



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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Honourable Alfie MacLeod
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

A handwritten signature in blue ink, appearing to read 'J.R. Lapointe'.

JACQUES R. LAPOINTE, CA

Auditor General

Halifax, Nova Scotia

April 2, 2009



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Introduction





1 Message from the Auditor General

Introduction

- 1.1 I am pleased to present my April 2009 Report to the House of Assembly on work completed by my Office in the winter of 2009.
- 1.2 My last Report to the House of Assembly, dated November 6, 2008, was tabled on November 19, 2008.
- 1.3 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 the realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.
- 1.4 My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more efficient, effective, and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the Legislature and the people; all while promoting excellence and a professional and supportive workplace at the Office of the Auditor General. This Report reflects this service approach.
- 1.5 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 board members and staff in agencies, during the course of our work.

MESSAGE FROM THE
AUDITOR GENERAL

Who We Are and What We Do

- 1.6 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.
- 1.7 The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. The Act provides the Auditor General with



the authority to require the provision of any documents needed in the performance of his or her duties. Additionally, public servants must provide free access to all information which the Auditor General requires.

- 1.8 The Auditor General Act stipulates that the Auditor General shall provide an annual report and opinion on the government's financial statements; provide an opinion on the revenue estimates in the government's annual budget address; examine the management, use and control of public funds; and report to the House at least once, and up to three times annually, on the work of the Office.
- 1.9 The Office has a mandate under the Act to audit all parts of the provincial public sector including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as regional school boards and district health authorities, as well as transfer payment recipients external to the provincial public sector.
- 1.10 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by the Canadian Institute of Chartered Accountants, otherwise known as Generally Accepted Auditing Standards (GAAS). We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

Chapter Highlights

- 1.11 This Report presents the results of audits and reviews completed in the winter of 2009 at a number of departments and agencies. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Department or agency responses have been included in the appropriate chapter. We will follow up on the implementation of our recommendations in two years, with the expectation that significant progress will be made.

Government-wide

Chapter 2 – Audit Committees

- 1.12 Our examination of the government's Audit Committee found deficiencies in oversight of internal audit and internal controls, although appropriate oversight is provided in risk management. Audit committees in provincial agencies, boards and commissions generally provide adequate oversight of financial reporting and external audit. However, the scope of responsibilities assigned to audit committees needs to be expanded to move towards accepted best practices.



Chapter 3 – Information Technology Security

- 1.13 Our audit of IT security across government identified significant deficiencies in IT security planning, standards, monitoring and enforcement. These deficiencies leave government IT systems unnecessarily at risk of attack or failure.

Transportation and Infrastructure Renewal and Service Nova Scotia and Municipal Relations

Chapter 4 – Truck Safety

MESSAGE FROM THE
AUDITOR GENERAL

- 1.14 Transportation and Infrastructure Renewal's safety, inspection and enforcement programs do not effectively mitigate the risk of a truck being involved in an accident. The commercial carrier safety fitness rating and audit program at Service Nova Scotia and Municipal Relations is compromised due to untimely, incomplete and inaccurate information. This may allow commercial and passenger carriers with poor safety records to continue to operate unsafe vehicles.

Follow-up of Prior Audits

Chapter 5 – Follow-up of 2006 Audit Recommendations

- 1.15 Progress in implementing our recommendations has not improved significantly since we last reported on this in May 2008. Only 39% of 146 recommendations made in 2006 have been implemented. However, the recent implementation of a government-wide tracking system may assist in improving this poor performance.

Performance Audits





2 Government-wide: Audit Committees

Summary

The government's Audit Committee, responsible for internal audit services to departments, provides appropriate oversight in the area of risk management, but not in controls and internal audit, in accordance with best practices. In addition, the Committee is not in full compliance with the responsibilities identified in its Charter. These responsibilities reflect best practices.

Audit committees in provincial agencies, boards and commissions generally fulfill the responsibilities assigned to them. However, these responsibilities fall short of accepted best practices in the scope of the activities they undertake. For instance, all committees we surveyed and those we examined in greater detail provided oversight of the entity's financial statements and external audit. However, few were involved in any aspect of other core governance oversight areas such as internal audit, internal controls, corporate ethics or risk management.

Boards of provincial public sector entities need to determine which best practices are most applicable for their audit committees. We recommended the Departments of Health and Education, and Treasury and Policy Board, each provide policies and guidance to agencies, to move towards best practices in audit committees throughout the provincial public sector.



2 Government-wide: Audit Committees

Background

GOVERNMENT-WIDE: AUDIT COMMITTEES

- 2.1 Audit committees are widely recognized as a key committee of a board of directors, providing oversight of financial reporting, internal controls, financial risks, an organization's values and ethics, and other responsibilities delegated to it by the board of directors. Audit committees' primary focus was once oversight of the organization's external financial statement audit. More recently, committees have been delegated critical governance responsibilities and have a key role in an organization's governance structure. The audit committee has evolved from being reactive to issues, to contributing to an environment of transparency and openness. While much attention has been focused on public company audit committees, an effective audit committee is equally important to governance in the public sector.
- 2.2 Literature on best practices for public companies has long been available. Best practices for public sector organizations and governments are more recent; however, they are similar to best practices for public companies. The *2000 December Report of the Auditor General of Canada*, Chapter 18 – Governance of Crown Corporations, outlined selected best practices. In 2003, the Treasury Board of Canada Secretariat issued *Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises*.
- 2.3 Government internal audit committees are also becoming more prominent. Best practices for these committees have been developed in recent years. There are distinctions between public sector agency audit committee oversight responsibilities and a government's internal audit committee. The most significant distinction is that public sector agency audit committees are expected to provide oversight of the financial statement audit engagement.
- 2.4 Organizations in Nova Scotia's provincial public sector vary in size and complexity; all best practices may not apply equally to all. Adopting best practices does not ensure an effective audit committee; however, without appropriate best practices, the audit committee will be unable to fulfill governance expectations.
- 2.5 The audit committee is one component of an organization's governance structure. Its role is established by the board of directors and it reports to the board. Internal audit is also a key component of governance. Our



examination of audit committees is our second report on government-wide governance, and follows our November 2008 Report on Government-wide Internal Audit.

Audit Objectives and Scope

- 2.6 In fall 2008, we undertook an audit of audit committees of agencies, boards and commissions in the Nova Scotia provincial public sector. This audit was conducted in two phases. Firstly, we surveyed board and audit committee chairs in 35 entities. Several entities did not have separate audit committees. In these situations, the board chair responded to both surveys. The second phase involved completion of detailed audit procedures at seven entities.
- 2.7 We also completed audit procedures on government's Audit Committee. We did not send a survey request to the Chair of this Audit Committee as we planned detailed audit procedures and could obtain the information through interviews.
- 2.8 We conducted the audit under Section 8 of the Auditor General Act. We wanted to determine whether the audit committees of agencies, boards and commissions, as well as government's Audit Committee, provide appropriate oversight to their respective organizations. We also wanted to assess whether certain audit committees provide appropriate financial, audit, risk management and control oversight to the entity.
- 2.9 We created a survey based on accepted best practices for public sector organizations. Our audit criteria were developed from these best practices and were discussed with and accepted by management of those agencies, boards and commissions in which we conducted additional procedures. With respect to government's Audit Committee, we recognize that best practices for such committees are evolving. We developed our criteria from available information and discussed these with the Chair of government's Audit Committee. These criteria were accepted as appropriate. We have referred to these evolving practices as best practices for this audit.
- 2.10 *Survey instrument* – The survey to the chair of the audit committee (or equivalent) consisted of 46 questions organized under the following headings:
- composition and structure;
 - functioning and operations;
 - roles and responsibilities;

GOVERNMENT-WIDE:
AUDIT COMMITTEES



-
- performance monitoring and evaluation; and
 - communication and information gathering.
- 2.11 The survey to the chair of the board consisted of five questions organized under similar headings:
- composition and structure;
 - functioning and operations; and
 - performance monitoring and evaluation.
- 2.12 Both surveys allowed respondents to provide narrative comments on several questions. From those surveyed, we selected eight organizations to audit. One entity, the Nova Scotia Teachers' Pension Plan Trustee Inc., the governing body of the Nova Scotia Teachers' Pension Fund, obtained a legal opinion indicating it was not subject to audit by the Office of the Auditor General. We are pursuing our audit status with respect to this entity. Accordingly, our additional procedures were conducted in seven entities.
- 2.13 In addition to the survey, our audit approach in the seven entities included interviews with board of director and audit committee chairs, and a review of documentation to verify and clarify survey responses. We also tested compliance with a committee's mandate or terms of reference, and if applicable, with legislation. Audit procedures conducted on government's Audit Committee included interviews with the Chair, review of related documentation, and testing compliance with the Committee's charter.

Significant Audit Observations

Government Audit Committee

Conclusions and Summary of Observations

We concluded government's Audit Committee provides appropriate oversight in the area of risk management. However, the Committee did not provide appropriate oversight for controls and internal audit in accordance with best practices. We found the Committee's charter included many best practices we had identified for this audit, but the Committee did not fully comply with the responsibilities outlined in its charter.



- 2.14 *Government audit committee* – Government’s Audit Committee was established in 2004. The Committee’s charter outlines its responsibilities which include promoting a strong risk and control environment in the Province, and supporting continuing improvement in the quality and effectiveness of government’s internal audit function. The internal audit function is carried out primarily through the Province’s Internal Audit Centre (IAC).
- 2.15 *Composition and structure* – The Audit Committee consists of eight deputy ministers with several being knowledgeable regarding audit practices. Best practices indicate a government’s audit committee should include independent individuals who are neither employees nor officers of the Province. Including an independent member on the Audit Committee provides an opportunity for objective and impartial advice.

Recommendation 2.1

The Audit Committee should include one or more independent members.

- 2.16 *Functioning and operations* – The Audit Committee has a formal charter but it is not reviewed and assessed on an annual basis. The Chair advised the charter captured the initial objectives and responsibilities of the Committee, but has not been revisited to determine if these objectives are still relevant. The Chair acknowledged certain areas of the charter have not been, and will not be, complied with. Regular review and updating would ensure the charter incorporates the most current best practices.

Recommendation 2.2

The Audit Committee should review and assess its charter on an annual basis.

- 2.17 We also found several instances in which the Committee did not fully comply with its charter. Annual assessments of the Audit Committee’s charter would help ensure the Committee is operating as intended.

Recommendation 2.3

The Audit Committee should confirm annually that all responsibilities outlined in its charter have been carried out.

- 2.18 Meeting agendas and relevant background information were normally prepared and distributed to Committee members at least one week in advance of the meeting to allow sufficient time for review of information. Although meetings are scheduled a year in advance, the Audit Committee does not prepare an annual calendar. This would assist the Committee in fulfilling the oversight responsibilities included in its charter, such



as approval of the Internal Audit Centre's annual plan and budget, and evaluation of the Executive Director Internal Audit.

- 2.19 We assessed minutes to determine if Audit Committee meetings were well-documented. The Chair indicated the minutes have improved over time. During our audit we did note improvement; however we found a continued lack of continuity of items from meeting to meeting, and the minutes did not regularly identify and address old business until resolution. We suggest the Committee evaluate the adequacy of its minutes to ensure sufficient documentation is included to demonstrate the Audit Committee is fulfilling its oversight responsibilities.
- 2.20 Members do not receive formal orientation and training on the Committee's responsibilities and objectives. Without appropriate orientation and training, members may not understand the Committee's oversight responsibilities as these differ from the oversight provided by audit committees of other public sector entities.
- 2.21 *Roles and responsibilities: Internal Audit* – The Audit Committee has certain responsibilities for oversight of the Internal Audit Centre. The Audit Committee's charter notes the following:

“Supporting continuing improvement in the quality and effectiveness of the Internal Audit function by:

- reviewing with Deputy Ministers and the Director of Internal Audit the charter, plans, activities, staffing, and organizational structure of the internal audit function;*
- ensuring there are no unjustified restrictions or limitations, and review and concur in the appointment and performance review of the Internal Audit Director;*
- reviewing the effectiveness of the internal audit function, including adequacy and allocation of internal audit services across the Province;*
- reviewing the compliance of the internal audit function with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing;*
- ensuring appropriate independence is maintained, overseeing quality assurance processes and reviewing performance measures; and*

-
- *on a regular basis, meeting separately with the Internal Audit Director to discuss any matters that the Committee or Internal Audit believes should be discussed privately.”*

- 2.22 The Audit Committee is also to assist internal audit in achieving its mandate as defined in the Internal Audit Charter.
- 2.23 We compared the Audit Committee’s responsibilities with best practices for core government audit committees and found no significant deficiencies. We also tested for compliance with these responsibilities. Our results are detailed in the following paragraphs.
- 2.24 We were informed the Deputy Minister of Finance reviews the chief audit executive’s performance (formerly the Director Internal Audit; now the Executive Director Internal Audit) and solicits input from the Committee for this process. We found no evidence the Committee concurs with the evaluation. In addition, there was no evidence the Committee approved the recent hiring of the IAC’s new Executive Director, although we understand this individual was selected by a subgroup of the Committee. Documentation of this approval in the minutes would have strengthened the Executive Director’s independent role.

GOVERNMENT-WIDE:
AUDIT COMMITTEES

Recommendation 2.4

Audit Committee minutes should indicate whether the Committee concurs with the Executive Director Internal Audit’s annual performance appraisal.

- 2.25 The Chair noted IAC’s resources are discussed at Audit Committee meetings. A business plan is prepared and approved, and the IAC’s Executive Director recently provided a resourcing plan to complement a revised service delivery model. The Chair noted that IAC resource limitations result in deputy ministers looking to external sources for audits. Currently, IAC is not informed of all audits carried out by external sources. The Chair indicated he would like IAC to be informed of all audit activity. This information would support the resourcing requirements for internal audit in government.
- 2.26 The Audit Committee is to evaluate the effectiveness of the internal audit function and determine whether sufficient and appropriate internal audit services are being provided. This is not done. The IAC’s charter is not reviewed regularly. The Committee relies on IAC to develop an audit plan, which the Committee approves annually. However, there is no assessment by the Audit Committee to determine if the audit needs of IAC’s clients are adequately met.



2.27 We reported the results of an audit of government's Internal Audit Centre in Chapter Two of the November 2008 Report of the Auditor General. We noted that IAC's annual audit plan for 2007-08 was developed mostly from the risk assessment process facilitated by IAC. Those risk assessments result in deputy minister audit requests. We were informed the audit plan for 2008-09 was developed using a similar process, but we did not verify this because it was not part of our audit. There is no assessment by the Audit Committee of areas IAC should audit that would benefit government initiatives of improved public service. Such an assessment would assist the committee in determining whether the audit needs of IAC's clients are being adequately met. Until this is done, the Audit Committee cannot be sure government's internal audit function is effective.

Recommendation 2.5

The Audit Committee should evaluate the Internal Audit Centre's annual plans and activities to determine if they address the needs of the Centre's clients.

Recommendation 2.6

The Audit Committee should evaluate the Internal Audit Centre's effectiveness on an annual basis.

2.28 Later in this chapter, we report the results of our survey questions and additional audit procedures related to the internal audit function in agencies, boards and commissions in the Nova Scotia provincial public sector. Only four entities indicated they had or were developing an internal audit function.

2.29 We were aware of the lack of internal audit throughout government as a result of our previous audit. At that time, we reviewed the IAC's charter and noted that deputy ministers of the departments with responsibility for governmental units and government business enterprises (i.e., agencies, boards and commissions) "*...may request that Internal Audit conduct governance reviews and compliance auditing related to the contracts, agreements and other mechanisms that formalize the relationship between the Departments and the arms-length organizations.*" Although the IAC's mandate contemplates several areas in which the IAC could assist these entities, it is restrictive and excludes an assessment of their operations. The charter is therefore limited in the services the IAC can provide to these entities and should be revised.

Recommendation 2.7

The Internal Audit Centre's charter should be revised to allow the Centre to provide a full range of internal audit services to its clients.



2.30 The Audit Committee is also to review the internal audit function's compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing (IIA standards). During our audit of the IAC reported in November 2008, we tested IAC's compliance with these performance standards in the completion of their individual audits and noted the standards were met. However, the Audit Committee should ensure the IAC is meeting both the performance and attribute standards of the IIA. This would be facilitated by an external assessment of the IAC's activities. We were informed this assessment is planned for September 2009.

Recommendation 2.8

The Audit Committee should ensure there is an external assessment of the Internal Audit Centre's compliance with Institute of Internal Auditors standards.

2.31 One measure of effectiveness is the implementation of internal audit report recommendations. We were informed the Committee has decided to follow up on internal audit recommendations with relevant deputy ministers. The Audit Committee should be provided with regular progress reports on the implementation status of these recommendations.

2.32 The Audit Committee charter notes the Committee is to review the results of individual audits. We noted the Committee receives quarterly status reports for IAC audits. We saw evidence of discussion of audit results in the Committee minutes.

2.33 *Roles and responsibilities: Risk Management, Control Environment and Governance* – The charter indicates the Committee should monitor risk management, internal controls and governance systems. The Audit Committee authorized an Enterprise Risk Management (ERM) pilot project at Service Nova Scotia and Municipal Relations (SNSMR). The Chair indicated that ERM has been deployed in SNSMR; benefits have been realized, and there is now a road map to deploy ERM to all departments, and throughout government. Toolkits have also been developed. The Chair noted this deployment has not happened yet as a chief risk officer will be hired to oversee the process. Regardless of whether this individual is hired, the Committee should monitor how risk management is implemented throughout government, as required by its charter.

2.34 The Audit Committee Chair acknowledged the Committee does not monitor internal controls and governance systems. However, the Chair noted the Committee recently (January 2009) approved a project on internal controls over financial reporting. This is a significant step in the identification and documentation of key controls to ensure:



- transactions are properly authorized;
 - the safeguarding of assets; and
 - financial records are complete and accurate.
- 2.35 We are encouraged by the action taken in this regard, and note it will facilitate the oversight role of the Committee with respect to internal controls.
- 2.36 *Performance monitoring and evaluation* – We assessed whether the Committee reports at least annually to an oversight body, confirms annually that all responsibilities outlined in its charter have been performed, and that the Committee’s and individual members’ performance are evaluated on a regular basis. We were advised none of these requirements was met. The Committee can only be assured it is fulfilling its responsibilities under the charter through performance monitoring and evaluation.

Recommendation 2.9

The Audit Committee should evaluate its performance on a regular basis.

Audit Committees in Agencies, Boards and Commissions

Conclusions and Summary of Observations

While the volunteer members of agency and board audit committees generally exercise care in fulfilling the responsibilities assigned to the committees, the scope of these responsibilities falls short of accepted best practices. Treasury and Policy Board (TPB) provides guidance to agencies in the public sector. We recommended TPB develop best practices for use by audit committees. We also recommended to the Departments of Education and Health that legislation applicable to regional school boards, the Conseil acadien and district health authorities be updated to reflect best practices for audit committees in the public sector.

- 2.37 *Survey results* – We sent surveys to audit committee and board chairs of 35 entities throughout the Nova Scotia provincial public sector. We selected the entities based on size and complexity. The following table lists the entities surveyed.



Organizations Included in Survey

District Health Authorities	Other Agencies, Boards and Commissions
Annapolis Valley District Health Authority Cape Breton District Health Authority Capital District Health Authority Colchester East Hants Health Authority Cumberland Health Authority Guysborough Antigonish-Strait Health Authority IWK Health Centre Pictou County Health Authority South Shore District Health Authority South West Nova District Health Authority	Nova Scotia Business Inc. Nova Scotia Community College Nova Scotia Farm Loan Board Nova Scotia Fisheries and Aquaculture Loan Board Nova Scotia Innovation Corporation Nova Scotia Municipal Finance Corporation Resource Recovery Fund Board Incorporated Sydney Tar Ponds Agency Waterfront Development Corporation Limited Halifax-Dartmouth Bridge Commission Highway 104 Western Alignment Corporation Nova Scotia Gaming Corporation Nova Scotia Liquor Corporation Nova Scotia Public Service Long Term Disability Plan Nova Scotia Teachers' Pension Fund Public Service Superannuation Fund Workers' Compensation Board of Nova Scotia
School Boards	
Annapolis Valley Regional School Board Cape Breton Victoria Regional School Board Chignecto-Central Regional School Board Conseil scolaire acadien provincial Halifax Regional School Board South Shore Regional School Board Strait Regional School Board Tri-County Regional School Board	

GOVERNMENT-WIDE:
AUDIT COMMITTEES

2.38 We received 31 responses from audit committee chairs and 31 from board chairs, a response rate of 88.6%. We allowed three weeks for the surveys to be completed and made a second request to several entities once the deadline had passed.

