



Office of the Auditor General

Our Vision

A relevant, valued, and independent audit office serving the public interest as the Legislature's primary source of assurance on government performance.

Our Mission

To serve the people of Nova Scotia and the House of Assembly by making a significant contribution to enhanced public sector accountability and performance.

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1 Message from the Auditor General

Summary

I am pleased to present this summary booklet of my November 2008 Report to the House of Assembly. These summaries are also included at the front of each chapter in my full Report.

As the Province's Auditor General, my goal is to work towards better government for the people of Nova Scotia. As an independent, non-partisan officer of the House, I and my Office help to hold the government to account for its management of public funds and contribute to a well-performing public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.

The Auditor General is an officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House and to the people of Nova Scotia for providing independent and objective assessments of the operations of government, the use of public funds and the integrity of financial and performance reports.

The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. This Act requires all public servants to provide the Auditor General free access to any and all information and explanations which he or she requires.

The Office's priorities are: to focus efforts on high risk areas that impact Nova Scotians; to contribute to a more efficient, effective, and better performing public service; and to foster better financial and performance reporting.

The Report presents the results of audits and reviews completed in the summer and fall of 2008 at a number of departments and agencies, and comments on government financial reporting.

I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work.

2 Government-Wide: Payments to Vendors

Summary

It is very important that government organizations have a strong system of internal control to protect public funds, as well as the public interest, through the continued and effective operation of important government programs. In July 2008 we completed a government-wide internal controls audit addressing the processes surrounding payments to vendors. The Nova Scotia Government made payments to vendors totaling \$6.6 billion in 2007-08. The objective of this audit was to assess whether controls over payments to vendors are adequate to ensure all transactions are complete, accurate, authorized and provide an adequate management trail.

We concluded that key controls did not operate effectively throughout the year to ensure all payments and related accounting records are complete, accurate, authorized and provide adequate linkages to other relevant accounting documents or records.

We encountered numerous instances where controls did not operate effectively throughout the year. Payment transactions were not always authorized, supported by invoices or other documentation, coded with posting information, and checked for mathematical accuracy. We found no evidence of critical reconciliations occurring in two instances. We found significant numbers of government staff had access to incompatible functions of the government's accounting systems. We also noted that the annual service audit conducted by a public accounting firm on certain of government's general information technology controls resulted in a qualified opinion and the identification of several control deficiencies.

We found that the Government has not adequately documented and assessed its own control systems. Further, there is insufficient communication of the general responsibility of senior management in departments and agencies for controlling their own systems and transactions.

Control deficiencies such as those found by this audit pose a significant risk to the Government of Nova Scotia. They can present opportunities for fraudulent transactions and allow errors to occur and remain undetected. A lack of control system documentation and assessment can lead to an incomplete understanding of critical government systems, as well as a false sense of security about the adequacy of control in government.



3 Government-Wide: Internal Audit

Summary

In fall 2007 we conducted a survey of numerous government entities to determine the extent of internal audit in government. Internal audit services are provided to government departments through the Internal Audit Centre (IAC), and, in two departments, through staff performing internal audit activities. Otherwise, the Nova Scotia Community College (NSCC) and the Nova Scotia Liquor Corporation (NSLC) have internal audit groups. The Workers' Compensation Board (WCB), which delivers a significant social program, also has an internal audit function. In addition, we noted the operations of the entities which conduct the activities of the Nova Scotia Gaming Corporation are subject to internal audit.

We are concerned with the lack of internal audit throughout government. Significant entities such as regional school boards and district health authorities do not have internal auditors. These entities alone account for \$2.1 billion in government expenditures. We recommended an entity with audit oversight responsibility for the government assess the extent of internal audit activity and develop and implement a plan to address deficiencies.

The Province's Internal Audit Centre provides the majority of internal audit services to government departments. We recommended the Centre's annual audit plan be prepared as a result of an enterprise-wide audit risk analysis. The results of this process should be documented. This would help ensure the provision of sufficient and appropriate internal audit services to government departments.

We conducted fieldwork at the IAC, NSCC, NSLC and WCB. Several recommendations were made to each of the IAC, NSCC and NSLC to bring their audit charters, audit plans, audit manuals, and certain practices in line with internal audit best practices. Our procedures included testing a sample of audit files at each entity for compliance with standards of the Institute of Internal Auditors. We found no deficiencies in any files and noted the quality of work performed by each of the internal audit groups.

