



Office of the Auditor General

Auditor General's Statement to the Media

Release of January 2014 Report to the Nova Scotia House of Assembly

1/22/2014

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Good morning, ladies and gentlemen. Thank you for coming.

Today, I released my annual report, specifically focused on financial issues, to the Members of the House of Assembly.

I want to thank all my colleagues, in the Office of the Auditor General, for their continuing dedication and professionalism, and to thank them publicly for their support and guidance over the past eight years. As usual, I also want to thank public servants across the provincial public sector for their cooperation as we go about our work. Without that cooperation, our job would not be possible.

The report tabled today contains six chapters, including a brief summary, and 22 recommendations. It deals with my Office's statutory financial audits and reviews, as well as the results of our performance audit of the Public Service Superannuation Plan. It presents some indicators of the province's overall financial condition, the results of our reviews of the external audits of public agencies, and the government's performance related to recommendations we made in 2010.

I am glad to be able to begin with positive news. Last year, for the first time since the consolidation of the accounts of provincial public entities in 2001, we were able to provide an unqualified opinion on the government's revenue estimates. I realize this may seem like a dry accounting issue, but it is important. Budgets had previously not included almost a billion dollars of agencies' third party revenues. This seriously understated budgetary revenues. Now the revenue estimates are prepared properly, bringing the budget in line with the financial statements, and making it easier for those who have an interest to compare apples to apples. This was a long time coming. It increases the usefulness of the budget and is a significant improvement in financial accountability.

I also provided unqualified audit opinions on the public accounts, and on three of the four agencies we audited last year. Only my audit opinion on funds administered by the Public Trustee was qualified. We are unable to verify that all assets, or income related to the assets, under the administration of the Public Trustee were recorded. I also expressed my concern about the complete absence of an accounting system at the Public Trustee and strongly recommended that a standard accounting package with a general ledger be put in place. This is essential for an organization responsible for more than \$45 million in estates and trusts, and should be done in the next fiscal year.

I also believe the routine transfer to the Province of a large part of the interest earned on monies owned by Public Trustee clients cannot be justified and, in effect, amounts to a hidden fee. The Public Trustee already collects an administration fee from its clients' estates. In our management letter to the Trustee, we recommended that the transfer of this interest cease.

Last year, my office completed a performance audit of the Public Service Superannuation Plan – by far the largest pension plan in the province with more than 30,000 members. In the wake of significant changes in the administration of the plan, we had hoped to examine the adequacy of its asset management and to verify the accuracy of benefit payments.

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Due to information gaps or missing files that should have been readily available from the employers, we were unable to achieve the second objective of the audit. Neither the Province nor Capital Health – the two largest employers in the plan – were able to provide the supporting information needed to verify the accuracy of benefit payments. Indeed, we could confirm the accuracy of benefit payments to only eight per cent of retirees tested. Historical employee information needed to support the payment calculations is not being retained.

We recommended the Public Service Commission and Capital Health retain sufficient payroll and employee information to allow retirees to verify the accuracy of the payments they receive.

We also believe that pension plan members have a right to key information about the plan's management of its investments. To that end, we recommended that the Statement of Investment Policies and Goals be made public. The Board of Trustees had previously treated that information as confidential, but has agreed to make it available to members by the end of the year.

Again this year, one chapter provides a series of indicators of the overall financial condition of the Province. These are indicators of the sustainability, vulnerability and flexibility of the province's finances. This chapter provides information only. It does not provide any recommendations – just the analysis.

A number of these indicators are stable over time, although the province ranks at or near the bottom in most of them, in comparison with five other similar provinces. However, net debt, long-term debt and net debt per capita all increased again this year. Our net debt per capita remains the second-highest among the provinces we compared, and is now \$14,832 for every man, woman and child in the province. This remains a considerable burden for future generations.

I have to report again this year that internal financial controls in too many agencies, boards, commissions and other public entities remain problematic. My office does not conduct the annual financial statement audits of these entities. With the exception of the four we report on in chapter 2, they are audited by private sector auditors. However, we do review the findings these auditors present to their clients and provide information about the findings to the legislature.

Deficiencies identified by auditors in many provincial agencies are not being addressed. We found that 31 per cent of the deficiencies external auditors identified this year were also identified in previous years. About two-thirds of these had been identified as far back as 2009-10 and have still not been corrected. By not addressing these issues in a timely way, the management and directors of these entities are not meeting their responsibilities. We recommended that the government take a more active role in communicating to the boards of these entities that deficiencies should be addressed and necessary improvements made.

Our report draws particular attention to the Cape Breton District Health Authority, where identified deficiencies have persisted for years; and to the Nova Scotia Housing Development Corporation,

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because of the large number of internal control issues. They included, for instance, bank reconciliations that included stale-dated cheques; unexplained changes to mortgage information; and errors in land inventory.

I began on a positive note, and can end on the same note. Our review of action taken on the financial recommendations we made in 2010 showed significant progress, in that 77 per cent have now been implemented. That is a marked improvement.

Now, I would like to add a postscript on events that occurred too late to make print.

Last year we had a note about the revisions made to the Public Service Pension Plan, and in particular the creation of a new Trustee and the removal of the government's guarantee of pension benefits. During the year, we reviewed the potential accounting consequences of these changes. On November 29, we reported to government our opinion that, as the government had divested itself of any financial responsibility for the pension plan beyond its regular contributions, it needed to eliminate any assets or liabilities related to the plan from its balance sheet. This would require a write-off of a current debit balance of \$318 million to expense. Government agreed with our analysis and adjusted the December forecast to reflect that additional expense. This of course affected the forecasted surplus for the fiscal year. In fact, it moved the Province from a surplus to a deficit position.

Thank you, ladies and gentlemen, for your attention.

And I will now take your questions.