



18th Legislative Assembly of the Northwest Territories

Standing Committee on Government Operations

Report on the Review of the
2015-2016 Public Accounts of the
Government of the Northwest Territories

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**STANDING COMMITTEE ON
GOVERNMENT OPERATIONS****REPORT ON THE REVIEW OF THE
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STANDING COMMITTEE ON GOVERNMENT OPERATIONS

REPORT ON THE REVIEW OF THE 2015-2016 PUBLIC ACCOUNTS

EXECUTIVE SUMMARY

The Standing Committee on Government Operations is pleased to present its report on the review of the *2015-2016 Public Accounts of the Government of the Northwest Territories*.

The review took place in Yellowknife, Northwest Territories, from April 3-5, 2017.

The Committee notes that the consolidated *2015-2016 Public Accounts of the Government of the Northwest Territories* received a clean audit opinion from the Auditor General and commends the Government of the Northwest Territories for this achievement.

Members of the Standing Committee would like to take the opportunity to thank officials from the Office of the Auditor General who traveled from Ottawa and Edmonton to assist the Standing Committee with its review.

The Standing Committee also wishes to thank officials from the Office of the Comptroller General in the GNWT's Department of Finance for their appearance before the Committee on April 4, 2017.

2015-2016 Recommendations

As a result of this year's review of the *2015-2016 Public Accounts*, the Standing Committee on Government Operations makes the following recommendations to the Government of the Northwest Territories:

1. The Standing Committee on Government Operations recommends that the table titled "Completion of Entities Consolidated within the Public Accounts" be included annually in the unaudited *Financial Statement Discussion and Analysis* section of the Public Accounts.
2. The Standing Committee on Government Operations recommends that the Office of the Comptroller General in the Department of Finance work with all

GNWT public agencies to assist them to complete their audited financial statements to meet statutory reporting deadlines, and to seek the necessary extensions where those deadlines cannot be met.

3. The Standing Committee on Government Operations recommends that the Government of the Northwest Territories continue to include information in the *Financial Statement Discussion and Analysis* section of the public accounts, indicating how the GNWT has met the provisions related to debt servicing and infrastructure financing in the *Fiscal Responsibility Policy*.
4. The Standing Committee on Government Operations recommends that the Minister of Finance work with the Minister Responsible for Public Engagement and Transparency to develop plain language materials that summarize the public accounts for a given year, in a manner that is understandable for an interested, non-professional reader, focusing on the key financial highlights and significant audit issues arising for that year.
5. The Standing Committee on Government Operations recommends that the Department of Finance, after consultation with the Information and Privacy Commissioner for the Northwest Territories, reconsider amending the *Non-consolidated Schedule of Bad Debt Write-offs, Forgiveness and Student Loan Remissions* to protect the privacy of individuals by removing the names of those who have received student loan remissions and reporting only the amount of the remissions.
6. The Standing Committee on Government Operations recommends that the Government of the Northwest Territories provide a response to this report within 120 days.

INTRODUCTION

The Legislative Assembly of the Northwest Territories' Standing Committee on Government Operations ("the Committee") has a mandate to review and report on the Government of the Northwest Territories' public accounts. This review helps ensure that the GNWT's fiscal management practices and issues are publicly examined and scrutinized to promote government accountability.

In the course of its review, the Committee makes recommendations to the Government to improve financial management reporting and practices. The Standing Committee on Government Operations is pleased to present this report on its review and looks forward to receiving the Government's response.

ABOUT THE PUBLIC ACCOUNTS GENERALLY

The public accounts are the financial statements of the Government of the Northwest Territories (GNWT), which are prepared according to public sector accounting standards adopted across Canada.

The public accounts of the GNWT are also prepared in accordance with requirements contained in the federal *Northwest Territories Act* [S.C. 2014, c. 2, s. 2] and the GNWT's *Financial Administration Act (FAA)* [S.N.W.T. 2015, c.13]. The FAA requires that the public accounts be prepared in two phases: first, the unaudited interim (non-consolidated) public accounts and later, the final (consolidated) public accounts, which are audited.

The public accounts disclose the GNWT's financial position and results of operations as at March 31st of a given fiscal year.

