



Standing Committee on Oversight of Government Operations and Public Accounts

Report on the Review of the 2021-2022 Public Accounts of Nunavut

**2nd Session of the 6th Legislative Assembly of Nunavut
Winter 2024 Sitting**

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Introduction

The Standing Committee on Oversight of Government Operations and Public Accounts held a televised hearing on the most-recently tabled set of public accounts on September 21, 2023.

The standing committee's hearing was held in the Chamber of the Legislative Assembly and was televised live across the territory. The hearing was open to the public and news media to observe from the Visitors' Gallery, and was livestreamed on the Legislative Assembly's website. The transcript from the standing committee's hearing is available on the Legislative Assembly's website.

Witnesses appearing before the standing committee included a number of senior officials from the Office of the Auditor General of Canada and the Government of Nunavut's departments of Finance and Environment. The standing committee notes its appreciation to the witnesses.



Observations and Recommendations

Issue: Commitments to Provide Information

During the televised hearing, witnesses made a number of commitments to provide additional information to the standing committee.

Standing Committee Recommendation #1:

The standing committee recommends that the Government of Nunavut's response to this report include the information items that were committed to during the televised hearing of September 21, 2023.

Issue: Budgetary and Financial Management Transparency, Sustainability and Flexibility

The theme of budgetary and financial management transparency, sustainability and flexibility was highlighted on a number of occasions during the standing committee's televised hearing.

In recent years, the Government of Nunavut has expanded its financial reporting beyond the annual main/capital estimates, business plans and public accounts to include an annual "Consolidated Budget of the Government Reporting Entity" and an annual "Mid-Year Fiscal Report". Prior to the standing committee's televised hearing, the Department of Finance provided Members with a document titled *Public Accounts at a Glance*.

On October 24, 2023, the C.D. Howe Institute released its annual *Report Card for Canada's Senior Governments*.¹ The 2023 edition was titled *The ABCs of Fiscal Accountability*. The report awarded Nunavut a C+ grade and noted that:

"Nunavut tabled its budget after the start of the fiscal year and its financial statements were not timely. It released a mid-year fiscal update, an improvement from the previous year, but its update used restated figures in its budget comparison."

It should be noted the 2022 edition of the annual report, which was titled *The Right to Know: Grading the Fiscal Transparency of Canada's Senior Governments*, awarded Nunavut a B+ grade.

Section 44 of the federal *Nunavut Act* provides that:

Submission of Territorial Accounts to Assembly

44. The Commissioner shall, on or before December 31 of each fiscal year, lay before the Assembly a report, called the Territorial Accounts, for the preceding fiscal year of Nunavut, and the Assembly shall consider the report.

Section 74 of the territorial *Financial Administration Act* provides that:

Tabling of Public Accounts

74. Unless the Legislative Assembly otherwise fixes a date, the Public Accounts for the fiscal year must be laid before the Legislative Assembly on or before December 31 following the end of the fiscal year or, if the Legislative Assembly is not then in session, not later than 15 days after the commencement of the next session of the Legislative Assembly.

¹ <https://www.cdhowe.org/public-policy-research/abcs-fiscal-accountability-report-card-canadas-senior-governments-2023>

The dates of tabling of the Public Accounts have been as follows:

Fiscal Year	Date of Tabling in the Legislative Assembly ²
1999-2000	May 29, 2001
2000-2001	May 16, 2002
2001-2002	June 3, 2003
2002-2003	May 21, 2004
2003-2004	December 16, 2005 ³
2004-2005	January 8, 2007 ⁴
2005-2006	March 6, 2008
2006-2007	September 16, 2008
2007-2008	July 31, 2009 ⁵
2008-2009	August 27, 2010 ⁶
2009-2010	April 15, 2011 ⁷
2010-2011	December 19, 2011 ⁸
2011-2012	December 14, 2012 ⁹
2012-2013	December 13, 2013 ¹⁰
2013-2014	November 6, 2014
2014-2015	November 5, 2015
2015-2016	November 7, 2016
2016-2017	November 21, 2017
2017-2018	November 8, 2018
2018-2019	November 6, 2019
2019-2020	November 5, 2020
2020-2021	November 19, 2021
2021-2022	November 8, 2022
2022-2023	NOT YET TABLED
2023-2024	

² Green = Tabled by Statutory Deadline / Red = Not Tabled by Statutory Deadline

³ Backdoor Tabled

⁴ Backdoor Tabled

⁵ Backdoor Tabled

⁶ Backdoor Tabled

⁷ Backdoor Tabled

⁸ Backdoor Tabled

⁹ Backdoor Tabled

¹⁰ Backdoor Tabled

The standing committee is concerned about the failure to table the 2022-2023 Public Accounts prior to the statutory deadline of December 31, 2023.

