

Standing Committee on
Government Operations



REPORT ON THE REVIEW OF THE 2018-19 AND 2019-20 PUBLIC ACCOUNTS

19th Northwest Territories Legislative Assembly

Chair: Mr. Rylund Johnson

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GOVERNMENT OPERATIONS**

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December 2, 2021

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Government Operations is pleased to provide its *Report on the Review of the 2018-19 and 2019-20 Public Accounts* and commends it to the House.

A handwritten signature in blue ink, appearing to read 'Rylund Johnson', is positioned above the printed name.

Mr. Rylund Johnson
Chairperson

STANDING COMMITTEE ON GOVERNMENT OPERATIONS

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2018-19 AND 2019-20 PUBLIC ACCOUNTS**

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STANDING COMMITTEE ON GOVERNMENT OPERATIONS

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INTRODUCTION

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

Due to the COVID-19 Pandemic, the Committee's review of the *2018-19 Public Accounts* was delayed to January 22, 2021. Committee reviewed the *2019-20 Public Accounts* on June 18, 2021. Both reviews took place in Yellowknife, Northwest Territories. During its reviews, the Committee made recommendations to the Government to improve financial management reporting and practices. The Committee is pleased to present this joint report on its reviews and looks forward to receiving the Government's response.

ACKNOWLEDGEMENTS

For their appearance before Committee, Committee Members would like to thank officials from the Office of the Auditor General: Auditor General Karen Hogan, Assistant Auditor General Sophie Miller, Assistant Auditor General Casey Thomas, Principal Lana Dar, Principal David Irving, Audit Principal Jo Ann Schwartz, Director Marie-Josée Gougeon, Director Kelsey Hogg, and Audit Director Maria Pooley.

Committee also thanks officials from the Office of the Comptroller General for their appearance: Comptroller General Julie Mujcin, Assistant Comptroller General Chervahun Emilien, Assistant Director Tegwen Jones, and Manager Walter Mupedziswa.

BACKGROUND

About the Public Accounts

The Public Accounts are the financial statements of the Government of the Northwest Territories (GNWT), which are prepared annually according to Canadian public sector accounting standards (PSAS). They are also prepared in accordance with requirements contained in the federal *Northwest Territories Act* and the GNWT's *Financial Administration Act* (FAA).

The Public Accounts contain:

- The consolidated financial statements, reporting the 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 information is audited by the Auditor General.
- Non-consolidated, unaudited financial statements for GNWT departments, the revolving funds and special purpose funds they administer, as well as the Legislative Assembly and its statutory offices.
- Supplementary financial statements of boards and other entities.
- An unaudited *Financial Statement Discussion and Analysis* which provides a management analysis by the GNWT of information reported in the Public Accounts.

Audit Opinion

The Committee notes that the consolidated *2018-19 Public Accounts* and the consolidated *2019-20 Public Accounts* both received clean audit opinions from the Auditor General.

In an unqualified or “clean” report, an auditor provides an independent opinion on two objectives:

- First, that the government presented its consolidated financial statements fairly, in all material respects; and
- Second, that the government's transactions that came to the auditor's notice during the audit complied, in all material respects, with specified authorities.

A “clean” opinion indicates that the government complied with Canadian public sector accounting standards and statutory requirements. It also demonstrates that any changes in accounting policies, and the impact of those changes, have been adequately determined and reported.

A “clean” opinion does not necessarily tell the reader that the government is in good

economic health. Its purpose is to provide assurance that the government's financial reporting is complete and transparent and has not misrepresented any important facts.

The Committee commends the Government of the Northwest Territories for achieving a "clean" opinion for the consolidated *2018-19 Public Accounts* and the consolidated *2019-20 Public Accounts*.

RECOMMENDATIONS

Old Stanton Refurbishment

One issue that arose in the audit of the *2019-20 Public Accounts* was whether the project to refurbish Old Stanton should be classified as a public-private partnership (P3).

The Government concluded that the Old Stanton Refurbishment is not a P3 project. The Government therefore classified the Old Stanton Refurbishment as a lease commitment, with contractual obligations and rights, in the Public Accounts.¹

In contrast, the Auditor General concluded that the Old Stanton Refurbishment meets the definition of a P3 project. According to the Auditor General, Old Stanton was leased to Ventura, which was responsible for refurbishment and subletting. The Government later signed an agreement to sublet the entire building back from Ventura and decided to finance most of the refurbishment costs. Once the sublease starts, the Government will pay base rent and other fees over a 30-year term and will pay additional rent to reimburse Ventura for all operations and maintenance costs. This lease commitment, estimated to begin in November 2022, will cost the Government \$3.5 million per year over 30 years. Ventura will contribute invested capital and is contracted to perform design work and other consulting services. The Government is entitled to a 50% profit sharing from Ventura. The profits are net of a yearly return for Ventura on its invested capital.

