

INTRODUCTION

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OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 I have the pleasure to submit my tenth Annual Report to the Legislature. It contains the results of audits and other work carried out by my Office during the year 2001. I continue to attempt to assist the members of the House of Assembly with 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 established and promulgated by the Canadian Institute of Chartered Accountants. These are the professional standards adhered to by public accountants and legislative auditors when performing assurance work. Chapter 17 of this Report provides a description of the Office's mandate, mission, goals and business functions. It discusses the strategic and other initiatives undertaken during the year, discusses our progress in measuring our performance and outlines our Business Plan for 2002-03.

1.3 The Auditor General Act calls for this Annual Report to be tabled by December 31. However, again this year, the Report was delayed in order to complete and include the results of major audits.

1.4 Last year I discussed what I felt was the major issue facing this Province - achieving fiscal stability - and in order to provide further assistance to efforts by the government to achieve that objective, we focused much of our audit effort this year on the systems and processes that are critical to achieving fiscal stability while delivering priority services. These issues centre around governance, accountability, planning and budgeting and are extensively discussed in Chapters 2, 3, 4 and 5.

AUDIT MANDATE

1.5 In addition to my responsibility to table this Annual Report, the Auditor General Act requires me to provide an opinion to the House of Assembly on the government's financial statements and to have that opinion included in the *Public Accounts*. My opinion was dated September 28, 2001 and was included in the Public Accounts which were tabled by the Minister of Finance on November 16, 2001.

1.6 The Auditor General Act also requires me to review the estimates of revenue contained in the *Budget Address* of the Minister of Finance and to report to the House of Assembly on the reasonableness of the revenue estimates. That report was included in the March 29, 2001 Budget Address.

1.7 The Auditor General Act does permit me to table two additional reports during a year, however none were issued in 2001.

DEALING WITH THE FISCAL CRISIS

1.8 As I mentioned earlier, this is my tenth Annual Report to the Legislature. Starting with the first one, and annually, I have stressed the need for improved processes, systems and information. As I have acknowledged before and as I discuss in this Report, continuous improvement has taken place through actions and leadership at various levels. I also acknowledge that actions have been directed at addressing the Province's fiscal situation. In the early 1990s Nova Scotia was running

huge deficits and debt was skyrocketing. Actions by successive governments from 1993 on have slowed the pace but the goal of achieving a balanced budget has still not been met, and the Province's debt continues to grow. There are other overriding questions which remain to be answered. Is balancing the budget enough? Aren't significant sustained surpluses necessary to really start reducing the debt? Is employing a target-driven budget system adequate when faced with demands for services that cannot be accommodated within the targets? How does a government lower the expectations of the public in terms of what can be afforded?

1.9 I certainly do not have answers to all these questions. I am not sure anyone does. I do know that process, system and information improvements can help the debate and decision-making necessary to deal with these issues, but are not the total solution. In last year's Report I discussed the work of the Fiscal Management Task Force and suggested that their recommendations could help. I encourage the government to continue to address these issues.

ACCOUNTABILITY INFORMATION AND REPORTING

1.10 As discussed in Chapter 2, there have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans, priorities and achievements. Finance and the Treasury and Policy Board have taken, and are still taking, steps to improve the nature and quality of the information and reports available. The improved information is intended to assist MLAs in debating the resource allocations in the annual *Estimates* and considering the proposals of government regarding program priorities. I encourage MLAs to continue to demand better information on government's plans and results, and to use it effectively as a means of holding government to account for its decisions and performance.

1.11 Although not addressed directly by our audit activities, recent public reports indicate that there are issues of governance and accountability at the level of individual entities. These will have to be addressed as well if effective control of public funds is to be achieved. Such control is essential if fiscal stability is to be achieved and sustained.

FINANCIAL PLANNING AND BUDGETING

1.12 As discussed in Chapter 3, the annual Estimates are the cornerstone of effective financial control and provide the foundation for government's financial accountability to the Legislature. We found that government had established a reasonable approach for preparation of the 2001-02 Estimates. We did make recommendations for improvements to certain aspects of the process.

1.13 The 2001-02 process was primarily target driven and flowed from the government's four-year fiscal plan. The ability to achieve targets requires clear linkages between the targets for the program areas and the operational plans for those programs. Such operational plans should be in sufficient detail and outline assumptions and service levels. Our audit work indicated that operational plans were not prepared in certain areas and some were not in sufficient detail to link resource allocations to planned services. Effective upwards communication by government managers of program priorities and proposed service level options is also critical.

