

INTRODUCTION

1.**OVERVIEW AND SIGNIFICANT ISSUES****INTRODUCTION**

1.1 I am pleased to submit my Annual Report to the House of Assembly. It outlines the results of audit work and other activities carried out during 2002. It is my continuing objective to provide information for use by members of the House of Assembly 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 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.

1.3 For the first time I will also be presenting a separate report which will describe the role of the Office, lay out our business plan for the year ended March 31, 2004 and report on our performance for 2002. The business plan for 2002-03 was included in the 2001 Annual Report. I will be presenting these in a separate report to highlight the importance I attach to planning and performance reporting and encourage members of the House of Assembly to offer comments and provide advice on our plans and activities.

1.4 I have also made a change in the content of this Annual Report. This year, in most of the chapters, I have included specific recommendations to government that are intended to address weaknesses, deficiencies or issues identified in the course of audits. It is my intention to follow up on these 90 recommendations in three years to determine the extent of action taken.

1.5 The government continues to focus on achieving fiscal stability and appears to be making progress. However, one of the key elements in doing so is sound decision making based on good information. Throughout this Report, my audits identified weaknesses in information reporting within departments and agencies, between organizations and externally to the House of Assembly. I acknowledge that improvements have been made over the last number of years but deficiencies still exist.

AUDIT MANDATE

1.6 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 October 18, 2002 and was included in the Public Accounts which are scheduled to be tabled by the Minister of Finance before December 31, 2002.

1.7 I am also required by the Auditor General Act 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 April 4, 2002 Budget Address.

1.8 The Auditor General Act also permits me to table two additional reports during a year. I will be tabling my business plan and performance report under this provision.

ACCOUNTABILITY INFORMATION AND REPORTING

1.9 Chapter 2 discusses the government's first *Annual Accountability Report* issued in December 2001, the results of our review of the government's 2002-03 Revenue Estimates, the results of our audit of the Province's Summary Consolidated Financial Statements for the year ended March 31, 2002, and comments on the government's progress in implementing the Corporate Financial Management System throughout the broader public sector. We note that government has taken steps to improve the nature and quality of accountability reporting to the House of Assembly and public.

1.10 The chapter includes recommendations in several areas where government needs to improve controls or accountability. For example, central government needs to better communicate statutory and policy requirements to the broader public sector and ensure these are well understood by the entities involved. The accounting and control processes for the \$65 million appropriation for restructuring costs need improvement.

1.11 We also note that government's commitment to generally accepted accounting principles (GAAP) may require other changes in accounting policies to comply with future recommendations of the Canadian Institute of Chartered Accountants. We strongly support maintaining compliance with GAAP but note that compliance will continue to challenge the government in achieving its fiscal plans.

EDUCATION - HIGHER EDUCATION AND ADULT LEARNING BRANCH

1.12 Chapter 3 includes the results of an audit of the Higher Education and Adult Learning Branch of the Department of Education which has responsibility for a number of programs including Student Assistance. There have been a number of changes in the Student Assistance program since our last audit including the Province's decision in 2000 to fully guarantee student loans and accept the related liability for future defaults, rather than pay a risk premium to the bank as in the previous arrangement. Since loan repayment depends on future income levels of loan recipients and other factors, there is a need for the Department to gather and analyze historical default rates, employment trends and related information to accurately estimate the liability associated with the program.

1.13 Since we last audited the program, the Department also decided that Student Assistance applicants no longer need to submit income tax returns or other income documentation for themselves, parents or spouses. We believe this decision increased the risk associated with the program and recommend that the Department consider approaches to mitigating the risk, including developing a formalized audit approach or accessing electronic income information from the Canada Customs and Revenue Agency.

EDUCATION - REGIONAL SCHOOL BOARDS' PROPERTY SERVICES EXPENDITURES

1.14 The current system of funding property services expenditures and major capital construction does not motivate Regional School Boards to invest in preventive maintenance of school buildings as noted in Chapter 4. There is also a serious deferred maintenance problem in the schools. Systems and controls in the property services area are generally informal and require improvement to ensure the value from the Province's investment in school buildings is maximized.

ENVIRONMENT AND LABOUR - DRINKING WATER SAFETY SYSTEM

1.15 Chapter 5 indicates that the Department of Environment and Labour has good processes for developing and promulgating standards for safe drinking water and ensuring individuals with responsibilities related to drinking water have appropriate qualifications. The Department has suitable plans for improving its monitoring and auditing of municipal water supplies, but needs to put more effort into planning for the monitoring and auditing of registered water supplies.

WORKERS' COMPENSATION BOARD OF NOVA SCOTIA - GOVERNANCE STRUCTURE AND PROCESSES

1.16 Chapter 6 includes the full text of our report on Governance Structure and Processes at the Workers' Compensation Board. This audit was requested by Treasury and Policy Board and the report was provided to the Minister of Environment and Labour on June 14, 2002.

NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN TRUST FUND

1.17 Chapter 7 indicates that the unfunded liability for the Trust Fund is estimated to be \$38.9 million at June 1, 2002. Recent changes to the Plan, aimed at developing a fully-funded position in 15 years, are a significant step in maintaining a viable Fund but there are other actions which should be taken. Leave management policies and procedures within the government and its related entities relating to short-term illness need to be examined in an effort to control the rate of claims incidence for the Plan.