Therefore, the Committee recommends:

Recommendation 1: The Standing Committee on Government Operations recommends that the Department of Finance classify the project to refurbish Old Stanton as a public-private partnership (P3) and report on it accordingly.

Claims and Litigation

In the *Public Accounts*, the Government estimates and discloses the total amount for claims and pending and threatened litigation cases outstanding against the Government

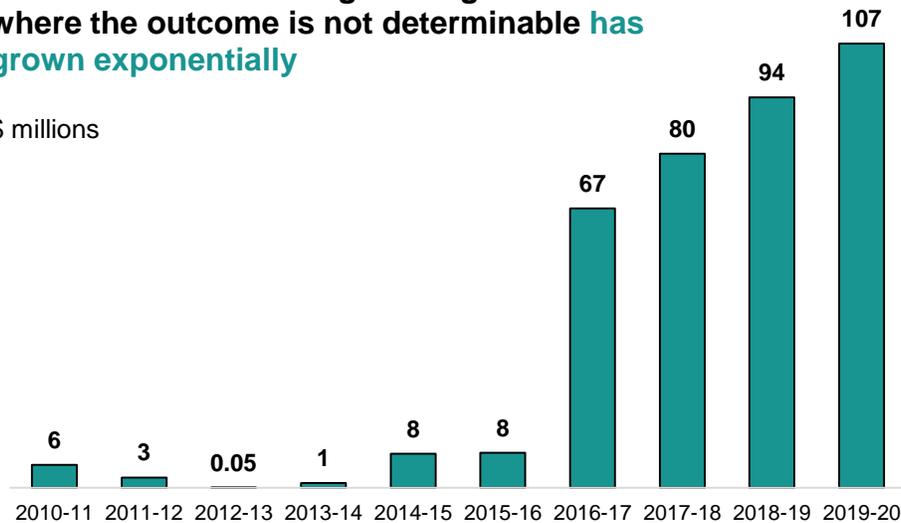
¹ See *Government of the Northwest Territories 2019-20 Public Accounts*, Section I, Note 17.

for which the outcome is not determinable.

The Committee noted that there has been exponential growth in the amounts claimed against the Government in litigation cases with uncertain outcomes. The dollar value of these claims has increased from single-digit millions to triple-digit millions over the last ten years.

Amounts claimed in litigation against the GNWT where the outcome is not determinable has grown exponentially

\$ millions



Source: Office of the Clerk calculations of the *Public Accounts*

The Committee is concerned about the significant, rapid growth in claims with indeterminable outcomes and the potential for liabilities to arise from these claims. As a result, the Committee supports enhanced public reporting on these claims in the Public Accounts. Several Canadian provinces and territories provide examples. British Columbia reports a break-down of its contingent liabilities according to five broad categories such as “property access disputes” and “contract disputes”.² Ontario lists all “claims against the Crown” arising from legal action either in progress or threatened expected to exceed \$50 million, which amounted to 73 individual claims in 2019-20.³

² Province of British Columbia (2021). Public Accounts 2020/21, Note 28(b). Retrieved from <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/public-accounts/2020-21/public-accounts-2020-21.pdf#page=83>

³ Province of Ontario Treasury Board Secretariat (2020). Public Accounts of Ontario, Ministry Statements and Schedules, 2019-2020, Section 4-16. Retrieved from <https://files.ontario.ca/tbs-public-accounts-2019-20-ministry-statements-schedules-en-2020-09-23.pdf#page=526>

Therefore, the Committee recommends:

Recommendation 2: The Standing Committee on Government Operations recommends that the Comptroller General enhance reporting in the Public Accounts of contingent liabilities arising from claims and litigation, and specifically (a) include a breakdown of claim amounts by category and (b) identify individual claims above a certain threshold.

Fiscal Responsibility Policy

The Fiscal Responsibility Policy (FRP) is a public statement of the Government's commitment to maintain long-term fiscal sustainability by spending responsibly, controlling expenditure growth, and prudently managing borrowing and debt repayment.