1.14 Chapter 4 examines the government's new process for prioritizing capital expenditures. We found the process to be reasonable, based on the funds available.

1.15 In Chapter 5, we discuss our audit of the budget information which the Capital District Health Authority provided to government through the Department of Health. We determined that the Authority's process for budget preparation was appropriate, but suggested improvements to the processes for operational planning and communication of assumptions underlying the budget submission.

1.16 We encourage government at all levels to continue to improve these processes and the resulting documentation. Improved processes should help to achieve fiscal targets in a coherent and effective manner, while delivering services that are rational and sustainable.

SAFETY

1.17 Three audits dealt with safety: food safety, occupational health and safety, and public safety. We made recommendations for improvements in documentation, standards development, levels of compliance with legislation and regulations, as well as in reporting on program performance.

FINANCE - TREASURY MANAGEMENT SYSTEM

1.18 In order to more effectively manage various treasury-related transactions and accounts, a new system (the Millennium system) was acquired by the Department of Finance. It was acquired in an appropriate manner and has been generally well implemented. We recommended that a post-implementation review be performed. There is also need for a formal business continuity and contingency plan in the event of a disaster.

CORRECTIONS AND FORENSIC FACILITY PROJECT

1.19 The Office undertook to audit the government's acquisition of a \$60 million central corrections and forensic facility in Burnside Industrial Park, Dartmouth. We concluded that appropriate processes were used to plan and manage the project, but there could have been more comprehensive reporting on progress and changes in the project in government annual reports to the House of Assembly. We could not express an opinion on the reasonableness of some decisions respecting the location of the facility due to lack of documentation. Government structured the project as a public-private partnership (P3). We did not see significant benefits realized by government as a result of structuring the project as a P3.

SCHOOL CAPITAL CONSTRUCTION

1.20 Since 1997, the government has approved over \$600 million of school construction, and an additional \$300 million was recently submitted to Executive Council for approval. The Office audited the Department of Education's processes for assessing and approving school construction projects.

1.21 We found that the Department of Education's process for school capital planning and project approval, as described to us by management, appears adequate. Some aspects of the process, such as evaluation of individual projects against criteria, have not been well documented. For the process to be transparent, the Department of Education should document major steps such as evaluation of potential projects against pre-established criteria.

1.22 Internal Department of Education reports indicate that a serious deferred maintenance problem currently exists in Nova Scotia schools. To ensure that this problem does not escalate further, the Department of Education should begin to monitor Regional School Board spending on preventive maintenance to ensure that adequate funds are being directed toward this area and spent in the most effective manner.

ADDITIONAL APPROPRIATIONS

1.23 Additional appropriations totalling \$450 million and \$658 million were required for the years ended March 31, 2001 and March 31, 2000 respectively. It must be acknowledged that a significant portion (i.e., more than half) of these totals relate either to changes in accounting policies necessary for the Province to adhere to generally accepted accounting principles (GAAP) or to unusual items, both of which would not have been considered in the estimates process for those years.

1.24 The additional appropriations had not received the required formal approval prior to March 31, 2001, and all were still awaiting Order in Council approval late in 2001. This raises questions as to the effectiveness of the House of Assembly's control over spending authority limits.

1.25 The review and debate by the House of government's annual Estimates culminates in the approval of spending authority limits (i.e., appropriations), and has a long and well-established tradition in the parliamentary process. That notwithstanding, with financial accounting and reporting now on an accrual (versus cash) basis in accordance with GAAP, the current appropriations process or focus cannot provide adequately for the effective control of the public purse by the House. Government recognizes this and is considering options in order to improve the process.

CONCLUDING REMARKS

1.26 I continue to urge government to give priority to the various issues which weaken effective control over the expenditure of public funds. Acting on the various recommendations contained in this and previous Reports as well as those made in the year 2000 by the Fiscal Management Task Force would assist the government in achieving its fiscal targets and thus deal with Nova Scotia's fiscal crisis.

1.27 In conclusion I would like to thank the staff of my Office for their efforts and support. Once again they have worked diligently to conduct their assigned responsibilities professionally, courteously and fairly. As well I wish to thank those whom we audit for their cooperation and fairness. I recognize that auditors can get in the road of a normal day's work but we seldom hear complaints.