The GNWT's financial position is revealed through information on assets, liabilities, net debt and accumulated surplus. This information assists the reader in evaluating the GNWT's ability to finance its activities, to meet its liabilities and contractual obligations, and to provide future services.

The results of operations show the revenues and expenses of the GNWT for the fiscal year. This allows the GNWT to account for the resources it received and to demonstrate how those resources were budgeted for and expended.

The consolidated public accounts are produced in four sections:

- Section I contains the consolidated financial statements and combined results of operations for all GNWT departments, revolving funds, public agencies, territorial corporations and other related entities that are considered part of the government reporting entity. This section provides a high-level, aggregated (combined) look at the financial position of the Government and its various departments and agencies, so that the reader is able to gauge the overall financial health of the Government, as opposed to the stand-alone position of any single department or agency. It discloses the full nature and extent of the financial affairs and resources for which the GNWT is responsible.

In Section I, the notes to the consolidated financial statements are an integral part of the public accounts and should be read in conjunction with the financial statements. This section also contains an unaudited *Financial Statement Discussion and Analysis* by the Minister of Finance, which provides further insight from the GNWT's perspective into the information reported in the public accounts.

- Section II presents the non-consolidated, unaudited financial statements for GNWT departments, the Legislative Assembly, and Statutory Offices. Section II is comprised of the financial position and results of operations for GNWT departments only, including the revolving funds and special purpose funds they administer. Providing this information separately allows the reader to assess the collective financial position of the GNWT's departments, as separate and distinct from that of its larger operations, which include public boards, agencies and territorial corporations. This section also includes important notes to the financial statements.
- Section III contains the supplementary financial statements of other entities and revolving and special purpose funds.
- Section IV contains the supplementary financial statements of education boards and health and social services authorities.

It should be noted that the public accounts are based on historical information. They are, therefore, backwards looking and pertain to actual spending for the given fiscal year in question.

Role of the Auditor

With respect to the examination of the public accounts, the federal *Northwest Territories Act* conveys to the Auditor General all powers contained in the *Auditor General Act* (R.S.C., 1985, c. A-17). The Auditor General of Canada audits the GNWT's consolidated financial statements on an annual basis. The Auditor General also annually audits the public accounts of some of the GNWT's larger public agencies, such as the Northwest Territories Hydro Corporation, the Northwest Territories Power Corporation, the Northwest Territories Housing Corporation, Aurora College and the Northwest Territories Business Development and Investment Corporation.

Smaller public agencies, such as regional health authorities and education boards, are audited by independent Certified Public Accountants, upon whose work the Office of the Auditor General (OAG) relies in carrying out its audit of the GNWT's consolidated financial statements. The OAG reviews the audits of these smaller entities on a rotational basis (i.e. once every three years).

Regardless of who prepares it, the purpose of an audit remains the same. As specified in legislation, the purpose of an audit is twofold:

1. To allow the auditor to express an expert opinion as to whether the financial statements present the financial position of the government body fairly, in all material respects. This includes the financial position

of the government body, the results of its operations, changes in its net debt and its cash flows for the fiscal year being examined.

2. To examine financial transactions to ensure they have been carried out in accordance with the powers provided to the government body under law.

It is important to note that the audit of the public accounts is a financial audit, as opposed to a performance audit. Although a financial audit and a performance audit share procedural similarities, they are not the same.

A performance audit focuses on efficiency measurements by identifying operational problems related to management, and resourcing and identifying their causes. In this sense, a performance audit is focused primarily on people and on the quality of performance of a government department, board or agency as defined in its legislative and policy mandate.

A financial audit, on the other hand, focuses on the accuracy and correctness of financial accounts. It does not explore the quality of management decisions. In a financial audit, the attention is directed towards finances and on determining if a government's figures have been recorded as required by national standards.

In conducting a financial audit, the auditor undertakes a risk-based audit approach that focuses on significant risks of material misstatement and non-compliance with significant authorities. Materiality is an important concept in auditing, related to the importance or significance of an amount, transaction or discrepancy. Based on professional judgment, the auditor determines what errors are considered material in the public accounts.

For each department, board or agency whose books are audited, the independent auditor prepares an audit report that addresses each of the audit objectives. These reports are included in the public accounts along with the financial statements for each entity.

