



The Public Accounts: An Overview

Government of
Northwest Territories



Introduction

Public Accounts - Overview

- The Public Accounts are required to be prepared annually by the government in accordance with legislation.
- The Public Accounts are financial statements that show the financial results of a government for a fiscal year.
- The fiscal year of the Government of the Northwest Territories (GNWT) is April 1st of one year to March 31st of the next calendar year (365 days).
- The Public Accounts currently have 4 sections:
 - o **Section I.** Consolidated Financial Statements and Financial Statement Discussion and Analysis
 - o **Section II.** Non-Consolidated Financial Statements
 - o **Section III.** Financial Statements of Boards
 - o **Section IV.** Financial Statements of other Consolidated Entities
- The Public Accounts are prepared by the Office of the Comptroller General, within the Department of Finance of the GNWT. The Public Accounts must follow Canadian generally accepted accounting principles (GAAP) as set by the Public Sector Accounting (PSA) Board.
- The financial statements are audited by the Office of the Auditor General of Canada each year. The Auditor General gives an audit opinion on whether the Public Accounts are in accordance with the PSA Standards, the *Northwest Territories Act* and regulations, and the *Financial Administration Act* and regulations.



The Public Accounts

The Financial Administration Act is the basis for how the GNWT manages its finances and reports on that to the citizens of the Northwest Territories.

The core document that reflects the spending choices made by the government to advance their objectives and commitments, including anticipated revenues and planned spending.

The financial statements the government produces to report on its financial activities and its financial position for a full fiscal year (April 1 - March 31).

The office in the Department of Finance that is responsible for the preparation of the Public Accounts, as well as the government's financial management and control systems. This includes ensuring the proper financial and accounting policies, procedures and records are in place and followed.

Leads the Department of Finance and is responsible for preparing the GNWT's Main Estimates for approval, as well as developing the government's fiscal and financial management policies for approval and implementation.

Approves the Main Estimates. The Public Accounts are tabled in the Legislative Assembly and referred to a Standing Committee for review.

NWT residents can access the Public Accounts on the GNWT Department of Finance website.

The Auditor General provides an audit opinion every year on whether the GNWT followed all laws and accounting principles.

prepared by:

OFFICE OF THE COMPTROLLER GENERAL of the GNWT



approved by:

THE MINISTER OF FINANCE



presented to:

THE LEGISLATIVE ASSEMBLY



distributed to:

THE PUBLIC



audited annually by:

THE OFFICE OF THE AUDITOR GENERAL OF CANADA



Auditor General of Canada
Vérificateur général du Canada

A. Consolidated Financial Statements

includes

ALL GNWT CONTROLLED ORGANIZATION

Departments, Revolving Funds, Public Agencies and Other related entities

shows

FINANCIAL ACTIVITY OF THE GNWT

- o Cost of providing programs and services
- o Cost of financing debt
- o Annual surplus or deficit
- o Approved budget plan
- o Revenues received in a year
- o Assets and liabilities of the GNWT

Grouped by 'program' and then by 'expense type'

resulting in

NET DEBT

Net Debt = Liabilities > Financial Assets
or

NET FINANCIAL RESOURCES

Net Financial Resources =
Financial Assets > Liabilities

B. Discussion and Analysis

measured by:

SUSTAINABILITY, FLEXIBILITY AND VULNERABILITY

- o **Sustainability** - the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
- o **Flexibility** - the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues, or increasing its debt burden.
- o **Vulnerability** - the degree to which a government becomes dependent on, and therefor vulnerable to, sources of funding outside its control or influence, both domestic and international.

includes:

FINANCIAL ACTIVITY OF THE GNWT

Composition of revenue by source shows the GNWT's vulnerability to changes in revenue.

Composition of expenses by program shows how total spending is divided among GNWT controlled organizations.

Helpful trends and ratios based on revenues, expenses and borrowing.



Non-Consolidated Financial Statements

includes

ONLY GNWT DEPARTMENTS

Relates to the spending that has been approved in the Main Estimates process providing additional information to assess the activities of the GNWT.