School Boards

2.39 We sent a survey request to the audit committee and board chairs at the seven regional school boards and the Conseil acadien. The committee at each of these entities varied in title from Finance and Audit Committee to Audit Committee. We refer to the committees as audit committees below, and refer to the group collectively as school boards.

2.40 In addition, we examined the audit committee activities of one school board in more detail. The results of our work are discussed in the following paragraphs.

2.41 *Legislative requirements* – Section 85A of the Education Act requires each school board to establish an audit committee with the composition and terms of reference as prescribed in regulations to the Act. Those regulations specify that, in fulfilling its purpose, an audit committee must:



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“(a) review the annual report and any other report, findings or recommendations of the auditor, or any other person conducting a review of the financial management and internal controls, of the regional school board or Conseil acadien;

(b) review the management response to the annual report and any other report, findings or recommendations referred to in clause (a);

(c) monitor corrective and other actions taken by the regional school board or Conseil acadien in response to the annual report and any other report, findings or recommendations referred to in clause (a);

(d) review such other matters as directed by the regional school board or Conseil acadien or as the committee considers desirable; and

(e) report to the regional school board or Conseil acadien, at such times as the audit committee considers appropriate and at least once each fiscal year, including the findings and recommendations of the audit committee.”

2.42 *Composition and structure* – Our survey results indicate school boards have structured their audit committees in accordance with the regulations. All have at least three members and these members are independent. This is consistent with the requirement under legislation that all committee members must be school board members, and school board members are elected individuals.

2.43 Our survey included questions on the composition and structure of audit committees based on best practices in public sector audit committees. With respect to the financial expertise of committee members, two committees do not have any members with financial expertise, which we defined in the survey document as having *“requisite professional designation or any other comparable financial oversight experience or background which results in the individual’s financial sophistication.”* In order for an audit committee to fulfill its roles and responsibilities in an increasingly complex environment of controls and risks we believe each committee should have at least one member with financial expertise.

2.44 The need for such a member is recognized in the regulations to the Education Act which note that an audit committee may include one member who is not a member of the school board to supplement the financial expertise of the other committee members. This provision was not utilized in the one school board in which we performed additional procedures. We suggest



each school board consider the benefit of this expertise when determining the membership of its audit committee.

- 2.45 Only one of the school board committees surveyed indicated it had a formal orientation process for new members. Orientation is an excellent tool to provide new members with information on the roles and responsibilities of an audit committee, information on a board's accounting policies, internal control processes, and the significant financial risks facing the organization. As significant risks, processes and financial reporting issues are entity-specific, orientation is critical even for those with previous audit committee experience.
- 2.46 Continuing education for committee members is equally important. The role of the audit committee has evolved over time, and the areas for which the audit committee provides oversight continue to evolve. Members should receive ongoing training on issues affecting their organization, including risk management and changes to accounting and auditing standards. Only three committees indicated they had continuing education programs. At the school board where we completed additional work, the chair noted several areas in which additional training had been provided, but these topics related mainly to the finance role of this board's finance and audit committee. We suggest all committees consider the need for formal orientation and continuing education programs.
- 2.47 *Functioning and operations* – The structure of audit committee meetings was consistent among the seven boards responding to our survey. All committee meetings were conducted through an agenda, and minutes were recorded for each meeting. Members were provided with the agenda and related information approximately one week in advance of the meeting. A quorum is achieved at each meeting held and the chairs considered the duration of the meetings sufficient to address the agenda items.
- 2.48 Regulations require each school boards' audit committee meet at least twice a year. Best practices include holding meetings at least four times a year. We feel the number of meetings held does not need to be specified, as long as each committee ensures its full responsibilities have been discharged through the meetings it holds during the year. The self-assessment process discussed in paragraph 2.57 should determine if these responsibilities have been fulfilled.
- 2.49 *Roles and responsibilities* – The role of the audit committee is specified in regulations to the Education Act and is to assist the school board in monitoring and maintaining internal controls over operations. The committee is to review the work of auditors or others who examine or conduct reviews of financial management and internal controls, review management response to reports on internal controls, and report these findings at least once a



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year to the board. Our survey respondents indicated they were generally in compliance with these regulations.

- 2.50 This narrow responsibility, for internal controls only, does not fully reflect best practices for public sector audit committees. Audit committee roles and responsibilities include oversight in several areas: the entity's process to address ethical code of conduct violations; the financial risk management process; and the entity's control framework as it relates to financial risks.
- 2.51 Education Act regulations should reflect best practices and thereby promote a more active role in the financial reporting oversight of school boards. For example, monitoring and maintaining a board's control framework should not be limited to a review of the annual external audit results. It should encompass relevant aspects of the control framework from monitoring the ethical tone at the top through to review of financial information provided to the government and other stakeholders.
- 2.52 We recognize these best practices represent a standard for audit committees that may be difficult to achieve, given the diverse and often non-financial background of school board members. However, school board audit committees have the option of obtaining outside financial expertise, per the regulations to the Education Act. We encourage these committees to make use of this expertise as they move toward best practices.

Recommendation 2.10

The Department of Education should expand regulations to the Education Act to reflect best practices in the roles and responsibilities of school board audit committees. Roles and responsibilities should allow appropriate oversight of school board financial operations.

- 2.53 Despite the limited responsibility of the audit committee as noted in the regulations, the audit committee chairs indicated their committees had broader responsibilities. These included an active role in the selection and oversight of the work of the external auditor. Survey results indicated six committees recommend the appointment of the external auditor while the other committee indicated the Board issued a tender on a three-year basis. All committees responding to the survey informed us they oversee the external auditor's independence, review the terms of engagement, and the external audit scope and plan.
- 2.54 We asked whether the audit committee oversees the school board's financial risk management process, and five of the seven respondents indicated they did. A financial risk management process would include management's identification and assessment of financial risks followed by management's response to manage those risks. Our audit objective did not include an

assessment of each entity's risk management process and therefore we could not determine whether there is a process at each of these boards to fully consider financial risks. However, the audit committee chair of one school board informed us that oversight of the process was limited to discussion of budget pressures. We suggest all school boards consider whether they have sufficient risk management processes in place which adequately address financial risk identification, assessment and mitigation.

2.55 Most survey respondents indicated they also provide oversight of the school board's system of internal control. At the school board committee we examined in greater detail, we found this role was limited to review of the external auditor's annual management letter, and related discussion of findings and recommendations on internal controls. This committee has a process to hold management accountable for the recommendations in the management letter which includes discussion at committee meetings, as evidenced in the minutes, until the matter is resolved. We suggest the board and audit committee of each school board critically review their oversight role of internal controls including the regular assessment and evaluation of those internal controls to ensure approved transactions are recorded accurately, completely and on a timely basis.

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2.56 Several questions in our survey related to the roles and responsibilities of the audit committee for an internal audit function, but the answers to these questions were "not applicable" in all cases. We were aware school boards did not have internal audit functions through the work we performed during our previous audit of internal audit throughout government. A recommendation from that audit was that an entity with audit oversight responsibility assess the extent of internal audit activity throughout government and develop a plan to address deficiencies. However, with respect to school boards, we feel the Department of Education should require each school board to analyze its operations and determine its need for internal audit. This does not mean that each school board requires a stand-alone internal audit function. There are a range of internal audit options, from stand-alone to shared services, or using the services of the Province's Internal Audit Centre.

Recommendation 2.11

The Department of Education should require all regional school boards prepare an assessment of their internal audit needs.

2.57 *Performance monitoring and evaluation* – The Education Act regulations provide no guidance on the performance and evaluation of audit committees. There is no requirement to self-assess performance against a mandate or terms of reference, but this could be related to the limited term of each committee. For example, the members of the audit committee we examined



were appointed each year by the board. Any feedback provided through a self-assessment process is beneficial, even if committee membership changes significantly in a subsequent year. Self-assessment by outgoing members provides new members with better information to improve the committee's oversight.

- 2.58 We asked questions about the relationship between the committee, key people in the governance structure and management. All audit committee chairs indicated senior executives and the external auditor attend audit committee meetings, but not all board chairs attend audit committee meetings. This is not a significant issue provided the audit committee reports fully to the board.
- 2.59 Finally, we asked whether the audit committee met privately with each of management, the board and the external auditors. The responses were varied; only two audit committee chairs indicated the committee met privately with each of these groups. One chair noted private meetings are not held but "*frank and open*" discussion with the audit committee takes place. Best practices suggest private meetings with the audit committee benefit each of these groups. For example a private meeting with the external auditors allows the auditors to discuss management performance as it relates to the financial reporting process. We suggest the audit committee of each school board consider holding private meetings with key groups in the governance structure.

District Health Authorities

- 2.60 We sent a survey request to the chairs of each of the audit committee and the board at all nine district health authorities and the IWK Health Centre. We refer to this group as DHAs in our analysis of their responses. As with school boards, the committee at each DHA varied in title from Finance and Audit Committee, to Resource Committee, to Audit Committee. Again, we refer to these collectively as audit committees.
- 2.61 *Legislative requirements* – Section 31 of the Health Authorities Act notes that the board of directors of a DHA shall annually appoint an audit committee. The responsibilities of the audit committee are described as:
- *“detailed review of the financial statements of the district health authority with the auditor;*
 - *evaluation of internal control systems and any management letter with the auditor;*
 - *review of the conduct and adequacy of the audit;*

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- *such other matters as may be prescribed by the board of directors;*
 - *such matters arising out of the audit as may appear to the committee to require investigation; and*
 - *such additional matters as may be prescribed as duties of an audit committee.”*

- 2.62 The legislative requirements for district health authorities’ audit committees include limited responsibilities relating to the external auditor, as well as other matters as may be prescribed or appear to the committee to require investigation. Best practices for an audit committee include responsibilities such as the oversight of financial risk management and controls over financial reporting.
- 2.63 We met with Department of Health management to discuss best practices in the roles and responsibilities of audit committees. We provided management with a copy of our survey document to facilitate the establishment of best practices, so that DHA audit committees can provide similar and adequate oversight.

GOVERNMENT-WIDE:
AUDIT COMMITTEES

Recommendation 2.12

The Department of Health should develop a policy requiring district health authority audit committees to adopt best practices.

- 2.64 *Composition and structure* – The Health Authorities Act does not provide guidance with respect to the composition of audit committees. We surveyed all ten DHAs to determine compliance with best practices related to audit committee composition and structure. One committee did not have a member with financial expertise. We feel all audit committees should have at least one member with the expertise to challenge management, the external auditor, and others, on findings and processes related to financial results.
- 2.65 We performed additional work at two DHAs. In one instance, the audit committee includes a voting member who is a member of management. This composition does not comply with best practices and should be corrected. Audit committee members should be independent from management to ensure there is sufficient and appropriate challenge of management decisions.
- 2.66 Three DHAs noted they had formal processes for the selection, training and continuing education of their audit committee members. Three of the remaining seven DHAs did not have formal processes while others had



varied practices. We suggest the boards of these seven DHAs examine their processes to select, orient and educate audit committee members to ensure those individuals will contribute to the effective operation of the committee. In our two selected DHAs, it was evident from the review of minutes, and the interviews we conducted with the audit committee chairs, that the orientation of new members was a considerable process.

- 2.67 *Functioning and operations* – There were positive responses from all DHAs to the majority of questions related to functioning and operations of their audit committees. In general, the committees met regularly, agendas were prepared and information provided in advance of the meetings, and the meetings were of sufficient duration to ensure agenda items were fully discussed. These results were supported by additional work we performed at two DHAs in which we found detailed minutes for well-attended, regular meetings.
- 2.68 *Roles and responsibilities* – All audit committees indicated they recommend the appointment of the external auditor to the board, review terms of the engagement, scope, audit plan and related audit fees. Eight committees oversee the independence of the external auditor. All committees review the external auditor’s recommendations to management and indicate they have a process to hold management accountable for the implementation of those recommendations.
- 2.69 We were aware none of the district health authorities had an internal audit function as a result of our November 2008 Report on internal audit. One committee indicated the role of internal audit had been approved by the board and was to be implemented in the next year. Another noted the need for an internal audit function was being explored. The Audit Committee Chair of one DHA in which we conducted additional work informed us the need for an internal audit function had been considered by its board. This chair noted that the cost and effectiveness of an internal audit function had recently been discussed and determined to be unwarranted, given other controls in place at the DHA.
- 2.70 There appears to be a need for an internal audit function in district health authorities, given the significant funds over which they must exercise stewardship, and the important programs they deliver. As noted in paragraph 2.56, the structure of the internal audit function may vary.

Recommendation 2.13

The Department of Health should require all district health authorities prepare and submit to the Department an assessment of their need for an internal audit function.



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- 2.71 Most of the audit committees indicated they have a means of keeping current with legislation or regulations that impact their entities. In one of two DHAs where we performed additional work, committee members indicated a recurring process to assess changes in legislation.
- 2.72 All but one committee noted they consider whether there is an appropriate tone at the top with respect to integrity and accuracy in financial reporting. For any entity, this entails an insistence that financial results are accurate and transparent, not massaged to achieve a desired result. In the two DHAs we examined in detail, we noted the audit committees scrutinized interim financial results regularly and questioned management on results to date.
- 2.73 All but one DHA surveyed indicated their audit committee provides oversight to their financial risk management process. In comments related to this question, one DHA noted this oversight was provided through their external auditors; another authority noted financial risks had been identified as part of their enterprise risk management exercise.
- 2.74 Both committees we examined in greater detail had mandates that extended beyond those of a stand-alone audit committee; responsibilities typically related to finance committees. The chair of one committee noted its activities are aimed toward risk management, including responsibility for review of, and recommending to the board, both the operating and capital budgets, recommendations to the board regarding signing authority, and cash management policies. The other audit committee had just completed an enterprise risk management process which identified eight priority risk areas, but did not specifically identify financial risk.
- 2.75 We recognize efforts to operate within the annual budget of each authority pose a significant financial challenge to DHAs. However, monitoring budget to actual variances on a monthly basis does not fully embrace the process of financial risk management. This process would include a strategy to manage these risks should they occur. We encourage DHA audit committees to determine whether their respective DHA has a financial risk management process and how they might facilitate such a process, if necessary.
- 2.76 We received varied responses on our survey questions addressing oversight of each authority's system of internal control. Six of the ten committees indicated they provide this oversight. Nine committees have regular discussions with management and their external auditors regarding the auditors' assessment of the design and function of the control framework. All committees indicated they request and receive reports from management on how well the control framework is working.

GOVERNMENT-WIDE:
AUDIT COMMITTEES



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- 2.77 Our audit work revealed that the external auditors and results of the external audit are relied on to a great extent to fulfill oversight responsibilities related to internal control. External audit focuses on evaluating controls necessary for audit purposes and consequently would not capture a DHA's entire control framework. Each audit committee should consider how management regularly assesses the entire control framework and how to best oversee that process.
- 2.78 *Performance monitoring and evaluation* – We found mixed results in how DHA audit committees monitor and evaluate their performance. Most do not perform an annual self-assessment. Coincidentally, the two DHAs which do perform self-assessments are the two which we randomly selected for testing. We found the results of these assessments were discussed at length at audit committee meetings with members interested in improving their committee's functions and operations. We suggest all DHAs revise their terms of reference to require an annual self-assessment.
- 2.79 At each DHA, the board chair and senior members of the DHA executive attend committee meetings. In three DHAs, the external auditor does not attend committee meetings. Although the survey results for another question indicated the external auditor reported directly to the audit committee, face-to-face meetings with the external auditor allow specifics of audit plans, conduct and results to be discussed on a timely basis. Most DHAs indicated they hold private sessions with their external auditors.

Agencies, Boards and Commissions

- 2.80 Seventeen organizations other than school boards and district health authorities were surveyed. We requested a survey be completed by the chair of the audit committee and the chair of the board of directors. As with school boards and district health authorities, the committee at each organization varied in title from Finance and Audit Committee, to Finance and Risk Management Committee, to Audit Committee. We refer to them collectively as audit committees.
- 2.81 We selected four audit committees in which to perform additional audit procedures, and note the results of those procedures in the following paragraphs. We provided details of our audit findings to each of these committees and asked each to provide feedback on our audit results. One entity indicated they would be unable to provide this input until after our Report was printed. We still noted our findings but recognize additional information may have changed our results.
- 2.82 *Composition and structure* – The survey responses indicated all committees had at least one member with financial expertise. We asked if new committee members were provided with a formal orientation program and participated



in continuing education programs to enhance members' understanding of relevant auditing, accounting, regulatory and industry issues. Five committees indicated there was no formal orientation program, and six indicated the committee does not participate in a continuing education program. Two committees for which no continuing education program was in place indicated they received updates and information from the external auditor. We also asked how audit committees keep current on corporate governance and audit committee responsibilities. The answers varied from having access to continuing education programs and being in the process of compiling personal development plans, to updates provided by external auditors, management and members' own activities.

- 2.83 The survey results of one entity indicated the responsibility of an audit committee had been delegated to two employees of the organization. This results in employees being delegated the oversight of their own work. A board of directors provides ultimate oversight of an organization and, as appropriate, delegates certain oversight responsibilities to committees of the board. The oversight function of an audit committee should be independent from management to ensure there is sufficient and appropriate challenge to how management operates the organization.
- 2.84 For the four committees we selected for further examination, we generally found members possessed the financial sophistication appropriate for the committee. For those that offered orientation and continuing education, the programs were often aimed at the board of director level, rather than being relevant to audit committee members.
- 2.85 *Functioning and operations* – Survey responses indicated agendas were generally established prior to each meeting, and agendas and related information were circulated in advance of meetings. Members had as few as two days or as many as two weeks to review the information. One committee indicated it met fewer than four times per year. We also asked if the committees established an annual work plan of items to be considered in fulfilling its mandate. Eight committees indicated that an annual calendar was established.
- 2.86 None of the committees on which we completed more detailed audit procedures established an annual calendar. Three of four committees established an agenda and prepared background information for the meetings. Those meetings were well-attended and well-documented for the most part throughout the period of audit. We noted one committee did not record minutes until January 2008 which was about halfway through our audit period of April 2007 to September 2008. Once the committee began to record formal minutes, we found they were well-documented with sufficient information to understand the nature of the discussions.



GOVERNMENT-WIDE:
AUDIT COMMITTEES

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- 2.87 We asked whether entities' audit committees were governed by a formal charter or mandate. Ten responses indicated there was a formal charter.
- 2.88 For those committees we selected for further examination, we noted the following.
- One committee's mandate consisted of two sentences and therefore was not comprehensive enough.
 - The governance manual for one entity included audit committee responsibilities.
 - One board of directors has developed terms of reference for its soon to be created audit committee.
 - One entity's board has recently approved a governance manual which identifies key responsibilities for all committees, including the audit committee.
- 2.89 We strongly suggest boards approve formal audit committee charters, outlining composition, structure, roles and responsibilities in accordance with best practices to reflect appropriate oversight for the organization.
- 2.90 We reviewed the mandates or governance documents of the four committees we examined. One committee did not perform the responsibilities outlined in its governance documents. In two other entities with governance documents, there was compliance with the noted audit committee responsibilities. The mandate of the remaining committee was not formally approved until June 2008. We did not assess compliance for this brief period of our audit.
- 2.91 *Roles and responsibilities* – We asked several questions regarding oversight of the external auditor. Committees indicated they recommend the appointment of the external auditor, unless the financial statement audit is performed by the Office of the Auditor General. The majority of those surveyed indicated they oversee the external auditor's independence, review the terms of the engagement of the external audit, and review the external audit scope and plan. All committees indicated they review the management recommendation letter provided by the external auditor at the conclusion of the audit and, with the exception of one committee, indicated there was a process for holding management accountable to act on the recommendations.
- 2.92 We assessed oversight of the external audit process in the four entities we examined in detail. Such oversight includes recommending the appointment of the external auditor, and reviewing the appropriateness of fees and the audit plan. We could not determine whether all aspects of external audit

oversight had been met for three entities. Oversight was not fully addressed in the final entity. Our detailed results for three entities follow.