REVIEW OF THE GNWT PUBLIC ACCOUNTS FOR 2015-2016

Introduction

This is the second review of the public accounts by the Standing Committee on Government Operations of the 18th Legislative Assembly. The review took place in Yellowknife, Northwest Territories, from April 3-4, 2017.

Acknowledgements

Members of the Standing Committee would like to take the opportunity to thank the officials from the Office of the Auditor General who participated in this year's review. The Standing Committee would also like to thank the officials from the Office of the Comptroller General in the GNWT's Department of Finance for their appearance before the Standing Committee on April 4, 2017.

The Significance of a Clean Audit Opinion

In an unqualified or "clean" report, the auditor concludes that the government's financial statements present its financial affairs fairly in all material respects. This indicates that the government observed compliance with Canadian public sector accounting standards and statutory requirements. This also demonstrates that any changes in the accounting policies, and the impact of these changes, have been adequately determined and revealed.

It is important to note that a clean opinion does not tell the reader that the government is in good economic health. It merely states that its financial report is complete and transparent and has not misstated any important facts. Nonetheless, achieving a clean audit opinion is an important objective and is to be commended.

The Committee notes that the consolidated *2015-2016 Public Accounts* received a clean audit opinion from the Auditor General and commends the Government of the Northwest Territories for this achievement.

Timeliness of the Public Accounts

Government Reporting Entity

Deadlines for the completion of the public accounts are set in the territorial *Financial Administration Act (FAA)*. A new and modernized version of the *FAA* [S.N.W.T. 2015, c.13] came into force on April 1, 2016. The *2015-16 Public Accounts* are the first to be prepared under this new legislation.

Under the new *FAA*, Section 36 requires that the interim public accounts be completed by September 30th after the end of the fiscal year and tabled in the Legislative Assembly at the first opportunity. The *Interim Financial Statements of the GNWT for the Year Ended March 31, 2016* were completed in accordance with the deadlines set in the legislation. They were provided to the Standing Committee on September 1, 2016, and tabled in the Legislative Assembly on November 3, 2016.

With respect to the consolidated public accounts, Section 35 of the FAA requires that, "the public accounts for a Government fiscal year must be laid before the Legislative Assembly (a) on or before December 31 following the end of that fiscal year; or (b) if the Legislative Assembly is not then in Session, on or before the fifth day of the next sitting of the Legislative Assembly." The consolidated *Public Accounts for 2015-16* were completed in accordance with the deadlines set in legislation, having been signed on November 14, 2016, provided to the Standing Committee on January 27, 2017, and tabled in the House on February 6, 2017.

The Committee takes note of the fact that this is the third year in a row that the Department of Finance has completed both the interim and consolidated public accounts in time to meet the deadlines set in legislation. The Committee acknowledges the significance of this achievement, given the delays that were experienced in past Assemblies and commends the Government. Given this much-improved track record, the Committee has opted this year to dispense with recommendations related to the timely completion of the interim financial statements and consolidated public accounts, but intends to remain vigilant in monitoring the GNWT's compliance with the deadlines noted in the FAA.

Public Agencies

With respect to meeting statutory deadlines, the Standing Committee is interested in monitoring not only the compliance of the government reporting entity as a whole, but also that of the individual agencies which make up the reporting entity. The Department of Finance has been responsive, in previous years, to this request for information, providing it to the Standing Committee upon request. However, the Standing Committee has expressed a preference that this information be included in the public accounts, so that it becomes part of the public record when the public accounts are tabled.

The Committee is pleased to see that the Department of Finance has included in the *Financial Statement Discussion and Analysis* in Section 1 of the *2015-2016 Public Accounts*, a list of all departments, boards and agencies in the government reporting entity, their deadlines for the completion of financial statements, and whether or not those deadlines were met. With its inclusion, this information is now available to public scrutiny. The Standing Committee thanks the Minister of Finance for making this information readily available to the public.

Recommendation 1

The Standing Committee on Government Operations recommends that the table titled “Completion of Entities Consolidated within the Public Accounts” be included annually in the unaudited *Financial Statement Discussion and Analysis* section of the Public Accounts.

