

Government of the Northwest Territories' Response to Committee Report 2-17(5): Review of the 2012-13 Public Accounts

Introduction

The Government of the Northwest Territories (GNWT) acknowledges the time, effort and commitment provided by the Standing Committee on Government Operations' (SCOGO) review of the 2012-13 Public Accounts. It is also appropriate to acknowledge the work of the Office of the Auditor General (OAG) which is responsible for expressing an audit opinion of the accounts of the GNWT and assisted in the review by SCOGO.

The GNWT considers the Public Accounts to be an important accountability document that provides the Public with key information on the financial position and financial results of the GNWT. The review by SCOGO is a welcome level of accountability that allows for an informed dialogue to take place to increase the understanding of the information provided within the Public Accounts.

As required under the *Northwest Territories Act* the Auditor General of Canada is required to perform an audit on the Public Accounts of the GNWT. The Auditor General's audit report expressed an opinion that the consolidated statements presented fairly the financial position of the GNWT as at March 31, 2013, and the results of its operations, changes in net debt, and its cash flows for the year ended, in accordance with Canadian public sector accounting standards. As in previous years, the opinion expressed by the Auditor General of Canada contained no qualifications or reservations.

Consideration of SCOGO Recommendations

The GNWT has considered SCOGO's recommendations and provides a detailed reply to each recommendation in this response.

Recommendation 1

The Standing Committee on Government Operations again recommends that the Minister of Finance provide the Committee with the interim Public Accounts by August 31st, in time for Committee review of the Government's business plans.

GNWT Response

In accordance the Sections 51 (2) and(3) of the *FAA* the interim Public Accounts, which are the non-consolidated, unaudited financial statements of the GNWT must be completed by September 30 each fiscal year and tabled at the next sitting of the Legislative Assembly. As with the Public Accounts, they are required to be submitted to FMB prior to any release.

The 2012-13 Interim Public Accounts were transmitted to SCOGO on September 12, 2013.

As requested, it is the Department of Finance's intention to provide Committee with the interim Public Accounts by August 31, in time for review of the government's business plans.

Recommendation 2

The Standing Committee on Government Operations recommends that, as part of the standard reporting process, the Comptroller General include a list of agencies in the consolidated public accounts that did not meet the deadline for completion of their audits.

GNWT Response

Timely completion of the audits of boards and agencies that are included in the consolidated Public Accounts is a major factor for the GNWT completing the Public Accounts in a timely manner. Under the *Financial Administration Act (FAA)* agencies have 90 days after their year-end to submit their Annual Report but may request an extension of up to 60 days from the Minister of Finance.

In January 2014, the GNWT reported to SCOGO on the timing of audit completions for all agencies that were consolidated within the 2012-13 Public Accounts. Going forward, the GNWT will include disclosure within the Public Accounts on any board or agency that fails to meet its reporting deadline.

Recommendation 3

The Standing Committee on Government Operations recommends that the Department of Finance work with the Auditor General of Canada and GNWT departments, boards and agencies towards the completion of the both the interim and final public accounts at the earliest possible date each year.

GNWT Response

The Department of Finance, through the Office of the Comptroller General, will continue to work with the Auditor General of Canada and GNWT departments, board and agencies toward the earliest possible completion date for interim and final Public Accounts. In addition, the Minister of Finance will continue to make his clear his expectation that the Public Accounts are a priority for every Minister.

Recommendation 4

The Standing Committee on Government Operations recommends that the NWT Housing Corporation submit its 2012-13 annual report within 90 days of the fiscal year end. If this does not prove to be possible, the NWT HC should seek appropriate approval for an extension to their deadline and provide the House with reasons for the delay.

GNWT Response

The NWT HC will be requesting approval from the Minister of Finance for an extension to the deadline for submitting the 2014 annual report to the Minister of the NWT HC in accordance with 100 (1) of the *Financial Administration Act*. The approved 2014 audit plan with the Office of the Auditor General provides for an audit completion date of the NWT HC accounts by October 2014.

In addition, the NWT HC is currently experiencing staff turnover in key financial positions that may impact the completion date of the audit. Going forward, Members may be aware that effective April 1, 2014, the NWT HC has consolidated the payment of utilities, land leases, property taxes and rent supplement payments into the NWT HC's Head Office. As a result, we anticipate that Local Housing Organization audited financial statements will be available for consolidation into the NWT HC year-end accounts on an improved timeline for the 2014-15 fiscal year and ongoing.

Recommendation 5

The Standing Committee on Government Operations recommends that the Department of Finance undertake the necessary audits and investigations required to ensure that revenues from self-reporting taxes are fully maximized and the Department report back to Committee with respect to its findings by August 31, 2014.

GNWT Response

Two sections of the Treasury Division, within the Department of Finance, are responsible for verifying that all self-reported tax revenues are received by the Government: Tax Audit and Investigation, and Tax Administration.

1. Tax Audit and Investigation Section

The Tax Audit & Investigations section was formally established on April 1, 2013. A detailed audit plan was developed for 2013/14; this showed that additional personnel were required by the section. To address the shortfall in audit activity, a forced growth submission was made. Approval was received in July 2013 to hire on or after April 1, 2014 two additional regional Tax Auditors (in Hay River and in Inuvik) to address the lack of personnel in the section and to increase the number and regional coverage of audits performed. The competitions for the two Tax Auditors were completed in mid-April, with new staff hired for both positions.

At present the audit activity of the section is limited to audits where there is known tax loss to the GNWT, and processing of change of use refunds of fuel tax, which are scheduled for return to Tax Administration in June 2014. Investigations are done on an as needed basis.

