

INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 This Report contains the results of the work carried out by my Office during 1998. As in previous years, my objective is to assist members of the House of Assembly in exercising their responsibility to hold the government to account for the management of public funds.

1.2 We adhere to the standards promulgated by the Canadian Institute of Chartered Accountants (CICA) in the performance of our work. Chapter 21 provides a report on the Office of the Auditor General including a more detailed description of its mandate and strategic goals and objectives.

1.3 This chapter provides a summary of the most significant findings contained in the Report. However, readers are cautioned that a full understanding of these findings can only be obtained from the detailed results provided in the individual chapters. There are other issues reported in those chapters which warrant attention.

1.4 As well, three special reports were issued during 1998, all of which resulted from requests from either the government or a third party. The first of these was an examination of the first school lease signed as part of the public-private partnership initiative for school construction and it is summarized in Chapter 7. The second was an audit of the Workers' Compensation System and that special report is reproduced in Chapter 16. The third was an audit of the Teachers' Salary Continuation Plan which was requested by the Nova Scotia School Boards Association. That report is summarized in Chapter 8.

1.5 The government continued its efforts to improve management processes and accountability reporting. This is most evident through the communication of its strategic objectives and plans in *Government By Design* and its first attempt to report on achievements through *Nova Scotia Counts*. However balancing program and fiscal objectives has been challenging for government and this Report contains numerous issues that illustrate the complexities of these challenges.

AUDIT MANDATE

1.6 In each of my previous six Annual Reports, I took exception to the provisions of the Provincial Finance Act which provided for an audit of the Province's financial statements by a chartered accountant who reported to the Minister of Finance. During the 1998 Spring session of the Legislature, Bill 8, An Act to Amend the Auditor General Act and the Provincial Finance Act, was introduced and unanimously passed. The amendments result in three major changes to the mandate of this Office and the audit regime in Nova Scotia. These are as follows:

- (I) The provision in the Provincial Finance Act for the appointment of a chartered accountant was deleted. The Auditor General Act was amended to give the Auditor General the responsibility to audit the Province's financial statements and report to the House of Assembly.
- (II) The Auditor General Act was amended to establish a deadline of December 31 for tabling of the Annual Report. This will result in more timely reporting.

- (III) The Auditor General Act was amended to permit tabling of up to two reports in addition to the Annual Report during a year. This provides me with the opportunity to report matters on a more timely basis where this would be of assistance to members of the House of Assembly.

1.7 I very much support these amendments and believe that they create an opportunity for me and my staff to better serve the members of the House of Assembly and the people of Nova Scotia. The amendments also bring us much more in line with the audit regimes in other jurisdictions.

ACCOUNTABILITY INFORMATION AND REPORTING

1.8 The government continues to make progress in improving the quality of information provided to the House of Assembly to report on its accountability. However this reporting continues to be discretionary and I repeat my previous recommendation that these reporting requirements should be enshrined in legislation.

1.9 Progress has also been made towards achieving compliance with the recommendations of the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Board and the Province's financial statements are clearer and more understandable than previously. However, issues remain to be addressed. These are acknowledged by the government and on June 4, 1998 the Minister of Finance tabled a plan to address them. I strongly support this initiative and will be monitoring progress, particularly in relation to my new mandate to report to the House of Assembly on these financial statements.

YEAR 2000 READY OR NOT, HERE IT COMES!

1.10 Ready or not, here it comes! Nothing could be truer. As I write this there are fewer than 400 days till January 1, 2000. While I acknowledge that progress has been made over the past year much remains to be done and the risks increase as the window of opportunity diminishes.

1.11 Last year I strongly urged government to focus on plans and priorities for the remainder of its remediation efforts and to put in place a reporting framework so that members of the House of Assembly are fully informed of progress and remaining issues. Such a report was tabled in November 1998 along with a commitment to continue to report monthly.

PUBLIC-PRIVATE PARTNERSHIPS FOR SCHOOL CONSTRUCTION

1.12 The government has embarked on a major program of school construction with the stated objective of building schools without adding to the debt of the Province. Thus operating leases must be negotiated for the schools. As of November 1998 two leases had been signed, one of which I have audited. In addition, development agreements have been negotiated for four of the original eight schools and 26 of the 31 schools announced in December 1997. Four schools have been opened and two are under construction.

1.13 In December 1997 the government indicated that construction of a particular school would not commence until a lease was signed. It should be evident that the government assumes additional risks if this policy is not adhered to. In 1998 construction was started on two schools for which leases were not yet signed. However, development agreements had been approved by Executive Council and signed prior to construction with leases to follow at date of completion. I am unclear as to whether development agreements meet the requirements of government's policy.

