

5.1 Introduction The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants prescribes generally accepted accounting principles (GAAP) for the public sector in Canada. PSAB pronouncements represent the consensus of senior government officials, legislative auditors and other experts in public sector accounting across Canada. They represent minimum standards for governments and are the benchmark for acceptable financial reporting.

Government in this Province has made significant progress by preparing financial statements that provide information about the operating results and financial position of the Province in accordance with GAAP. However, there are still issues that should be addressed which would improve its overall financial reporting.

5.2 Reporting under the *Transparency and Accountability Act*

On behalf of the taxpayers of the Province, Members of the House of Assembly approve legislative appropriations in excess of \$4 billion annually for Government departments. These appropriations are provided through the various supply acts. An additional amount of approximately \$0.5 billion is allocated annually through statutory expenditures, primarily for debt expenses. Funding for most Crown agencies is provided, in turn, by the departments.

The allocation of funding to departments is provided each year through the Estimates process. Government's annual Estimates document represents the financial plan of the Province for a fiscal year, and outlines the estimated expenditures and revenues for that year. The Estimates reflect the policies, programs and priorities of Government.

A fundamental principle of accountability is that an entity cannot be accountable to itself. True accountability requires that an entity be held accountable to those who provide the resources for its operations. To be truly accountable, these entities (i.e. departments and Crown agencies) would be required to table strategic and annual operational plans in the House of Assembly as well as table annual performance reports. Strategic plans outline the long-term goals and objectives of an entity while operational plans are prepared annually and include the allocation of all resources, including financial, to further the goals and objectives contained in the strategic plan. Annual performance reports provide information on the results of activities in comparison with these plans, using measurable criteria and providing explanations for areas where performance varies from that expected.

Comments on Government's Financial Reporting

Legislative Requirements

In previous Reports to the House of Assembly, my Office expressed concern over the lack of performance information being provided to the House of Assembly by departments and Crown agencies. As a result, my Office recommended the implementation of a legislated accountability framework for all Government departments and Crown agencies which would include the requirement to provide an annual performance report.

I was pleased, therefore, when, on 29 November 2004, Government tabled new accountability legislation in the House of Assembly. This new legislation, entitled the *Transparency and Accountability Act*, received Royal Assent on 16 December 2004. However, nearly two years later, the *Act* has still not been proclaimed and, therefore, is not in force.

The *Act* requires that strategic, business or activity plans (as applicable for each entity) be tabled in the House of Assembly every three years. It also requires that an annual report be tabled which compares actual results with the approved plan and explains any variance.

Current Reporting

There has been little progress in tabling strategic, business or activity plans in the House of Assembly, and although Government has been diligent in having annual reports tabled for departments and Crown agencies, the reports provide only general information on the operations of the department or agency. The reports do not provide the information necessary to hold each entity accountable for its performance, including fiscal performance, in relation to its approved plans using established measurable criteria.

Government has established a Transparency and Accountability Office within Executive Council to monitor accountability efforts by departments and agencies, and to provide direction and advice relating to the preparation of plans and reports. The Office continues to work with departments and agencies to develop performance based plans and reports which will meet the requirements of the *Act*.

In September 2006, PSAB issued a Statement of Recommended Practice entitled Public Performance Reporting. The Statement provides recommended practices for reporting performance information in a public performance report of a government or a government organization. As the statement indicates “*The main purpose of a public performance report is to explain in a clear and concise manner the extent to which intended goals and objectives were achieved and at what cost.*” The Statement is intended to help improve consistency in performance reporting and addresses the linkage between financial and non-financial information.

Recommendation

Government should:

- *proclaim the Transparency and Accountability Act;*
- *address the lack of plans being tabled in the House of Assembly;*
- *address the lack of true accountability information contained in annual reports tabled in the House of Assembly; and*
- *consider the guidance provided in PSAB's Statement of Recommended Practice.*

5.3 Internal Audit

The International Institute of Internal Auditors defines internal auditing as follows: “*Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*”

In recent years, in Canada and throughout the world, there has been a heightened need for accountability and transparency. This has resulted in increased duties and responsibilities for the internal audit function in such areas as accountability, governance, risk management and assurance.

The internal audit function in Government is not sufficiently resourced to adequately perform the duties expected of a modern and effective internal audit function. Internal audit is currently comprised of 3 positions, a decrease of 18 from the 21 positions in 1991.

An internal audit function is an integral part of an effective internal control system. Without such a system, including the presence of an internal audit function, instances of the following may go undetected:

- public money not being appropriately collected and disbursed;
- non-compliance with legislation and/or Government policies;
- lack of safeguarding and accounting for the Province's assets; and
- accounting and management control weaknesses.

The lack of internal control and management safeguards at the House of Assembly establishment which led to excess claims and questionable payments to companies highlights the importance of independent scrutiny. An effective internal audit function can help ensure that preventative and detective controls are implemented and functioning.