Again this year, the Committee reviewed the compliance of individual public agencies in the government reporting entity with their respective deadlines.

For the 2015-2016 fiscal year, the Committee notes that the following agencies requested and received extensions of the due dates for completion of their audited financial statements, as provided for in Section 32 of the FAA and in accordance with any requirements contained in the respective Acts establishing the public agency: the Beaufort Divisional Education Council; the N'Dilo Divisional Education Council; Aurora College; the Northwest Territories Hydro Corporation; the Northwest Territories Business Development and Investment Corporation; and the Northwest Territories Housing Corporation.

The Committee commends each of these agencies for seeking the appropriate extension and meeting their extended deadlines, giving particular acknowledgement to both the Northwest Territories Hydro Corporation and Aurora College for their improvement over the previous year, when they failed to seek the necessary extension to their respective deadlines.

For the 2015-2016 fiscal year, the following agencies failed to meet the statutory deadlines for completion of their audited financial statements: the Dettah District Education Authority; the Northwest Territories Human Rights Commission; the Northwest Territories Sport and Recreation Council; and the Status of Women Council of the Northwest Territories.

As always, the Committee recognizes the capacity challenges facing smaller agencies. Nonetheless, the Committee urges any agency requiring additional time to seek out the extension provided for in law, to ensure compliance with the FAA.

The Standing Committee makes the following recommendation with respect to timeliness of the public accounts:

Recommendation 2

The Standing Committee on Government Operations recommends that the Office of the Comptroller General in the Department of Finance work with all GNWT public agencies to assist them to complete their audited financial statements to meet statutory reporting deadlines, and to seek the necessary extensions where those deadlines cannot be met.

Notable Audit Subject Areas

The following subjects have been identified by the Standing Committee as areas of particular interest to the Committee, which also may be of interest to the public:

Environmental Liabilities

The accounting treatment of environmental liabilities by public sector bodies is set out in the Public Sector Accounting Board's standard *PS 3260 – Liability for Contaminated Sites*. Under this standard, the GNWT is responsible for recording estimates in its financial statements for the further evaluation or remediation of all known contaminated sites for which it is legally responsible.

Environmental liabilities arise when contamination exceeds established environmental standards. Estimated remediation costs are recorded in the year in which they become known.

For the 2015-2016 fiscal year, the GNWT's environmental liabilities are disclosed in note 11 to the consolidated financial statements:

- The GNWT has identified 223 sites potentially requiring environmental remediation as at March 31, 2016. [2015 – 216].
- Total remediation costs for these sites are estimated at \$66.2 million (\$59.4 total remediation costs + \$6.9 million for NT Hydro asset retirement obligations). This down from the previous year's total of \$68.9 million.
- Giant Mine has been formally designated as contaminated under the NWT's *Environmental Protection Act*. The balance of the GNWT's share of the above-ground remediation is \$2.851 million [2015 - \$2.994 million].

- There are six other abandoned non-operating mine sites that the Government will be remediating in conjunction with the Government of Canada. Cost estimates for the remediation of these sites are in the same order of magnitude as the GNWT's share of the remediation costs for Giant Mine.
- There are 28 sewage lagoons and 40 landfill sites outside of incorporated communities. These are being remediated or monitored as appropriate.
- Included in the 223 sites are 74 sites for which no liability has been recognized. Monitoring of these sites is on-going under the GNWT's environmental protection program.
- There were 2 sites closed during the fiscal year [2015 – 0] that were either remediated or determined to no longer meet the criteria required to record a liability for accounting purposes.

During last year's review, the Committee requested that information on the status of sites with known or potential contamination be included annually in the public accounts. The Committee acknowledges the response received from the Department of Finance indicating that the inclusion of information in the public accounts must follow public sector accounting standards. The Committee is satisfied with this response, noting that the Department is now posting a list of contaminated sites on its web site.

Fiscal Responsibility Policy

The Government of the Northwest Territories first established its *Fiscal Responsibility Policy* in 2005. It was formalized in February 2016, when it received approval by the Commissioner-in-Executive-Council. The purpose of the policy is to promote on-going fiscal sustainability by guiding prudent borrowing and ensuring that government debt remains affordable.

