



Report of the Auditor General of Canada to the Legislative Assembly of Nunavut—2009

Report No. 2

Financial Management Practices—
Follow-up on the 2005 Report
to the Legislative Assembly of Nunavut



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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This document is also available in French and Inuktitut.*



Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the Nunavut Legislative Assembly

I have the honour to transmit herewith my report on the Audit of the Financial Management Practices—Follow-up on the 2005 to the Nunavut Legislative Assembly in accordance with the provisions of section 48 of the *Nunavut Act*.

Yours sincerely,

A handwritten signature in cursive script that reads "Sheila Fraser".

Sheila Fraser, FCA

Ottawa, 31 March 2009

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Financial Management Practices

Follow-up on the 2005 Report to the Legislative Assembly of Nunavut

Main Points

What we examined

The Government of Nunavut, through its departments and territorial corporations, spends around \$1 billion per year providing services to Nunavummiut. The Auditor General of Canada is responsible for auditing the Government's financial statements. In reporting on the financial audits every year since 2000, the Auditor General has informed the Government of weaknesses in the financial control systems of departments and territorial corporations.

In 2005, the Auditor General tabled a report with the Legislative Assembly of Nunavut that provided a summary of problems identified in previous audit reports and not yet resolved. The report made 18 recommendations to the Government to improve financial management. In our follow-up audit for the present report, we examined whether departments and territorial corporations had remedied the previously reported weaknesses in financial management.

Why it's important

Strong internal financial controls and complete financial information are vital to the Government's prudent management of its revenues and expenses. Effective financial controls put the Government in a better position to manage risks, produce accurate and complete financial information for sound decision making, and improve the delivery of programs and services to Nunavummiut.

What we found

- The Government of Nunavut has made unsatisfactory progress since 2005 toward strengthening its financial management and controls. Despite the Government's efforts at seeking qualified staff, initiating the update of financial directives, and engaging the services of consultants, we found little improvement in overall financial management. Departments are still spending money before the Legislative Assembly has approved the spending. Employees are still authorizing spending for higher amounts than permitted or, in some cases, when they are not authorized to do so. The Government's monitoring of financial activities continues to be weak. Amounts owing to the Government are not adequately monitored or followed up for collection.

- The Government needs to improve its financial management practices. Our audits of the financial statements indicate that the quality of the Government's financial information is still poor. A significant number of adjustments had to be made to the financial statements to correct errors identified during our audits. In addition, every year the Government has failed to meet the statutory deadline for tabling its financial results in the Legislative Assembly, as the *Financial Administration Act* requires.
- In our view, the underlying cause of the Government's lack of progress on our previous recommendations is its limited human resource capacity. Simply put, there are not enough qualified financial staff to properly carry out basic financial functions.

The Government has responded. *The Government agrees with all the recommendations. Its detailed responses follow the recommendations throughout the report.*

Introduction

1. The Government of Nunavut (the Government) came into existence on 1 April 1999. During the 2008–09 fiscal year, the territorial government plans to spend in excess of \$1 billion providing services to Nunavummiut (the people of Nunavut). This amount is significant, and how the Government manages its spending has an impact on the delivery of programs and services.
2. Establishing effective financial information and control systems throughout the Government is essential to ensuring the Government's stewardship and to making more informed decisions.
3. In our reports on audits of public accounts from 2001 until 2005, we repeatedly observed weaknesses in financial management within the Government. In our 2005 Report to the Legislative Assembly of Nunavut, we commented that Nunavut did not yet have basic financial controls in place and that current financial management was "weak and fragile." The 2005 report presented an inventory of financial management issues and made 18 recommendations to improve financial management in the Government.

Focus of the audit

4. This audit is a follow-up to the Auditor General's 2005 Report to the Legislative Assembly of Nunavut. Specifically, we examined whether the Government can demonstrate that it has made satisfactory progress in addressing recommendations and the underlying issues identified in the 2005 report. In this follow-up audit, we expected that the Government would have a documented action plan with timelines to address the issues we raised.
5. More information on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this report.

Observations and Recommendations

6. Our 2005 Report to the Legislative Assembly of Nunavut provided the Auditor General's observations on financial management across the Government of Nunavut to that date. In that report, we emphasized the need for effective financial management, which is important for the Government to be able to manage its programs, safeguard assets, and mitigate the risk of fraud or error. We emphasized the importance of implementing and maintaining financial controls,

the checks and balances to ensure that transactions are properly and accurately recorded and comply with the Government's legislation. Without effective financial controls, the accurate and timely reporting of financial results is jeopardized.

