

# Introduction



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## MESSAGE FROM THE AUDITOR GENERAL

### INTRODUCTION

- 1.1 I am pleased to present my first Report to the House of Assembly on work completed by my Office in the first half of 2006.
- 1.2 This report is transitional, consisting of work begun prior to my appointment in March.
- 1.3 As the Province's Auditor General, my goal is to improve accountability and the operation of government; to help provide better government for the people of Nova Scotia. As an independent officer of the House, I provide to the House, and to the public, assurance as to the integrity of government's financial reporting and assessments of the use of public funds and of the operations and performance of the public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound practical recommendations to improve the management of the public sector.
- 1.4 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, agencies, school boards and district health authorities during the course of our work.

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### 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 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; and report to the House at least once, and up to three times annually, on the work of the Office.
- 1.8 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, including school boards and district health

authorities, as well as transfer payment recipients external to the Provincial public sector.

- 1.9** 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.
- 1.10** This report will be the first of two reports this year on the audit, review and other work of the Office. In addition, I provided an opinion on the 2006-07 revenue estimates included in the budget address presented to the House on May 9, 2006. I also submitted to the Public Accounts Committee on April 3 a report on my Office's performance in 2005 and a business plan for 2006.
- 1.11** The report presents the results of the Office's audits and reviews conducted this year at a number of departments and agencies as well as some comments on financial reporting and controls. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Where departments or agencies have provided responses, they have been included. In future reports we will follow up on the implementation of our recommendations, with the expectation that significant progress will be made.
- 1.12** A separate booklet also provides highlights and summaries from this report.

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## **SIGNIFICANT ISSUES AND COMMON THEMES**

- 1.13** In conducting our audits, we noted three issues that may have broader applicability beyond the particular entities in which the issues emerged.
- 1.14** Firstly, in school boards, it appears that school-based funds may present a concern for management at most or all boards. The overall amounts of the funds involved, combined with what may be pervasive poor controls, may expose school boards to risks of financial loss and the chance of fraud. It would be prudent for all boards to examine their policies with respect to these funds and ensure that appropriate controls are in place.
- 1.15** Secondly, where agencies are managed by appointed CEOs, we have found that there can be a tendency for boards of directors to neglect their responsibilities to assess the performance of the CEO and keep him/her accountable to the board. Such a weakness in the organization's governance framework may have unpredictable consequences and is, in any event, poor practice. Governing boards may wish to examine their practices in this area.
- 1.16** Thirdly, examinations of information technology systems tend to reveal weaknesses in processes related to access and security. Such weaknesses can expose the systems to various forms of error and potential abuse. Managers of complex IT systems may wish to review their access controls to ensure they remain effective.

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## EXECUTIVE SUMMARY BY CHAPTER

- 1.17** The Report presents our findings, conclusions and recommendations resulting from audits and reviews in the following areas. Responses received from auditees have been included in the appropriate chapter.

### Government-Wide Issues

#### Chapter 2 Government Financial Reporting

- 1.18** In May we reviewed and reported on the revenue estimates included in the government's 2006-07 budget tabled on May 9, 2006. Our report again included a reservation of opinion, based this year on two factors: a scope limitation resulting from insufficient access to information; and a qualification related to issues of compliance with generally accepted accounting principles. As the budget was not approved by the House before dissolution, this Office will once again review and report on the revenue estimates that will be included in the new budget to be introduced.
- 1.19** The chapter also discusses our planning for the audit of the March 31, 2006 consolidated financial statements and identifies some potential issues related to compliance with GAAP.

#### Chapter 3 Government Systems and Controls

- 1.20** Audits by this Office and external firms, over the last few years, of the Province's SAP financial systems have identified significant weaknesses in internal controls that have yet to be addressed. With the continuing expansion of SAP to other areas of government, such as the planned implementation in the Health sector, it is critical that fundamental controls be strengthened.

### Community Services

#### Chapter 4 Information Technology and Financial Controls

- 1.21** Our audit of IT system controls in Community Services identified serious control weaknesses in a number of areas, such as inadequate access controls, inadequate planning and a lack of programmed dollar limits on electronic funds transfers. These weaknesses expose the Department to potential fraud and financial loss.

### Office of Economic Development

#### Chapter 5 Nova Scotia Research and Innovation Trust

- 1.22** We recommended improvements to ensure funding recipients are held more accountable for the funds received through this program and to provide regular reports of expenditures and the achievement of project goals. The Department has taken steps to begin implementing improvements in these areas.

## Education

### Chapter 6 Atlantic Provinces Special Education Authority

- 1.23** Notwithstanding the quality of services provided by APSEA, we found a number of areas where improvements are needed to strengthen the governance framework. In particular, legislation governing APSEA in Nova Scotia is outdated; the Board of Directors needs to improve some aspects of its governance practices; a long-term strategic plan, and annual business plans, are needed; and APSEA needs to compare the current service delivery model to other models, to optimize efficiency.

### Chapter 7 Conseil scolaire acadien provincial

- 1.24** In addition to its normal educational responsibilities, the Conseil is charged with promoting the Acadian language and culture. Given its distinct mandate, the Conseil faces ongoing challenges in pursuing its mandate while maintaining efficient economical administration. The Conseil, for instance, maintains a separate student transportation system Province-wide. While our examination of governance and controls was for the most part favourable, we made a number of recommendations to strengthen operations and governance practices, notably in the area of school-based funds.

### Chapter 8 Strait Regional School Board

- 1.25** We examined selected areas of the Board's operations and for the most part conclusions were favourable. We made a number of recommendations to improve operations and reduce costs, notably with respect to student transportation and governance responsibilities such as monitoring of organizational goals and evaluation of the Superintendent's performance.

## Health

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

- 1.26** While we found financial management processes to be adequate overall at these DHAs, we made some recommendations to improve some internal controls and financial processes. We also recommended the Department of Health improve the timing of approvals for business plans and funding levels as required by the Health Authorities Act.

### Chapter 10 Payments to Physicians

- 1.27** An audit by this Office in 2000 identified concerns, including poor accountability, with the implementation of alternative funding arrangements for physicians. These concerns were repeated in a 2005 consulting report and in the current audit. While a new framework was recently approved in principle, it has not yet led to improved funding contracts. We also noted that no action has been taken on our 2003 recommendation to review the risks of accepting expired health cards.

## Natural Resources

### Chapter 11 Sustainable Timber Supply

- 1.28** In this review we noted that the Department of Natural Resources has achieved its goal of doubling forest production. There are, however, concerns about the achievement of sustainability, particularly on private land - a potentially conflicting goal. Further, the Department has not implemented its goal of issuing periodic public reports on sustainable forestry in Nova Scotia.
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# Government-Wide Issues