Boards and Other Consolidated Entities

includes

ALL OTHER ENTITIES

Education Board

Health Boards

Public Agencies

Other related entities considered part of GNWT reporting



Financial Administration Act

- The *Financial Administration Act (FAA)* of the GNWT is the most important legal document for the financial management of the Government and its controlled organizations. These organizations are listed in Note 1 to the Consolidated Financial Statements.
- Section 34 of the *FAA* specifies that the Public Accounts must be prepared by the Comptroller General and approved by the Minister of Finance. Section 35 of the *FAA* requires the Public Accounts be tabled in the Legislative Assembly. The Legislative Assembly then refers the Public Accounts to a Standing Committee to review and report back in accordance with the *Northwest Territories Act*.

Layout of the Public Accounts

Section 1. Consolidated Financial Statements

- The Consolidated Financial Statements must include all government-controlled organizations. The Consolidated Financial Statements of the GNWT include all GNWT departments, revolving funds, public agencies, and other entities that make up the Government Reporting Entity (GRE). If the GNWT has control over their operations (whether or not the GNWT chooses to exercise its control), then the entity is required to be consolidated.
- The result is an overview of all financial activities under the control of the government. These statements show (i) the cost of providing programs and services (expenses), (ii) cost of financing debt, (iii) annual surplus or deficit, (iv) consolidated budget, (v) revenues received in the year and (vi) assets and liabilities of the Government.
- The financial position of the Government is measured at a specific point in time known as the **fiscal year end**. It groups the Assets of the Government separating those that can be easily converted to cash, to pay outstanding liabilities, from those not easily converted.
- The difference between the Financial Assets and Liabilities is known as **Net Debt** when there are more Liabilities **than** Financial Assets. If the Government's Financial Assets **were more than** liabilities, then the Government would be in a **Net Financial Resource** position.

- The GNWT's fiscal year end is March 31. The information relating to revenues and expenses encompasses the results for the entire fiscal year (April 1 – March 31) as shown in the Consolidated Statement of Operations.
- Cash flows represent the use of cash for the purpose of meeting operational needs, investing, or financing activities during the fiscal year. Cash flow is a useful indicator of where future cash will come from and be spent.

Financial Statement Discussion and Analysis (FSDA)

- The financial statement discussion and analysis, (also known as the financial indicators), is a standard reporting practice. It includes a summary of the results from a fiscal year. It also provides an overview of the territorial debt and the Northwest Territories economy in comparison to other provinces and territories. Financial trends and the GNWT's fiscal responsibility policy measures are also reported.
- The financial health of a government can be measured by 3 indicators: sustainability, flexibility, and vulnerability:
 - o **Sustainability** is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
 - o **Flexibility** is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues, or increasing its debt burden.



- o **Vulnerability** is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

- The financial statement discussion and analysis, includes:
 - o Composition of revenue by source, which shows a government's vulnerability to changes in revenue
 - o Composition of expenses by program, which shows how total spending is divided among program
 - o Government's compliance with its Fiscal Responsibility Policy.

Section II. Non-Consolidated Financial Statements

The Non-Consolidated Financial Statements only include information relating to GNWT departments. These statements relate to the

information that has been approved by the Legislative Assembly in the Main Estimates process.

- A major difference between Section I and Section II of the Public Accounts is that Section II gives detailed supplemental schedules. These schedules provide additional information when assessing the activities of a GNWT department over a fiscal year.

Sections III and IV Boards and Other Consolidated Entities

The Public Accounts Sections III and IV include information for all education boards, health boards, public agencies, and other related entities which are considered part of the Government Reporting Entity. The table of contents in Sections III and IV list all the entities.

- Audited financial statements of each entity are to be completed within 90 days of the entities' year end. The *FAA* permits a 60 day extension at the Minister of Finance's discretion.

How to read the financial statements in the Public Accounts

This section will explain the statements in the Public Accounts (all sections). Keep in mind that all statements are related to each other.

Financial statements provide a meaningful summary of the government's economic resources during the fiscal year. They also show how the activities of the period affected the net debt of the government. And they show how the Government financed its activities in the period.

1. The Statement of Financial Position

This statement shows the government's net debt. **Net debt = liabilities less financial assets.** Net financial resources result when there are financial assets remaining after being reduced by all liabilities of the Government. Net debt results when the liabilities are greater than financial assets.

The types and amounts of liabilities, financial assets, tangible capital assets and accumulated surplus are shown in this statement. This includes figures for both the current and prior fiscal years. Where a significant liability, asset, or non-financial asset is noted, a reference is added on. The details of what makes up the total are set out in the corresponding notes and schedules to the financial statements.