The Government's action plan did not meet our expectations

7. We expected that the Government of Nunavut would have prepared a documented action plan with steps, a time frame, expected results, and a champion to address each of the recommendations in the Auditor General's 2005 Report. We asked the Government to provide us with an action plan, and it provided us with a progress report that presented a status update on each of the recommendations; however, this status report did not provide information with respect to steps, a time frame, expected results, and a champion.

Financial Controls

8. In many of our audits of the Government of Nunavut's financial statements since 2005, we have observed serious deficiencies in financial controls in the following key areas:

- appropriation requests,
- financial transactions,
- financial systems, and
- revenue collection.

In this follow-up audit, we expected the Government to have improved the financial controls in these areas.

The Government spends money before receiving legislative approval

9. Our 2005 Report outlined some of the key laws (authorities) the Government is required to follow and highlighted specific areas where the Government did not comply with these laws.

10. The primary authority that governs financial management in the Government is the *Financial Administration Act* (FAA), which outlines the approval process that the Government must follow in order to spend money. Under the FAA, the Minister of Finance is required to submit to the Legislative Assembly an appropriation bill for the coming fiscal year based on expected expenditures as set out in the Government's Estimates. The Main Estimates are approximations of how much the Government thinks it will need for its operations and maintenance expenditures for the coming fiscal year. Capital Estimates are approximations of how much the Government thinks it will need for capital expenditures.

11. A fundamental principle of the FAA is that the Government should not spend money until the Legislative Assembly has approved the expenditure. The FAA permits the Government to request additional funds, in the form of supplementary appropriations, should it anticipate more expenditures than originally set out in its Estimates. The Government should get approval for these requests for supplementary appropriations before spending the additional funds. While it is possible to first spend the money and then obtain approval, managers ought not to overspend in the first place.

12. The Government often makes supplementary appropriations requests to the Legislative Assembly toward the end of, and in some cases after, the fiscal year end for expenditures that it has already incurred (Exhibit 1).

13. Since our 2005 report, we have conducted three audits of the Government's public accounts and have found that, in every year, it spent money before getting approval from the Legislative Assembly. In two cases, there was no approval until eight or nine months after the fiscal year end.

Exhibit 1 The Government requests and receives supplementary operations and maintenance appropriations for over-expenditures already incurred during the fiscal year

Fiscal year ending	Funds requested for over-expenditures (in \$ millions)	Date funds approved
March 31, 2006		
Supplementary Appropriation for Operating and Maintenance # 4	3.8	5 December 2006
March 31, 2007		
Supplementary Appropriation for Operating and Maintenance # 3	12.3	29 March 2007
Supplementary Appropriation for Operating and Maintenance # 4	1.0	8 November 2007
March 31, 2008		
Supplementary Appropriation for Operating and Maintenance # 3	10.2	14 March 2008

Staff do not follow procedures for the approval of financial transactions

14. The Government's Financial Administration Manual is the primary source of financial management policy for its staff. The Manual's many directives set out detailed guidelines and delegations of

signing authority. Signing authorities specify which people in the organization may approve financial transactions and what kind of transactions they may approve. In our 2005 audit, we noted there were violations of authorities in the approval and payment of transactions. Authority violations are a serious concern because they represent significant control weaknesses and, as such, increase the risk of fraud or error.

15. Given our past observations of signing authority violations and the associated risk of fraud or error, we expected improvement in this area.

16. Since our 2005 Report, our audits of the public accounts have found that employees entered into transactions where they did not have the required level of signing authority, or they had no signing authority at all. We also found that controls over the approval of contracts are weak. We noted cases where contracts were not signed until many months after their starting date. Overall we found that, on average, 19 percent of the transactions we tested contained authority violations.

17. Although the impact on the financial statements was not pervasive enough to influence our audit opinion of the public accounts, authority violations are a serious concern. These situations suggest that there is a lack of appropriate monitoring and that employees processing transactions either have not been made aware of the policies in place, or they are aware of the policies but are not adhering to them. We note that limited human resources and high staff turnover have had an impact on the opportunity for employees to receive training and on the ability of employees to perform their responsibilities according to the required policies and procedures.

18. We understand that in order to address these authority violation issues, the Government is in the process of revising the directives provided in its Financial Administration Manual and has started to provide information sessions on these new directives.