- In one entity there were no committee minutes from April to December 2007. Board minutes during that period indicate contact with the auditors, as reported to the board by the audit committee chair. Committee minutes from January 2008 do not indicate meetings were held with the auditors although again there is mention of discussion with auditors in the board minutes.
- We saw discussion of the points raised in the external auditor's management letter in one entity but not in another entity where a management letter had been provided.
- No management letter resulted from the annual audits of one entity, and in the other entity, we were told this follow up was a responsibility of the full board.

2.93 We also looked for evidence of oversight of the financial reporting process in these four entities. Survey responses indicated the respective committees did provide oversight and we saw evidence of oversight in the review and discussion of the annual financial statements.

2.94 We also asked several questions regarding the oversight of the internal audit function, if any. It was indicated four organizations had an internal audit function, although two contracted out the internal audit services. One committee which indicated the organization had no internal audit function advised their external auditor prepares internal audits by request of the audit committee. Of those organizations with no internal audit function, four indicated the audit committee had not considered the need for an internal audit function. For the four organizations with internal audit services, survey results indicated:

- the mandate was generally set by the audit committee;
- the scope of work performed was approved by the audit committee; and
- the committee reviewed internal audit reports or summaries and ensured all significant matters in the reports had been appropriately addressed.

2.95 None of the committees we selected for further examination had an internal audit function nor had the need been considered by the board. We suggest all boards, agencies and commissions within the Nova Scotia public sector consider the need for internal audit services.

2.96 We asked whether the audit committee oversees the entity's financial risk management process. Ten committees indicated the committee did



GOVERNMENT-WIDE:
AUDIT COMMITTEES

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- oversee the entity's financial risk management process; however, one of those indicated reliance was placed on the external auditor.
- 2.97 One committee we examined did provide oversight of the entity's financial risk management process, which the entity had prepared as recently as 2006. Two other committees indicated in the survey that oversight of the financial risk management process was provided, but we did not see evidence of a regular review of the financial risks facing the organization. In the remaining entity, the committee indicated, and we confirmed, that certain risks were identified in their business plan. The committee has noted that a comprehensive risk management process has recently been established and is ongoing.
- 2.98 We recognize that best practices envision an entity having a formal risk management process, for which the audit committee provides oversight. The entities surveyed and those in which we completed additional audit work vary in size and complexity. We encourage each committee to discuss with its board and entity management whether the existing risk management process is adequate.
- 2.99 The survey asked whether committees oversee the organizations' system of internal control over financial reporting. Eleven of the committees indicated they provided oversight of the system.
- 2.100 Further examination in four committees indicated that significant reliance was placed on the results of the annual audit and the resulting report provided by the external auditor. We suggest the committees assess whether reliance on the annual audit is providing adequate oversight of internal controls.
- 2.101 *Performance monitoring and evaluation* – In our survey we asked whether audit committees conduct a self-assessment to evaluate their own performance against the committee's mandate. Three committees indicated a self-assessment process was in place during the period under review, and one advised that questions related to audit committees were added to the year-end Board evaluation beginning in 2009. The remaining committees indicated a self-assessment process was not in place.
- 2.102 Self-assessments for the audit committee oversight function were not in place for those committees we examined in greater detail. In one entity, an audit committee was being developed and the proposed terms of reference for this new committee required an annual self-assessment. In another entity, the newly approved governance manual included a template to facilitate the self-assessment process, although we note this process relates to the full board.



- 2.103 Although not included as an objective of the audit, we did note deficiencies in the governance documents regarding the oversight function of the audit committee when compared to accepted practices for audit committees in the public sector. We were advised the survey will be a useful tool in drafting the terms of reference for an audit committee. In one instance, we noted a revised draft terms of reference included many of the accepted practices outlined in our survey.
- 2.104 During our audit, we were informed by management at Treasury and Policy Board (TPB) that TPB has a role in promoting good governance in agencies, boards and commissions. In January 2007, Treasury and Policy Board published *Governing in the Public Sector: A Guide for Province of Nova Scotia Government Agencies* which provides background information on preparing for the role of director of a government agency in the Nova Scotia public sector. TPB management advised it has offered information sessions to chief executive officers and chairs of boards of directors, and has participated in orientation sessions for certain boards.
- 2.105 We were advised that developing best practice governance guidelines for implementation in government agencies is contemplated for the future. Such guidelines would require Executive Council approval prior to implementation. Our audit revealed the oversight provided by audit committees varied across those entities surveyed and those selected for audit. Given that audit committees provide a vital component of governance in the public sector of Nova Scotia, there is a need for this guidance to be developed on a timely basis.

GOVERNMENT-WIDE:
AUDIT COMMITTEES

Recommendation 2.14

Treasury and Policy Board should develop guidance for audit committees in the government reporting entity based on best practices for audit committees in the public sector.

- 2.106 Finally, we note earlier in our Report that audit committees are often combined with other committees, mainly finance. We encourage agencies, boards and commissions to consider establishing stand-alone audit committees to recognize their distinct responsibilities. In the absence of a separate audit committee, meetings of joint committees should be structured so that audit responsibilities are clearly addressed.

Response: Treasury and Policy Board

Treasury and Policy Board would like to thank the Auditor General for the opportunity to respond to the report on the Government Audit Committee.

We accept most of the recommendations of the report, and believe some will be addressed by documenting in the minutes activities that are already taking place.

Specifically,

Recommendation 2.1

The Audit Committee should include one or more independent members.

As the scope of the majority of audits is limited to one department, and the Audit Committee is comprised of Deputies from many departments, we believe there is already a degree of independence. However, we will consider this in the future.

Recommendation 2.2

The Audit Committee should review and assess its charter on an annual basis.

We agree, and will amend the charter to better reflect the appropriate role of the Committee.

Recommendation 2.3

The Audit Committee should confirm annually that all responsibilities outlined in its charter have been carried out.

We agree.

Recommendation 2.4

Audit Committee minutes should indicate whether the Committee concurs with the Executive Director Internal Audit's annual performance appraisal.

We agree.

Recommendation 2.5

The Audit Committee should evaluate the Internal Audit Centre's annual plans and activities to determine if they address the needs of the Centre's clients.

The Audit Committee does evaluate annual plans and activities of the IAC. In future, we will document this activity in the minutes.

Recommendation 2.6

The Audit Committee should evaluate the Internal Audit Centre's effectiveness on an annual basis.

The Audit Committee currently discusses the effectiveness of the IAC during the annual business planning process. We will document this activity in the minutes.

Recommendation 2.7

The Internal Audit Centre's charter should be revised to allow the Centre to provide a full range of internal audit services to its clients.

We believe the IAC currently has the authority to provide a full range of internal audit services to its clients. Clients do have to fund services above the level provided by the base funding of IAC. We will review the charter to ensure this is clear.

Recommendation 2.8

The Audit Committee should ensure there is an external assessment of the Internal Audit Centre's compliance with Institute of Internal Auditors standards.

We agree.

Recommendation 2.9

The Audit Committee should evaluate its performance on a regular basis.

We agree.

RESPONSE:
TREASURY AND
POLICY BOARD

RESPONSE:
EDUCATION

Response: Department of Education

The Department of Education is pleased to provide a response to the Auditor General's review of audit committees and the recommendations applicable to all school boards in the Province.

The Department strongly supports the value of audit committees in maintaining an appropriate governance and accountability environment across a key public service. Indeed, that is the rationale under which school boards were legislated to establish audit committees in 2003.

The Department generally supports the recommendations of the Auditor General arising from this report, however, we believe there is a need to consult with all school boards on the review findings. For example, the recommendations suggest that audit committees actively engage in the oversight of internal controls, risk management and related responsibilities - the extent of which may present challenges practically for audit committees to deliver. To that end, the Department will consult with school boards and incorporate their views in any planned implementation of these recommendations.

Response: Department of Health

Recommendation 2.12

The Department of Health should develop a policy requiring district health authority audit committees to adopt best practices.

DoH Response: We agree with the recommendation and intend to implement it.

Recommendation 2.13

The Department of Health should require all district health authorities prepare and submit to the Department an assessment of their need for an internal audit function.

DoH Response: We agree with the recommendation and intend to implement it.

RESPONSE:
HEALTH

RESPONSE:
TREASURY AND
POLICY BOARD

Response: Treasury and Policy Board

The Treasury and Policy Board would like to thank the Auditor General for the opportunity to respond to the report on Audit Committees in Agencies, Boards and Commissions.

The report recommends that Treasury and Policy Board should develop guidance for audit committees in the government reporting entity based on best practices for audit committees in the public sector.

Treasury and Policy Board agrees with this recommendation. As detailed in the report, work on preparing best practice governance guidelines for implementation in government agencies is contemplated for the future. Treasury and Policy Board will consider this report in the preparation of those guidelines.

3 Government-wide: Information Technology Security

Summary

Our government-wide audit of aspects of IT security identified significant deficiencies in IT security planning, monitoring and policy enforcement, as well as a need for improved policies and standards. If government systems are not adequately protected they may be compromised from within government or from anywhere in the world by those skilled at infiltrating and attacking IT systems.

During our audit of IT Security, we noted government had made a significant and positive move in creating the position of Chief Information Officer. However, the role of this position has not yet been fully defined. The organizational structure for government's IT operations remains confusing and onerous. We also observed the need for a decision on a centralization project that has been in progress for several years, the strengthening of authority for ensuring government-wide IT policies and projects are acted upon, and changes to where the function which oversees government's IT security is to report.

Planning for IT security is not adequate. We identified the need for an IT security oversight committee, corporate IT security charter and corporate IT security plan. Government-wide data classification standards are also needed.

Security policies and standards require strengthening. There is no government-wide acceptable use policy, the threat risk assessment process guide is out of date, and laptop security guidelines lack the authority of policy and do not address the securing of all mobile computing devices.

We observed instances in which government IT security policies are not being complied with. There have been insufficient numbers of threat risk assessments performed and inadequate security training for computer users.

Practices for monitoring and enforcing compliance with corporate IT policies and standards are not adequate. We identified areas for improvement, including more attention to the cost and benefits of network monitoring devices, the formalization of the government's computer emergency response team, and better security over the use of wireless internet access.



3 Government-wide: Information Technology Security

Background

GOVERNMENT-WIDE:
INFORMATION
TECHNOLOGY
SECURITY

- 3.1 Information technology (IT) has evolved rapidly since the 1960's when its capabilities began gaining wide recognition as a means of producing significant efficiencies by automating manual business processes. We have come a long way since those early days; IT has now gained significant prominence as a strategic and critical business enabler. There are now virtually no significant business processes in any large organization that are not dependant on IT. Today it is nearly impossible for an organization to function efficiently and effectively in a globally-connected economy without extensive reliance on IT. However, this level of influence of IT on business brings with it several risks; many of which evolve as rapidly as IT does.
- 3.2 Before IT gained prominence in the business world, security over sensitive information was primarily a physical endeavour. Important documents were simply kept under lock and key, and those needing access either had possession of the keys or had to ask permission to access the documents. Either way, the documents rarely left the physical location where they were maintained, and care and custody of the information was relatively easy to maintain.
- 3.3 Today, information collected, processed and managed by IT systems is far more challenging to protect since it is now at risk as a result of global electronic connectivity. If it is not properly protected, information can be accessed from anywhere in the world by those skilled in infiltrating and compromising IT systems. In many cases, information is no longer gathered for a single purpose. Information is commonly used by multiple business applications and shared across geographic boundaries. This adds significantly to the risks to which it is exposed.
- 3.4 The IT Governance Institute, in its publication *COBIT Security Baseline, 2nd Edition*, defines information security as:

“Security relates to the protection of valuable assets against unavailability, loss, misuse, disclosure or damage...The information must be protected against harm from threats leading to different types of impacts, such as loss, inaccessibility, alteration or wrongful disclosure. Threats include errors and omissions, fraud, accidents, and intentional damage...”



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- 3.5 The government of Nova Scotia relies extensively on information technology. Approximately 10,000 employees operate computers. In 2007-08, government budgeted approximately \$100 million for its computer operations and infrastructure purchases. Virtually every government department, agency and program would be adversely and significantly affected by a loss of its computer processing ability due to an IT security incident.
- 3.6 In addition, government is entrusted with information relating to thousands of businesses and hundreds of thousands of citizens. Citizen-related information includes vital statistics; driver's licenses and records; criminal records; grant and income assistance records; and health records, just to name a few. Business-related information includes ownership records; permits and licenses; financial information; as well as various planning and marketing information. Much of this information is highly sensitive and requires a great deal of care and diligence in maintaining its confidentiality.
- 3.7 The February 2008 Report of the Auditor General described the results of an audit of information technology governance and concluded that the government's IT governance structures were not adequate. IT security is a subset of IT governance. It is crucial that security be high on the agenda of senior officials and Executive Council, with full recognition of the importance of promoting and providing a security-conscious organization. The IT Governance Institute, in its publication *Information Security Governance – Guidance for Boards of Directors and Executive Management*, states: "To achieve effectiveness and sustainability in today's complex, interconnected world, information security must be addressed at the highest levels of the organization, not regarded as a technical specialty relegated to the IT Department."

GOVERNMENT-WIDE:
INFORMATION
TECHNOLOGY
SECURITY

Audit Objectives and Scope

- 3.8 In February 2009 we completed a government-wide audit of aspects of IT security. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants.
- 3.9 The objectives of our audit were to assess the adequacy of:
- information technology security planning at the corporate and departmental levels of government;
 - information technology security policies and standards at the corporate and departmental levels of government; and



- management practices for monitoring and enforcing compliance with information technology security policies and standards.
- 3.10 We used the IT Governance Institute’s framework COBIT 4.1 to formulate the objectives and evaluation criteria for the audit. COBIT 4.1 is a widely accepted international source of best practices for the governance, control, management and audit of information technology. These objectives and criteria were discussed with, and accepted as appropriate by, key members of government’s corporate IT functions.
- 3.11 Our audit focused on the Nova Scotia government’s framework and practices for providing and maintaining a secure technology infrastructure. Detailed testing of government-wide compliance with specific security policies and standards, and evaluation of network security measures implemented were not included in this audit. These areas will be considered in our planning for future audits.

Significant Audit Observations

Framework for IT Security

Conclusions and Summary of Observations

Government made a significant and positive move in creating the position of Chief Information Officer, which will hopefully result in stronger leadership and clearer lines of authority for the governance and management of information technology. The organization, responsibilities and authorities of this new position have not yet been finalized. In the meantime, the organizational structure for government’s IT operations is still confusing and onerous. We also observed the need for a decision on a centralization project that has been in progress for several years, the strengthening of authority for ensuring government-wide IT policies and projects are acted upon, and improvements to the reporting and resourcing of the function which oversees IT security for the government’s wide area network. We believe the new Chief Information Officer position is well situated to address these and all of the other findings and recommendations of this audit, other than the one directed towards Executive Council.

- 3.12 *Organizational framework* – We identified a need to examine the organizational framework for government’s IT operations as part of this audit because it has a significant impact on the ability of government to adequately plan for IT security, as well as create and enforce government-wide policies and standards. Poor organization can result in a lack of



clarity regarding where the responsibility for security planning, monitoring and enforcement lies, and the availability of resources to carry out these activities.

3.13 The February 2008 Report of the Auditor General included the results of an audit of IT governance where we concluded that government's IT governance framework was inadequate. We provided several recommendations focused on establishing a framework. A specific area of concern was the confusing corporate organizational structure for its various information technology functions.

3.14 On November 27, 2008 a government news release announced the appointment of a person to the dual role of Deputy Minister of Treasury and Policy Board, and Chief Information Officer (CIO) for government, which both became effective on December 8, 2008. The appointment of a CIO has the potential to have great significance because it represents a new source of leadership and authority for government's IT operations. Although the role of CIO in the Nova Scotia government had not been fully defined at the time of our audit, it has potential to have a significant impact on the corporate IT environment of the government.

3.15 At the time of our audit, the following positions and groups were assigned a role in information technology and its security.

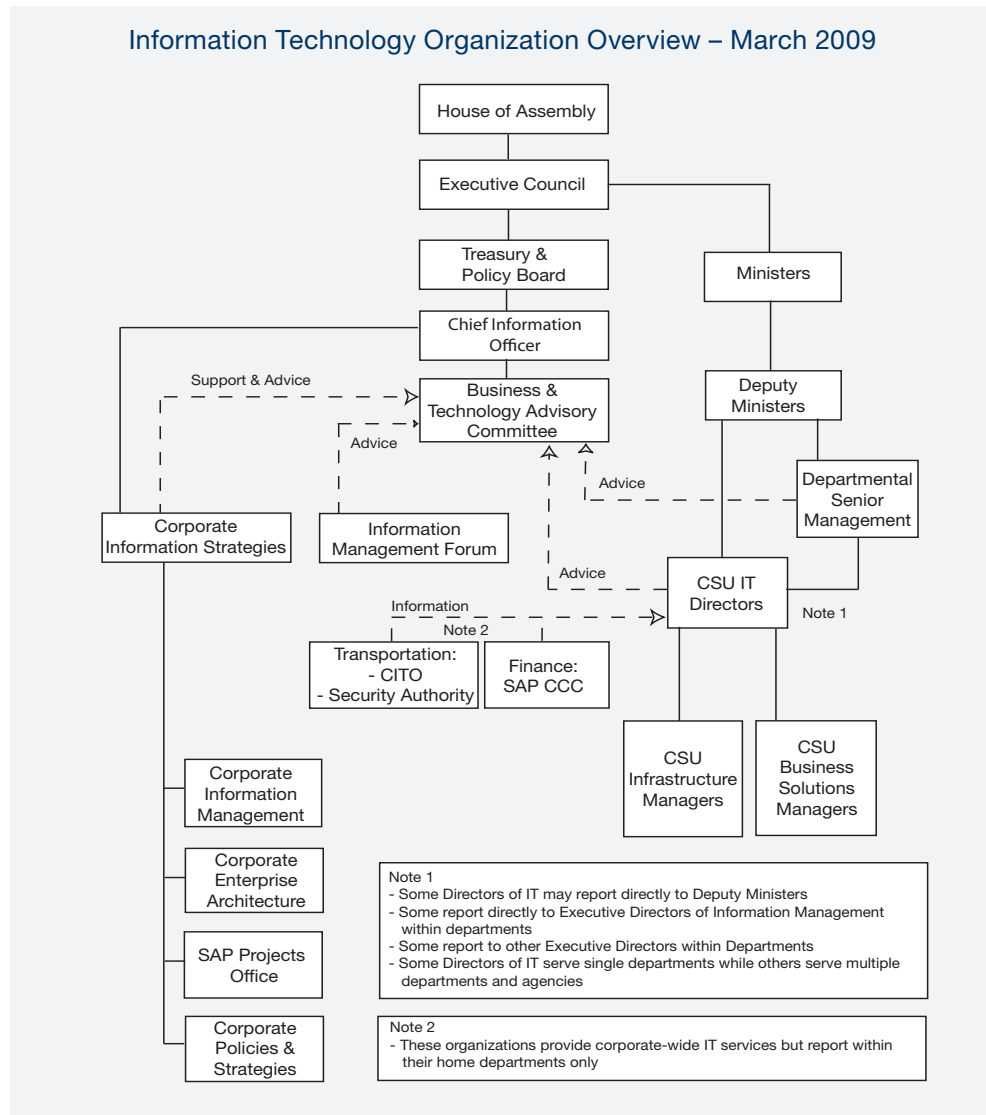
- Business Technology Advisory Committee
- Chief Information Officer
- Corporate Information Strategies
- Corporate Information Technology Operations
- Corporate Service Units – IT Divisions (8)
- Information Management Forum
- IT Directors Forum
- IT Infrastructure Managers Forum
- SAP Competency Centre
- Wide Area Network Security Authority

3.16 These groups operate in an environment exhibiting features of both a centralized and decentralized corporate IT framework. The following chart provides an overview of the corporate IT organization, including the role of the new CIO as it was positioned at the time of our audit.