2. The Statement of Change in Net Debt

This statement shows the change in net debt from the previous year and how the figure was affected by the year's activities. It starts with the net debt from the prior year, adds on the annual surplus or deficit for the current year (to be discussed in the next section) and shows the results as further affected by non-financial assets (assets that are not readily turned into cash). For the GNWT, non-financial assets are **tangible capital assets** such as highways, airport infrastructure, government buildings, and inventories held for use, as well as prepaid expenses.

3. The Statement of Operations

The Statement of Operations summarizes revenues and expenses over a fiscal year. The GNWT follows **accrual accounting**. Accrual accounting means that any revenue earned or expense incurred by the end of the fiscal year is reported here. This statement does not consider cash received or spent for the year. That information is disclosed in the statement of cash flows.

The Statement of Operations provides a high level summary of the government's annual revenue compared to the cost of providing programs and services for the year. The approved budget is included for comparison purposes. This budget does not include any supplementary appropriations or transfers made during the year. It reflects the original plan of the budget of the Government required under PSAS.

The Statement of Operations shows the results of revenues and expenses for projects on behalf of others. The GNWT will enter into agreements for third parties to provide recoverable costs for

programs or services on their behalf. The revenues will always equal the expenses so they have no impact on the GNWT's bottom line.

The Statement of Operations also shows the government's annual surplus or deficit, which is the result of revenues less expenses for the year. Accumulated surplus shows as the sum of all prior year surpluses and deficits. On the Statement of Operations, the accumulated surplus is calculated by adding the annual surplus, to the accumulated surplus at the end of the last fiscal year.

4. The Statement of Cash Flow

A statement of cash flow reports the effects of a government's activities on its cash resources. It shows how government acquired and used its cash for operations, investing and financing. Important uses of such information include evaluating a government's ability to have cash available to meet immediate and short term obligations, and accountability for the use of cash resources. Sources of cash include revenues, increases in debt and decreases in financial investments. Uses of cash include operating costs and investments in infrastructure.

The **first section of this statement** looks at the government's cash flow, both received and spent, from its **operating** activities.

The **second section of the statement** shows the cash flow, both received and spent, from all **investing** activities.

The **third section of the statement** shows the cash flow, both received and spent, from all **financing** activities.

5. Notes and schedules

As mentioned, the notes and schedules provide additional information. This extra information, particularly in Section II of the Public Accounts, will help the reader to understand the bigger picture.



Comparing the Budget to the Public Accounts

- Planning in the government is essential. Planning allows our public services to achieve social and economic goals. The Main Estimates budget document contains more than just spending information; in conjunction with departmental business plans they also describe the results the government wants to achieve with its funds.
- Comparing actual and budgeted financial results provides key accountability information about the Government's performance.
- The budget in the statement of operations in the Non-Consolidated Financial Statements is made up of the original budget (Main Estimates) for the government's departments.
- The budget in the statement of operations in the Consolidated Financial Statements is made up of the original budgets for the government's departments **plus the original budgets of all consolidated entities**, creating a "consolidated budget".





Debt and Fiscal Responsibility

- **The GNWT has an imposed borrowing limit** which is established by a federal Order in Council. This limit includes the debts of all Government organizations that are included within the Consolidated Public Accounts.
- The ***Fiscal Responsibility Policy (FRP)*** is a requirement of the *FAA*. The FRP commits the GNWT to long-term fiscal sustainability by spending responsibly, controlling expenditure growth, and prudently managing borrowing and debt repayment.
- The Fiscal Responsibility Policy identifies the purposes for which the GNWT may borrow money. It also sets out requirements for debt repayment and establishes performance measures for incurring debt. It defines limits on debt servicing payments to ensure that government debt and borrowing costs remain affordable. The GNWT wants to avoid debt servicing payments that might adversely affect its programs and services.
- The FRP also **restricts infrastructure investments to be a minimum of 50 percent of the annual operating surplus** found within the Non-Consolidated Public Accounts (Section II) and **a maximum of 50 percent from government debt**.
- As the GNWT requires significant investment in infrastructure, the FRP makes the Government accountable for its level of borrowing and debt management to ensure the total debt of the Government does not exceed the capacity of the Government to repay its debt.

The Financial Statement Discussion and Analysis in Section I of the Public Accounts provide additional information to users on financial results of the GNWT and compliance with the Fiscal Responsibility Policy.



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