19. Recommendation. The Government of Nunavut should ensure that its employees understand the requirements for the approval of transactions by

- finalizing the revision of the Financial Administration Manual, formalizing procedures for day-to-day transaction processing, and ensuring that procedures are consistently applied throughout the Government;

- providing mandatory training on procedures outlined in the Financial Administration Manual and the relevant authority requirements for those employees in financial positions; and
- implementing a monitoring process to ensure that authorities are respected and follow-up action is taken when violations occur.

The Government's response. *The Government of Nunavut agrees with this recommendation and the suggestions for improvement.*

A complete rewrite of the Financial Administration Manual (FAM) was begun in 2007. FAM updates and a new Financial Procedures Manual are planned to be substantially complete by 31 March 2009. The Department of Finance is providing ongoing information sessions on revised directives to all departments. Commencing in the 2009–10 fiscal year, the Department will also provide detailed presentations to program managers and financial staff on procedures for budgeting, financial reporting, variance analysis, and expenditure management.

Early in the 2009–10 fiscal year, the Department of Finance will also implement a mandatory training program on procedures and the relevant authority requirements for financial positions, along with an appropriate monitoring process to ensure compliance.

Audits of signing authorities for 10 departments and 2 public agencies have been completed. The Department plans to complete follow-up audits in the 2008–09 fiscal year and to continue with additional audits in future.

Progress on these matters will be regularly reviewed at Financial Management Committee quarterly meetings involving executive financial managers from all departments and public agencies.

The Government still needs to improve its financial processes

20. In 2005, we noted weaknesses in the Government's accounting systems and processes. In particular, we noted that, in addition to the Government's main financial system, there were several informal systems, such as manual and spreadsheet systems, that did not have the inherent controls that would normally detect or prevent errors or fraud.

21. In response to our 2005 Report, the Government engaged a consulting firm to conduct a financial system needs analysis. In August 2007, the resulting Report confirmed the existence of a number of issues that we had previously noted, including the fact that there is very little documentation of transaction procedures within the Government. The Report found that this has led to inconsistencies in processing transactions both across the Government and within

departments. There is also significant financial processing done outside of the main system (conducted manually or on secondary systems such as spreadsheets).

22. In July 2008, the Government approved the first phase of a project plan to build its financial and informatics capacity. The project plan includes actions to address such issues as documenting roles and responsibilities related to financial activities, from data collection to reporting. A status report on this project indicates progress on some activities outlined in the plan as well as future work in other areas; however, more work needs to be done.

23. Recommendation. The Government of Nunavut should continue its progress toward the completion of its project related to building its financial and informatics capacity.

The Government's response. *The Government of Nunavut agrees with this recommendation.*

Through the Strengthening Financial Management and Networking Capacity in the Government of Nunavut Project, which continues through to the 2012–13 fiscal year, the Government will review and revise financial policies and procedures through the Financial Administration Manual (FAM) update and training project. It will implement a strategy to produce timely public accounts by providing quality assurance and control/due diligence and will fully develop and implement a robust financial reporting system. Concurrently, the Government will revise and upgrade its financial systems by documenting and standardizing financial processes, standardizing secondary and tertiary systems, integrating systems and processes into workflows, and implementing sophisticated reporting tools.

The Government has not reviewed all major cost-sharing agreements

24. Our 2005 Report emphasized that the Government needs to collect revenues as soon as possible to pay expenses and operate ongoing programs and services. We recommended that the Government's Internal Audit Services Branch review all major cost-sharing agreements to identify opportunities for faster billing and collection. Cost-sharing agreements with the federal government are significant sources of revenue for the Government of Nunavut; in the 2006–07 fiscal year, these revenues totalled \$45 million. Given the magnitude of these agreements, it is important to ensure timely collection, especially for the departments with significant revenues from these cost-sharing agreements. We expected that the

Government would have made progress toward reviewing all major cost-sharing agreements.

25. Since our 2005 Report, the Government has reviewed the cost-sharing agreements for only one department (Community and Government Services). In 2005, the Government responded to our recommendations and indicated there would be quarterly reporting of cost-sharing agreements to improve disclosure and collection. At the time of this follow-up audit, no such reporting had occurred.

26. Recommendation. The Government of Nunavut should review all major cost-sharing agreements to identify opportunities for faster billing and collection.