GOVERNMENT-WIDE:
INFORMATION
TECHNOLOGY
SECURITY



GOVERNMENT-WIDE:
INFORMATION
TECHNOLOGY
SECURITY



3.17 Although the corporate organizational structure for IT is still confusing and somewhat onerous, we view the creation of the CIO role as an important step in establishing an effective governance framework for information technology.

3.18 *Significant centralization project* – A proposal for a significant reorganization of certain IT functions has been submitted to Executive Council. It focuses on combining Corporate IT Operations, and the IT operation and support services of the corporate service units, to create a new IT infrastructure service management organization reporting to the Chief Information Officer. This initiative has been under development for over four years and awaits Executive Council approval. Corporate IT Operations indicated there have been staffing challenges over the past few years due to the uncertainty of whether this reorganization will take place. If approved,

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this initiative will go far in standardizing the IT service delivery role in government and will significantly refocus the corporate IT organizational structure. It will also have a significant impact on IT security as the new, centralized service delivery function will be responsible for many security-related matters.

Recommendation 3.1

A decision on the proposal to reorganize and centralize IT service delivery should be made by Executive Council as soon as possible.

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- 3.19 *Unclear lines of authority* – A critical requirement of a well-functioning governance framework is that those responsible for an operational area have the authority needed to effectively perform their responsibilities. We identified situations in government’s corporate IT operations in which this is not the case.
- 3.20 The lack of an organizational structure with clear lines of authority has led to a deficiency in the oversight of a significant IT security initiative. A secure identity management (SIM) project was undertaken to improve security over the management of user access privileges for government information systems. Upon implementation, the new system provides users with one login code and password for all the computer systems they require to carry out their assigned responsibilities. This will help ensure that when new users are set up for a computer system, they are provided only the access privileges they need and these privileges are compatible. When an employee transfers to another department or leaves government, their access can be quickly changed or removed for all the computer systems they used.
- 3.21 The SIM project was implemented by Corporate IT Operations. It was agreed that corporate service units (CSUs) would have the new process completely established for their client departments by April 1, 2008. Some CSUs embraced this new process quickly and set up their client departments’ computer users in the system. However, as of February 2009, other CSUs are still not using SIM or are very slow in making progress. We believe insufficient action has been taken to compel complete and timely participation. As a result, user access privileges may not be managed on a consistent basis and efficiencies from this new process will not be fully realized. The greater risk of errors or lack of timely changes or cancellations of user access associated with the old way of doing things will remain.

Recommendation 3.2

All corporate service units should be required to participate in the secure identity management project and take the steps necessary to fully implement the new system as soon as practical.



3.22 The Corporate Information Strategies Division is another example of unclear lines of authority. This Division is responsible for developing and implementing government information management and information technology policies and standards. Although the expectation is that such IT policies are to be complied with by all departments and agencies, the current organizational framework for IT operations provides little authority to enforce compliance. A third example of unclear lines of authority concerns the requirement for reporting computer virus infections to Corporate IT Operations and the Security Authority. Such reporting is not enforced and management informed us that it sometimes does not occur.

Recommendation 3.3

The organizational framework for government's IT operations should ensure there is adequate authority for the enforcement of significant government-wide IT policies and standards.

3.23 *Security Authority* – The Wide Area Network (WAN) Security Policy establishes specific roles for oversight and management of the security of the corporate network. One of the key roles is that of the Security Authority, a management-level position within the Department of Transportation and Infrastructure Renewal which reports to the Executive Director of Public Works. The position's responsibilities include directing the implementation of the WAN security policy, and managing and monitoring the corporate network, including the responsibility to approve all IT devices and applications connecting to the network.

3.24 The Security Authority is also assigned certain audit responsibilities focused on ensuring ongoing compliance with the policy and its related standards. However, Corporate IT Operations also reports to the same Executive Director as the Security Authority. This could result in the Security Authority having to audit and report upon directives given, or approved by, the person to whom he reports. We believe the Security Authority requires a greater degree of independence from the entity that it monitors and audits than afforded under the existing structure.

Recommendation 3.4

Government's organizational framework for IT operations should have the Security Authority and Corporate IT Operations reporting to different positions in the organization.

3.25 The Security Authority's audit responsibilities relate to 17 aspects of WAN security. Since its establishment in 2004, the Security Authority has been a one-person role. This resulted in very limited ability, from a resource perspective, to perform the audit function, other than on an exception



basis. Having only one person to monitor and enforce a WAN security policy and associated standards in an organization as large as the Nova Scotia government is not effective. As a result, WAN security may not be adequately monitored on a timely basis. There is also higher risk of vulnerabilities not being detected, resulting in security incidents occurring (e.g., computer viruses, hacking attempts). We believe either the Security Authority role needs more staff or some of its responsibilities need to be reassigned.

Recommendation 3.5

The role and responsibilities of the Security Authority should be reviewed to determine the resources required to effectively perform security monitoring and auditing functions, and where best those responsibilities and resources should be assigned.

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Planning for Information Technology Security

Conclusions and Summary of Observations

Planning for information technology security is not adequate. We identified the need for an IT security oversight committee, corporate IT security charter and corporate IT security plan. There is also a need for corporate data classification standards.

- 3.26 *IT security planning*—There is no single group in the Nova Scotia government responsible for the planning of IT security. Planning for information technology security should begin with an executive oversight group, tasked with strategic-level responsibility for security planning, policy setting, risk management, IT resource management and IT performance management. A properly focused IT security oversight group would draw its mandate from the IT governance framework. It would have representation from key functional areas which impact on government-wide IT security, such as information management, IT operations, IT security, internal audit, human resources and legal services. The oversight group will work to ensure government's IT operations are aligned with its business objectives (e.g. a government program managing personal information is supported by a sufficiently secured computer system). The group also has a significant role in defining roles, responsibilities and authorities surrounding IT security, and in ensuring important security measures are in place.



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Recommendation 3.6

A government-wide IT security oversight group should be established, and given responsibility for security planning, policy setting, risk management, IT resource management and IT performance management. The group should include representation from government functions with a role to play in IT security, such as information management, IT operations, IT security, internal audit, human resources and legal services.

- 3.27 We also determined government does not have a corporate security charter. A security charter can be used to define the amount of risk the organization is willing to bear. Based on this level of risk, the charter can address the objectives, responsibilities and accountabilities of the IT security management function. The absence of a well-defined security charter, or similar analysis, could lead to misaligned IT and business objectives, as well as a deficiency in the implementation and oversight of IT security.

Recommendation 3.7

A security charter should be developed to address the scope of government-wide IT security, and the objectives, responsibilities and accountabilities of the IT security management function.

- 3.28 Neither government, nor any of its corporate service units, has an IT security plan. Large organizations need a plan to ensure that IT security is properly focused, designed and managed. The purpose of the plan is to provide a strategic framework for identifying key business processes, associated security risks, and measures required to mitigate significant risks identified.
- 3.29 An IT security plan will take into consideration the nature of the IT infrastructure employed, as well as the financial, human and other resources available to manage IT security. The plan must be updated as IT and its related risks evolve. The risks of not having an IT security plan include: IT security activities not being aligned with its business strategy; inefficiencies due to redundant security measures or equipment; heightened exposure to security threats such as viruses and unauthorized computer access; and security measures compromised by a lack of standards or failure to comply with standards.

Recommendation 3.8

A corporate IT security plan should be developed and implemented.

- 3.30 *Data Classification Standards* – The government of Nova Scotia has adopted national data classification standards, but has not yet applied them to most of its information holdings. Data classification standards are used to guide

the protection of information collected. They identify the sensitivity and value of different types of information so that IT security can be focused where it is most needed. For example, personal information relating to members of the public would normally be classified as highly confidential and requiring high security; whereas demographic statistics which are routinely available upon request may require less security.

- 3.31 Data held in large government and corporate databases can be very valuable to the criminal element as a means of conducting unlawful activities such as identity theft, stealing of credit card information, and sending out mass-mailings enticing recipients to enter into fraudulent schemes. Data classification standards help ensure IT managers and other users are aware of the level of protection appropriate for the specific information they are maintaining. Without such standards, sensitive information could be inadequately protected, or inappropriately disclosed.

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Recommendation 3.9

Data classification standards should be implemented for all of government's information holdings.

IT Security Policies and Standards

Conclusions and Summary of Observations

Government's current security policies and standards need to be strengthened. There is no government-wide acceptable use policy, the threat risk assessment process guide is out of date, and laptop security guidelines do not address the securing of all mobile computing devices and lack the authority of policy. We also observed instances where government IT security policies were not complied with. There were an insufficient number of threat risk assessments performed and inadequate security training for computer users.

- 3.32 *Policies and standards* – The government of Nova Scotia has a number of information management and information technology policies, standards and guidelines related to security; which include the following.

- Information Management Policy
- Wide Area Network Security Policy
- Wide Area Network Security Standards
- Wide Area Network Security Processes
- Electronic Mail Policy



- Citizen Online Identity Authentication Policy
- Website Privacy Policy
- WAN Threat Risk Assessment Process Guide
- Laptop security guidelines

We noted that some corporate service units also have security policies and guidelines.

- 3.33 We were encouraged to see that government has established and implemented the above noted policies, standards and guidelines. The Information Management Policy, which became effective on October 1, 2008, is perhaps the most important of the policies. It addresses the collection, use, and management of information by government, regardless of where and how the information is collected or maintained. It is viewed as the lead policy because all of the IT-related policies, standards and guidelines draw their purpose and authority from it. These policies, as a package, partially set the stage to define an effective management and control framework around IT operations, and IT security. However, we observed certain issues related to government's IT policies and standards.
- 3.34 Nova Scotia Economic and Rural Development's Corporate Information Strategies Division is responsible for all corporate IT policies. The Wide Area Network (WAN) Security Policy was approved April 1, 2002 and has been effective since April 1, 2003. The policy is not included in government's management manuals, although it is listed in the table of contents of Manual 300. However, the policy is available on the government's intranet site. Management Manual 300 is where government employees expect to find government operational policies. If the WAN security policy is not in this manual, some government staff may not be aware of the policy, or know where to find it.

Recommendation 3.10

The Wide Area Network Security Policy should be published in Management Manual 300.

- 3.35 *Threat risk assessments* – The government has a WAN Threat Risk Assessment Process Guide to aid in recognizing and addressing vulnerabilities in the Wide Area Network. This guide has been in place since 1998, and states that it should be updated annually, or whenever an occurrence reveals a deficiency in the existing guidelines. However, there is no indication that the guide has been reviewed for updating in the last ten years. The implication of not updating the guide is that it will quickly become out of date as technology-related practices change and new practices are developed.



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Recommendation 3.11

The Wide Area Network Threat Risk Assessment Process Guide should be reviewed and updated annually to ensure it is consistent with current standards and continues to meet the changing needs of government.

3.36 We are aware of two threat risk assessments performed in the past year which addressed the provincial data centre and the major business applications of one department. However, we were informed that it has been more than ten years since the last threat risk assessment was conducted for the government wide area network, and most CSUs have not conducted such assessments. Without a comprehensive threat risk assessment of the entire corporate network, there is no assurance that IT security around the government network is adequately planned, managed and performed, or that security measures meet the needs of the departments which own the systems.

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Recommendation 3.12

A detailed threat risk assessment should be performed on the wide area network. In addition, all CSUs should perform threat risk assessments on the infrastructure and applications for which they are responsible. These assessments should be updated on an annual basis, or sooner if significant changes occur.

3.37 *Acceptable use policy* – The Nova Scotia government began drafting an acceptable use policy and guidelines in June 2007 to convey to employees and contractors the specifics of acceptable use of corporate IT systems. For example, it is unacceptable for an employee to use government computers for operating a personal business and contractors should only use systems for purposes related to their contract assignment. However, the government’s acceptable use policy and guidelines are still in draft form, and there is no indication of when they will be completed and approved. Some CSUs developed their own acceptable use standards based on the draft corporate document. Without government-wide standards to guide government employees and contractors in the acceptable uses of IT resources, government systems may be burdened by personal or inappropriate use, or used for unlawful or unethical purposes.

Recommendation 3.13

The corporate acceptable use policy and guidelines should be completed, approved and effectively communicated to all government employees and contractors.

3.38 *Security awareness* – The WAN Security Standards indicate that there will be a corporate network IT security awareness program and that basic security awareness training will be provided to all employees on a regular basis.



- 3.39 At the time of our audit there was no formal IT security awareness training available for government employees. The provision of security awareness training is the responsibility of the Security Authority and the Client Security Officers of each CSU. The Security Authority developed security awareness presentations and delivered these to the Client Security Officers, as well as small groups around government from time to time. However, the Client Security Officers have not delivered such training to the staff of their CSUs or client departments. The Security Authority indicated that the primary issue is the lack of funds budgeted to develop and deliver a corporate IT security awareness program.
- 3.40 The implication of this is users are not aware of security requirements associated with their use of government computers. For example, without IT security awareness training, users may be vulnerable to social engineering attacks. These attacks may come in the form of email or phone calls from persons falsely claiming to be government IT operators. The illicit calls may request sensitive information such as user identification codes and passwords, or confidential government information available to the employee.

Recommendation 3.14

An IT security awareness strategy should be developed and implemented to address all government employees who have access to important government systems and information.

- 3.41 *Security certification and accreditation* – The WAN Security Policy also states “*IT system security certification and accreditation shall be performed on the Corporate Network (including all hardware and software that comprises the Corporate Network) throughout the planning, implementation, and operations life cycle.*” The policy document, which came into effect in 2003, indicates this specific directive is not in force at this time. Management informed us that security measures are not yet strong enough to ensure successful achievement of certifications and accreditations.

Recommendation 3.15

The directive requiring security certifications and accreditations for IT systems should be reviewed to determine whether it should be in force at this time. If the review determines that the directive will be put in force at a later date, a plan should be prepared with a timeline of required changes which must first be made.

- 3.42 *Independent security assessments* – Best practices indicate that large organizations should have periodic independent security assessments. Such assessments provide assurance that critical IT systems are adequately

designed, managed and operated, with appropriate controls in place. We found there is no provision in the WAN Security Policy that requires periodic independent security assessments, and no such assessments have been performed on the government WAN. The government has an annual audit performed on its financial reporting systems to support various financial statement audits, but these audits do not address all critical government systems and all security-related matters. As a result, it is possible there could be weaknesses or vulnerabilities that have not been detected which could pose a threat to the security of government's IT systems.

Recommendation 3.16

The Wide Area Network Security Policy should be amended to require periodic independent assessments of wide area network security.

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3.43 *Security screening* – Some CSUs complete security screening when hiring IT staff, such as checking employment references, character references, criminal record checks and child abuse registry checks. Other CSUs do not go beyond basic employment reference checks. IT staff, due to the nature of their responsibilities for maintaining IT systems, often have access to very sensitive information and have powerful computer operating abilities. The risk of IT security being compromised from within government is increased when thorough background checks are not performed on all new IT staff.

Recommendation 3.17

The hiring process for IT employees should include criminal record checks and child abuse registry checks.

3.44 *Mobile computing devices* – The government has many mobile computing devices deployed to its employees. These include laptop computers, BlackBerries and other smartphones. These devices often contain confidential information and, because of their portability, are subject to increased risk of theft or loss. The government has laptop security guidelines which briefly refer to other mobile devices. These guidelines provide advice concerning the importance of using firewalls, anti-virus software and updating operating systems. The guidelines also focus on physical protection and note steps that should be taken to protect such devices from damage or theft. However, the guidelines are silent with respect to the importance of using passwords or encrypting data contained on the devices.

3.45 Since laptop computer security is addressed by guidelines, employees are expected to be aware of and follow them, but are not formally compelled to comply with guidelines. We feel there should be specific policy or standards



around the security guidelines of mobile devices, with emphasis on the requirement to make passwords mandatory. Many Deputy Ministers and senior officials use BlackBerries which generally contain emails received and sent. We do not know how many of these devices are password protected, but if an unsecured one was lost, any confidential information contained on it could be quickly accessed and potentially made public.

Recommendation 3.18

Laptop security guidelines should be reviewed and updated to address all security issues surrounding mobile computing devices. Further, the new document should be approved, implemented and communicated in the form of a policy or set of standards.

Monitoring and Enforcing Compliance

Conclusions and Summary of Observations

Management practices for monitoring and enforcing compliance with policies and standards are not adequate. Areas for improvement include more attention to the costs and benefits of network monitoring devices, the formalization of government's computer emergency response team, and better security over the use of wireless internet access.

- 3.46 *Monitoring and enforcement of policies and standards* – We noted very little monitoring of security logs for the wide area network, other than on an exception basis where something unusual occurred. In those instances the logs were reviewed after the fact to try and determine the cause. An important IT security strategy is to have security devices (e.g., firewalls) built into a computer network to prevent or detect, and promptly report, successful or unsuccessful attempts to breach system security. However, to maximize their effectiveness, the devices' security logs need to be monitored for known patterns or other characteristics of security incidents.
- 3.47 There are many logs produced by security devices on the government network. We were informed that there is insufficient staff available to monitor these logs, even with the use of specialized monitoring software. The implication of this is that security weaknesses could be exploited without the knowledge of those operating and managing the network.
- 3.48 Further, we were informed that funds have been made available for security devices but they have not been acquired because there was no staff available to manage and monitor them.



Recommendation 3.19

A review should be performed to determine the nature and extent of security devices required to provide adequate protection to the wide area network, along with an estimate of the financial and human resources required to implement and manage them.

3.49 Many large organizations have a computer emergency response team (CERT) to take the lead in responding to significant security incidents or emergencies if they occur. Such a team is vitally important to provide an organized and rapid response to events that can significantly harm government IT systems and the operations they support. The CERT should have representation from all major areas of the business and have a well-defined mandate.

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3.50 The government has an informal CERT in place. A detailed CERT framework was developed in 2004 which outlined the mission, purpose and membership of the group. However, this framework document has not been kept up-to-date. Our interviews indicated that the CERT has no formal meetings, and there is only general awareness of its existence and function. CSUs know that in the event of a security incident they are to report immediately to the Security Authority and he will determine what action is required.

3.51 We were informed that the CERT is comprised of IT staff only. As a result, emergency responses relating to incident handling, vendor relations, communications, legal and criminal investigative issues may not be adequately addressed. We are also concerned whether the CERT will notify the CSUs and departments on a timely basis of the need to enact their business continuity and disaster recovery plans if a significant security event occurs.

Recommendation 3.20

The CERT framework of 2004 should be reviewed and updated, and a plan developed to formally implement an effective team that is properly trained to respond to serious security incidents as soon as they are detected.

3.52 Wireless communication enables ease of connecting to a computer system from any location within range or a wireless access point (e.g., a wireless router). Wireless access also provides a means for unauthorized persons to connect to a system if a wireless access point is unsecured or the access codes are known.

3.53 During the planning stage of this audit we found information on the government intranet, a network accessible only by Nova Scotia government employees, which openly provided the access codes for one of government's



wireless access points. This wireless access point was not connected to the government WAN and the service was provided solely to assist visitors to a department who needed internet access (e.g., for purposes of making presentations). However, there are over 10,000 government employees, as well as many contractors, who have access to the government intranet. Providing access codes on the intranet could lead to someone using this connection to the internet (e.g., while sitting in a car outside of the building housing the connection) for inappropriate or unlawful purposes.