In 2019-20, the Government was not compliant with the Infrastructure Financing provision of the FRP. This provision required the government to generate \$78 million in cash from the operating surplus, the minimum amount to ensure infrastructure investments were funded at least 50 per cent from the operating surpluses and no more than 50 per cent from debt. Instead, the Government only generated \$46 million in cash from the operating surplus.

The consequences of non-compliance with the FRP and the Government's policy response to return to compliance are not clear to the Committee. The Committee is more broadly concerned that the FRP, as it is currently defined, is not meeting its objective for long-term fiscal sustainability. The FRP excludes P3s, which have recently become a significant category of capital expenditures, with respect to determining the appropriate level of infrastructure investment. The FRP further disallows any capital spending if the Government has an operating deficit. The Committee's concerns are heightened by the significant risks to the NWT's fiscal outlook, especially the ongoing operating expenditure pressures, slow projected revenue growth, and trajectory to exceed the borrowing limit in 2023-24.

Therefore, the Committee recommends:

Recommendation 3: The Standing Committee on Government Operations recommends that the Department of Finance undertake a review of the Fiscal Responsibility Policy to ensure that the policy meets its objective for long-term fiscal sustainability and provide the Committee with the opportunity to comment on any proposed revisions to this policy.

Transparency, Relevance, and Accessibility of the Public Accounts

The Committee is concerned about the GNWT's consistently low score in C.D. Howe reports on fiscal transparency. While the Committee commends the Department of

Finance, through the Office of the Comptroller General, for the notable improvements to Public Accounts reporting in recent years, there remains much work to be done. Indeed, the Minister has said that the Department is always looking for ways to improve reporting. The Committee is pleased to offer several recommendations for improvement.

Following the public hearing on the *2017-18 Public Accounts* and in response to a Committee recommendation, the Comptroller General provided Committee with a review of best practices for public financial reporting in five provinces and territories. That review identified several reporting items in other jurisdictions that are either missing in the NWT's Public Accounts or could be improved. The Committee believes that matching the best reporting practices in other jurisdictions will enhance the transparency and relevance of the NWT's Public Accounts.

Therefore, the Committee recommends:

Recommendation 4: The Standing Committee on Government Operations recommends that the Comptroller General add to the Financial Statement Discussion and Analysis section of the Public Accounts several reporting items that are present in the Public Accounts of other jurisdictions, specifically:

- (a) Population data
- (b) Unemployment rates
- (c) Key non-financial results of major sectors
- (d) Variances between budget and actuals and between current and prior year actuals by revenue source
- (e) Variances between budget and actuals and between current and prior year actuals by expense program and object
- (f) Discussion details on each liability line item
- (g) Classification of the indicators of financial health to one of three elements – sustainability, flexibility, or vulnerability

The Standing Committee on Government Operations further recommends that the Comptroller General extends all historical charts in the Financial Statement Discussion and Analysis section of the Public Accounts to include ten years of data.

The Committee further notes that there is growing work across Canada to make Public Accounts reporting timelier, more online, and generally more accessible. The federal government recently indicated that it would begin work to develop potential changes to its Public Accounts to make it more user-friendly and accessible.⁴ The federal

⁴ Treasury Board Secretariat (6 July 2021). Letter to the Standing Committee on Public Accounts. Retrieved from

https://www.ourcommons.ca/content/Committee/432/PACP/GovResponse/RP11469265/432_PACP_Rpt_15_GR/TreasuryBoardSecretariat-15-e.pdf.

government already provides several online datasets for its Public Accounts and other financial reporting as part of its Open Data portal.⁵ The Committee also heard from officials at the Office of the Auditor General that Yukon has recently expanded the discussion section and included more graphs in its Public Accounts to improve accessibility.

The Committee believes the GNWT can and should be a leader in the accessibility of financial reporting, and therefore recommends:

Recommendation 5: The Standing Committee on Government Operations recommends that the Comptroller General, in consultation with the Office of the Auditor General of Canada and the Standing Committee on Government Operations, study potential changes to the Public Accounts to make them more user-friendly and accessible while ensuring a high degree of transparency and accountability from the Government of the Northwest Territories.

CONCLUSION

This concludes the Standing Committee on Government Operations' *Report on the Review of the 2018-2019 and 2019-2020 Public Accounts*. The Committee looks forward to the Government's response to these recommendations.

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.

⁵ Treasury Board Secretariat (2021). Datasets. Retrieved from <https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#metadata>.