***The Government's response.** The Government of Nunavut agrees with this recommendation.*

An audit of cost-sharing agreements with the Department of Community and Government Services is now complete. Seven additional audits of cost-sharing agreements in the departments of Culture, Language, Elders, and Youth; Economic Development and Transportation; Education; Executive and Intergovernmental Affairs; Health and Social Services (2 audits); and Justice are currently in progress.

Quarterly reporting on all cost-sharing agreements will be implemented in the 2009–10 fiscal year to improve monitoring and collection of associated revenues.

The Government needs to improve its ability to collect receivables

27. The Government needs to collect accounts receivable on a timely basis and ensure that departments follow up when collections are delayed. Given the importance of collecting revenue in order to provide programs and services, we expected progress in collections of accounts receivable across the Government.

28. As part of our work on the audit of the public accounts, we reviewed the accounts receivable related to cost-sharing agreements for the year ending 31 March 2007. We found that the Government has made some progress on the collection of accounts receivable relating to these cost-sharing agreements. However, there is still work to do on collecting accounts receivable across the Government. In our more recent reports to the Legislative Assembly, we reported on weaknesses in collecting student loans and recovering overpayments to students (June 2007 report on the Financial Assistance for Nunavut Students Program) and problems in managing defaulted loans

(November 2007 report on the Nunavut Business Credit Corporation).

29. Delays in collecting accounts receivable increase the risk that the Government will not recover them at all. Vacancies and high staff turnover contribute to difficulties in collecting accounts receivable. As of 31 March 2008, the Department of Finance had 205 approved permanent positions, 65 of which were vacant, translating into a 32 percent vacancy rate. With the difficulty in filling positions internally, the Government may consider outsourcing collection of accounts receivable.

30. Recommendation. The Government of Nunavut should dedicate human resources on a full-time basis to collect accounts receivable and to follow up on past-due accounts. If resources are not available, the Government should consider engaging the services of a third party to collect accounts receivable.

The Government's response. *The Government of Nunavut agrees with this recommendation.*

A working group was formed in the 2007–08 fiscal year to analyze the issues related to accounts receivable including collections, delinquent accounts, and provisions, and the development of appropriate policies and procedures. The Department of Finance completed an analysis and summary of receivables accounts in the 2008–09 fiscal year and will develop a comprehensive set of collection procedures and mechanisms, including arrangements with the Canada Revenue Agency, collection agencies, and other entities as appropriate in the 2009–10 fiscal year.

To further strengthen the receivables process, two people have been hired to concentrate exclusively on collection activities. Additionally, the Financial Administration Manual (FAM) Directive regarding collection of amounts owing to the Government has been revised, effective 10 July 2008. The directive now allows the Government to use outside collection agencies as another tool in its ongoing efforts to collect outstanding receivables.

Financial Reporting

The Government has not met legislative deadlines for financial reporting

31. In 2005, we reported that the Government of Nunavut had not provided timely financial information to the Legislative Assembly. The Government and each of the territorial corporations are subject to legislative deadlines for reporting the financial results of their operations. Timely information is important for the Members of the Legislative Assembly (MLAs) and others to assess Nunavut's finances and to assist management in its day-to-day decision making.

32. We found that since our 2005 report, the Government has continued to miss its statutory deadlines for tabling financial information. For the 2004–05 and 2005–06 fiscal years, the Government reported the financial results for the public accounts almost two years after the year-end. This greatly diminishes the value of the information and makes it difficult to put corrective measures in place. However, we noted improvement for the completion and tabling of the Government’s consolidated financial statements in the 2006–07 public accounts (Exhibit 2). In this respect, we have observed a strong commitment by the Government to improve on the quality of its financial reporting and to meet reporting deadlines.

33. While not subject to a statutory tabling deadline, we found that in some cases territorial corporations are still tabling their annual reports many months after their fiscal year-end (Exhibit 3).

34. Obtaining accurate financial information on a timely basis is an important factor in good financial management and decision making. We found that the main reason for the delays experienced by the Government and the territorial corporations is their continued difficulties in producing the financial statements and related information.

Exhibit 2 The Government continues to miss statutory deadlines for financial reporting

Fiscal year	Statutory deadline	Date tabled	No. of months tabled after year-end*	No. of months tabled after deadline*
Government’s audited, consolidated financial statements				
1999–2000	31 December 2000	May 2001	13	4
2000–01	31 December 2001	May 2002	13	4
2001–02	31 December 2002	June 2003	14	5
2002–03	31 December 2003	May 2004	13	4
2003–04	31 December 2004	February 2006	22	13
2004–05	31 December 2005	March 2007	23	14
2005–06	31 December 2006	March 2008	23	14
2006–07	31 December 2007	September 2008	17	8

*Figures have been rounded down to the nearest month.

