LEGISLATIVE ASSEMBLY OF THE

NORTHWEST TERRITORIES

8TH ASSEMBLY, 64TH SESSION

TABLED DOCUMENT NO. 14-64

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TABLED DOCUMENT

1. Auditor General's letter dated December 6, 1977 containing observations arising from his examination of the accounts and financial transactions of the N.W.T.

2. Replies to these observations prepared by the Department of Finance.

10-014-020

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario
K1A 0G6

December 6, 1977.

The Council of the Northwest Territories,
Yellowknife, N.W.T.

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Sirs:

Section 23 of the Northwest Territories Act provides for the accounts and financial transactions of the Territories to be examined by the Auditor General and an annual report to be made to the Council stating whether: proper books of account have been maintained; the financial statements were prepared on a basis consistent with that of the preceding fiscal year, are in agreement with the books of account, and give a true and fair view of the transactions of the fiscal year and of the assets and liabilities of the Territories at the end of the fiscal year; and the transactions noted have been within the powers of the Territories. In compliance with these requirements, my report of July 8, 1977 in respect of the fiscal year ended March 31, 1977, was addressed to the Council.

The same section of the Act also provides for the Auditor General to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of the Council. Under this provision, the following observations arising from my examination of the accounts for the fiscal year ended March 31, 1977, are brought to your attention. My office undertook a formal review of the systems of financial management and control of the Territorial Government during the past year and the results of that study will be reported separately to Council.

<u>Financial Manuals</u>

As previously reported to Council, the financial and accounting procedures manuals are inadequate to cover the needs of financial administration in the Territories. A comprehensive manual is needed to provide a guide in financial policies to ensure the compliance of procedures in practice. The manual should include a separate section on year-end procedures and samples of properly completed year-end working papers supporting the financial statements.

Senior officials should have an involvement in preparation of the financial manual and any updating thereof. The manual should be reviewed by the Senior Financial Officer and after his approval should be issued under the signature of the Commissioner to have maximum effectiveness.

Federal-Territorial Financial Agreement Over-Expended

The signed agreement with Canada under which the Territories receives its capital grant, provides the condition that the Territories may spend out of uncommitted funds, an amount equal to five percent of the operating expenditures for the previous fiscal year. During the year, capital expenditures out of uncommitted funds amounted to $7,984,686 which exceeds five percent of the previous year's operating expenditures by $1,539,921. Procedures should be implemented to ensure that the capital budget submitted and approved by Council is within the terms of the Financial Agreement with Canada.

Items Over-Expended

The following items were over-expended during 1976/77:

(a) The Central Merchandising Warehouse stores revolving fund, which is the responsibility of Economic Development, was at a level of $1,726,446 at March 31, 1977, representing an over-expenditure of $226,446 over the authorized fund of $1,500,000.

(b) The Inuvik Sewing Centre stores revolving fund exceeded its $140,000 authorized level by $24,786 at March 31, 1977. The sewing centre is also the responsibility of Economic Development.

(c) Operations and maintenance expenditures by the Department of Economic Development were over-expended by $40,270.

(d) Fur auction advances by the Department of Natural and Cultural Affairs exceeded the authorized revolving fund by $1,137.

Procedures should be implemented to ensure that expenditures are not made that would result in revolving funds and accounts exceeding their authorized limits.

Inventories

Internal control over Central Merchandising Warehouse inventories was very poor throughout the year as no perpetual inventory record was established until after December 31, 1976, when a physical count was taken. A report

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prepared by the Department of Finance indicates that the physical count from which the initial records were established was not properly controlled. Strong controls should be established over these inventories.

Budgetary Transfers by Supplementary Appropriation

Transfers approved in the Supplementary Appropriations are treated as an increase to the voted appropriation for the transfer in, but leave unchanged the voted appropriation for the transfer out. This treatment is both improper and misleading.

Liquor Control System

The Liquor Ordinance para. 12(3) restricts the amount of funds to be transferred to the consolidated revenue fund from the Liquor Revolving Fund in any fiscal year to the net revenue of that fiscal year as established by audit. During 1976/77, transfers to the consolidated revenue fund amounted to $5,200,000 which exceeded the net revenue of the Liquor Control System by $771,667. A similar situation occurred during 1975/76 when the transfers exceeded the net revenues by $622,339. If this practice is to continue, the Liquor Ordinance should be amended.

I would like to express my appreciation to the Commissioner and his staff for the courtesy and co-operation extended to my representatives during the audit.

Yours faithfully,

J. J. Macdonell

Auditor General of Canada

GOVERNMENT OF THE NORTHWEST TERRITORIES

December 30, 1977

Audit Report to the Legislative Assembly
for the Year Ended March 31/77

AUDIT OBSERVATION

Financial Manuals

As previously reported to Council, the financial and accounting procedures manuals are inadequate to cover the needs of financial administration in the Territories. A comprehensive manual is needed to provide a guide in financial policies to ensure the compliance of procedures in practice. The manual should include a separate section on year-end procedures and samples of properly completed year-end working papers supporting the financial statements. Senior officials should have an involvement in preparation of the financial manual and any updating thereof. The manual should be reviewed by the Senior Financial Officer and after his approval should be issued under the signature of the Commissioner to have maximum effectiveness.

REPLY TO AUDITOR OBSERVATION

Under the direction of the Executive Sub Committee on Finance a long range project has been established to develop a comprehensive set of manuals including financially related Government policies and regulations.

In response to the Financial Management and Control Study the Department of Finance has begun a review of all accounting procedures manuals and has established a work plan for the documentation requirements of revised and expanded procedures. A government manuals system will be outlined in detail by the end of April 1978, and should be virtually completed by the end of November 1978.