Recommendation 3.21

Access codes for wireless internet connections should not be disclosed to individuals who have no cause to use the connection.

Response: Treasury and Policy Board

Treasury and Policy Board would like to thank the Auditor General for the opportunity to respond to the report of government-wide audit of Information Technology Security.

Like many organizations, the government's use of and dependence on Information Management/Information Technology (IM/IT) has increased. IM/IT is recognized as a prominent and strategic government business enabler as evidenced by current directions such as e-service delivery, shared services, and horizontal government as well as the appointment of a Chief Information Officer in December, 2008.

The Information Management/Information Technology community understands the critical importance of security and how it impacts responsible and effective management of governments information and technology assets. The province has adopted an IM/IT vision. The three major components of that vision include Quality and Accessibility of Government Services, Sustainable Operation of Government, and Optimal Use of Information. All components of this vision respect the privacy, accessibility, and security requirements for personal and confidential information.

The Information Management Strategy and Framework, approved by the Deputy Ministers in December, 2005, highlighted the importance of security with regard to government's information assets. In fact, protection is one of the Information Management Framework's six principles. The strategy recommends the creation of an IM Policy and an associated Information Management Requirements Analysis (IMRA) Tool. These were developed by the Corporate IM Program and came into affect on October 1, 2008 providing a consistent method for departments to assess their programs, services, and IT systems for compliance with IM requirements including security. The IMRA contains a section dedicated to the protection principle to help ensure existing security and privacy requirements are addressed.

The basic elements of corporate IT security are in place, as are an Information Management Policy, Wide Area Network Security Policy, Security Standards and Processes as well as various other corporate and departmental security-related policies and guidelines. This strong foundation has enabled government to protect its information assets against unavailability, loss or misuse.

While our current IT Security program has enabled us to achieve good results we recognize security is an ongoing matter that must be planned for, continually monitored, and managed to keep ahead of new and emerging threats.

Current initiatives, in Nova Scotia, include the development of an IT Strategic Plan, IM/IT Governance Framework, Enterprise Architecture, and Business

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Intelligence Strategy as well as the continued implementation of the Information Management Strategy. These projects will continue to persistently incorporate and address privacy and security considerations including planning, monitoring, enforcement, and policy/standard development.

The Auditor General's twenty-one recommendations are accepted in principle. While I believe plans currently in place to address the IT Governance issues raised in the Auditor General's report of February 2008, and plans to restructure IT Services Delivery in the province, will address most of the recommendations, the results of the audit will be forwarded to the Business Technology Advisory Committee (BTAC), a Deputy Minister sub-committee of Treasury and Policy Board, for their review and follow-up. The Chief Information Officer will ensure that an investigation of these recommendations occur in order to provide advice to BTAC as they determine next steps.

4 Transportation and Infrastructure Renewal and Service Nova Scotia and Municipal Relations: Truck Safety

Summary

The Department of Transportation and Infrastructure Renewal safety, inspection and enforcement programs are not adequate to effectively mitigate the risk of a truck being involved in an accident. The effectiveness of Service Nova Scotia and Municipal Relations' commercial carrier safety fitness rating and audit program is compromised due to the lack of timely, complete and accurate information. We are concerned all carriers of greatest risk are not being identified for audit and consequently those with high safety infractions may not be adequately monitored.

Trucks account for approximately 20% of traffic on Nova Scotia highways. Due to the potential seriousness of accidents involving trucks it is important to the safety of Nova Scotia road users that programs be effective in reducing the likelihood of an accident to an acceptable level. The Department of Transportation and Infrastructure Renewal (TIR) works toward improving highway safety through various programs and initiatives including weighing and inspecting trucks and enforcement of applicable legislation. Service Nova Scotia and Municipal Relations (SNSMR) also plays an important role by delivering the commercial carrier safety fitness rating and audit program.

We found TIR management did not sufficiently control safety, inspection and enforcement program activities to ensure key factors contributing to truck accidents were adequately addressed and program objectives were achieved. Important information such as accident data and truck travel patterns were not routinely analyzed. The Division has no formal, written enforcement criteria or guidelines, and we found evidence of inconsistencies in enforcement. Important controls, such as weigh scale hours of operation, and the number and focus of truck inspections, were not operating as intended and not adequately monitored.

SNSMR's commercial carrier safety fitness rating and audit program identifies commercial truck and passenger carriers who pose the greatest risk to public safety. We found deficiencies with this system in identifying the riskiest carriers. This increases the risk those carriers will not be selected for audit. Carrier audits which were performed were completed in a timely manner and based on required standards. We noted instances of delays of more than one year in entering accident data and assigning it to a carrier profile, errors in assignment of fault for accidents and no at-fault determination for out of province accidents.



4 Transportation and Infrastructure Renewal and Service Nova Scotia and Municipal Relations: Truck Safety

Background

TRANSPORTATION AND INFRASTRUCTURE RENEWAL AND SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS: TRUCK SAFETY

- 4.1 The Department of Transportation and Infrastructure Renewal (TIR) is responsible for truck safety and shares responsibilities for commercial vehicle safety with Service Nova Scotia and Municipal Relations (SNSMR) and the Nova Scotia Utility and Review Board (NSUARB). Commercial vehicles include trucks weighing in excess of 4,500 kilograms and public passenger vehicles. NSUARB public passenger vehicle safety responsibilities were examined and reported in Chapter 6 of our November 2008 Report.
- 4.2 The National Safety Code was developed to provide a comprehensive code of minimum performance standards for the safe operation of commercial vehicles. The initial Code was developed nationally and adopted by the Province in 1990. The Code includes standards for commercial vehicle maintenance and inspections, security of loads and carrier safety ratings. These standards are incorporated mainly into the provincial Motor Vehicle Act and regulations. Other legislation regulating commercial vehicles and carriers are the Public Highways Act and Dangerous Goods Transportation Act.
- 4.3 Responsibility for monitoring trucks travelling on Nova Scotia roadways is carried out by officers in the Vehicle Compliance Division of TIR. The Division operates fixed weigh scales located at Kelly Lake, Enfield, Canso Causeway and Amherst (inbound and outbound). All trucks greater than 3,000 kilograms must report to the scale houses when travelling on 100 series highways in Nova Scotia. Buses and recreational vehicles are not required to report in. Officers weigh and may inspect trucks reporting to the scale houses. Vehicle compliance officers, equipped with mobile weigh scales, typically patrol all other provincial roadways. There are 33 officers in the Division, supervised by three area coordinators and a manager.
- 4.4 The National Safety Code carrier safety fitness rating program was implemented by SNSMR in 2005. Under the program, the Department can assign safety demerit scores to commercial carriers based on carrier collision and conviction records, and inspection results. SNSMR's safety officers audit carriers who are deemed to be the highest safety risk based on their demerit score. SNSMR employs two officers, a coordinator and



two administrative staff to administer the program, in addition to their other responsibilities.

- 4.5 SNSMR maintains a carrier activity profile system (CAPS) to support the carrier safety fitness rating program. Carrier profile records show there were 16,793 vehicles registered to 4,862 commercial carriers as of December 31, 2008.

Audit Objectives and Scope

- 4.6 In February 2009, we completed a performance audit at the Departments of Transportation and Infrastructure Renewal and Service Nova Scotia and Municipal Relations covering the period from 2006 to 2008. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants.
- 4.7 The objective for this assignment was to determine whether truck safety, inspection, audit and enforcement programs are adequately designed and implemented to mitigate risks to public safety.
- 4.8 Our audit focused on truck safety activities at TIR's Vehicle Compliance Division and SNSMR's responsibilities for implementation of the National Safety Code carrier safety fitness rating program. Our audit did not include SNSMR's responsibilities for the administration of commercial vehicle licenses and motor vehicle inspections. Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for the engagement using both internal and external sources. Criteria were discussed with, and accepted as appropriate by, senior management of TIR and SNSMR.
- 4.9 Our audit approach included interviews with management and staff; examination of policies, files and other documentation deemed to be relevant; a review of systems; and testing of certain processes and procedures. Our analyses of the Departments' data are shown in the tables and charts throughout the report. Our audit did not include an assessment of the completeness of the data in the carrier activity profile system. We conducted audit fieldwork from November 2008 to February 2009.

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Significant Audit Observations

TIR Safety, Inspection and Enforcement Program

Conclusions and Summary of Observations

The safety, inspection and enforcement program as implemented is not adequate to effectively mitigate safety risks and needs improvement. We found little formal review and analysis of Division activities and inspection results to determine if the safety, inspection and enforcement program operated as intended and addressed identified risks to the public. The Division has no formal, written enforcement criteria or guidelines and we found evidence of inconsistencies in enforcement. Important controls such as weigh scale hours of operation and the number and focus of truck inspections were not operating as intended, and were not adequately monitored.

- 4.10 *Program management* – The Vehicle Compliance Division (Division) manages the province’s fixed and mobile weigh scales, certain truck inspections and the enforcement program. The province is divided into 3 areas, each overseen by an area coordinator, reporting to the Division manager. The area coordinators supervise vehicle compliance officers in their area through frequent informal communication, staff meetings and review of officer inspection activities. The Division uses SNSMR’s carrier activity profile system to record its program activities (see paragraph 4.41). We found little formal review and analysis of Division activities and inspection results to determine if the safety, inspection and enforcement program operated as intended and addressed identified risks to the public.
- 4.11 *Weigh scales* – Overweight trucks pose a risk to the driving public through excessive damage to roadways and a greater chance that the truck will be involved in an accident. The Division operates weigh scales, in part, to monitor for overweight trucks. Area coordinators schedule vehicle compliance officers to cover hours of operation at the scale houses. Management indicated the Division’s goal is to have each scale house open 100 hours per week.
- 4.12 We determined the Division was not meeting the goal of 100 hours per week. We selected two months, February and September 2008, and analyzed the hours scale houses were open. In February, only two of five scale houses were open 100 hours per week and only one met the target in September (see the following table for detailed results). Management indicated staff shortages have prevented the Division from meeting this target.



Average Weekly Open Hours of Scale Houses

Scale Location	February 2008 Number of Open Hours	September 2008 Number of Open Hours	Two Month Average Number of Open Hours
Kelly Lake	86	66	76
Enfield	81	102	91
Canso Causeway	110	76	93
Amherst Inbound	104	80	92
Amherst Outbound	53	27	40
Average – All Scales	87	70	78

Hours in blue indicate scale house met target of 100 open hours per week

4.13 Studies have shown, in the absence of 24/7 coverage, scale houses with unpredictable hours of operation are a more effective deterrent to truck weight and safety violations. Based on our testing, there was a predictable pattern to when scale houses in the province were open. We analyzed the work shifts at the scale houses for closure patterns during February and September 2008. We determined they were closed a total of 61 days during the test period. Thirteen days (21%) occurred during the week compared to 48 days (79%) on weekends. This did not include holidays, when all the scale houses were closed. Detailed results by scale house follow.

Scale House Days Closed – February and September 2008

Scale Location	12 am - 12 am (24 hrs)	10 pm - 12 am (2 hrs)	12 am - 6 am (6 hrs)	4 pm - 12 am (8 hrs)
Kelly Lake				
Weekdays		23	31	9
Weekends	12			
Enfield				
Weekdays	1	10	12	3
Weekends	9			1
Canso Causeway				
Weekdays		5	1	1
Weekends	5		4	
Amherst Inbound				
Weekdays		18	14	1
Weekends	10			1
Amherst Outbound				
Weekdays	12	9	15	3
Weekends	12			
Total				
Weekdays	13	65	73	17
Weekends	48		4	2
Grand Total	61	65	77	19

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- 4.14 In order to optimize hours when scale houses are open, management should know when trucks are most likely to travel on roadways and other travel patterns. Some of this information can be obtained from vehicle compliance officers since they monitor trucks reporting at scale houses. TIR collects traffic data electronically through road sensors, which it uses for highway planning purposes. While this data was available, the Division had not attempted to use it to determine truck traffic patterns and whether adjustments to scale house operating hours were necessary.
- 4.15 Vehicle compliance officers at scale houses also check trucks for safety violations. Management aims to have two officers on duty when the scale houses are open. If only one officer is on duty, the extent of checks and inspections that an officer can perform are limited. Based on our testing we noted only one officer was on duty most of the time. We examined scale house shift records from our sample period (February and September 2008). We found Enfield, at 36%, had the highest percentage of time with more than one officer working, compared to Amherst outbound with the lowest at 2%. Results for each scale house follow.

Percentage of Open Scale House Hours With More Than One Officer on Duty			
Scale Location	February 2008	September 2008	Two Month Average
Kelly Lake	15%	34%	25%
Enfield	36%	22%	29%
Canso Causeway	21%	3%	12%
Amherst Inbound	17%	12%	15%
Amherst Outbound	2%	22%	12%
All Scales Average	18%	19%	19%

- 4.16 The effectiveness of scale houses as a safety control to detect and deter truck safety violations was compromised because they were closed at predictable times (i.e., holidays and weekends) and only one officer was usually on duty. Truck operators with poor safety records could be encouraged to manipulate their schedules so they can drive past scale houses at times when they are generally closed.
- 4.17 An inherent weakness in operating fixed weigh scales is that truck operators may take alternate routes to bypass the scale houses. The Division addresses this risk by assigning officers, equipped with mobile weigh scale units, to patrol the roadways not covered by scale houses. These officers stop trucks if they have safety concerns and weigh trucks if there is reason to believe the truck is overweight.
- 4.18 Management acknowledged the more hours scale houses are open and officers are scrutinizing trucks, the more likely truck operators will comply with safety legislation. Management indicated vacancies, illness, vacations,



and restrictions in union agreements account for much of the understaffing and closure of scale houses.

- 4.19 *Inspections* – Vehicle compliance officers inspect trucks to ensure vehicles and drivers are in compliance with the Acts and regulations, and are operating safely. Inspections can involve examination of vehicle parts and systems, such as brakes, tires, and exhaust, as well as safety and security of loads and coupling devices. Examination of the driver’s license, hours of work log, and other documents may also be included.
- 4.20 We analyzed inspection results from January 2007 to December 2008. We noted the most frequent inspection violations related to brake adjustments, brake systems, lamps, suspensions and tires.

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Top 5 Out-of-Service and Defect Items from CVSA Level 1 Inspections – January 1, 2007 to December 4, 2008		
Item Checked	% Out-of-Service or Defect Noted	% Pass
Brake system	32%	68%
Lamps	24%	76%
Brake adjustment	19%	81%
Suspension	16%	84%
Tires	11%	89%

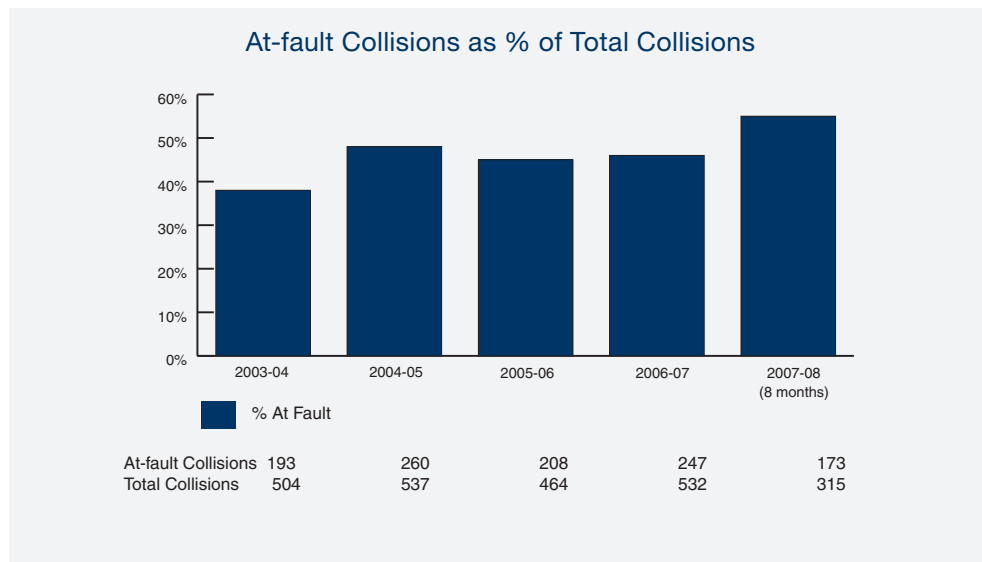
- 4.21 In addition, we analyzed the type and frequency of checks performed by officers during the same time period. We noted when a truck was stopped, officers most often checked driver’s license, registration and insurance (67%); vehicle weight (59%); and current motor vehicle inspection (54%). Of total checks only 20% were targeted toward safety issues of the vehicle. We understand driver license checks are necessary for identification purposes and would expect them to be the most frequent item checked. We were still concerned there was little correlation between identified safety violations and priority of checks performed by officers.
- 4.22 A number of studies have shown that driver behaviour is a key contributing cause of accidents and driver fatigue is often a major factor. We noted only 15% of checks related to hours of service logs, which show how long a driver has been driving. We recognize a driver log book would not necessarily be a requirement for every truck stopped. However, we were concerned that a leading cause of truck accidents, such as driver fatigue, may not be adequately monitored.
- 4.23 *Industry outreach* – Trucking industry outreach activities include meetings and presentations designed to inform and educate truck drivers and carriers on the Division’s responsibilities, trucking safety issues and legislative



changes. The Division assigned responsibility for these activities to a vehicle compliance officer, in addition to staff training duties. This officer has since left the Division and management is evaluating how outreach and training responsibilities should be reassigned.

4.24 *Analysis of accident data* – Accidents involving trucks pose significant risk to public safety. Analysis of accident data could provide important information to management to help assess program effectiveness and whether resources have been allocated appropriately. We noted management performs limited analysis of such data, although the Department has reported a downward trend in the number of accidents between 2002 to 2006 involving commercial carriers resulting in death or serious injury.

4.25 We acknowledge accidents involving death is an indicator of program effectiveness. However, the carrier activity profile system provides additional data which should be reviewed regularly. For example, our analysis indicated the percentage of accidents where the commercial carrier was determined at fault has increased from 38.3% in 2003-04 to 54.9% in the first eight months of 2007-08. This trend warrants additional analysis by management. It may indicate the program was not effective in promoting safe operation by commercial carriers. Detailed results by year are as follows.



4.26 Improvements are necessary in how the Division is managed. Management control of program design, implementation and performance is critical to ensuring desired objectives are achieved. Management must ensure key safety risks are identified and assessed, and operational activities designed and implemented, to mitigate identified risks to an acceptable level. Meaningful and measurable performance measures to assess ongoing effectiveness of program activities should also be identified.

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Recommendation 4.1

TIR should establish a formal risk management process. This process should include management's identification, assessment and response to key safety risks. The effectiveness of the safety, inspection and enforcement program in achieving desired outcomes should also be assessed on a regular basis.

- 4.27 *Officer performance* – Vehicle compliance officers are certified Commercial Vehicle Safety Alliance (CVSA) inspectors. This certification involves extensive training through a North America-wide program and qualifies inspectors to carry out detailed safety examinations of commercial vehicles and their drivers. To maintain certification, officers are required to complete a minimum of 32 Level 1 CVSA inspections per year. The Division set a target of 120 Level 1 inspections per officer each year in order to comply with a funding agreement between Service Nova Scotia and Municipal Relations and Transport Canada. The Division is meeting required CVSA inspection targets.
- 4.28 Officers are required to inspect trucks through daily checks. Daily checks are typically less comprehensive than CVSA inspections. The Division set a performance target of six checks and inspections per day (four prior to January 2008). We analyzed officer activity records for 2007 and noted, on average, officers performed the required number of checks (four) per shift. However, individually, 2 of 33 officers had not met the target. In 2008, on average, officers performed 5.3 checks per shift. Only 14 of 31 officers met the increased target (six). One officer had not met the target in either year. The above analysis excluded full days when officers were carrying out other required duties not recorded as a check or inspection.
- 4.29 When checks and inspections are not performed as required, the risk an unsafe driver or truck will not be detected is increased. To be effective, achievement of performance targets should be monitored regularly. If officers are not held accountable for their performance, they may be less motivated to meet required targets.

