



# **15<sup>th</sup> Legislative Assembly of the Northwest Territories**

## **Standing Committee on Accountability and Oversight**

Report on the Review of the  
Report of the Auditor General  
to the NWT Legislative Assembly  
for the Fiscal Years Ended  
March 31, 2002 and 2003

Chair: Mr. Kevin Menicoche

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Northwest  
Territories

Legislative Assembly  
Standing Committee on Accountability and Oversight

February 24, 2006

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Accountability and Oversight is pleased to provide its Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for the Fiscal Years Ended March 31, 2002 and 2003 and commends it to the House.

A handwritten signature in cursive script that reads "K Menicoche".

Kevin Menicoche, MLA  
Chairperson

**STANDING COMMITTEE ON  
ACCOUNTABILITY AND OVERSIGHT**

**REPORT ON THE REVIEW OF THE  
REPORT OF THE AUDITOR GENERAL TO THE  
NWT LEGISLATIVE ASSEMBLY FOR THE  
FISCAL YEARS ENDED MARCH 31, 2002 AND 2003**

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**REPORT ON THE REVIEW OF THE  
REPORT OF THE AUDITOR GENERAL TO THE  
NWT LEGISLATIVE ASSEMBLY FOR THE  
FISCAL YEARS ENDED MARCH 31, 2002 AND 2003**

**INTRODUCTION**

The Standing Committee on Accountability and Oversight (the Committee) met to review the Report of the Auditor General to the NWT Legislative Assembly for the fiscal years ended March 31, 2002 and March 31, 2003 on November 23 - 25, 2005.

The first day involved briefings and discussions with officials from the Office of the Auditor General (Auditor General) on issues raised in its report. Officials from the Auditor General's Office included: Mr. Andrew Lennox, Assistant Auditor General, Office of the Auditor General of Canada; Ron Thompson, Assistant Auditor General, Office of the Auditor General of Canada; Mr. Roger Simpson, Principal, Edmonton Branch, Office of the Auditor General of Canada; and Mr. Dan Stadlweiser, Director, Office of the Auditor General of Canada.

Public meetings were held November 24-25, 2005, during which Committee Members had the opportunity to hear from witnesses. The list of witnesses included: Mr. Lew Voytilla, Comptroller General, Financial Management Board Secretariat (FMBS); Ms. Louise Lavoie, Assistant Comptroller General, FMBS; Ms. Margaret Melhorn, Deputy Minister, Department of Finance; Mr. Peter Vician, Deputy Minister, Department of Industry, Tourism and Investment; Mr. Fred Koe, President, NWT Housing Corporation; and Mr. Marsh Wilson, Director, Operations, NWT Housing Corporation.

**GENERAL COMMENTS**

The Standing Committee on Accountability and Oversight considers the review of Auditor's Reports to be of utmost importance. Public accountability is the foundation of good governance. In this day and age, the public demands and deserves to know their tax dollars are being spent effectively and efficiently. The concerted efforts and the participation of all who are involved is an essential part of the process that ensures government accountability.

The Auditor reports on issues that arise from the review of government accounts and provides recommendations for improvements. However, it is the forum for

public review that provides an opportunity for further exploration of issues identified by auditors to find the root cause where problems exist and to ensure that improvements are brought about. An effective public forum requires that all parties come prepared.

Great importance is placed upon the public review process. The Committee was therefore disturbed about lack of preparation. The Committee feels that the laissez-faire attitude on the part of some of the witnesses indicates a lack of concern and respect for accountability towards taxpayers' dollars.

The Committee reminds government officials of their accountability to the people of the Northwest Territories. All Departments and Corporations that are publicly funded are accountable to elected officials who are, in turn, accountable to their constituents for effective and efficient public spending.

Notably, the Housing Corporation was ill prepared to answer what the Committee considered to be basic questions, taking them instead on notice.

Finally, during the course of the public review, the Committee was presented with new information about a change to the funding agreement for the provision of Indian and Inuit Medical Care. Although the Committee is always interested in being advised of any new developments, a public hearing on the review of the Auditor General's Report on Other Matters was not the appropriate place for such discussions. In future, Committee Members would request that, if new information becomes available about an issue contained in the Auditor's Report, it be provided in advance. If it is of sufficient importance, a separate briefing can be scheduled so that time allocated on the public review can be used to discuss the specifics of the report.

#### **NWT HOUSING CORPORATION – SHIPMENT OF UNASSEMBLED HOUSING UNITS TO ALASKA**

The Auditor General's Report raised the issue of the Northwest Territories Housing Corporation's venture to sell housing units to Alaska. The report made recommendations about the Corporation's exposure to loss and unnecessary risk when they shipped nine unassembled housing units to Barrow, Alaska, with only a verbal agreement in place, no signed contract and no insurance. The Auditor also questioned the Corporation's authority to undertake this venture and the on-going issue of the interpretation of their mandate.

The Committee had an opportunity to question the Housing Corporation about the venture. Members asked if changes to business policies, guidelines and

practices had been made subsequently to ensure that the Housing Corporation would not be exposed to such risk and loss again.

On the whole, the Committee was not at all satisfied with the ability of the Housing Corporation to adequately respond to the Committee's questions and concerns. Inquiries were frequently met with vague responses or with a commitment to provide details at a later date.

Given that the Corporation had been in possession of the Auditor's Report for over a year. Members consider it an affront to the institution of the Legislative Assembly that the Housing Corporation would appear unprepared to answer questions relating to historic events. The Committee was taken aback by the lack of detailed information the Housing Corporation was able, or willing, to provide.