The government reports annually on its performance in meeting the requirements of the *Fiscal Responsibility Policy*. The performance measures identified in the policy are: debt to revenue ratio; debt per capita ratio; debt servicing costs as a per cent of revenue; debt servicing payments as a per cent of revenue; debt servicing payments as a per cent of three-year moving GDP average; net debt per capita ratio; and credit rating. The policy requires that these performance measures be reported on a consolidated basis for the entire government reporting entity (ie. departments + public boards, agencies and territorial corporations).

The *Fiscal Responsibility Policy* establishes specific numerical limits, expressed as percentages, restricting infrastructure financing and debt servicing as follows:

(3) Infrastructure Financing

The government will restrict infrastructure investments, excluding Public-Private Partnership projects as follows:

- a) A minimum of fifty per cent (50%) from the operating surpluses generated within the non-consolidated Public Accounts (emphasis added);*
- b) A maximum of fifty per cent (50%) from Government debt.*

(5) Affordable Debt (includes debt associated with Public-Private Partnership Projects)

- a) Non-consolidated debt servicing payments shall not exceed five per cent (5%) of total non-consolidated annual revenues; and*
- b) Where non-consolidated debt servicing payments exceed five per cent (5%) of total non-consolidated annual revenues, operating surpluses shall be generated in the following two years sufficient to permit principal repayments that will decrease debt servicing payments to five per cent (5%) by the third subsequent year.*

In previous reviews, the Standing Committee has expressed the view that, in addition to the performance measures reported on a consolidated basis, the GNWT should also be reporting specifically on its performance in meeting the policy provisions related to infrastructure financing and affordable debt using the relevant data from the non-consolidated public accounts. This will allow members of the public to determine whether or not the GNWT is in compliance with the threshold limits related to infrastructure financing and affordable debt, as set out in the policy.

The Committee is very pleased that the government has responded positively to this recommendation and that, as a result, the *2015-2016 Public Accounts* are the first to include a table, on page 35 of Section I, reporting on the GNWT's compliance with the provisions on infrastructure financing and affordable debt contained in the *Fiscal Responsibility Policy*.

The Committee commends the government for the inclusion of this information in the public accounts, and makes the following recommendation:

Recommendation 3

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories continue to include information in the *Financial Statement Discussion and Analysis* section of the public accounts, indicating how the GNWT has met the provisions related to debt servicing and infrastructure financing in the *Fiscal Responsibility Policy*.

Accountability and Transparency

A commitment to improving accountability and transparency is one of the key priorities of the 18th Legislative Assembly, and a fundamental component of the Government of the Northwest Territories' Mandate. Public information must be clear, concise, and easily understood by the average reader.

The public accounts are the definitive source of information for the public on the GNWT's fiscal performance. However, they are prepared for a very specific purpose, according to federal and territorial legislation and following standards set by the Public Sector Accounting Board. As a result, these documents are not easily understood by non-expert readers.

In previous reviews, the Standing Committee has urged the Department of Finance to find ways to make the information contained in the public accounts as clear as possible for interested readers lacking expertise in finance or accounting.

During the review of the *2015-2016 Public Accounts*, the Committee was provided with a document titled "The Public Accounts: An Overview," which was prepared by Finance and provides non-expert readers with an introduction to the public accounts and the information contained within them.

The Standing Committee thanks the Department of Finance for its positive response to the Committee's recommendation and commends the department for its work in this area. The Committee notes that this document is now available to the public on the department's web site.

The Committee believes that, while this work is a good start, there is more work that remains to be done. The Committee would like to see a summary document made available to the public to accompany the public accounts each year, which describes the financial highlights and key audit issues for the year and which is made available online at the same time the public accounts are released. The Committee notes that the information contained in such a summary would not be

dissimilar to that which the department already prepares for its opening presentation to the standing committee at the time of the annual public review. Accordingly, the Committee makes the following recommendation:

Recommendation 4

The Standing Committee on Government Operations recommends that the Minister of Finance work with the Minister Responsible for Public Engagement and Transparency to develop plain language materials that summarize the public accounts for a given year, in a manner that is understandable for an interested, non-professional reader, focusing on the key financial highlights and significant audit issues arising for that year.