Recommendation 4.2

TIR should regularly monitor vehicle compliance officer performance in meeting required targets. Appropriate and timely action should be taken when targets are not met.

- 4.30 *Enforcement* – The authority, roles and responsibilities for enforcement of the Acts and regulations are clearly documented. Vehicle compliance officers have the authority to issue tickets or take other enforcement action when they detect a violation. Officers use their judgment to determine the appropriate course of action, which ranges from persuasion and education, to warnings and tickets. Through the CVSA inspection program, officers



have detailed guidance on when a vehicle or driver should be placed out of service. However, the Division has no written enforcement criteria and guidelines for determining appropriate responses when an officer encounters violations.

4.31 To determine enforcement consistency at the Division, we analyzed written infractions (warnings and tickets) from April 2006 to December 2008. We found a number of inconsistencies between scale houses. A total of 209 written infractions were issued by officers at Amherst inbound and 589 at Amherst outbound; compared to 1,508 at Canso Causeway; 1,417 at Enfield; and 1,028 at Kelly Lake. We acknowledge that the volume of truck traffic at each scale house and hours of operation would impact the number of written infractions issued but we believe the size of the discrepancies suggest a problem of inconsistent enforcement. The following table provides a breakdown by scale house for each year examined.

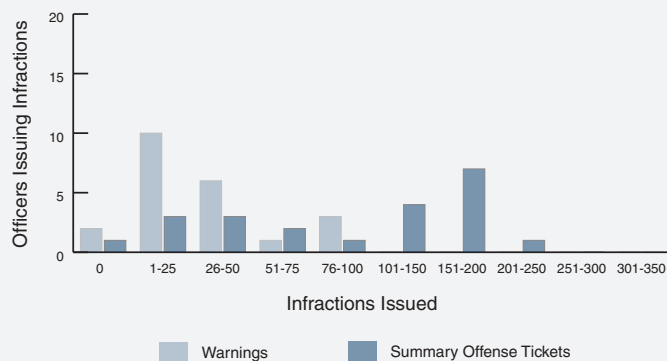
Written Infractions by Scale House				
Scale Location	2006-07 Total Written (Officer Average)	2007-08 Total Written (Officer Average)	2008-09* Total Written (Officer Average)	Grand Total Written (Officer Average)
Kelly Lake	324 (81)	422 (106)	282 (71)	1,028 (86)
Enfield	530 (133)	588 (147)	299 (75)	1,417 (118)
Canso Causeway	588 (147)	524 (131)	396 (99)	1,508 (126)
Amherst Inbound	182 (61)	23 (8)	4 (1)	209 (23)
Amherst Outbound	242 (61)	173 (43)	174 (44)	589 (49)
All Scales Total (Officer Average)	1,866 (97)	1,730 (87)	1,155 (58)	4,751 (81)

* 8 month period from April 1, 2008 to December 4, 2008

4.32 We also found significant differences in the number of written infractions issued by individual officers. One officer did not issue any during the period examined and two others issued none in 2008. In comparison, the highest total number of written infractions issued by an officer over the three year period examined was 1,082; yearly highs per individual ranged from 289 to 500 written infractions.

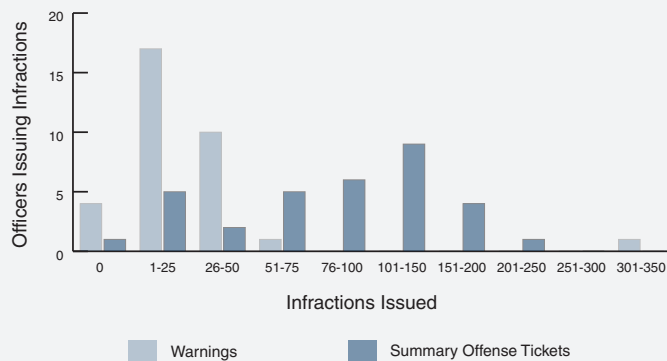
4.33 We stratified the number of warnings and summary offence tickets (SOTs) issued by officers over the last two fiscal years to determine if enforcement action taken has been consistent. The analysis showed an apparent lack of consistency, particularly in relation to SOTs issued, as there is a wide distribution across the officer population. As illustrated by the following graphs, 17 officers issued between one and 25 warnings while one issued over 300.

Written Infractions Issued by Vehicle Compliance Officers 2006-07



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Written Infractions Issued by Vehicle Compliance Officers 2007-08



4.34 Although management informed us officers are not required to issue a minimum number of tickets, our analysis indicated there were significant enforcement inconsistencies which should be investigated. If tickets are not issued when a situation warrants, this reduces the deterrent effect of enforcement and increases risk to public safety. Tickets are also an important factor in determining which carriers should be audited as part of the carrier safety fitness audit and enforcement program at SNSMR (see paragraph 4.41).

4.35 Established enforcement criteria and guidelines would help ensure fair, consistent and timely enforcement by outlining appropriate responses and enforcement options when violations are detected. Reliance on professional judgment alone may result in inconsistent enforcement of legislation and standards which may increase the risk to public safety.



Recommendation 4.3

TIR should establish formal criteria and guidelines to assist officers in their enforcement activities. Procedures should be established to ensure criteria are followed.

4.36 *Policies and procedures* – The Vehicle Compliance Division does not have a comprehensive policy and procedures manual. Some policies and directives are issued directly to staff, while others are available on the Department’s intranet website. A comprehensive policy and procedures manual provides guidance to staff and helps ensure officers are consistent in carrying out their duties.

4.37 We reviewed policy and guidance documents and noted cases where they were not comprehensive or required updating. For example, a weigh scale operations policy dated July 1999 was issued by SNSMR when the Vehicle Compliance Division was part of that Department. We were told this policy was still in effect. A number of other policies and directives were also issued prior to the Division’s transfer to its current department.

4.38 Without clear direction and guidance, officers could be performing checks, inspections and enforcement in an inconsistent manner. Clear and comprehensive policies and procedures provide guidance to officers in carrying out their responsibilities and help improve consistency of performance. Consistent officer performance should help truck operators better understand safety requirements which increases the likelihood of compliance.

Recommendation 4.4

Policies and procedures at TIR should be reviewed on a regular basis and any gaps in policy should be addressed. Policies, procedures and other guidance should be filed in a systematic manner, such as in a manual, and be readily available to staff.

4.39 *Standards* – The National Safety Code is a comprehensive code of minimum performance standards for the safe operation of commercial vehicles. Commercial vehicles registered in Nova Scotia are regulated primarily through the Motor Vehicle Act and regulations. We reviewed this legislation to determine if current National Safety Code standards were incorporated. We noted the following instances where legislation has not been updated for the latest revisions to the standards.

- Commercial vehicle driver’s hours of work regulations have not been updated to reflect the revised national standards, issued in 2007, which are based on research into driver fatigue.

- Commercial vehicle trip inspection and records regulations have not been updated since 1990, and did not reflect the more recent National Safety Code trip inspection standard issued in 2008.

4.40 If legislation is not updated when National Safety Code standards change, the safety issues the standards were intended to address may not be adequately covered. This increases the risk to public safety. Management indicated there are enforcement difficulties due to the differences in the (federal) National Safety Code and provincial hours of work regulations.

Recommendation 4.5

TIR should take appropriate action to incorporate updated National Safety Code standards into legislation in a timely manner.

SNSMR Audit and Enforcement Program

Conclusions and Summary of Observations

Information supporting the carrier safety fitness rating and audit program was not timely, complete or accurate. Such information deficiencies undermine the effectiveness of the program in its mandate to audit commercial truck and passenger carriers who pose the greatest public safety risk. We also found weaknesses in the structure of the audit report and the program design that reduced the likelihood of public passenger vehicle operators being selected for audit. Where carriers were identified for audit, these were completed in a timely manner and consistent with program requirements. Management needs information that is timely, complete, and accurate to ensure carriers that pose the greatest risk to public safety are identified for audit. Failure to do so may allow high risk carriers to continue to operate unsafe vehicles.

4.41 *Carrier activity profile system* – SNSMR maintains a carrier activity profile system (CAPS) to capture data and facilitate assignment of safety fitness ratings to commercial carriers. We used the data in CAPS to carry out our tests and analysis. Carrier safety ratings are based on demerit scores attached to carrier collision, inspection and conviction events, plus carrier safety audit results. Legislation requires that the riskiest 5% of carriers be identified. These carriers may be subject to audit through the program.

4.42 We were concerned CAPS may not have appropriately identified carriers for audit. Our analysis of the 4,401 carriers in the system as at December 4, 2008 showed only 41 carriers (0.9%) which were identified as the riskiest 5%. We expected to find 220 carriers - 5% of 4,401. SNSMR indicated they are investigating to determine why fewer carriers than expected were highlighted for audit.



Recommendation 4.6

SNSMR should review its carrier activity profile system to ensure the riskiest 5% of commercial carriers are identified for audit. Necessary changes to the system should be implemented in a timely manner.

- 4.43 *Accident data in CAPS* – Timely, complete and accurate data is critical for CAPS to identify those carriers of highest risk. Accident data comes from reports filed with policing agencies and entered into the Province’s Registry of Motor Vehicle (RMV) system, which directly links to and updates CAPS. SNSMR staff review each accident report where they assign the accident to an individual carrier and determine if the carrier was at fault. At fault accidents impact the carrier’s demerit score rating for a 24 month period.
- 4.44 We examined 30 accident records for timeliness of review and entry to CAPS, and noted delays between 35 and 681 days, with an average of 343 days from the date of the collision to the date it was reviewed and assigned to the carrier profile. On average, 38% of the delay occurred between the time of the accident and entry into the RMV system. The majority (62%) of the delay occurred in the review and assignment to the carrier profile. Eighteen of 30 collisions were reviewed more than one year after the event. If the review and assignment of accident data is not timely, a carrier’s demerit score may not truly reflect their safety risk. A lower risk score decreases the likelihood of an audit.
- 4.45 From the 30 accident records, we examined 21 records with accidents in the past 24 months and did not agree with the at-fault determination in 2 cases. Both cases were discussed with staff who subsequently agreed with our assessment. We determined the impact on the demerit scores for the two carriers affected by the errors and noted in one case the impact was significant as the carrier was not considered for audit. At fault accidents are an important factor in determining the riskiest carriers. SNSMR staff consider many factors when determining fault (e.g., accident severity, accident description, other contributing factors). Reports filed with policing agencies do not note who was at fault. Determining fault is a subjective process with staff using their judgment and experience based on what is documented on the collision report.

Recommendation 4.7

SNSMR should review its process for recording accident data in CAPS to ensure it is timely and accurate.

- 4.46 Accidents in other provinces involving Nova Scotia registered carriers are reported electronically by those jurisdictions directly into CAPS. It is the responsibility of the reporting jurisdiction to determine fault for the accident. We examined a list of 1,255 accident records reported by other



jurisdictions and noted none of the records contained a determination of fault. The information provided by other jurisdictions was not sufficient for SNSMR staff to determine whether the Nova Scotia registered carrier was at fault. As a result, important accident data was not captured in CAPS.

- 4.47 SNSMR needs timely, complete and accurate data in CAPS in order for the carrier safety fitness rating and audit program to operate effectively. Missing data, such as incomplete accident information may result in those carriers posing the highest risk to public safety not being identified for audit.

Recommendation 4.8

SNSMR should communicate its information needs to external parties and take appropriate action when information is not received.

- 4.48 *Carrier safety fitness audits* - SNSMR's commercial carrier safety fitness rating and audit program involves assigning a safety fitness rating and auditing those commercial carriers with the highest safety risk, based on their demerit score. Carrier audits primarily involve examination of a sample of vehicle maintenance and driver records but do not include vehicle inspections. Auditors analyze the records for evidence maintenance issues identified during CVSA, pre-trip and other inspections have been addressed. Driver files and associated hours of service logs are also reviewed for existence and appropriateness. In addition, conviction and collision information included in the carrier profile is discussed with the carrier during the audit.
- 4.49 Verification (follow-up) audits are conducted on carriers where conditional safety ratings were assigned during a previous audit. SNSMR's policy is verification audits will not be conducted within six months of the previous audit to allow carriers time to implement corrections. We determined a large majority of these audits are conducted within a year of the six-month date from the previous audit. We also determined failure rates from verification audits decline to 28% from 68% failure on initial audits. The use of summary offense tickets (SOTs) increases with repeat audit failures; from 0.29 SOTs per failed initial audit, to 2.13 SOTs per failed subsequent verification audit.
- 4.50 When their schedules permit, auditors also conduct randomly scheduled audits. Carriers are selected for audit by administrative staff, randomly by county. The established demerit score system is not used in the selection process. This means the next riskiest carriers are not necessarily selected within the geographic area visited.



Recommendation 4.9

SNSMR should employ the carrier demerit score system to assign audit priority, to the extent possible, when selecting carriers for audit within targeted geographical areas.

- 4.51 Overall, we found the audits are conducted in accordance with National Safety Code Standard 15. However, we noted an implementation weakness. Carrier safety officers record audit results directly in the carrier profile system and print a report for the carrier. The standard audit report generated by the system does not allow officers to provide sufficient detail on compliance issues noted. The onus is on the carrier to understand the issues as presented. This limits the usefulness of the audit report to the carrier. If compliance issues detected during an audit are not clearly communicated to a carrier, there is an increased risk issues will not be appropriately addressed.

Recommendation 4.10

SNSMR should improve its carrier safety fitness audit report to make it more useful to carriers as a reference document on identified compliance issues, and to better reflect the work performed by carrier safety officers.

- 4.52 *Program scope* – Our November 2008 audit of public passenger vehicle safety at the Nova Scotia Utility and Review Board (NSUARB) noted there were 293 carriers with 2,621 public passenger vehicles (paragraph 6.4). Our audit tests of public passenger vehicle safety at NSUARB found that 63% of vehicles inspected had deficiencies. We are concerned there could be a gap in monitoring of carrier maintenance systems between the NSUARB and Service Nova Scotia and Municipal Relations.
- 4.53 Public passenger carriers are less likely to be audited under the program as they are not subject to the same safety and inspection processes as other commercial carriers. Public passenger vehicles are not required to report to scale houses, nor are they subject to roadside stops by TIR's vehicle compliance officers. Public passenger vehicles are safety inspected twice a year by NSUARB inspectors, but the results are not reflected in their carrier profile in CAPS. SNSMR audit records show eight audits on five public passenger carriers were completed between April 2007 and December 2008. We are concerned monitoring of public passenger carriers is not sufficient under the carrier safety fitness audit program.

Recommendation 4.11

SNSMR should determine requirements necessary for appropriate assessment of public passenger carriers and take necessary steps to facilitate obtaining the information.

Response: Transportation and Infrastructure Renewal

This is to acknowledge the Department has received the Transportation and Infrastructure Renewal and Service Nova Scotia and Municipal Relations Truck Safety Audit Summary completed by the Auditor General March 2009.

The summary presented has been reviewed by staff and we are pleased with the completeness and accuracy of the information presented. The summary includes a number of recommendations and in response I offer the following:

Recommendation 4.1

TIR should establish a formal risk management process. This process should include management's identification, assessment and response to key safety risks. The effectiveness of the safety, inspection and enforcement program in achieving desired outcomes should also be assessed on a regular basis.

Response: The Department agrees with the recommendation and will develop a formal risk management process within the 2009/2010 fiscal year.

Recommendation 4.2

TIR should regularly monitor vehicle compliance officer performance in meeting required targets. Appropriate and timely action should be taken when targets are not met.

Response: The Department agrees with the recommendation and will put in place a monitoring process within the next nine (9) months.

Recommendation 4.3

TIR should establish formal criteria and guidelines to assist officers in their enforcement activities. Procedures should be established to ensure criteria are followed.

Response: The Department agrees with the recommendation and will continue to develop Policies and Procedures through the existing Policy and Procedure Committee. As policies and procedures need to be added, they will be reviewed by the Committee and existing policies and procedures will be reviewed on an annual basis by the Committee. As there are a number of old policies and procedure and review and updating will be done on a priority basis to be established within the next nine (9) months.

Recommendation 4.4

Policies and procedures at TIR should be reviewed on a regular basis and any gaps in policy should be addressed. Policies, procedures and other guidance should be filed in a systematic manner, such as in a manual, and be readily available to staff.

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Response: The Department agrees with the recommendation and will continue to work with the Policy and Procedure Committee to review and develop policies when required on a regular basis. All policies which are now developed or reviewed by the Committee are included in TIR Manual 23 which is accessed through the Department's Intranet for all TIR employees to review.

Recommendation 4.5

TIR should take appropriate action to incorporate updated National Safety Code standards into legislation in a timely manner.

Response: The Department agrees with the recommendation and will take the appropriate action needed to provide updates to legislation in a timely manner.

Thank you for the opportunity to comment on the Auditor General's Report.

Response: Service Nova Scotia and Municipal Relations

The Department appreciates the opportunity to provide comments on the review of the Commercial Vehicle Safety Program. A strategic goal of the Department is to continually review and modernize all programs under its mandate. The adopted recommendations contained in this report will be a step in our continuous improvement.

General Comments

A new modernized motor vehicle application was implemented on April 23, 2008. Significant staff effort was required in the design and build of the system which consequently impacted the entry of data into the system. Additional resources have been assigned to the data entry and a significant reduction in backlog has been achieved and continues.

Ensuring that our data is timely, accurate, and complete is of prime concern to the Department. The Department also relies on other Departments/Agencies and jurisdictions for data. The Department continues to work to positively influence the quality and frequency of data exchange.

Responses to Recommendations:

Recommendation 4.6

SNSMR should review its carrier activity profile system to ensure the riskiest 5% of commercial carriers are identified for audit. Necessary changes to the system should be implemented in a timely manner.

We accept this recommendation. Work commenced on February 24, 2009 to determine why the number of carriers identified by the automated system did not match the design target of 5%.

Recommendation 4.7

SNSMR should review its process for recording accident data in CAPS to ensure it is timely and accurate.

We accept this recommendation, recognizing the importance of timely and accurate data. The Department relies on external agencies for collision information. Within Nova Scotia, this data is captured and forwarded by Police Agencies on behalf of the Registrar. Externally, the data is forwarded by Canadian Motor Vehicle Jurisdictions through an electronic network. The above noted electronic network will soon be expanded to include collision data from the US Federal Motor Carrier Safety Agency.

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The Department will continue to work with external partners to ensure that data is sent in a timely and accurate manner. Internally, the Department will work to streamline data entry and will review process changes to enter carrier collision data in an improved timely manner. Additional resources have been and will continue to be assigned to data entry to ensure timeliness.

Recommendation 4.8

SNSMR should communicate its information needs to external parties and take appropriate action when information is not received.

The Department supports the communication of information needs to external parties. Most Canadian jurisdictions include data from other Canadian and US jurisdictions in their carrier safety systems and need the same level of data quality and timeliness.

The Department has strong relationships with other jurisdictions and a key piece of information ‘missing’ noted in the AG Report was the assignment of ‘at fault’ in a collision. Many jurisdictions do not assign fault to a collision, so it’s not an action over which the Department has influence. However, the Department has and will continue to identify that this is an information need and to reinforce that with other jurisdictions

While the AG Report notes a missing piece of data in some instances as the National Safety Code number, the Department notes that the National Safety Code number is not required if the plate number is recorded properly. Given that the plate number is many fewer digits/characters, there is far less risk of error in data entry using that number.

Recommendation 4.9

SNSMR should employ the carrier demerit score system to assign audit priority, to the extent possible, when selecting carriers for audit within targeted geographical areas.

The Department does employ the carrier demerit score system to assign audit priority. However, the Department further believes that selecting carriers without point accumulation (random) is also important as the exposure to compliance activities varies within the province.