Despite requests for written responses, the Department of Finance and Treasury and Policy Board failed to provide any response to our findings or to indicate whether they agreed with our recommendations and whether they intended to take any action to implement them.



4 Health: Home Care

Summary

Our audit of the Department of Health's home care program uncovered significant deficiencies. Many of these concerns were identified in previous audits of the home care program reported in the 1996 and 2002 Reports of the Auditor General. The Department's response to our recommendations has been inadequate. Only 17% of our recommendations from these audits were fully addressed in the six to twelve years since the reports were tabled. The Department is currently working to move or devolve many aspects of the home care program to the District Health Authorities (DHAs)/IWK Health Centre (IWK). We believe it is important to address identified deficiencies in the program before devolving responsibility to the districts. We recommended the program not be devolved to the DHAs/IWK until the Department has a plan of action to address all recommendations made in previous audits and this chapter.

There has been considerable activity in the continuing care area in recent years, including a number of strategies to address concerns with the capacity of the home care system and plans to further expand home care services. However, the Department has not determined the future demand for services and does not know whether service providers will have an adequate supply of trained professionals to provide future home care services. There is a risk sufficient numbers of trained staff will not be available to provide existing or expanded home care services in the future.

We assessed the processes for client assessment and reassessment as well as compliance with related policies and procedures. We concluded the processes and policies for the assessment and reassessment of home care clients were not always followed or we could not determine if they were followed. In some instances, we were unable to conclude whether authorized services were provided in accordance with client service plans. Departures from established policies could lead to delays in assessment and reassessment and preparation of incomplete or inappropriate service plans for home care clients.

We were unable to determine the extent to which the Department investigates complaints as the Department had no formal processes or policies in place. Complaint information was not available in a readily accessible manner. An effective complaint system is an important control to ensure clients' concerns are investigated and resolved on a timely basis. We recommended the Department establish a formal system to record and track complaints and their ultimate resolution.

We also found performance and statistical information inadequate. There were no performance measures, including targets, reported for the home care program.

5 Labour and Workforce Development: Pension Regulation

Summary

Pension savings are a major component of the overall assets of many Nova Scotia families. These assets are saved throughout an individual's working life with the goal of providing economic security in their retirement years. Due to the importance of these savings the Province of Nova Scotia has enacted the Pension Benefits Act; the primary purpose of which is to help protect pensioners' entitlements to benefits promised under pension plans. The Pension Regulation Division of the Department of Labour and Workforce Development is responsible for administering and enforcing the Pension Benefits Act and Regulations. We completed a performance audit at the Division focusing on whether the Division's processes and procedures were adequate to ensure compliance with significant aspects of the Act related to the safeguarding of pensioners' benefits.

To effectively safeguard pensioner entitlements to pension benefits, the Division must have adequate processes and procedures in place to ensure that pension plan investment strategies are prudent, implemented, and appropriately monitored. In addition the Division must ensure that required pension contributions are made and, in the case of defined benefit plans, that plan assets will be sufficient to provide promised benefits.

The Division's processes and procedures designed to safeguard pension benefits are not adequate and require improvements. The Pension Regulation Division does not review pension plan investment policies to ensure prudence or verify that pension plan assets are invested in accordance with policy and legislation. The Division does not independently verify that pension plan administrators have formally documented investment policies and procedures or whether these policies have been reviewed annually as required.

Pension plan administrators are required to submit annual information returns. These returns are certified by the plan administrator and include important information such as the market value of plan assets and annual employee and employer contributions. However, the returns are not always supported by independent documentation and the information is not routinely verified by the Pension Regulation Division.

Triennial actuarial valuation reports for defined benefit plans are an important control to assess whether plan assets are sufficient to meet promised benefits. We noted these reports are not always submitted on time and that there is no penalty for late filing.



6 Nova Scotia Utility and Review Board: Public Passenger Vehicle Safety

Summary

Public passenger vehicle safety concerns all Nova Scotians. It impacts the well being of passengers being transported as well as other persons and vehicles on the road. The Motor Carrier Division of the Nova Scotia Utility and Review Board regulates carrier compliance with the Motor Carrier Act and other legislation. It administers a public passenger safety program which includes safety inspection of public passenger vehicles and carrier enforcement. We completed a performance audit of this program.