Testimony provided by the Office of the Auditor General during the standing committee's televised hearing of September 21, 2023, indicated that:

"We wish to draw the Committee's attention to two issues that we have identified through our 2021-2022 governmental and territorial audits and that were part of our presentation deck provided to the Committee in advance of today's meeting. While these were not significant enough to affect our audit opinion on the government's consolidated financial statements, we do believe that they merit the Committee's attention in conducting its oversight of governmental operations.

These issues involve the spare parts and lubricants inventories at the Qulliq Energy Corporation and the write-offs of tangible capital assets. For the spare parts and lubricants inventories, we once again issued a qualified opinion in our independent auditor's report on the Qulliq Energy Corporation's financial statements for the year ended March 31, 2022. This is a long-standing issue that stems from inadequate inventory management practices and significant control deficiencies within the corporation's year-end inventory procedures. These issues increase the risk that these inventories are being mismanaged and are not accurately reflected in the financial statements.

For the write-offs of tangible capital assets, we want to inform the Committee that as a result of requirements set out in the *Financial Administration Act* of Nunavut, management could not write off \$4.1 million of its tangible capital assets. The assets in question were deemed to have no future service potential to the government, but they could not be written off until management was authorized to do so by new legislation passed by the Legislative Assembly. As management had not received the necessary authorization when the financial statements were tabled, the assets were not removed from the consolidated financial statement position, and as a result, both the assets and the annual surplus were overstated. In addition, we wish to inform the Committee that the government is adopting a new accounting standard in 2022-2023 that will require it to record a liability in relation to any legal obligation that will result in future costs when the assets are retired. The new standard is complex and involves the use of estimates and assumptions. We anticipate that the new standard will affect the consolidated financial statements because the government has tangible capital assets that are subject to this standard, such as buildings, equipment, and vehicles. For example, the government may have to remediate buildings with asbestos. The costs of such future legal obligations are known as an asset retirement obligation.

We wish to make the Committee aware of two issues relating to the adoption of the new accounting standard. Firstly, our 2022-2023 independent auditor's report on the financial statements of the Nunavut Development Corporation includes a qualification relating to a scope limitation linked to asset retirement obligations. In other words, the corporation's 2022-2023 consolidated financial statements do not contain complete and accurate information about any potential future asset retirement obligations.

Secondly, the Qulliq Energy Corporation has not yet provided our office with the information we need to audit its asset retirement obligations. The corporation has informed us that it expects to provide the information we have requested at the end of September 2023. I must say that as of today, we're looking forward to that information, but we're not holding our breath. As a result, the corporation missed its statutory reporting deadline for the 2022-2023 financial statements. These circumstances are currently preventing us from assessing the impact on our 2022-2023 audit opinion for the government's liabilities.

The delays in getting this information means that we will issue our audit opinion on the government's consolidated financial statements later than usual, and this situation will affect our ability to support the government in meeting its December 31 statutory deadline. Therefore, the Committee and other informed readers of the government's financial statements might not be receiving timely information for their decision-making processes, such as determining the government's budget and main estimates."

The standing committee notes that the 2023-2024 *Ministerial Letter of Expectation* to the Chair of the Board of Directors of the Qulliq Energy Corporation was tabled in the Legislative Assembly at its sitting of November 3, 2023. The *Ministerial Letter of Expectation* stated, in part, that:

"In the past fiscal year, the Office of the Auditor General of Canada issued a qualified opinion regarding the persistence of inadequate inventory controls. I encourage you to continue working closely with the Office of the Auditor General and management to tighten control procedures and improve financial reporting. You must develop reliable and appropriate count procedures for your inventory to ensure accuracy and efficiency. Looking ahead to 2024-2025, I expect the Qulliq Energy Corporation to have a comprehensive plan outlining how reliable and appropriate controls are implemented throughout the corporation's inventory management system."