1.14 Audit efforts to date indicate that the government should strive to achieve greater risk transfer to its private sector partners and it is clear that such arrangements must be negotiated in advance of commencement of construction. As the process has evolved government has made positive changes but additional improvements including monitoring and evaluating both the process and the results are needed.

CORPORATE FINANCIAL MANAGEMENT SYSTEM (CFMS)

1.15 In my 1997 report I raised concerns regarding the control environment of this newly installed system. The Department of Finance had similar concerns and therefore this Office and Finance jointly commissioned a review of the business control environment by a national public accounting and consulting firm. This review confirmed that concerns existed and the Department of Finance assigned staff to implement the recommendations resulting from it.

REGIONAL HEALTH BOARDS AND NON-DESIGNATED ORGANIZATIONS - COMMENTS ON FINANCIAL SITUATION

1.16 As at March 31, 1998 Regional Health Boards and Non-designated Organizations had accumulated deficits of \$121.8 million. These had been financed by borrowings from financial institutions and advances from the Department of Health. Auditors of these entities have expressed concern about the impact of these deficits on the ability of these entities to sustain health programs in the future.

1.17 As at March 31, 1998 the Department of Health had established a provision of approximately \$50 million for doubtful recoveries related to accounts receivable from Regional Health Boards and Non-designated Organizations, but the amounts were not formally communicated to these organizations. If the provision was formally allocated and the related receivables were written off, there would be no impact on the expenses of the Department of Health to the extent that a provision exists.

1.18 The government has taken some action to address the situation including establishing a Task Force on Regionalized Health Care and the Department of Health is engaged in a Business Plan Review process. These initiatives must be taken seriously and carried to a conclusion that identifies solutions to these serious financial problems.

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE - COMMENTS ON FINANCIAL SITUATION

1.19 In my 1997 Report, I reported concerns with the QEII's financial situation and recommended that the Department of Health and the government carefully monitor the situation. The Centre now projects that it will have total debt of \$141.5 million at March 31, 1999. The Centre has a strategic plan, and a business plan dated November 6, 1998 which has been approved by the Board but it is unclear whether the Department of Health and the government have accepted this plan.

1.20 The Board of the Centre and its management have significant challenges ahead of them in dealing with this serious financial situation while continuing to maintain or improve the level of health care. I repeat my previous recommendation that the Department of Health and the government carefully monitor this situation.

WORKERS' COMPENSATION SYSTEM OF NOVA SCOTIA

1.21 At the request of the Executive Council of the Government of Nova Scotia, I undertook an audit of the Workers' Compensation System. Grant Thornton, under the direction of a Steering Committee which I established, performed this audit.

1.22 We are pleased to report that, in general, the Workers' Compensation System has made and continues to make significant improvements in its intake processing, case appeal and closure mechanisms. Our Report cited a number of specific systemic deficiencies which in many cases are currently being addressed by the respective components of the System. We note especially the need to continue to develop performance standards and to measure actual results against the standards. A further concern is that the current use of technology lags behind that found in other systems across the country.

1.23 Generally, with the exception of the appeals process, most critical elements of the system are functioning satisfactorily. However, improvement is required in certain key areas. Accountability and efficiency within the system can be significantly improved once the implementation of a system of performance measures and results comparison is in place. A concerted, special effort must be made to clear up the large appeals backlog at Workers Compensation Appeals Tribunal. Better use of technology, and most importantly a better working relationship among the components of the system will lead to further enhancements in service levels for the Workers' Compensation System in Nova Scotia.

CONCLUDING REMARKS

1.24 During 1998, the government continued its efforts to improve management processes. In particular, public reporting continued to develop through *Government By Design* and the first release of a performance report entitled *Nova Scotia Counts*. These initiatives are being recognized and acknowledged as ground-breaking efforts by other jurisdictions.

1.25 The government's efforts to address significant program priorities, particularly in health care and education, while maintaining a balanced budget have created strains on the system and continued to demonstrate the need for careful planning and risk assessment. The detailed comments contained in this Report illustrate these issues. We will continue to monitor these areas carefully.

1.26 With the amendments to the Auditor General Act which were promulgated in June 1998 as well as the requirement to respond to the requests for three special audits, the Office was strained to meet the new reporting deadline as well as gear up for new responsibilities. I want to thank all my staff for their efforts and commitment. New challenges will continue to face us but I am confident in our ability to respond.