The Division's safety program, with its emphasis on semi-annual inspections, is not sufficient to ensure adequate maintenance of public passenger fleets therefore increasing the risk to passenger safety. Due to the lack of detailed inspection information we were not able to assess to what degree risks have been impacted. The Division reported that at least 60% of vehicles inspected had deficiencies requiring immediate correction. Our testing of inspection reports reflected similar results. We are concerned with the nature and number of potentially serious deficiencies found. We acknowledge the Division's inspections are conducted on time and to provincial standards. However, we believe a greater emphasis by the Division on carrier maintenance and driver compliance would increase the overall fitness of the carrier fleet and reduce safety risk.

The Division's enforcement processes to ensure compliance with motor vehicle safety legislation are inadequate and require improvement. These deficiencies increase the risks to passenger safety, however we were not able to assess to what degree risks have been impacted. The Division has no written enforcement criteria or guidelines for inspectors to determine appropriate responses to safety violations. We noted a number of instances where inconsistencies in enforcement may have occurred. An effective enforcement program is an important control in ensuring that public passenger vehicles are operating safely and to required standards.

Division management need relevant, timely and accurate information to help ensure that public passenger vehicles are safe. The Division does not have adequate information systems. This limits the Division's ability to analyze and identify carrier and vehicle safety deficiency trends and monitor enforcement activities. The Division relies on staff professional judgment and experience as well as manual monitoring processes. These methods provide limited information to assess the effectiveness of the safety program and to report on performance.



7 Government Financial Reporting

Summary

The Auditor General's opinion on the 2008-09 revenue estimates was tabled in the House of Assembly on April 29, 2008. It contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles (GAAP).

We issued a management letter on the revenue estimates outlining our findings and observations. We recommended the budget be prepared and presented fully in accordance with GAAP and that the Department of Finance should take the necessary steps to ensure it is provided with the appropriate authority for completion of revenue estimates, given the Department's responsibility for the preparation of the estimates. We also recommended offshore forfeitures be estimated and included in the revenue estimates.

The Minister of Finance tabled the Province's audited consolidated financial statements on August 5, 2008. The Auditor General's opinion on these financial statements was unqualified.

Several findings and observations resulting from the audit were reported in a management letter issued to the Minister of Finance in August 2008. While our findings were neither individually nor cumulatively significant enough to affect the opinion on the consolidated financial statements, each impacts the integrity of the financial results.

As in previous years, we made several comments with respect to systems and controls. We recommended internal controls and related roles and responsibilities be documented. We have suggested or recommended this action several times since first noting it in 2003. We are concerned with the slow progress in implementing this recommendation.

We are required under Section 9 of the Auditor General Act to report any appropriations that were exceeded during the year. Two additional appropriations were required totaling \$385.3 million for 2007-08. Additional appropriations have increased from \$99.0 million in 2003-04 to \$385.3 million in 2007-08, an increase of \$286.3 million over this five year period.

We noted, as we have several times over the past years, that the current process to approve additional appropriations reduces accountability to and control by the House of Assembly. We suggested Cabinet consider developing a process to involve the full House of Assembly in the process to approve additional appropriations.

8 Review of Financial Statements and Management Letters

Summary

In the private sector, financial statements are used by investors and potential investors to evaluate performance. In the public sector, financial statements are used not only to evaluate performance, but also to determine government's ability to continue providing key services to the public.

Schedule 9 of the Province's consolidated financial statements details the various entities included in the government reporting entity (GRE). Several of these entities are audited by this Office. The majority are audited by private sector auditors.

Under Section 17 of the Auditor General Act, we conduct a review of the audit opinions and related management letters of those entities audited primarily by private sector auditors. We consider those results, as well as results from our own audits of entities within the GRE, when auditing the consolidated financial statements of the Province. The purpose of this Chapter is to highlight matters of interest as a result of this review.

Although the majority of audits conducted of entities within the GRE resulted in unqualified audit opinions, there were also a number of qualified opinions. We note the audit opinion of one of the Province's loan funds continued to be qualified due to insufficient support for management's estimate of provisions on asset impairment. In addition, the audit opinions for several of the school boards were qualified due to the inability of the auditors to verify the completeness of school-based funds. In our view, these qualified opinions do not diminish the usefulness of the related financial statements.

Auditors are required to provide management and oversight bodies with information regarding internal control weaknesses. This information is provided in management letters. Our review of these management letters found numerous internal control and information technology deficiencies in a number of entities. Many identified by auditors in prior years still existed in 2007-08, an indication of poor governance and inadequate response to known weaknesses. Management should address the deficiencies identified by their auditors to ensure the integrity of their financial systems and financial reporting processes. Deficiencies were also identified in two provincial loan boards regarding documentation to support financial statement balances.