The Housing Corporation was not prepared to answer the following questions and will provide details about:

- The sequence of events and transactions involved in all sales of unassembled housing units to Alaska, including when contracts were signed.
- The value of each of the eight remaining units today.
- The profitability/profit margin for all sales of unassembled housing units in Alaska, including:
  - > The exact values for all shipping (including the shipment of the units from Tuktoyaktuk to their final destination);
  - > All legal fees involved;
  - > Ministerial travel to Alaska; and
  - > Administrative overhead, including staff time.

Ultimately, Committee Members do not feel confident that any specific actions were taken in response to the failed venture to ensure something similar will not happen again. More importantly, they are not convinced that policies and procedures intended to guard against exposure to risk will be consistently implemented with rigorous due diligence. Committee Members are concerned with the Housing Corporation's past performance in the efficient and effective management of public funds.

Finally, some Members feel that in light of mismanagement in the Housing Corporation's venture in Alaska, the GNWT should examine the means by which employees are held accountable in such instances.

## **Recommendation**

**The Standing Committee on Accountability and Oversight recommends the Office of the Auditor General of Canada undertake a performance audit on the Housing Corporation.**

## **DIAMOND LOAN GUARANTEES**

The Auditor General's report addressed the issue of government loan guarantees to companies in the diamond manufacturing industry. Specifically, the report dealt with the default on the loan guarantee for Deton'Cho Diamonds Incorporated.

The GNWT originally provided loan guarantees to three companies in the diamond industry, Deton'Cho Diamonds Incorporated, Sirius Diamonds Ltd. and Arslanian Cutting Works (NWT) Ltd., to allow businesses to obtain private financing that might not otherwise be available at a total of \$24.2 million dollars. The intent of the loan guarantees was to encourage economic development by supporting business ventures that banks would consider too risky without government backing.

At the time the Auditor's report was written, only Deton'Cho Diamonds had defaulted on their loan. The Report notes that although a deal was ultimately reached to sell Dehton'Cho Diamonds to Deton'Cho Corporation, and the \$2.6 million principal will be paid to the government in twenty equal, interest-free yearly installments, the foregone interest using a modest discount rate of four percent would amount to \$800,000 over ten years. The Committee notes, however, that it remains to be seen exactly what the total cost to taxpayers will be for the Deton'Cho loan guarantee.

Subsequent to the Auditor's report, the remaining two loan guarantees went into receivership. The net loss for Sirius Diamonds Ltd. is estimated at over \$6.5 million dollars.

Members had an opportunity to question the Comptroller General about the events leading up to the default on the Deton'Cho Diamonds. The Comptroller General's position was unequivocally that the global diamond industry is inherently risky and no amount of due diligence can change that.

The Committee understands that loan guarantees are inherently risky. The inherent risk is not what was at issue. Of concern to Members is if the Diamond



Review Committee and the Financial Management Board did everything within their power to minimize the loss of public funds. In other words, was due diligence adequate? Ultimately, the Committee did not find the witnesses' testimony to be persuasive. Members remain uneasy that the due diligence process and the monitoring was not as rigorous as necessary.

In light of what has been learned from the loan guarantees for the diamond manufacturing industry in the NWT, some Members are hesitant to endorse the use of public funds to back high-risk experimental industries. Some Members feel government investment would be better put towards ventures with demonstrated markets and viability, for example, strategic infrastructure projects. They are of proven benefit to NWT residents, are less vulnerable to volatile global markets and, therefore, risks can be more accurately assessed.

## **CONSOLIDATED BUDGETS**

A consolidated financial statement is one in which all the revenues and spending for a government department or agency is recorded together in the same document. A consolidated financial statement includes all like items of assets, liabilities, revenues and expenses from a government department, including any revolving funds and corporations that fall under its mandate.

The Auditor noted a number of reasons consolidated budgets can be helpful to managers and Members of the Assembly. For one, it's easier to compare budgets to year-end financial statements when both are consolidated. It also focuses attention on the broader activities of Government, for example, consolidated accounts would more easily reveal how much is spent on salaries and administration. Consolidated budgets would also provide more detailed information on housing and post-secondary education spending.

The GNWT bases its accounting standards on recommendations of the Public Sector Accounting Board (PSAB). So far, these rules require consolidated financial statements but not consolidated budgets. However, the trend appears to be increasingly towards consolidated financial documents. The Committee notes that PSAB has changed their guidelines so that, as of April 1, 2005, a Government's 'reporting entity' includes all entities that are controlled by the Government. This change means that, for the first time, the 2005-2006 Public Accounts will be consolidated, including government boards and agencies. The Committee is of the opinion that this change makes it all the more pressing for the GNWT to move towards consolidated budgeting.

The Standing Committee understands that the Government is opposed to providing consolidated budgets, including the concern that it could potentially

render budgets so complicated they would no longer be of use to anyone outside of the accounting profession, notably decisions makers and the public at large. The Committee points out that there are ways of ensuring this concern is addressed. For instance, in addition to consolidated budgets, more detailed information could also be needed, such as a breakdown of component parts, in order to facilitate understanding.

**Recommendation**

**The Standing Committee on Accountability and Oversight recommends that the GNWT prepare consolidated budgets for the 2008-2009 Budget Cycle.**

**CONCLUSION**

**Recommendation**

**The Standing Committee on Accountability and Oversight requests the Executive Council table a comprehensive response to this report within 120 days in accordance with Rule 93(5) of the Rules of the Legislative Assembly.**