

INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 This Report contains the results of work carried out by my Office during 1997. My objective is to provide information to the House of Assembly to aid its members in carrying out their responsibility to hold the government to account for the management of public funds.

1.2 In performing our work we adhere to the standards promulgated by the Canadian Institute of Chartered Accountants (CICA). New standards for assurance engagements were issued in March 1997 by the CICA. We are currently reviewing our audit processes and reporting style to ensure that we fully comply with them.

1.3 This chapter provides a summary of the most significant findings outlined in the Report. The individual chapters provide the more detailed results of each audit or review and contain other issues which require attention. In addition, during 1997 I issued a Special Report dealing with the Province's financial statements for the year ended March 31, 1997. I caution readers of this chapter that a fuller understanding of any particular issue would be obtained from reading the more detailed chapter or report.

1.4 Within government, efforts continued to improve management processes and accountability reporting. Some of these respond to recommendations and observations made in previous Reports. This Report comments on these initiatives and provides status reports. Many of these initiatives are positive, but our work also identified significant issues which warrant action.

AUDIT MANDATE

1.5 The Auditor General Act requires me to table this *Report of the Auditor General* on a day following the day that the government tables the *Public Accounts*. These have generally not been tabled until March of the year following the end of the previous fiscal year. However, in the spring of 1997 an amendment to the Provincial Finance Act was passed, requiring the *Public Accounts* to be tabled or deemed tabled by December 31 following the end of the fiscal year. This is a positive change, resulting in more timely reporting and will permit more timely release of my Annual Report. Thus, this was a year of transition for my Office and this Report is based on nine months of audit effort. In future years we will endeavor to table the Report very shortly after the Public Accounts are tabled.

1.6 It is also my intention to issue Special Reports when I believe that important information resulting from an audit or review should be provided in a timely manner.

1.7 As has been discussed in previous Reports, and in meetings of the Public Accounts Committee, the Provincial Finance Act provides for an audit of the Province's financial statements by a chartered accountant who reports to the Minister of Finance. This is inconsistent with the traditional view that the Legislature should be the client for this audit, since the Minister is accountable to it for the Province's financial affairs.

1.8 To compensate, at least partly, for this situation, I will continue to review the financial statements and provide commentary on them. This year, because I felt timely information on significant matters was warranted, I issued a Special Report on August 22, 1997 shortly after the

financial statements were released. Chapter 2 provides additional comments on these matters.

ACCOUNTABILITY INFORMATION AND REPORTING

1.9 Nova Scotia has received recognition nationally and internationally for its efforts to improve the quality of its accountability information and reporting, particularly its *Government By Design* publication. The government is preparing a performance report entitled *Nova Scotia Counts* that is intended to provide information on the degree to which objectives specified in *Government By Design* were achieved. These are positive initiatives, however they are discretionary. I strongly urge that the provision of such planning information and performance reporting be enshrined in legislation, and that these become key elements of government's accountability relationship with the Legislature.

1.10 Over the past several years the government has made progress in improving the basis of presentation of its financial position and results. However, issues still remain, including the need for full reporting by way of presentation of consolidated statements as a major financial accountability document. In addition, the application of what in my opinion was an inappropriate accounting policy led me to issue a Special Report on the March 31, 1997 financial statements.

PROCUREMENT - FOLLOW-UP

1.11 The Procurement Branch of the Department of Finance continues to take significant steps to improve controls over the procurement process. The Branch has taken action on all the opportunities for improvements identified in our Report last year. The implementation of formal reporting on procurement activities and exceptions is to be in place by March 31, 1998.

1.12 Steps have been taken to address the need for a strategy and guidelines for managing P3 within government. However, at the time of our review, further steps were required.

INFORMATION TECHNOLOGY MANAGEMENT - YEAR 2000 READINESS

1.13 The Year 2000 issue has received widespread media coverage and expert commentary. It represents a very real threat to industry and government. If computerized systems are not able to deal with the turn of the century, there may not be the ability to deliver complete and uninterrupted service.

1.14 The government is to be commended for the many steps that have already been taken or are planned. However, there is still much to be done and no one should forget that the deadline is fixed; delay cannot be tolerated.

1.15 I strongly urge the House of Assembly to request periodic reporting on the progress that is being made and the issues that are outstanding.

PUBLIC-PRIVATE PARTNERSHIPS (P3 OR PPP) FOR SCHOOL CONSTRUCTION

1.16 "PPP" is a term that is being used widely, and within government has become a subject of much debate in Nova Scotia, and indeed in other jurisdictions. We examined the government's initial activities in implementing such arrangements for school construction. Our audit identified major deficiencies in the initial processes of analysis, negotiation and agreement finalization.

Similar findings were also reached by a review performed by the Priorities and Planning Secretariat released on December 11, 1997.

1.17 Also in December 1997, the government released a plan for school construction which contemplates the use of public-private partnering arrangements. My Office has not reviewed this plan in detail or reconciled planned funding with the construction timetable. It should be recognized, however, that contemplated leasing arrangements will quickly commit the Province to significant annual expenditures over the next 20 to 25 years. Also the Province will not own the schools when the leases expire. Flexibility in future years may be severely restricted.