Exhibit 3 Territorial corporations are tabling their annual reports many months after their year-end

Fiscal year	Fiscal year-end	Date tabled by Minister	No. of months tabled after year-end*
Qulliq Energy Corporation/Nunavut Power Corporation, annual report			
2002–03	31 March 2003	November 2003	7
2003–04	31 March 2004	February 2005	10
2004–05	31 March 2005	November 2005	7
2005–06	31 March 2006	November 2006	7
2006–07	31 March 2007	May 2008	13
Nunavut Housing Corporation, annual report			
2002–03	31 March 2003	November 2004	19
2003–04	31 March 2004	November 2005	19
2004–05	31 March 2005	March 2007	23
2005–06	31 March 2006	March 2008	23
2006–07	31 March 2007	September 2008	17
Nunavut Arctic College, annual report			
2002–03	30 June 2003	May 2004	10
2003–04	30 June 2004	February 2005	7
2004–05	30 June 2005	March 2006	8
2005–06	30 June 2006	December 2006	5
2006–07	30 June 2007	February 2008	7
Nunavut Development Corporation, annual report			
2002–03	31 March 2003	December 2003	8
2003–04	31 March 2004	November 2004	7
2004–05	31 March 2005	November 2005	7
2005–06	31 March 2006	February 2008	22
2006–07	31 March 2007	March 2008	11
Nunavut Business Credit Corporation, annual report			
2002–03	31 March 2003	November 2004	19
2003–04	31 March 2004	March 2005	11
2004–05	31 March 2005	March 2006	11
2005–06	31 March 2006	March 2008	23
2006–07	31 March 2007	June 2008	14

*Figures have been rounded down to the nearest month.

Problems with financial statements reveal an underlying human resource problem

35. Our 2005 Report highlighted the history of reservations in the auditor's reports of the Government's financial statements. A reservation in an auditor's opinion implies that the entity has not complied with its key authorities, or that there are significant problems with the financial statements. Reservations in Canadian government organizations are rare, and the frequency of reservations in Nunavut signifies serious problems that the Government needs to address. Since our 2005 Report, we have issued a number of audit opinions containing reservations (Exhibit 4). For one entity, the Nunavut Business Credit Corporation, we issued a denial of opinion, which means that the corporation's accounts were in such disarray that we could not obtain enough information to verify them.

Exhibit 4 Summary of the reservations in audit opinions since our 2005 Report

Organization	Year	Type of audit opinion
Government of Nunavut— Public Accounts	2005–06	<ul style="list-style-type: none"> • Tabling of public accounts did not meet the statutory deadline. • Reservations with respect to the failure of Nunavut Business Credit Corporation to maintain proper books of accounts and for the violation of significant authorities.
	2006–07	<ul style="list-style-type: none"> • Tabling of public accounts did not meet the statutory deadline. • Reservations with respect to the failure of Nunavut Business Credit Corporation to maintain proper books of accounts and for the violation of significant authorities.
Nunavut Business Credit Corporation	2005–06	<ul style="list-style-type: none"> • Denial of opinion.
	2006–07	<ul style="list-style-type: none"> • Denial of opinion.
Nunavut Housing Corporation	2005–06	<ul style="list-style-type: none"> • Reservation resulting from inventories not being counted. • The statutory deadline was not met.
	2006–07	<ul style="list-style-type: none"> • Reservation resulting from inventories not being counted. • The statutory deadline was not met.

36. The main reason for the reservations related to not meeting the statutory deadlines is capacity, specifically the lack of qualified human resources in the Government to produce the financial statements on a timely basis. Vacancies, as well as high staff turnover, lead to weaknesses in financial controls.

37. In performing the audits of the 2005–06 and 2006–07 public accounts, we encountered significant delays in receiving the information we required. Once we received this information, we found that its quality was poor, necessitating numerous corrections to the financial statements. This contributed to delays in finalizing the financial statements.

38. We expected progress in the implementation of checks and balances that would normally detect errors. In the 2005–06 and 2006–07 public accounts, we found that many errors were missed that a minimal high-level review could have detected, resulting in significant adjustments to the Government's consolidated financial statements. For example, in our 2005–06 audit of the public accounts, we found that the Government's cash flows statement included a \$10 million payment to Qulliq Energy Corporation that pertained to the prior year, but was incorrectly carried forward to the initial 2006 financial statements. This was corrected in the final financial statements.