A detailed audit plan is being developed for 2014/15. This audit plan will describe in detail the audits to be done by the Tax Audit & Investigations section for fiscal 2014/15. Investigations will continue to be done on an as needed basis when circumstances warrant them.

2. Tax Administration Section

In addition to administering the accounts of individual taxpayers, Tax Administration, performs desk audit work to verify that all taxes due are received or recorded.

For Payroll Tax, where employers function as the tax collectors, Tax Administration compares its list of registrants with that of the WSCC and requests T4 summaries from registrants.

For Fuel Tax, the section performs desk audits which include the reconciliation of fuel inventories and tracking transfers between collectors. Additionally, trend analyses are prepared from financial system volume and revenue reports. Finance is partnering with ITI to track petroleum product consumption by NWT community. This data will facilitate detection of any anomalies.

For Tobacco Tax, the section performs desk audits which include cross checking retailer purchases to wholesaler (tax collector) returns. Retailer site visits are performed two to three times a year for enforcement and communication purposes. The Alberta Tobacco Export Report is used to verify wholesaler reports. Manufacturer Reports are used to ensure that imports are reported under the Wholesaler returns. A trend analysis is performed from financial system volume and revenue reports.

In addition, annual revenues for both fuel and tobacco taxes are analyzed by product (e.g. diesel, on road and off road gasoline, jet and railway fuel; cigarettes, loose tobacco, cigars and other tobacco) which facilitates identification of anomalies for further review. These analyses are reported to Statistics Canada. Annual revenue for fuel and tobacco taxes is estimated by the Fiscal Policy Division after discussion with Tax Administration and consideration of consumption trends and changes in population.

Recommendation 6

The Standing Committee on Government Operations recommends that, in the future, the public accounts include a detailed explanation of how the Government has performed for that fiscal year vis-a-vis the Fiscal Responsibility Policy.

GNWT Response

The GNWT will include additional information related to any borrowing activity undertaken under the Fiscal Responsibility Policy within the Public Accounts.

Recommendation 7

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories review its accounts receivable from Nunavut. The purpose of this review should be to develop targets and measures to improve collections, and identify and write-off those debts that are deemed to be uncollectible.

GNWT Response

The GNWT will undertake a review of the accounts receivable from Nunavut and provide feedback to impacted GNWT service providers to assist in developing targets and measures to improve their collections.

Recommendation 8

The Standing Committee on Government Operations again recommends that the Government of the Northwest Territories monitor its loans receivable and develop targets and measures to improve collections, with a view to reducing the allowance for doubtful accounts to less than 30%.

GNWT Response

The GNWT has a number of loan programs with a variety of program objectives. These programs include Student Loan through Education, Culture and Employment (ECE), Housing Loans through NWT HC, and Business Loans through the Business Development and Investment Corporation (BDIC). The nature of the programs is such that the GNWT accepts a higher risk than a commercial lending institution.

The allowance for doubtful accounts related to the Student Loans issued by ECE is made up of an estimate for remission that will be applied at a future date and an estimate of the amount that will ultimately prove to be uncollectible. In 2013, ECE committed to review the program to improve the portion of the allowance related to uncollectible debt. This review is still ongoing.

In November 2012, the NWT HC introduced the revised balance approach for its portfolio of 413 mortgage clients to address significant arrears. This approach provides clients with repayment options that are consistent with the current NWT HC Homeownership programs. Currently, 243 clients have selected a repayment plan or addressed their arrears through other means.

The average monthly collection rate for clients who have selected a revised balance option is around 80%, which represents a significant improvement over previous years. In the near term, continued efforts will be made to counsel the remaining 170 clients and in cases where clients chose not to take advantage of this offer or live up to their obligations under the revised balance approach, the NWTTC will pursue collection on the unpaid debt through legal means. The NWTTC has initiated legal action on 15 mortgage clients to date.

The BDIC's mandate is to promote economic development in northern communities. It accomplishes this by exercising flexibility and patience to its business loan clients. The BDIC monitors all its clients regularly and will work hard with clients facing financial difficulties through loan agreement revisions (eg. extending the amortization period), debt consolidation/refinancing, restructuring, and as the last resort, calling the loans through industry standard collection process.

The BDIC takes collateral on loans, and as the last resort, foreclose on them to recover as much public money as possible. Any balance remaining would be written off or forgiven as appropriate. The BDIC's internal target of allowance of doubtful accounts should be less than 20% (currently, the 13/14 balance is 15%).

Recommendation 9

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories continue to provide updated timetables or schedules for the environmental assessment of all known potentially contaminated sites for which the GNWT is responsible, to be included annually in the Public Accounts.

GNWT Response

While departments and public agencies are responsible for their own contaminated sites, the GNWT has an overall reporting requirement under Canadian public sector accounting standards (PSAB) to disclose information related to contaminated sites, or suspected contamination, and as appropriate record or disclose the estimated cost of remediation plans for those sites. The strategy to address this reporting requirement requires initial identification of sites, a preliminary assessment of contamination and an estimate based upon professional judgment, after assessing a variety of approaches depending upon the nature of the site and contamination. Generally, sites are remediated when they are no longer active. Exceptions would occur if the contamination is considered an immediate threat to human health or the environment. In some cases, active or inactive sites are contaminated, but monitoring will take place to obtain baseline data or to monitor the potential for migration of the contaminant.

The GNWT will continue to provide disclosure within the Public Accounts that is compliant within the notes to PSAB and includes enhanced information within the Financial Indicators section of the Public Accounts. Detailed information will continue to be provided to Standing Committee to assist with their review of the Public Accounts.