1.18 As well, because lease agreements and other arrangements have not been finalized for any of the schools completed or planned, we have not been able to assess the applicability of CICA guidelines for operating leases. These guidelines determine the appropriate accounting treatment. We have also not yet been able to determine whether these arrangements constitute due regard for economy and efficiency, again because agreements have not been finalized.

DEPARTMENT OF FINANCE - CORPORATE FINANCIAL MANAGEMENT SYSTEM (CFMS)

1.19 Implementation of CFMS represented one of the most significant information technology projects undertaken by the government. This Office was concerned about its impact on government and in particular on financial control. However, the review we commenced could not proceed as relevant information could not be obtained on a timely basis. We recognize that this was due to the many priorities being addressed by staff of the Department of Finance and the loss of key staff involved in the project.

1.20 Agreement has been reached with Finance to undertake a joint audit to be completed around March 31, 1998. The results of that audit will be released shortly after that date.

DEPARTMENT OF FINANCE - DEBT MANAGEMENT

1.21 There is general agreement that the size of the Province's debt is a matter of some concern. My Office undertook an audit of debt management practices in 1994 and we have continued to monitor Finance's progress in dealing with identified issues.

1.22 My 1995 Report commented positively on actions taken but raised continuing concerns particularly related to the adequacy of resources allocated to this significant financial area.

1.23 This year's review identified continuing action to improve policies and processes and also identified that additional skilled resources had finally been acquired. My Office will continue to monitor the management of the Province's debt in view of its significance to fiscal performance.

ATLANTIC LOTTERY CORPORATION

1.24 An audit conducted by my Office in 1996 identified a number of opportunities to improve the management and governance of ALC. Action has been taken or is underway to deal with many of our recommendations. However, those which require agreement of the four shareholder provinces remain outstanding.

1.25 In particular, a revision to the formula for cost allocation which impacts on profit sharing between the provinces is still under negotiation. In this regard, ALC was using an allocation

methodology that was agreed to by the shareholders in 1991. In last year's Report we observed that the manner in which ALC's costs and profit are being allocated using that methodology results in certain shareholder provinces, in essence, subsidizing other jurisdictions. Using information for the 1995-96 fiscal year, we estimated that Nova Scotia was losing approximately \$5 million per year.

QUEEN ELIZABETH II HEALTH SCIENCES CENTRE

1.26 I did not conduct an audit of the QE II but do have the mandate to review the results of any audit performed by its auditors. The management letter, issued by its auditors on July 29, 1997, contained issues that warrant attention.

1.27 The concerns relate to the financial position of the Centre because of its accumulated deficit and anticipated future deficits. As at March 31, 1997 the accumulated deficit was \$21.9 million and recent public statements indicate a significant deficit in 1997-98. The Centre plans to recover these deficits through future cost savings but also anticipates investing \$8.4 million in re-engineering initiatives in order to achieve the savings.

1.28 In addition, certain significant claims and accounts receivable from the Department of Health and the Workers' Compensation Board appear to be under negotiation or in dispute. Any portion uncollected will increase the Centre's deficit.

1.29 In summary, if the Centre is unable to achieve the planned cost savings or the disputed outstanding claims are not recovered, the Province and Centre will have to determine how to finance the resulting large deficit. This could have a significant impact on the Province's goal of balanced budgets.

RESOURCE RECOVERY FUND BOARD INCORPORATED

1.30 This audit resulted in a number of positive findings. However, the manner in which the Board was established raises questions as to its status; is it a government entity or a private concern? It administers a government program, manages public funds and is accountable to a Minister. However, because it is incorporated as a private not-for-profit company, it must pay the Harmonized Sales Tax thus significantly reducing funds available to carry out its programs.

1.31 Another issue is whether it is expected to comply with various government policies including procurement, wage restraint and access to information.

CONCLUDING REMARKS

1.32 In 1997, the government continued to make progress in improving management processes, particularly related to performance reporting, planning and budgeting. As well, progress was attained toward its goal of balancing annual budgets and establishing fiscal stability. New ways of achieving program objectives within a framework of fiscal restraint were also undertaken with some success. However these initiatives were not without pitfalls and demonstrated the need for careful planning and risk assessment. This was particularly true with regard to the launch of a school construction program. My Office will continue to monitor and report on these initiatives.

1.33 The legislative structure within which organizations are created is sometimes unclear. In previous Reports I have commented on inconsistencies and problems that have been caused as a result. The Atlantic Lottery Corporation and the Highway 104 Western Alignment Corporation were

two examples. The Resource Recovery Fund Board Incorporated, reported upon this year, is another example. I urge the Legislature to consider amendments to the Provincial Finance Act and related legislation that would bring clarity to the definition of government entities and the government reporting entity. The applicability of various government policies to all government entities also requires consideration. I intend to undertake a broadly-based review of the organizational status of government entities, their accountability relationships and reporting requirements. This will also focus on the status for purposes of the government financial reporting entity.

1.34 As discussed earlier, this was a year of transition for the Office, with a much earlier reporting deadline and compressed available time and resources. Once again the staff of the Office responded positively and I wish to thank them for their efforts. As well, our deadline put pressure on extremely busy public servants who had to respond to our reports. I thank them for their cooperation.