39. We acknowledge there are significant human resource gaps, particularly for technical positions such as professional accountants. Professional accountants require several years of training and are required to keep up-to-date with changing standards in the profession and to prepare financial statements according to generally accepted accounting principles. The Government has had problems attracting enough professional accountants. As most recruits come from outside the territory, recruiting is expensive and puts further strain on Nunavut's already limited housing supply. With significant gaps in key financial positions, the Government will continue to experience difficulty in the preparation of its financial statements. We note that the Government has, as a short-term measure, undertaken initiatives to fill critical gaps in financial positions by contracting out for some technical services.

40. We will further explore the human resources capacity issues that the Government faces in our next report to the Legislative Assembly.

41. **Recommendation.** Given the ongoing capacity constraints, the Government of Nunavut should continue contracting outside parties to perform the less routine, technical functions, such as the preparation of the financial statements, until qualified resources are in place.

The Government's response. *The Government of Nunavut agrees with this recommendation.*

Standing offer agreements remain in place, and the Department of Finance will continue to use this outside expertise until government resources are in place, are technically competent, and are able to produce timely financial statements.

The Government is monitoring and reporting its debt

42. In 2005, we recommended the Government monitor the total borrowing against the \$200 million debt cap imposed by the Government of Canada through the *Nunavut Act* (Canada). Starting in fiscal 2004–05, the Government disclosed in its consolidated financial statements the total debt outstanding, and in September 2006, it began quarterly reporting of borrowing against the debt cap to the Financial Management Board.

43. While reporting on total debt has improved, we noted that the Government did not report every quarter as planned, and it reported the total capacity to borrow based on existing credit facilities against the \$200 million debt cap, rather than the actual amount borrowed. The Department of Finance has indicated that it will now provide the Financial Management Board with the actual debt relative to the \$200 million debt cap as well as borrowing available.

Conclusion

44. Since our previous report in 2005, we have found that the Government of Nunavut's progress toward improving financial management to be unsatisfactory. We acknowledge that the Government has tried to make improvements by seeking qualified staff, engaging the services of consultants, and revising the Financial Administration Manual. However, when we consider the outcome of these initiatives, we find little improvement in overall financial management. The key problem starts at the day-to-day processing of transactions. Formal procedures are not applied consistently across the Government, leading to errors and violations of authorities. Financial information is not always accurate, and obtaining financial information is difficult, leading to delays in reporting and the inability to adequately monitor results. In our view, the fundamental cause of the Government's lack of progress on our prior recommendations is its limited human resource capacity; essentially, there are not enough qualified financial personnel to properly carry out basic financial functions.

About the Audit

Objective

The objective of the audit was to determine whether the Government of Nunavut can demonstrate that it has made satisfactory progress toward effectively addressing the financial management issues and recommendations raised by the Auditor General in her 2005 Report to the Legislative Assembly of Nunavut.

Scope and approach

We conducted follow-up work on the Auditor General's 2005 Report to the Legislative Assembly. Specifically, we examined whether the Government of Nunavut can demonstrate whether it has made satisfactory progress in addressing recommendations and underlying issues identified in the previous report.

We interviewed management and staff in the Department of Finance. We obtained and analyzed information from the government's financial system and provided by management. We also relied on the findings of our financial statement audits and more recent reports to the Legislative Assembly.

Criteria

We expected the Government of Nunavut to have a documented action plan with steps, a time frame, expected results, and a champion to address each recommendation, and that it can demonstrate the progress it has made to adequately address the issues and recommendations of the Auditor General in her 2005 Report.

Audit work completed

Audit work for this Report was substantially completed on 31 July 2008.