On December 15, 2023, the Minister of Finance wrote correspondence to the standing committee indicating that:

“I am writing to advise that the 2022-2023 Public Accounts have yet to be completed and thus, will not meet the statutory deadline of December 31, 2023, as defined in the *Financial Administration Act*. For the past 12 years, since 2010-2011, the Department of Finance has met the deadline to bring forward the Public Accounts by the December deadline.

This year, however, the Public Accounts have been delayed as a result of the Department of Community and Government Services’ ongoing audit of the Petroleum Products Revolving Fund. The Public Accounts cannot be finalized until this audit is completed.

As a result, the Government of Nunavut (GN) will receive a qualification on our audit opinion for a statutory compliance violation. The Auditor-General will advise on our compliance in the new year once our final report has been submitted for their verification.”

Standing Committee Recommendation #2:

The standing committee recommends that the Government of Nunavut’s response to this report clarify, in detail, the reasons for the failure to table the 2022-2023 Public Accounts prior to the statutory deadline of December 31, 2023.

The standing committee further recommends that the Government of Nunavut’s response to this report include a detailed update on the status of work to finalize and table the 2022-2023 Public Accounts.

The standing committee further recommends that the Government of Nunavut’s response to this report include a detailed update on the status of work to address the Office of the Auditor General’s observations concerning the Qulliq Energy Corporation and the Nunavut Development Corporation.

The standing committee further recommends that the Department of Finance’s publication titled *Public Accounts at a Glance* be made publicly available on its website and updated on an annual basis.

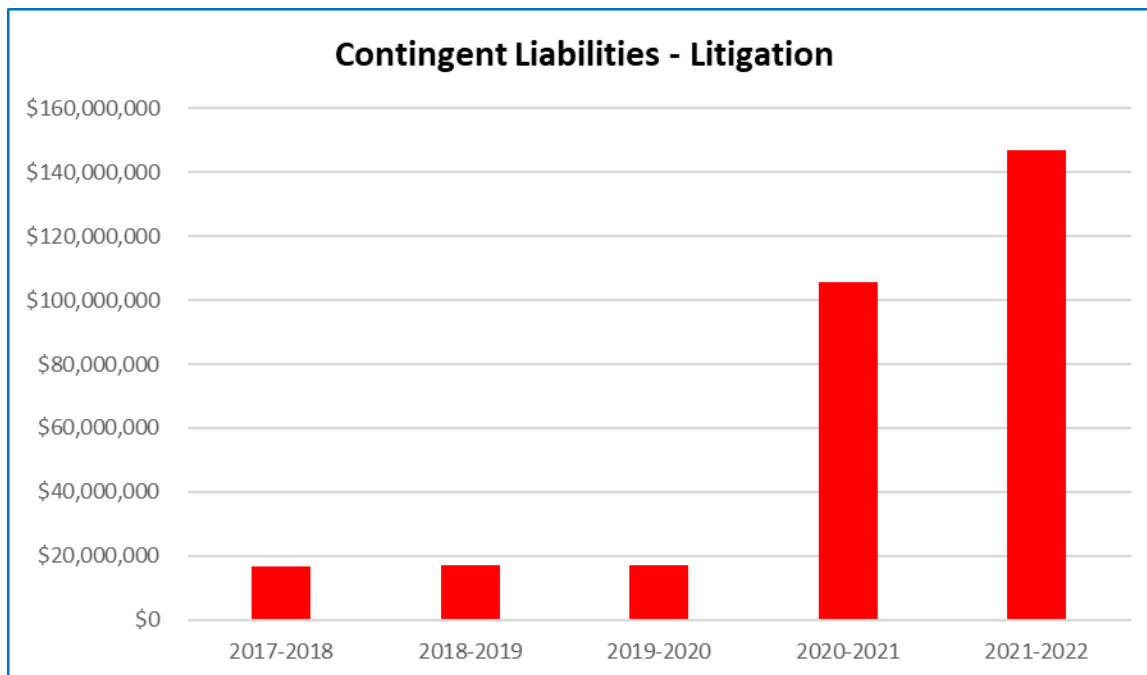
Issue: Risks, Uncertainties and Contingent Liabilities

Note 21 to the 2021-2022 *Public Accounts of Nunavut* indicates that:

“There are a number of claims and threatened litigation cases outstanding against the Government for which the outcomes are not determinable, including a number of cases where an amount is not specified. The nature of these claims include wrongful dismissal, breach of policy, personal injury, sexual abuse, negligence, wrongful arrest and assault. Where it is likely that there will be a future payment and a reasonable estimate of the amount can be made, the Government has recorded a liability. For those pending cases, where the outcome is not determinable as at March 31 and a reasonable estimate of the amount can be made, the total amount of those claims is estimated at \$146,775,000 (2020-2021: \$105,671,000). No liability has been recorded for these claims as the outcome of these cases is not determinable.”