Recommendation 4.10

SNSMR should improve its carrier safety fitness audit report to make it more useful to carriers as a reference document on identified compliance issues, and to better reflect the work performed by carrier safety officers.

The Department agrees with this recommendation and changes to the report are now complete.

Recommendation 4.11

SNSMR should determine requirements necessary for appropriate assessment of public passenger carriers and take necessary steps to facilitate obtaining the information.

The Department agrees in principal with the recommendation. Inspection information must be forthcoming from NSUARB inspectors in order to implement this recommendation. Discussions with NSUARB and TIR have been initiated which will lay the foundation for the capture of this information.

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Follow-up of Prior Audits





5 Follow-up of 2006 Audit Recommendations

Summary

Of the 146 recommendations made in June and December 2006, only 39% have been implemented. Two or more years have elapsed since these recommendations were made and we believe there has been sufficient time for auditees to address our recommendations.

Progress in implementing our recommendations has not improved since we last reported follow-up results in February 2008. At that time we noted only 39% of our recommendations had been implemented. During our follow-up of 2006 Reports, we found only 39% of our recommendations have been implemented, a significant number (57%) are not yet complete, and government does not intend to implement 4% of our recommendations.

During our audits we may discover weaknesses in systems and controls protecting government assets or in the efficiency or effectiveness of government systems and processes. Many of these systems and processes are used to provide important services to Nova Scotians. We provide what we believe are practical and constructive recommendations to address the weaknesses reported. Failure to address these weaknesses in a timely manner increases the risks of financial loss or failure to effectively deliver services.

We performed a review of self-assessments provided by management and can provide moderate assurance on the reasonableness of the progress reported in implementing our 2006 recommendations. Nothing has come to our attention to cause us to believe the representations made by government management are not complete, accurate and reliable.

During 2008, government took a more direct role in monitoring actions taken on matters reported by the Auditor General. Treasury and Policy Board and the Department of Finance developed a system to track progress on implementing our recommendations. We are hopeful the system will assist us in future follow-up engagements, and also be used by government to track progress until the final disposition of each recommendation.



5 Follow-up of 2006 Audit Recommendations

FOLLOW-UP OF 2006
AUDIT
RECOMMENDATIONS

Background

- 5.1 The 2002 Report of the Auditor General included formal recommendations for the first time. At that time the Auditor General made a commitment to follow up on implementation of these recommendations in three years. Following up our audit recommendations supports our strategic initiatives of serving the public interest, enhancing government performance, and promoting accountability.
- 5.2 In December 2006, the Auditor General notified all auditees that our follow-up chapter would cover recommendations issued two years earlier. We believe that two years is sufficient time for auditees to address our recommendations. This Chapter reports how responsive departments and agencies have been in implementing the recommendations resulting from our 2006 audits.
- 5.3 We requested government management complete a written self-assessment of their progress in implementing each 2006 recommendation. We also requested management provide supporting information. Our review process focused on whether self-assessments and information provided by management were accurate, reliable and complete.

Review Objective and Scope

- 5.4 The objective of this assignment was to provide moderate assurance on the implementation status of recommendations from our 2006 Reports of the Auditor General. This level of assurance is less than for an audit because of the type of work performed. An audit would have enabled us to provide high assurance but would have required a significant increase in the resources devoted by the Office of the Auditor General to this follow-up assignment.
- 5.5 In October 2008, each auditee was sent a form to document their self-assessment of progress on the implementation of the Office's recommendations. We requested each auditee complete and return the forms by October 31, 2008.
- 5.6 Our review was based on written representations by government management which we substantiated through interviews and perusal of



documentation. Moderate assurance, in the context of this assignment, means performing sufficient verification work to satisfy the reviewer that the implementation status as described by government is plausible in the circumstances. Further information on the difference between high and moderate assurance is available in the Canadian Institute of Chartered Accountants (CICA) Handbook, Section 5025 - Standards for Assurance Engagements.

- 5.7 Our criteria were based on qualitative characteristics of information as described in the CICA Handbook. Management representations on implementation status were assessed against three criteria.
- accurate and neither overstate nor understate progress
 - reliable and verifiable
 - complete and adequately disclose progress to date

FOLLOW-UP OF 2006
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RECOMMENDATIONS

Significant Observations

Conclusions and Summary of Observations

We were able to obtain sufficient support to satisfy our review objective for departments' self-assessments. We continue to be concerned with the timeliness of actions taken to address the recommendations in our Reports. Only 39% of our 2006 recommendations have been addressed and implemented to date. The recommendations from our audit of Nova Scotia Innovation and Research Trust reported in June 2006, have been fully addressed. After two or more years, 57% of our recommendations are in various stages of implementation, and government will take no action on another 4%. We are only aware of one situation in which the recommendations from our 2006 audits were no longer appropriate; consequently, we have to conclude the outstanding recommendations have not been given priority.

- 5.8 *Results of review procedures* – In 2006, we made 146 recommendations (2005-132) to government. A summary of implementation status from our follow-up work on chapters reported from 2002 to 2006 follows. We have not reviewed the progress of the recommendations since the year in which the initial review was conducted.



FOLLOW-UP OF 2006
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Implementation Status	2002 3rd year follow-up December 2005	2003 3rd year follow-up December 2006	2004 3rd year follow-up February 2008	2005 2nd year follow-up February 2008	2006 2nd year follow-up March 2009
Complete	35%	48%	49%	28%	39%
Not Complete	56%	42%	47%	63%	56%
Do not Intend to Implement	5%	7%	4%	8%	4%
Other	4%	3%	–	1%	1%
	100%	100%	100%	100%	100%

- 5.9 We performed a review of the self-assessments and supporting documentation and provide moderate assurance to readers of this chapter. Nothing has come to our attention to cause us to believe that the representations made by government management are not complete, accurate and reliable.
- 5.10 *Tracking Auditor General Recommendation System* – The Department of Finance, and Treasury and Policy Board assumed responsibility for developing a system to track recommendations made by the Auditor General – Tracking Auditor General Recommendation System (TAGR). Development of the tracking system began in spring 2008, and in June 2008 testing of the system was completed. Additional improvements were made over the summer and the system was available for use in October 2008. Information sessions on use of the system were held with personnel from all departments.
- 5.11 The Department of Finance was the first to complete self-assessments for all its 2006 recommendations and enter these into TAGR. During our review of the 2006 recommendations, we noted many departments included in this report had not used the TAGR system to report the status of their recommendations. We also found the system was incomplete. There were no 2006 recommendations recorded in TAGR for the Department of Justice (December Chapter 5) or for the Department of Transportation and Public Works (December Chapter 6).
- 5.12 The 2002 Report of the Auditor General included formal recommendations for the first time. We noted that as of February 2009, the TAGR database did not include any recommendations made prior to June 2004. In order for the system to be an effective tool in monitoring the status of our recommendations, it should include recommendations made from 2002 forward.



Recommendation 5.1

Government should ensure that the TAGR database is both accurate for the status level of each recommendation, and complete for all published recommendations from 2002.

5.13 *Responses to information requests* – We sent a request to each department or entity in early October 2008 asking that a self-assessment of the implementation status be completed and returned to us by October 31, 2008. We encountered significant delays in obtaining the self-assessments by that date, particularly from the Departments of Natural Resources and Education. While we were able to complete our procedures by our deadlines, the resources required to follow up the late responses would have been better used elsewhere.

5.14 *Implementation status* – Exhibit 5.1 at the end of this chapter notes the 146 recommendations from our 2006 Reports along with management’s assessment of implementation status.

5.15 The following table summarizes departmental or entity progress by Report and overall. Some departments or entities have made more progress in addressing our recommendations than others. Overall progress in implementing our audit recommendations has been slow.

FOLLOW-UP OF 2006
AUDIT
RECOMMENDATIONS

2006 Report of the Auditor General Chapter	Complete	Not Complete	Other	Do not Intend to Implement	Total Recommendations
Community Services					
June Chapter 4 – Information Technology and Financial Controls	8 80%	1 10%		1 10%	10 100%
Economic Development					
June Chapter 5 – Nova Scotia Research and Innovation Trust	3 100%				3 100%



FOLLOW-UP OF 2006
AUDIT
RECOMMENDATIONS

2006 Report of the Auditor General Chapter	Complete	Not Complete	Other	Do not intend to Implement	Total Recommendations
Education					
June Chapter 6 – Atlantic Provinces Special Education Authority	6	9			15
June Chapter 7 – Conseil scolaire acadien provincial	1	6			7
June Chapter 7 – Education		1			1
June Chapter 8 – Strait Regional School Board	5	6			11
June Chapter 8 – Education		1		1	2
Subtotal	12 33%	23 64%		1 3%	36 100%
Finance					
June Chapter 2 – Government Financial Reporting	1			1	2
June Chapter 3 – Government Systems and Controls		3		1	4
December Chapter 2 – Government Financial Reporting	1	1		1	3
Subtotal	2 23%	4 44%		3 33%	9 100%
Health					
June Chapter 9 – District Health Authorities – Colchester East Hants	3	3			6
June Chapter 9 – District Health Authorities – Cumberland	3	4			7
June Chapter 9 – District Health Authorities – Pictou County	2	5			7
June Chapter 9 – District Health Authorities – Health		2			2
June Chapter 10 – Payments to Physicians	2	3		1	6
December Chapter 4 – Review of Systems to Collect Wait Time Information – Health	6	6	1		13
December Chapter 4 – Review of Systems to Collect Wait Time Information – District Health Authorities	5	19			24
Subtotal	21 33%	42 65%	1 1%	1 1%	65 100%



2006 Report of the Auditor General Chapter	Complete	Not Complete	Other	Do not Intend to Implement	Total Recommendations
Justice					
December Chapter 5 – Correctional Services	3 43%	4 57%			7 100%
Natural Resources					
June Chapter 11 – Sustainable Timber Supply	6 60%	4 40%			10 100%
Public Service Commission					
December Chapter 3 – Audit of HR Application Controls in SAP R/3 System		1 100%			1 100%
Transportation					
December Chapter 6 – Planning and Management of Highway Projects	2 40%	3 60%			5 100%
Total 2006 Recommendations	57 39%	82 56%	1 1%	6 4%	146 100%

FOLLOW-UP OF 2006
AUDIT
RECOMMENDATIONS



Exhibit 5.1 – Status of 2006 Recommendations

June 2006

Chapter 2 – Government Financial Reporting – Finance

2.1 We recommend that the revenue estimates included in the budget be prepared and presented in full accordance with generally accepted accounting principles.

Status – Do Not Intend to Implement

2.2 We recommend that the consolidated financial statements be prepared and presented on a basis fully compliant with generally accepted accounting principles.

Status – Complete

Chapter 3 – Government Systems and Controls – Finance

3.1 We recommend that management implement industry-recognized control best practices for SAP applications to address the weaknesses reported.

Status – Work in Progress

3.2 We recommend that management implement additional control techniques to remediate the identified weaknesses in the control standards adopted by management.

Status – Work in Progress

3.3 We recommend that management provide information relative to these additional observations to all parties who were provided copies of the Section 5900 Report.

Status – Do Not Intend to Implement

3.4 We recommend management implement controls to address reported weaknesses. Further, and as previously recommended in 2003, this process should include the implementation and regular monitoring of control best practices for all aspects of the SAP applications.

Status – Work in Progress

Chapter 4 – Information Technology and Financial Controls – Community Services

4.1 We recommend the Department formally document significant policies and procedures relating to the use of information technology within the Department.

Status – Complete



4.2 We recommend the Department review and update its information technology strategic plan to ensure it reflects changes in information technology and continues to meet Department and user needs. We also recommend an annual business or operational plan be prepared for the Information Technology Services section.

Status – Work in Progress

4.3 We recommend the Department develop performance outcomes, measures and targets for its Information Technology Services section and assess the performance of the section against these targets on a regular and timely basis.

Status – Complete

4.4 We recommend the Department review user access rights to ensure they are limited to those necessary to effectively fulfill assigned job responsibilities. The Department should also ensure documentation related to access rights changes is completed and submitted to the Information Technology Services section on a timely basis. We further recommend that the Department monitor user activity on critical computer systems.

Status – Complete

4.5 We recommend the Department implement computerized edit checks of electronic funds transfer data and a process to ensure reconciliations occur before the bank makes income assistance payments.

Status – Complete

4.6 We recommend the Department modify its electronic funds transfer systems to set a limit on the size of individual electronic funds transfer payments.

Status – Complete

4.7 We recommend the Department ensure the bank account is fully reconciled. In addition, reconciliations should be reviewed and approved and there should be documented evidence of the review and approval.

Status – Complete

4.8 We recommend the Department formally document all policies and procedures related to its electronic funds transfers.

Status – Complete

4.9 We recommend the Department or government enter into a formal agreement with the bank respecting the control the bank is expected to apply to electronic funds transfer data for income assistance recipients.

Status – Complete

FOLLOW-UP OF 2006
AUDITS:
IMPLEMENTATION
STATUS



4.10 We recommend the Department examine its information technology purchase approval process and evaluate the necessity of having the current number of approvals.

Status – Do Not Intend to Implement

Chapter 5 – Nova Scotia Research and Innovation Trust – Economic Development

5.1 We recommend that the Office of Economic Development ensure there is adequate accountability to NSRIT and the Province for project funding provided, whether the funds are disbursed by NSRIT or by OED directly. Improved accountability would be achieved by requiring funding recipients to sign agreements with specific requirements regarding use of funds, periodic reporting on project status at least annually, preparation of final project reports to show whether project outcomes were achieved, and review of project files by NSRIT or the Province to ensure compliance with the agreements. NSRIT should provide OED with annual audited financial statements for the Trust and annually report results of projects funded.

Status – Complete

5.2 We recommend that recipients be required to provide proof of project expenses to verify expenses were within NSRIT approved parameters and that all funds received were expended on that project.

Status – Complete

5.3 We recommend that NSRIT develop an investment policy to ensure appropriate management of NSRIT's funds.

Status – Complete

Chapter 6 – Atlantic Provinces Special Education Authority – Education

6.1 We recommend that the Nova Scotia Department of Education pursue changes to both the Handicapped Persons' Education Act and the related inter-provincial agreement to ensure they reflect current APSEA operations.

Status – Work in Progress

6.2 We recommend that the APSEA Board improve its governance practices as follows:

- more frequent Board meetings; and
- cyclical review of policies to ensure they are current and include important areas such as conflict of interest and a code of conduct.

Status – Work in Progress

6.3 We recommend that the Board establish an annual performance evaluation process for the Superintendent which includes an assessment of



performance against Board-approved performance targets and goals.

Status – Complete

6.4 We recommend that the Board update the strategic plan for APSEA.

Status – Work in Progress

6.5 We recommend that the role and responsibilities of the Financial Advisory Committee be reviewed and clarified.

Status – Complete

6.6 We recommend Trust Fund Committee members assess their information needs and obtain the required information from management. The APSEA Board should formally consider the current Trust Fund governance structure to determine whether alternate governance arrangements would improve the accountability to donors.

Status – Work in Progress

6.7 We recommend that APSEA's legislation be modified to include a requirement to report annually to the House of Assembly.

Status – Work in Progress

6.8 We recommend that APSEA management and the Board develop performance indicators and measures which include student outcomes, and establish an annual process for reporting progress.

Status – Work in Progress

6.9 We recommend that the BVI program model for reporting student outcomes, currently under development, be adopted where appropriate in other areas of APSEA operations.

Status – Complete

6.10 We recommend that management address the weaknesses in the student information system to ensure that requirements of users are met.

Status – Complete

6.11 We recommend that APSEA management prepare an annual business plan for approval by the Board.

Status – Work in Progress

6.12 We recommend that APSEA management submit written support for all key budget assumptions and line items to the Board as part of the budget package.

Status – Complete

FOLLOW-UP OF 2006
AUDITS:
IMPLEMENTATION
STATUS



6.13 We recommend that Provincial Supervisors approve itinerant teacher travel claims and that a process be established to assess the reasonableness of claims paid.

Status – Complete

6.14 We recommend that APSEA determine its financial and operational information needs and ensure appropriate systems are put in place to meet those needs.

Status – Work in Progress

6.15 We recommend that APSEA conduct a detailed review of its existing service delivery model to examine opportunities for cost savings and more efficient allocation of resources.

Status – Work in Progress

Chapter 7 – Conseil scolaire acadien provincial – Education

7.1 We recommend the Conseil implement a formal, documented process for self evaluation.

Status – Complete

7.2 We recommend that CSAP and DOE ensure signed, approved personal services contracts are in place before the employee begins work in the position.

Status – Work in Progress

7.3 (same as Recommendation 8.4) We recommend that the Department of Education seek Executive Council approval for school board commercial activities as required under Section 64 (A) of the Education Act.

Status – Department of Education - Work in Progress

7.4 We recommend that CSAP establish a policy for school-based funds which applies to all schools. This policy should include requirements for appropriate internal controls and monitoring by CSAP's central office.

Status – Work in Progress

7.5 We recommend that CSAP require the contractor to provide proof that all contracted drivers have undergone criminal record and child abuse record checks prior to driving. CSAP should also review driver record abstracts for all drivers of contracted buses prior to driving.

Status – Work in Progress

7.6 We recommend that CSAP include the details for acquisition of taxi services in its future contracts for student transportation.

Status – Work in Progress



7.7 We recommend that CSAP require the contracted transportation service provider to provide an annual report on operations and copies of all safety-related reports relating to the contracted operations. CSAP should review this information for evidence of compliance with the contract, CSAP policies and legislation.

Status – Work in Progress

7.8 We recommend that the DOE, CSAP and RSBs make a concerted effort to consider shared services in order to achieve due regard for economy and efficiency while maintaining the importance of the cultural mandate. CSAP should formally analyze both the cultural factors and costs of sharing versus stand-alone options and attempt to minimize costs when making decisions.

Status – Work in Progress

Chapter 8 – Strait Regional School Board – Education

8.1 We recommend that the Board ensure that management regularly reports progress against all goals, priorities and performance measures detailed in the annual educational business plan.

Status – Strait Regional School Board – Complete

8.2 We recommend that important information such as budget assumptions and calculations as well as the link between the business plan and the budget be formally documented and provided to the Board.

Status – Strait Regional School Board – Work in Progress

8.3 We recommend that the Department of Education and RSBs establish salary guidance for all non-union staff at Regional School Boards.

Status – Strait Regional School Board – Complete

Status – Department of Education – Do Not Intend to Implement

8.4 We recommend that the Department of Education seek Executive Council approval for school board commercial activities as required under Section 64 (A) of the Education Act.

Status – Department of Education – Work in Progress

8.5 We recommend that annual performance expectations for the Superintendent should be clearly defined and include measurable performance targets.

Status – Strait Regional School Board – Work in Progress

8.6 We recommend that the SRSB update its travel policy to improve documentation supporting expense claims.

Status – Strait Regional School Board – Work in Progress



8.7 We recommend the Board update its policy on performance of child abuse and criminal record checks to clearly state action to be taken if risks are identified.

Status – Strait Regional School Board – Complete

8.8 We recommend that SRSB establish a process to ensure that all required documents supporting the use of private conveyors are received and appropriately reviewed.

Status – Strait Regional School Board – Complete

8.9 We recommend that the Board, in cooperation with DOE and other Regional School Boards, establish a formal process to monitor garage and body shop operations against approved efficiency standards.

Status – Strait Regional School Board – Planning Stage

8.10 We recommend that SRSB develop and implement a policy with respect to fuel storage tanks and ensure current practices comply with legislation.

Status – Strait Regional School Board – Work in Progress

8.11 We recommend that SRSB and DOE continue to investigate opportunities for the purchase of fuel from DTPW facilities.

Status – Strait Regional School Board – Work in Progress

8.12 We recommend that SRSB strengthen its procedures for monitoring fuel consumption and use.

Status – Strait Regional School Board – Complete

Chapter 9 – District Health Authorities – Colchester East Hants, Cumberland and Pictou County – Health

9.1 (repeated from June 2004 Report) We recommend that business plans should receive Governor in Council and Department of Health approval prior to commencement of the fiscal year.