Audit team

Assistant Auditor General: Ronnie Campbell

Principal: John Apt

Directors: Tammy Meagher (Lead)
Kari Swarbrick

Audrey Garneau
Yin Mei Kwok
Sean MacLennan
Philippe Malette
Steven Mariani
François Pelletier
Tanya Sheikh

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

Appendix List of recommendations

The following is a list of recommendations found in the report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Financial Controls	
<p>19. The Government of Nunavut should ensure its employees understand the requirements for the approval of transactions by</p> <ul style="list-style-type: none"> • finalizing the revision of the Financial Administration Manual, formalizing procedures for day-to-day transaction processing, and ensuring that procedures are consistently applied throughout the Government; • providing mandatory training on procedures outlined in the Financial Administration Manual and the relevant authority requirements for those employees in financial positions; and • implementing a monitoring process to ensure that authorities are respected and follow-up action is taken when violations occur. (8–18) 	<p>The Government of Nunavut agrees with this recommendation and the suggestions for improvement.</p> <p>A complete rewrite of the Financial Administration Manual (FAM) was begun in 2007. FAM updates and a new Financial Procedures Manual are planned to be substantially complete by 31 March 2009. The Department of Finance is providing ongoing information sessions on revised directives to all departments. Commencing in the 2009–10 fiscal year, the Department will also provide detailed presentations to program managers and financial staff on procedures for budgeting, financial reporting, variance analysis, and expenditure management.</p> <p>Early in the 2009–10 fiscal year, the Department of Finance will also implement a mandatory training program on procedures and the relevant authority requirements for financial positions, along with an appropriate monitoring process to ensure compliance.</p> <p>Audits of signing authorities for 10 departments and 2 public agencies have been completed. The Department plans to complete follow-up audits in the 2008–09 fiscal year and to continue with additional audits in future.</p> <p>Progress on these matters will be regularly reviewed at Financial Management Committee quarterly meetings involving executive financial managers from all departments and public agencies.</p>

Recommendation	Response
<p>23. The Government of Nunavut should continue its progress toward the completion of its project related to building its financial and informatics capacity. (20–22)</p>	<p>The Government of Nunavut agrees with this recommendation.</p> <p>Through the Strengthening Financial Management and Networking Capacity in the Government of Nunavut Project, which continues through to the 2012–13 fiscal year, the Government will review and revise financial policies and procedures through the Financial Administration Manual (FAM) update and training project. It will implement a strategy to produce timely public accounts by providing quality assurance and control/due diligence and will fully develop and implement a robust financial reporting system. Concurrently, the Government will revise and upgrade its financial systems by documenting and standardizing financial processes, standardizing secondary and tertiary systems, integrating systems and processes into workflows, and implementing sophisticated reporting tools.</p>
<p>26. The Government of Nunavut should review all major cost-sharing agreements to identify opportunities for faster billing and collection. (24–25)</p>	<p>The Government of Nunavut agrees with this recommendation.</p> <p>An audit of cost-sharing agreements with the Department of Community and Government Services is now complete. Seven additional audits of cost-sharing agreements in the departments of Culture, Language, Elders, and Youth; Economic Development and Transportation; Education; Executive and Intergovernmental Affairs; Health and Social Services (2 audits); and Justice are currently in progress.</p> <p>Quarterly reporting on all cost-sharing agreements will be implemented in the 2009–10 fiscal year to improve monitoring and collection of associated revenues.</p>

Recommendation	Response
<p>30. The Government of Nunavut should dedicate human resources on a full-time basis to collect accounts receivable and to follow up on past-due accounts. If resources are not available, the Government should consider engaging the services of a third party to collect accounts receivable. (27–29)</p>	<p>The Government of Nunavut agrees with this recommendation.</p> <p>A working group was formed in the 2007–08 fiscal year to analyze the issues related to accounts receivable including collections, delinquent accounts, and provisions, and the development of appropriate policies and procedures. The Department of Finance completed an analysis and summary of receivables accounts in the 2008–09 fiscal year and will develop a comprehensive set of collection procedures and mechanisms, including arrangements with the Canada Revenue Agency, collection agencies, and other entities as appropriate in the 2009–10 fiscal year.</p> <p>To further strengthen the receivables process, two people have been hired to concentrate exclusively on collection activities. Additionally, the Financial Administration Manual (FAM) Directive regarding collection of amounts owing to the Government has been revised, effective 10 July 2008. The directive now allows the Government to use outside collection agencies as another tool in its ongoing efforts to collect outstanding receivables.</p>
<p>Financial Reporting</p> <p>41. Given the ongoing capacity constraints, the Government of Nunavut should continue contracting outside parties to perform the less routine, technical functions, such as the preparation of the financial statements, until qualified resources are in place. (31–40)</p>	<p>The Government of Nunavut agrees with this recommendation.</p> <p>Standing offer agreements remain in place, and the Department of Finance will continue to use this outside expertise until government resources are in place, are technically competent, and are able to produce timely financial statements.</p>