This amount has increased significantly over time and there is little public disclosure concerning the specific matters.

The standing committee recognizes that the annual Public Accounts did not include a specific dollar value for this category of liability until the 2017-2018 fiscal year. The amount has increased as follows:



During the standing committee’s televised hearing of September 21, 2023, Government of Nunavut witness testimony indicated that:

“It’s a tricky balance between disclosure and not putting information out there that could be harmful to the government when it comes to litigation. Obviously, we can’t list individual claims and what were estimated as liabilities because that would give parties on the other side an idea of what we think our risk exposure is. While I appreciate that jurisdictions such as Ontario do into these categories break down a little bit further, they may have hundreds of thousands of litigations in there, whereas if I started to break some of ours down and do four or five categories, I might have one or two litigations in a category. I guess the risk is if we get too specific because of the limited number of claims we might have in a category. We could still be disclosing information we don’t want to, to other parties to the litigation just by virtue of the limited number of claims we have.

It’s certainly something we could discuss with the Department of Justice as far as how much additional disclosure we could give without compromising our legal position. That’s certainly a discussion item that we would be willing to have, but I do know one or two contracts that might be in dispute could have a significant impact on our balance. While amounts may look like they’re growing, it may not be that there is tons of additional litigation; it could just be one or two large contracts that are impacting our liabilities. It’s certainly something that we would be willing to look at and discuss with Justice, but I would caution that there’s only so far we can go just because of the limited number of cases we may have at any one time.”

The 2021-2022 Public Accounts also indicates that one of the most “significant risks and uncertainties” to which the Government of Nunavut is exposed are the:

“Unknown effects of climate change (e.g. infrastructure damage, natural resource development, water shortages, etc.).”

Standing Committee Recommendation #3:

The standing committee recommends that the Government of Nunavut’s response to this report provide a detailed update on the status of the review undertaken by the Department of Finance and the Department of Justice concerning the disclosure of contingent liabilities in the annual Public Accounts.

The standing committee further recommends that the Government of Nunavut’s response to this report provides a detailed update on the Department of Finance and the Department of Environment’s work to date to address the issue of risks associated with the impact of climate change.

Issue: Accounting Standards and Tangible Capital Assets

Information provided by the Office of the Auditor General of Canada indicates that:

“We wish to highlight the following new accounting standards, which could affect the government’s consolidated financial statements in future years:

- PS 3450—Financial instruments (effective April 1, 2022)
- PS 3280—Asset retirement obligations (effective April 1, 2022)
- PS 3400—Revenue (effective April 1, 2023)”

These standards are approved by the Public Sector Accounting Board, which is an “independent body created to serve the public interest by developing accounting standards for the public sector.”¹¹

Government of Nunavut witness testimony provided to the standing committee during its televised hearing indicated that:

“Regarding asset retirement obligations, the Department of Finance is responsible for coordinating the implementation of the new accounting standard. This process involves educating departments and public agencies on the requirements of the new standard and then working with them on plans and approach to ensure they are able to gather the necessary information to allow for appropriate reporting under the new standard. As this is a new and complex standard, governments and auditors across the country have found it challenging to find the right balance of information-gathering and reporting to satisfy the standard.”

This issue is not confined to Nunavut. Testimony provided on November 24, 2023, to the Yukon Legislative Assembly’s Standing Committee on Public Accounts indicated that:

“This year, the Department of Finance was not able to table the Public Accounts until November 22 due to the fact that the government adopted five new public accounting standards and it ended up taking more time to implement than initially anticipated. The standard that was the main reason for the delay was PS 3280, Asset Retirement Obligations, for which the department has been preparing for over the past few years and has done significant work revising policies, procedures, and databases. So, while the department expected that it would take time to finalize the changes and that there would be some need for adjustments when the Public Accounts were reviewed by the Office of the Auditor General, the department had not expected the delays to the tabling deadlines. Another contributing factor were the four other standards that also had to be adopted in

¹¹ <https://www.frascanada.ca/en/psab/about>

the 2022-2023 fiscal year. They had a less significant financial impact but had more complex and stringent disclosure requirements. All of the changes contributed to the delays.”