Protection of Privacy and Disclosure of Information

The *Non-consolidated Schedule of Bad Debt Write-offs, Forgiveness and Student Loan Remissions* contained in the public accounts identifies, by name, all individuals who have received a remission of their student loans and the amount of that remission.

The Standing Committee recognizes that government must strike a balance between protecting the privacy of an individual's personal information and disclosing information that is in the public interest. However, Committee believes that the degree of disclosure related to this information may constitute a breach of privacy of those individuals named in the schedule.

In its review of the *2014-2015 Public Accounts*, the Standing Committee recommended that the department consider amending this schedule by removing the names of individuals who have received remissions, and report only upon the dollar amount of the remissions. The GNWT responded that "This information will continue to be disclosed in the Public Accounts in accordance with the *Financial Administration Act* and to ensure transparency of these amounts to the public."¹ Incidentally, it is worth noting that this is the only recommendation from that review to which the government did not respond favourably.

Section 65(1)(b) of the *Financial Administration Act* provides that the public accounts must contain information about the forgiveness of any debt or obligation owed to the GNWT. The Committee understands the government to be of the view that this requirement necessarily obligates the government to disclose the

¹ TD 307-18(2), Government of the Northwest Territories Response to Committee Report 4-18(2): Report on the Review of the 2014-2015 Public Accounts,

names of students who receive any remission of their student loans. The Committee remains unconvinced that this is the case.

In discussing this matter during the public hearing, the Committee received a commitment from the Comptroller General that he would consult with the Information and Privacy Commissioner to hear the IPC's views on the matter. Accordingly, the Committee makes the following recommendation:

Recommendation 5

The Standing Committee on Government Operations recommends that the Department of Finance, after consultation with the Information and Privacy Commissioner for the Northwest Territories, reconsider amending the *Non-consolidated Schedule of Bad Debt Write-offs, Forgiveness and Student Loan Remissions* to protect the privacy of individuals by removing the names of those who have received student loan remissions and reporting only the amount of the remissions.

The Comptroller General also indicated that he would consult with Education, Culture and Employment to learn what information is provided to student loan applicants about disclosure and whether or not consent is obtained when the loan is given. The Committee expects that the response to this inquiry will be included in the government's response to this report.

Public Private Partnerships

For the 2015-2016 fiscal year, the Office of the Auditor General identified the GNWT's accounting treatment of public-private partnerships (P3s) as a significant audit area. As the GNWT moves forward with projects of this nature, they are working with the OAG to ensure that P3s are accurately reflected in the public accounts. It is also an area of notable interest to the Standing Committee.

The GNWT is currently involved in two P3 projects – the Mackenzie Valley Fibre Link Project and the Stanton Renewal Project. This is the first year that costs related to these projects are included in the public accounts:

Mackenzie Valley Fibre Link Project:

On October 30, 2014, the GNWT entered into a 20-year agreement with Northern Lights General Partnership to design, build, operate and maintain 1,154 kilometres of high-speed fibre optic telecommunications cable from McGill Lake to Inuvik:

Term of agreement: 20 years (2017 – 2037)

Total construction cost: \$90,900,000 plus interest
Financing: 100% NLGP
Total payments to NLGP to operate and maintain system: \$64,000,000
Additional costs: \$5,120,000 to First Nations for land access.

Stanton Renewal Project:

On September 22, 2015, the GNWT entered into a 30 year agreement with Boreal Health Partnership to design, build, operate and maintain the new territorial hospital:

Term of agreement: 30 years (2018 – 2048)
Total construction cost: \$291,000,000
Financing: \$152,000,000 GNWT
 \$139,000,000 BHP
Total payments to BHP to operate and maintain facility: \$216,000,000.

CONCLUSION

The Standing Committee on Government Operations has a mandate to review the public accounts of the Government of the Northwest Territories so that GNWT financial management practices and decisions receive public scrutiny.

Committee members were grateful for the assistance provided by the Office of the Auditor General in support of this work. Committee members also appreciate the appearances before the Standing Committee by staff from the Office of the Comptroller General in the Department of Finance.

The Standing Committee looks forward to the Government's response to this report.

Recommendation 6

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories provide a response to this report within 120 days.