Federal-Territorial Financial Agreement Over-Expended

The signed agreement with Canada, under which the Territories receives its capital grant, provides the condition that the Territories may spend out of uncommitted funds, an amount equal to five percent of the operating expenditures for the previous fiscal year. During the year, capital expenditures out of uncommitted funds amounted to $7,984,686 which exceeds five percent of the previous year's operating expenditures by $1,539,921. Procedures should be implemented to ensure that the capital budget submitted and approved by Council is within the terms of the Financial Agreement with Canada.

FEDERAL TERRITORIAL FINANCIAL AGREEMENT OVER-EXPENDITURE

Federal officials have confirmed that the intent of the section in question is to limit the transfer of funds from operations and maintenance to capital and not to limit capital expenditures as the present wording implies. At the September Inter-Governmental Committee meeting it was decided to amend the financial Agreement for the 1978-79 fiscal year. A revised draft has been prepared by the Government of the Northwest Territories and submitted to the Federal Government for approval.

Items Over-Expended

The following items were over-expended during 1976/77:

(a) The Central Merchandising Warehouse stores revolving fund, which is the responsibility of Economic Development, was at a level of $1,726,446 at March 31, 1977, representing an over-expenditure of $226,446 over the authorized fund of $1,500,000.

(b) The Inuvik Sewing Centre stores revolving fund exceeded its $140,000 authorized level by $24,786 at March 31, 1977. The sewing centre is also the responsibility of Economic Development.

(c) Operations and maintenance expenditures by the Department of Economic Development were over-expended by $40,270.

(d) Fur auction advances by the Department of Natural and Cultural Affairs exceeded the authorized revolving fund by $1,137.

Procedures should be implemented to ensure that expenditures are not made that would result in revolving funds and accounts exceeding their authorized limits.

ITEMS OVER-EXPENDED

A monthly reporting procedures has been introduced whereby each revolving fund balance is reported to the Territorial Treasurer together with memorandum information as to the difference between authorized value and the current balance. Copies of these reports are forwarded to departmental Directors responsible for individual revolving funds.

Departmental Directors will be held accountable for maintaining expenditures within revolving fund limits.

Inventories

(a) Internal control over Central Merchandising Warehouse inventories was very poor throughout the year as no perpetual inventory record was established until after December 31, 1976 when a physical count was taken. A report prepared by the Department of Finance indicates that the physical count from which the initial records were established was not properly controlled. Strong controls should be established over these inventories.

(b) A number of observations were raised by the finance officer supervising the stocktaking of the Rae Lakes grocery store revolving fund. For example, cash receipts of $10,595 representing fourteen days' sales were in the store safe; there were no sales summaries or reconciliations available; retail prices were not marked on the floor stock; and, the store and stock room were in a disorderly condition. These observations point out the need for training of all persons with financial responsibilities as well as regular supervisory visits by knowledgeable financial officers.

INVENTORIES

(a) The Department of Finance took over the responsibility for the physical control of the Central Merchandising Warehouse inventory in December, 1976. Appropriate inventory control and recording methods were established at that time.

(b) Detailed procedures will be established for the operation of the store.

Budgetary Transfers by Supplementary Appropriation

Transfers approved in the Supplementary Appropriations are treated as an increase to the voted appropriation for the transfer in, but leave unchanged the voted appropriation for the transfer out. This treatment is both improper and misleading.

BUDGETARY TRANSFERS BY SUPPLEMENTARY APPROPRIATION

Agree. Procedures will be amended in future Supplementary Estimate submissions.

Liquor Control System

(a) The Liquor Ordinance para. 12(3) restricts the amount of funds to be transferred to the consolidated revenue fund from the Liquor Revolving Fund in any fiscal year to the net revenue of that fiscal year as established by audit. During 1976/77, transfers to the consolidated revenue fund amounted to $5,200,000 which exceeded the net revenue of the Liquor Control System by $771,667. A similar situation occurred during the 1975/76 when the transfers exceeded the net revenues by $622,339. If this practice is to continue, the Liquor Ordinance should be amended.

(b) The Liquor Control System maintain their records on a single entry system that is not adequately documented and does not allow for timely preparation of monthly or yearly financial statements. The Senior Financial Officer of the Northwest Territories, as the person responsible for sound financial management controls in the Government, should ensure that a well documented, double entry accounting system is promptly established to meet the present and future needs of the Liquor Control System.

LIQUOR CONTROL SYSTEM

(a) The administration considers the transfer of funds from the Liquor System to be a management decision and not an area which should be covered by legislation. At the present time the Liquor Ordinance is under review and a number of revisions are forthcoming. This restriction will be changed when the overall revisions to the Ordinance are made.

(b) A review of the system will be made and procedures will be implemented to correct this inadequacy.

c) Council's stated policy is to discourage the consumption of hard liquors. One means to assist in achieving this goal could be to realize a proportionally higher gross profit on hard liquors than on beer and wine. The Liquor Control System's accounting records do not provide the necessary information to measure accurately the gross profit per product. In order to obtain this information, all costs of products should be accurately allocated. The financial reporting system should be revised to provide this information.

(c) This will be considered during the review of the accounting system in light of a proposal for a revised liquor pricing policy which is currently before Council.

(d) The current Ordinance appears to require an annual audit of the operations of each liquor store and agent. This is not being done as there are many overhead costs which are not being allocated, however, minor deviations on the smaller components do not have a material effect on the presentation of the entity as a whole. It is not customary for external auditors to express an opinion on each component of an operation. Our audit has, therefore, been restricted to expressing an opinion on the financial statements as a whole rather than on the operations of each individual store and agent. In our view, the Ordinance should be changed to clearly reflect the current audit practice. Management, on the other hand, should continue to prepare schedules of the operations by store.

(d) To be included in revision of the Liquor Ordinance.