Government of Nunavut witness testimony provided to the standing committee during its televised hearing indicated that:

“Currently, the government is in an accumulated surplus position, which means that the value of all the government’s financial and non-financial assets is higher than the value of all its debts. Essentially, this number is one representation of the overall worth or value of the government in financial terms. It is important, however, to understand that this ‘accumulated surplus’ does not represent the amount of money available for reinvestment in programs, services, and infrastructure.

The reason for this is that the government’s assets are represented by a combination of both financial assets, such as cash or accounts receivable, and non-financial assets, the most significant of which is tangible capital assets. Tangible capital assets are the schools, health centres, power plants, and other infrastructure used by the government to provide services to the public. The value of these assets is part of the accumulated surplus and cannot be accessed without selling these facilities.”

Note 18 to the 2021-2022 *Public Accounts of Nunavut* indicates that \$142,413,000 was classified as an “expense” related to the amortization of tangible capital assets during the 2021-2022 fiscal year.

The *Financial Statement Discussion and Analysis* section of the 2021-2022 *Public Accounts of Nunavut* indicates that:

“The Government of Nunavut ratio of net book value to total cost of tangible capital assets continues to decline, indicating assets are getting older. As assets get older, repairs and maintenance costs increase, which results in less funds available for other programs and services. The aging tangible capital asset base also presents a risk to future programs and service delivery as assets become less reliable and the potential for failure increases. The Government of Nunavut is aware of the challenges presented by an aging asset base and continues to actively monitor asset conditions and invest in its tangible capital assets.”

The standing committee notes with concern the implications of this trend in respect to insurance coverage for buildings and major assets.

Standing Committee Recommendation #4:

The standing committee recommends that the Government of Nunavut's response to this report provide a detailed update on the status of its work to implement new accounting standards that have been approved by the Public Sector Accounting Board and which came into effect on or after April 1, 2022.

The standing committee further recommends that the Government of Nunavut's response to this report provide a detailed breakdown of its current portfolio of tangible capital assets and a detailed clarification as to how the amount of \$142,413,000 cited in Note 18 to the 2021-2022 *Public Accounts of Nunavut* was calculated.

Issue: Activities of the Contaminated Sites Liabilities Working Group

Information published in the most recently-tabled Public Accounts indicates that one of the most significant risks and uncertainties to which the Government of Nunavut is exposed are “liabilities related to contaminated sites and the use of estimates to determine potential remediation costs.”

The Department of Environment is responsible for the administration of the government’s Contaminated Sites Policy. The policy provides that:

“The Government of Nunavut prepares its financial statements in accordance with Generally Accepted Accounting Principles for Governments as recommended by the Public Sector Accounting Board of Canada. *PS 3260 – Liability for Contaminated Sites* provides guidance on the recognition and measurement of liabilities for contaminated sites.”

The policy establishes a Contaminated Sites Liabilities Working Group, as well as providing for management of the Government of Nunavut Contaminated Sites Database. During the standing committee’s televised hearing of September 21, 2023, Government of Nunavut witness testimony indicated that:

“There has been a lot of turnover and a lot of change with respect to trying to be consistent in the assessments and ensuring that the information in our database is correct. In that process, we have seen some issues with the inventory and the database, so we have hired a third party to fix the issues and also to implement some fields and drop-down menus that are more compatible with the federal inventory. That’s going to take a little bit of time, but we’re not opposed to making that information public, It’s just that at this moment, we’re sort of trying to fix a bit of a broken house. Once we get it stabilized, then we will definitely have internal discussions about how best to provide some transparency in that regard.”

Standing Committee Recommendation #5:

The standing committee recommends that the Government of Nunavut’s response to this report provide a detailed update on the activities of the Contaminated Sites Liabilities Working Group for the 2021-2022, 2022-2023 and 2023-2024 (to date) fiscal years.

The standing committee further recommends that the Government of Nunavut’s response to this report provide a detailed update on the timeline for making the Government of Nunavut Contaminated Sites Database accessible to the public.

Issue: Comptrollership Branch Priorities and Activities

The Department of Finance’s annual business plans indicate that the Financial Reporting and Controls Division of the Comptrollership Branch is “accountable for the preparation and publication of the annual Public Accounts, as required by the *Financial Administration Act*.”