HEALTH - ACCOUNTABILITY OF DISTRICT HEALTH AUTHORITIES

1.18 The Health Authorities Act includes provisions that establish a strong accountability structure between the Department of Health and the District Health Authorities as indicated in Chapter 8. Although some of these requirements are already in place, additional work is needed to enforce all provisions of the Act. We believe that accountability would be improved if District Health Authority Business Plans were submitted to Executive Council as provided in the Act. Executive Council should formally approve, with documentation, Health Authorities' planned initiatives in addition to funding.

1.19 The Department is investing significant resources in the development of better information systems. We support the Department's efforts to improve information available for decision making. The Nova Scotia Health Information System is a significant undertaking and is scheduled for completion by the end of 2004. The most recent forecast of project costs is \$57 million.

HEALTH - PROCUREMENT

1.20 Chapter 9 indicates that we found several instances where the Department of Health was not compliant with the requirements of the Provincial Procurement Policy or the Department's internal policies. We recommend that the Department complete and implement its reorganization of the procurement function and take measures to achieve compliance with the related policies.

HEALTH - HOME CARE NOVA SCOTIA

1.21 Home Care Nova Scotia's costs have increased dramatically over the past five years as indicated in Chapter 10. The majority of home care costs relate to payments made to third-party service providers. Control over program expenditures and quality of care depends to a large degree on the Department's ability to ensure that the service providers are providing services consistent with the Department's requirements at a reasonable cost. We believe the Department needs to make significant improvements in the management of service providers.

NOVA SCOTIA HEALTH RESEARCH FOUNDATION

1.22 Chapter 11 indicates that the Foundation has progressed in all areas since it became operational in January 2000. We made a number of recommendations to assist the Foundation in improving control over its operations.

1.23 We also noted that the government approved grants of \$2.5 million to the Foundation in the Estimates for both 2000-01 and 2001-02 but that the actual grant in each of the two years was \$5 million. We recommend that the government appropriately budget the grant to the Foundation.

HEALTH - AUDIT OF PERFORMANCE INDICATORS

1.24 Chapter 12 is a discussion of our audit of the Department of Health's September 30, 2002 publication *Reporting to Nova Scotians on Comparable Health and Health System Indicators - Technical Report* which resulted from a September 2000 commitment made by the First Ministers. The publication includes 67 health indicators in 14 areas, and was the first time that we audited a non-financial report of a government department. We believe that the user of accountability reports requires assurance on the quality of the document. Audits provide the needed assurance. The role of audit is well understood in the provision of financial information, but is just beginning to be recognized in the provision of non-financial information. We encourage government to look at the 2002 health indicators report as an example of the added assurance that an audit can provide on non-financial information in all sectors.

SERVICE NOVA SCOTIA AND MUNICIPAL RELATIONS - FUEL AND TOBACCO TAX

1.25 Chapter 13 indicates that systems for issuing and monitoring licenses and permits related to fuel and tobacco taxes are adequate. However, the Department has inadequate systems for processing fuel and tobacco tax returns, and for conducting taxation-related audits and inspections. Also, improvements should be made to strengthen collection of past due taxes.

TRANSPORTATION AND PUBLIC WORKS - PROCUREMENT BRANCH

1.26 We observed instances of government organizations not complying with the Government Procurement Policy as noted in Chapter 14. A significant number of government organizations are not externally monitored to ensure they are in compliance with procurement policy and interprovincial procurement agreements. Also, there is little challenge of government agencies using alternative procurement practices, even when procurement practices do not meet the criteria presented in the Government Procurement Policy.

HIGHWAY 104 WESTERN ALIGNMENT CORPORATION

1.27 Chapter 15 notes that the Corporation reports to the Department of Transportation and Public Works on a timely basis, but the Department does not provide accountability information on the Corporation to the House of Assembly. We believe that the Corporation should be accountable to the House and that its accountability requirements should be included in legislation.

TRADE CENTRE LIMITED

1.28 Chapter 16 discusses the results of our review of Trade Centre Limited. We note that Trade Centre was not aware of statutory requirements included in the Provincial Finance Act, including the requirement for Executive Council to approve guarantees, and that there is a need for central government to communicate policy and statutory requirements to such entities. We also note that there is a need for the Board of Directors to formalize the process and criteria relating to eligibility for management bonus payments.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

1.29 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies where the financial statements are reported on by private sector auditors. Chapter 17 includes comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

ADDITIONAL APPROPRIATIONS

1.30 Chapter 18 indicates that additional appropriations totaling \$450.2 million and \$183.4 million were approved by Order in Council in September 2002 for the years ended March 31,

2001 and March 31, 2000 respectively. Additional appropriations required for the year ended March 31, 2002 are yet to be approved by Order in Council.

1.31 Under Section 28(4) of the Provincial Finance Act, as amended May 30, 2002, Order in Council approval now needs to be obtained "*no later than ninety days after tabling of the Public Accounts*". These statutory changes establish a deadline for obtaining additional appropriations and resolve an administrative challenge of government regarding compliance. However, parliamentary control of and accountability for government's spending are at risk of being further impaired because the statutory provisions do not require approval prior to spending.

CONCLUDING REMARKS

1.32 I believe that acting on the recommendations contained in this and prior Reports would assist government in achieving its fiscal objectives. Better management and decision making is critical and while I acknowledge the improvements that have been made over the last number of years, better systems and better (not more) information at all levels is necessary.

1.33 Again this year I would like to thank my staff for their efforts and support. It was a busy year and they worked diligently, professionally and enthusiastically in carrying out their projects. Those whom we audit are also professional, cooperative and courteous and I wish to thank them.
