays in finalizing financial statements and our audits.

20. Nunavut policies establish a decentralized government. In turn, decentralized government creates decentralized accounting and financial management. Nunavut needs to continue to build financial management which works in this decentralized environment.

³ We discuss accountability in Chapter 2 of our first (2001) report to the Legislative Assembly.

Chapter 9 – Recommendations

Recommendation 1 – Government administrative policies

The Government’s administrative policies should clearly state whether they apply to Crown corporations.

Government response

The Government agrees that the administrative policies should clearly state if they apply to Crown Corporations. We will be reviewing this issue and considering the various options available to comply with this recommendation.

Recommendation 2 – Improving financial management

The government should continue to work towards implementing basic financial controls within all parts of the government by 2004.

Government response

The government is working towards essential financial controls and financial capacity development. Government has initiated several training programs to train senior staff, and we continue with efforts to recruit senior accountants, auditors and financial managers.

Recommendation 3 – Specific issues identified in this report

The government should address the specific financial management issues in this report. These include:

- a. ensuring budgetary controls operate effectively**
- b. implementing good records management**
- c. ensuring key reconciliations are completed promptly**
- d. submitting revenue claims promptly**
- e. billing revenue promptly**
- f. monitoring accounts receivable and collecting them when due**
- g. analyzing revenues needed for Formula Financing Agreement calculations**
- h. ensuring signing authorities operate as intended**
- i. ensuring that employment leave records are accurate**
- j. completing and tabling annual financial statements promptly**

Government response

The government agrees that these specific financial management issues need to be addressed and will work towards compliance.

The Department of Finance has made changes to its organizational structure to allow for better coordination of accounting issues and responsibilities.

The Government is in the process of improving the revenue monitoring system, which will enhance the accuracy, timeliness, and reporting within the revenue and receivables cycle.

Appendix A – Audit Team

Sheila Fraser, FCA	Auditor General of Canada
Ronald C. Thompson, CA	Assistant Auditor General
Dale Shier, CA	Principal, Nunavut audits
Roger Simpson, CA	Principal, Edmonton Office
John McCullough, CA	Principal, Winnipeg Office

Since Nunavut is large, our audit work involves staff from our Ottawa, Edmonton, and Winnipeg offices. Most of these staff work on Nunavut audits only as brief assignments.

Nancy Adams	Kelli Kolaski
Patrick Bedard	Cyril Lee-Shanok
Amy Begley	Amy Mandrusiak
Sophie Boudreau	Susan Meilleur
Estelle Charette	Chantal Montpetit
Kristine Coombs	Barry Naik
Helene Demarcke	Advit Nath
Doug Dheere	Christopher Polselli
Claude Fortier	Marjorie Pound
Shawn Frost	Pascale Saulnier
Jamie Gamache	Francis Seguin
Samantha Hazen	Donna-Lee Shaw
Wendy Ho	Mila Simon
Dustin Hoshowski	Michel St Amant
Paul Hubley	Michelle St-Jean
Irene Imbeau	Laura Wolanik
Mary-Jo Jacksic	Peter Yeh
Catherine Johns	Randal Zamrykut
Stephanie King	

For information, please contact our Office's Communications group at (613) 995-3708 or 1-888-761-5953 (toll free).

Appendix B – A Reader's Guide to Nunavut's March 31, 2001 Consolidated Financial Statements

Section	What this section tells you
Auditor's report	<p>States the auditor's qualifications or other observations, if any, concerning the financial statements. If there are none, it means that the financial statements have been prepared in accordance with government accounting standards. It also means that the statements are credible and can be used to assess the government's financial health.</p> <p><i>(we describe an authorities qualification in Chapter 2 of this report)</i></p>
Consolidated statement of financial position	<p>This tells you whether the government has more financial assets than liabilities or whether it has more financial liabilities than assets. If there are more financial liabilities than assets, this is net debt.</p> <p><i>(At March 31, 2001, the government had \$13 million of accumulated net debt.)</i></p>
Consolidated statement of operations and accumulated surplus	<p>This tells you whether revenues for the year were enough to cover expenses. If so, this is an annual surplus. If not, it is an annual deficit.</p> <p><i>(The government had a deficit of over \$39 million for its current year of operations. The \$13 million accumulated net debt on the statement of financial position is made up of the \$39 million deficit plus the accumulated surplus at March 31 2000 of \$26 million.)</i></p>
Consolidated statement of cash flows	<p>This tells you whether cash and temporary investments increased or decreased during the year and why.</p> <p><i>(This statement shows that cash and temporary investments totalling \$119 million were carried forward from the previous year. Cash decreased by \$56 million during the year, so the government had \$63 million in cash and temporary investments at March 31 2001.)</i></p>
Consolidated statement of tangible capital assets.	<p>This gives you information on physical assets owned by the government.</p>
Notes to the financial statements	<p>These give you information you need to understand the sections of the financial statements described above. For example:</p> <ul style="list-style-type: none"> • Note 1(a) lists all the entities that are consolidated (included) in the financial statements • Note 16 lists commitments • Note 17 lists important contingencies (uncertainties) • Note 18 lists over-expenditures

Appendix C – Glossary

Accountable	Responsible for explaining and justifying actions to someone else.
Accounts Receivable	Money due to the government.
Accounting standards generally accepted for Canadian governments	Independent and objective accounting rules for territorial, provincial and federal governments. Published by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.
Allowance for doubtful accounts	A reduction in accounts receivable to allow for possible bad debts.
Appropriation	Money which the Legislative Assembly approves for departments' spending.
Authorities	Rules set out in laws, regulations and policies which describe what a particular part of government is allowed to do.
Board of Directors	A group of people who oversee the operations of a corporation.
Consolidated financial statements	Include all parts of government in financial statements: departments, revolving funds and Crown corporations.
Contingency	A significant uncertainty at the time financial statements are prepared that affects the amounts reported in the statements. Typical examples include litigation or incomplete information. Significant contingencies are disclosed in a note to the financial statements.
Computer Hardware	Computer processor, screen, keyboard, printer, etc.
Computer Software	Programs and related documentation that assist in making a computer do what you want it to do.
Conversion reconciliation	A comparison of information between an old system and a new computer to ensure that it was transferred accurately.
Decentralized	The distribution or delegation of functions and powers from the central of government (such as a capital) to other locations or other parts of government
Deficit	If a government's spending over the years has been more than revenues, then it has a deficit. Opposite of surplus.
Expense Voucher	The request for accounting to make a payment on behalf of the government to a third party.
Joint Venture	A business owned by two or more companies.
Mature Organization	An organization which has been in existence for a number of years and which has developed financial controls and information systems to enable it to assess if its programs are meeting their objectives.
Nunavummiut	Nunavut residents.
Public accounts	Annual public financial report published by the Government of Nunavut. Contains both audited and unaudited information.
Reconciliation	The process of comparing the same or related information from two or more

different sources to ensure the information is correctly and accurately recorded.

Revolving Fund	A part of the government which has a specific goal and a maximum amount of money it can get. A revolving fund spends money but also gets money back from operations.
Subsidiary	A company owned by another company.
Surplus	If a government's revenues over the years have been more than spending, then it has a surplus. Opposite of deficit.
Unconsolidated financial statements	Include departments only.