Testimony provided by the Office of the Auditor General during the standing committee’s televised hearing of September 21, 2023, indicated that:

“Our office has noticed that certain government departments and territorial corporations have experienced high levels of employee turnover and vacancies in key positions, which further increased during the pandemic. As a result, the high level of vacancies inherently increases the risk of fraud or error as it can lead to deficiencies within the internal control environment and have an impact on the successful delivery of programs. We believe this is an important root cause underlying many observations we also reported in our recent performance audits. Governmental representatives have indicated that challenges in securing staff housing can have a significant impact on the ability to attract potential candidates.”

The standing committee shares this concern. The Government of Nunavut’s most recently-published quarterly employment report indicated that there was a government-wide vacancy rate of 36.4% as of June 30, 2023. The Department of Finance’s vacancy rate was 40.9%.

The standing committee recognizes that the Department of Human Resources’ annual business plans have indicated that one of its priorities has been to finalize a new *Human Resource Strategy*. The *2019-2023 Human Resource Strategy* was tabled in the Legislative Assembly on November 3, 2020.

The department’s recent annual business plans indicate that its priorities for the 2022-2023 fiscal year were to:

- “Collaborate with all departments to develop a comprehensive Accounts Receivable collection strategy;
- In collaboration with the Department of Health, develop an employee survey for employee medical travel to help improve effective delivery of the benefit and to reduce controllable expenses;
- Roll out the Financial Management Development Program;
- Procure an Enterprise Resource Planning system;

- Implement an electronic signature system for the Government of Nunavut;
- Review and revise the Government of Nunavut's approach to honoraria payments under Financial Administration Manual Directive 810: Honoraria;
- Update the Government of Nunavut's approach to grants and contributions, through a review of Financial Administration Manual Directive 801: Grants and Contributions; and
- Conduct an operational review of the Internal Audit Division and its functions.”

The department's annual business plans indicate that its priorities for the 2023-2024 fiscal year have been to:

- “Develop a strategy to link existing public service training with financial management training activities;
- In consultation with the Department of Health, develop an employee survey for employee medical travel to guide improvements in program delivery;
- Initiate GN-wide review of Specimen Signature records;
- Develop a program to support professional finance and accounting designations for new and existing employees across government; and
- Roll out the Enterprise Resource Planning system with increasing focus on training, testing, design, and implementation.”

On July 24, 2023, the Department of Finance issued *Request for Proposals 2023-42: Financial Reporting and Auditing Services - Assistance with the Public Accounts and Internal Audits*. The RFP closed on August 25, 2023. On December 8, 2023, the department issued its Award List, which included four proponents.

Standing Committee Recommendation #6:

The standing committee recommends that the Government of Nunavut's response to this report provide a detailed update on the status of the Comptrollership Branch's work to implement business plan priorities for the 2022-2023 and 2023-2024 fiscal years.

The standing committee further recommends that the Government of Nunavut's response to this report include a detailed update on work performed to date by proponents pursuant to *Request for Proposals 2023-42: Financial Reporting and Auditing Services - Assistance with the Public Accounts and Internal Audits*.

The standing committee further recommends that the Government of Nunavut's response to this report provide a detailed breakdown of the employment status of all positions in the Department of Finance's Comptrollership Branch.

The standing committee further recommends that the Government of Nunavut's response to this report provide a detailed update on the status of the development of the *2024-2028 Human Resource Strategy* in respect to the recruitment and retention of financial management professionals.

Looking Ahead

Looking ahead, the standing committee looks forward to holding a televised hearing later in 2024 on the next set of Public Accounts. This hearing is anticipated to allow for detailed consideration of a number of emerging issues and themes, including:

- Results of audits of the Petroleum Products Revolving Fund and the Petroleum Products Stabilization Fund;
- Enhancement of transparency in respect to reporting of territorial tax revenues associated with the natural resources extractive sector;
- Impact of the recently-signed *Nunavut Lands and Resources Devolution Agreement* on reporting of territorial royalty revenues and liabilities in respect to contaminated sites;
- Expansion of the range of electronic formats in which the Government of Nunavut's financial reporting publications and data are made publicly available (e.g. .csv data files) and achievement of greater alignment of, and consistency between, figures and formats in the Public Accounts and other publications, including annual reports on grants and contributions expenditures, contracting, procurement and leasing activities; and
- Lapses in respect to departmental grants and contributions budgets.