Status – Department of Health – No Progress to Date but Plan to Take Action

9.2 (repeated from 2002 Report) We recommend that the Department of Health establish and implement a funding formula to rationalize funding allocations to DHAs.

Status – Department of Health – Planning Stage

9.3 We recommend that CHA and PCHA develop written policies and procedures requiring periodic monitoring and forecasting. We also recommend that CHA and PCHA financial reports be modified to include a comparison between budget for the year and a current forecast of results to year end, and written analysis of variances.



Status – Colchester East Hants – Not Applicable

Status – Cumberland – Work in Progress

Status – Pictou County – Work in Progress

9.4 We recommend that the Finance/Audit Committee for each DHA include at least one professional accountant or person with recognized financial expertise.

Status – Colchester East Hants – Complete

Status – Cumberland – Complete

Status – Pictou County – Complete

9.5 We recommend performance standards be included in the agreements for all shared services. Performance standards and reporting on achievement should also be required for financial services divisions.

Status – Colchester East Hants – Work in Progress

Status – Cumberland – No Progress to Date but Plan to Take Action

Status – Pictou County – Work in Progress

9.6 We recommend the DHAs address the recommendations made by the external auditors and the external consultant concerning information systems security.

Status – Colchester East Hants – Complete

Status – Cumberland – Complete

Status – Pictou County – Work in Progress

9.7 We recommend that DHAs clarify and strengthen travel policies by requiring:

- submission of original supporting invoices rather than signed credit card vouchers;
- identification of the people for whom meals are claimed;
- review and approval of CEOs' travel expenses by the Chair of the Board; and
- signature of the claimant on all travel claim forms.

Status – Colchester East Hants – Work in Progress

Status – Cumberland – Complete

Status – Pictou County – Work in Progress

9.8 We recommend compliance with the requirements of the ASH Sector Procurement Policy including competitive processes for all procurements. All exemptions should be appropriately approved and documented.

Status – Colchester East Hants – Complete

Status – Cumberland – Work in Progress

Status – Pictou County – Complete

FOLLOW-UP OF 2006
AUDITS:
IMPLEMENTATION
STATUS



9.9 We recommend implementation of workload measurement systems for better scheduling of nursing resources. We also recommend improvement in the information systems relating to the summary reporting of causes for overtime.

Status – Colchester East Hants – Work in Progress

Status – Cumberland – No Progress to Date but Plan to Take Action

Status – Pictou County – Planning Stage

Chapter 10 – Payments to Physicians – Health

10.1 We recommend that the Department of Health revise its policies for physician alternative funding arrangements to reflect current practice.

Status – Do Not Intend to Implement

10.2 We recommend that all alternative funding agreements be approved as required by Section 59 of the Provincial Finance Act and that the Department of Health retain documentation relating to such approvals.

Status – Complete

10.3 We recommend that the Department of Health proceed with its plans to implement a new framework for alternative funding arrangements. The agreements should include specific deliverables and accountability provisions for measuring whether deliverables have been achieved.

Status – Complete

10.4 (repeated from 2003) We recommend that the Department of Health conduct a detailed analysis of the risks and benefits associated with the payment of claims for expired health cards and that appropriate controls and procedures be implemented.

Status – Planning Stage

10.5 We recommend that the Department of Health and Medavie monitor the gap between the number of registered beneficiaries and the Province's population and provide an explanation of variances.

Status – Work in Progress

10.6 We recommend that the Department of Health update its provider registration policies and communicate them to Medavie.

Status – Work in Progress

Chapter 11 – Sustainable Timber Supply – Natural Resources

11.1 We recommend the Department prepare and issue a state of the forests report as soon as practical. The report should address progress relating to the



purposes noted in the Forests Act.

Status – Complete

11.2 We recommend the Department include long-term comparative and trend information in its proposed state of the forest report and/or on its website.

Status – Complete

11.3 We recommend the Department regularly report on progress toward significant sustainable forestry goals and objectives.

Status – Complete

11.4 We recommend the Department prepare and publicly report formal responses to significant studies performed on its behalf, indicating whether recommendations are accepted or rejected. Further, progress in implementing accepted recommendations should be reported.

Status – Complete

11.5 We recommend the Department regularly report progress towards each of its significant integrated resource management goals and objectives.

Status – No Progress to Date but Plan to Take Action

11.6 We recommend the Department establish performance measures relating to sustainable forestry on both private and crown land, and report progress towards forest sustainability on a regular basis.

Status – Work in Progress

11.7 We recommend the Department check all silviculture claims for mathematical accuracy.

Status – Complete

11.8 We recommend that the Department analyze activity in its special funds, project future fund cash flows, and advise the Department of Finance to invest the funds accordingly.

Status – No Progress to Date but Plan to Take Action

11.9 We recommend the Department annually report balances and financial activity in the special funds its administers.

Status – No Progress to Date but Plan to Take Action

11.10 We recommend the Department monitor harvesters' stumpage remittances to ensure they are received on a timely basis.

Status – Complete

FOLLOW-UP OF 2006
AUDITS:
IMPLEMENTATION
STATUS



December 2006

Chapter 2 – Government Financial Reporting – Finance

2.1 We recommend that government complete a detailed analysis of the appropriate accounting treatment for the WCB, and ensure full compliance with GAAP in the 2006-07 and future financial statements.

Status – Complete

2.2 We recommend that the Provincial Finance Act be amended to eliminate the existing inconsistency related to additional appropriations and steps be taken to ensure all actions taken by government are in compliance with the requirements of the Act.

Status – Do Not Intend to Implement

2.3 We recommend that Treasury and Policy Board and the Department of Finance work with the Office of the Auditor General to clarify the boundaries, both in substance and form, of the access to information allowed under the Auditor General Act.

Status – Planning Stage

Chapter 3 – Audit of HR Application Controls in SAP R/3 System – Public Service Commission

3.1 We recommend that management implement appropriate controls to resolve the reported weaknesses in HR application controls in the SAP R/3 system.

Status – Work in Progress

Chapter 4 – Review of Systems to Collect Wait Time Information – Department of Health and District Health Authorities

4.1 We recommend that the use of all OPIS fields be standardized.

Status – Department of Health – Complete

4.2 We recommend that the reporting capabilities of OPIS be communicated to all those responsible for preparation of wait time reports which use the system for source data.

Status – Department of Health – Complete

4.3 We recommend that the reporting of wait times for referrals to radiation cancer specialists reflect more comprehensive information such as the cumulative distributions by type of cancer.

Status – Department of Health – Work in Progress



4.4 We recommend that the Department of Health modify the definition of MRI wait times used on the website to ensure it is consistent with the information calculated and provided by the District Health Authorities.

Status – Department of Health – Complete

4.5 We recommend that the Department of Health’s website disclosure of the wait time for MRIs reflect more comprehensive information such as the specific wait times for major types of MRI examinations rather than just a single data point such as the average for all types.

Status – Department of Health – No Progress to Date but Plan to Take Action

4.6 We recommend that the Department of Health continue to monitor submission dates for physician claims to ensure that the quarterly data downloaded from the MSI billing system is substantially complete for purposes of the specific wait time calculation.

Status – Department of Health – Complete

4.7 We recommend that, to the extent possible, the physician billing system and related billing codes be modified to increase the accuracy and efficiency of wait time calculations.

Status – Department of Health – Work in Progress

4.8 We recommend that the Department of Health consider building the requirement for wait time information and reports into automated systems.

Status – Department of Health – Work in Progress

4.9 We recommend implementation of a formal quality control process for wait time data at both the District Health Authorities where the reports originate and the Department of Health.

Cancer referrals:

Status – 1 DHA – Complete

Status - 1 DHA – Work in Progress

Other referrals:

Status – Department of Health – Work in Progress

Status – 8 DHAs – Work in Progress

Status – 2 DHAs – No Progress to Date but Plan to Take Action

4.10 We recommend that the Department of Health formally document policy guidance for how each wait time is to be calculated.

Status – Department of Health – Complete

4.11 We recommend that all District Health Authorities retain, for at least one year, the support for all wait times reported to the Department of Health.

Cancer referrals:

Status – 2 DHAs - Complete

FOLLOW-UP OF 2006
AUDITS:
IMPLEMENTATION
STATUS



Other referrals:

Status – Department of Health – No Progress to Date but Plan to Take Action

Status – 2 DHAs – Complete

Status – 7 DHAs – Work in Progress

Status – 1 DHA – No Progress to Date but Plan to Take Action

4.12 We recommend the Department of Health develop a centrally stored user manual explaining the process and logic for each automated wait time calculation.

Status – Department of Health – Complete

4.13 We recommend that all programming changes related to electronic wait time information be subject to appropriate testing and review. In addition, we recommend that the code be locked as read only between iterations.

Status – Department of Health – Other

Chapter 5 – Correctional Services – Justice

5.1 We recommend Correctional Services develop, implement and report performance measures, indicators and targets for all key programs and services to enable an assessment of the efficiency and effectiveness of the Division.

Status – Work in Progress

5.2 We recommend Correctional Services clearly define, assign and communicate staff roles and responsibilities for performance information and reporting.

Status – No Progress to Date but Plan to Take Action

5.3 We recommend Correctional Services modify its policies and procedures to include a requirement for formal, documented review and approval of pre-sentence reports.

Status - Work in Progress

We further recommend that a scheduling and tracking system be implemented to ensure reports are prepared and submitted to the courts in accordance with policy.

Status – Work in Progress

5.4 We recommend Correctional Services develop and implement controls to ensure compliance with policies and procedures related to community-based sentences.

Status – Complete

5.5 We recommend Correctional Services complete its update of intermittent sentence policies and procedures on a timely basis. We further recommend



Correctional Services develop and implement controls to ensure compliance with intermittent sentence policies and procedures.

Status – Complete

5.6 We recommend Correctional Services develop controls to ensure there is appropriate compliance with its conditional release policies and procedures, and adequate documentation is maintained to support compliance. We further recommend that policies and procedures be updated to address all types of conditional releases and staff authorities.

Status – Complete

Chapter 6 – Planning and Management of Highway Projects – Transportation

6.1 We recommend that processes be established for the review and updating of long-range and shorter-term highway plans on a timely basis to provide for use of current information in the prioritization of road projects.

Status – Work in Progress

6.2 We recommend the Department establish criteria for determining which repaving projects should undergo a rehabilitation review and have such projects reviewed prior to tendering to ensure the most appropriate and economical rehabilitation measures are used.

Status – Complete

6.3 We recommend that the Department work toward fully implementing the bridge management system on a timely basis. In addition, the Department should adequately address similar information needs for its management of pavement.

Status – Work in Progress

6.4 We recommend that the Department work toward fully implementing the highway capital management information system on a timely basis.

Status – Work in Progress

6.5 We recommend that the Department reestablish its project reviews as a means of providing assurance that management of highway projects is consistent throughout the Province and in accordance with the Department's policies. Further, the reviews should ensure complete and consistent file documentation is maintained for highway projects.

Status – Complete

FOLLOW-UP OF 2006
AUDITS:
IMPLEMENTATION
STATUS

Response: TAGR Steering Committee

On behalf of the TAGR Steering Committee I offer the following response.

Recommendation 5.1

Government should ensure that the TAGR database is both accurate for the status level of each recommendation, and complete for all published recommendations from 2002.

Response: Management agrees that the status level of each recommendation should be accurate. Management does not agree with the recommendation to include all recommendations from 2002. The Committee feels there is no value added as a management tool to track older recommendations that are either complete, or there are no plans to implement.

RESPONSE:
FINANCE AND
TREASURY AND
POLICY BOARD

Appendix





An Act Respecting the Office of Auditor General

Short title

1 This Act may be cited as the Auditor General Act. *R.S., c. 28, s. 1.*

APPENDIX I

Interpretation

2 (1) In this Act,

(a) “agency of government” means any department, board, commission, foundation, agency, association or other body of persons, whether incorporated or unincorporated, all the members of which, or all the members of the board of management or board of directors of which,

(i) are appointed by an Act of the Legislature or by order of the Governor in Council, or

(ii) if not so appointed, in the discharge of their duties are public officers or servants of the Crown, or for the proper discharge of their duties are, directly or indirectly, responsible to the Crown;

(b) “Auditor General” means a person appointed pursuant to this Act and includes any person appointed in his place and stead;

(c) “Minister” means the Minister of Finance;

(d) “public property” means property immovable or movable, real or personal, belonging to Her Majesty in right of the Province and includes property belonging to an agency of Her Majesty in said right.

(2) Unless otherwise provided in this Act, the words and expressions used herein have the same meaning as in the Provincial Finance Act. *R.S., c. 28, s. 2.*

Auditor General and Deputy Auditor General

3 (1) Subject to the approval of the House of Assembly by majority vote, the Governor in Council shall appoint a person to be the Auditor General.



APPENDIX I

(1A) Subject to subsection (1B), the Auditor General holds office for a term of ten years and may not be re-appointed.

(1B) The Governor in Council shall remove the Auditor General on the passing by the House of Assembly of a resolution carried by a vote of two thirds of the members of the House of Assembly voting thereon requiring the Governor in Council to remove the Auditor General from office.

(2) The Auditor General shall be paid out of the Consolidated Fund of the Province such salary as the Governor in Council determines.

(3) Notwithstanding subsection (2) hereof, the salary of the Auditor General shall not be reduced by the Governor in Council except on the passing by the House of Assembly of a resolution carried by a vote of two thirds of the members of the House of Assembly voting thereon requiring the Governor in Council so to do.

(4) Upon written advice of the President of the Executive Council and the Leader of the Official Opposition, the Governor in Council may, at any time the Legislature is not in session, suspend the Auditor General for cause, but the suspension shall not continue in force beyond the end of the next ensuing session of the Legislature.

(5) The Governor in Council may appoint a person to be Deputy Auditor General who shall hold office during pleasure and shall be paid such salary as the Governor in Council determines and shall perform such duties as are assigned to him by the Auditor General and who shall during any vacancy in the office of the Auditor General or during the illness or absence of the Auditor General have and exercise all the powers of the Auditor General.

(6) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the Civil Service Act.

(7) The Auditor General and the Deputy Auditor general shall be qualified auditors. *R.S., c.28, s.3; 2005, c.13, s.1.*

Experts

4 (1) The Auditor General may engage the services of such counsel, accountants and other experts to advise him in respect of matters as he deems necessary for the efficient carrying out of this duties and functions under this Act.



(2) The compensation paid to those persons mentioned in subsection (1) hereof shall be determined by the Auditor General within the total dollar limitations established for the Office of the Auditor General in The Appropriations Act for the year in which the compensation is paid and shall be paid out of the Consolidated Fund of the Province. *R.S., c.28, s.4.*

Oath

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5 (1) The Auditor General and every officer, agent and other person employed in the execution of any duty under this Act or under any regulations made hereunder, before entering upon his duties, shall take and subscribe to the following oath:

I,solemnly and sincerely swear that I will faithfully and honestly fulfill the duties that devolve upon me by reason of my employment in the Office of the Auditor General and that I will not, without due authority in that behalf, disclose or make known any matter that comes to my knowledge by reason of such employment. So help me God.

(2) This oath shall be taken before such person, and returned and recorded in such manner, as the Governor in Council prescribes. *R.S., c.28, s.5.*

Public Service Superannuation Act

6 The Auditor General and all officers and employees of the Auditor General are employees within the meaning of the Public Service Superannuation Act and are entitled to all benefits therein set forth. *R.S., c.28, s.6.*

Powers and duties

7 (1) The Auditor General shall supervise and be responsible for all matters relating to the conduct of his office and of persons employed by him and shall have all the powers and perform all the duties conferred and imposed upon him by this Act, any other Act and the Governor in Council.

(2) The Auditor General may delegate to any person employed by him any duty, act or function that by this Act he is required to do other than reporting to the House of Assembly or to the Governor in Council. *R.S., c.28, s.7.*



Examination of account

8 The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

- (a) accounts have been faithfully and properly kept;
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;
- (c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;
- (d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and
- (e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property. *R.S., c.28, s.8.*

Annual report

9 (1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the Provincial Finance Act, respecting the fiscal year then ended.

- (2) The report forms part of the public accounts and shall state
 - (a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and
 - (b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.



(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion. *1998, c.5, s.1.*

Other reports

9A (1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has willfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

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(4) Whenever a case of the type described in clause 1(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant. *1998, c.5, s.1.*

Review and opinion of revenue estimates

9B (1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address. *1998, c.5, s.1.*

Access to information

10 (1) Notwithstanding the provisions of any other Act, every officer, clerk or employee of an agency of government shall provide the Auditor General with such information and explanation as the Auditor General requires and the Auditor General shall have free access, at all times, to the files, records, books of account and other documents, in whatever form, relating to the accounts of any agency of government.

(2) The Auditor General, if he deems it expedient, may station one or more of his officers in any agency of government to enable him more effectively to carry out his duties under this Act, and the agency of government shall provide necessary office accommodation for such officer or officers. *R.S., c.28, s.10.*

Audit before payment

11 (1) The Auditor General, if directed by the Governor in Council, shall audit the accounts of any agency of government before payment.



(2) Where the Auditor General is directed to audit, before payment, certain accounts or classes of accounts, no payment of such accounts may be made until the Auditor General has certified them to be correct or the Minister directs. *R.S., c.28, s.11.*

Examination of security

12 The Auditor General may examine in such manner and to the extent he considers necessary such of the securities representing any debt of the Province which have been redeemed and cancelled. *R.S., c.28, s.12.*

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Security required

13 The Auditor General shall require every person employed by him who examines the accounts of an agency of government to comply with any security requirements applicable to officers and employees of that agency of government. *R.S., c.28, s.13.*

Powers, privileges, immunities

14 The Auditor General shall have, in the performance of his duties, the same powers, privileges and immunities as a Commissioner appointed under the Public Inquiries Act. *R.S., c.28, s.14.*

Special audit and report

15 Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Treasury and Policy Board shall, make an examination and audit of

- (a) the accounts of an agency of government; or
- (b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where



(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon. *R.S., c.28, s.15; 2005, c.13, s.2.*

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Payment for statutory audit

16 (1) Where under this Act or any other Act of the Legislature, the Auditor General is, or may be, required to examine and audit or inquire into the accounts of any agency of government, the Governor in Council may direct that the cost of the examination and audit or inquiry be paid by that person, institution or agency of government, and upon such direction such payment shall be made.

(2) The Auditor General may charge fees for the examination and audit or inquiry, or such other professional services rendered by the Office of the Auditor General, on the basis approved by the Treasury and Policy Board. *R.S., c.28, s.16; 2005, c.13, s.3.*

Examination by chartered accountant

17 (1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.



(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary. *R.S., c.28, s.17; revision corrected 1999.*

Where other auditor designated

18 Nothing in this Act shall be construed to require the Auditor General to audit or report upon the accounts of any agency of government if the Governor in Council, in pursuance of statutory authority in that behalf, has designated another auditor to examine and report upon the accounts of the agency of the government. *R.S., c.28, s.18.*

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Powers and authorities

19 The Auditor General shall have all the powers and authorities exercisable by a deputy head under the Civil Service Act. *R.S., c.28, s.19.*

Regulations

20 The Governor in Council may make such regulations as are deemed expedient for the better carrying out of this Act. *R.S., c.28, s.20.*

Annual estimate

21 The Auditor General shall prepare annually an estimate of the sums required to be provided by the Legislature for the carrying out of this Act during the fiscal year, which estimate shall be transmitted to the Treasury and Policy Board for its approval, and shall be laid before the Legislature with the other estimates for the year. *R.S., c.28, s.21; 2005, c.13, s.4.*

Expenses

22 The expenses to be incurred under this Act shall be paid out of the Consolidated Fund of the Province. *R.S., c.28, s.22.*



Regulations Act

23 Regulations made by the Governor in Council pursuant to Section 20 shall be regulations within the meaning of the Regulations Act. *R.S., c.28, s.23.*

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