



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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1 Message from the Auditor General

Summary

I am pleased to present this summary booklet of my February 2008 Report to the House of Assembly. These summaries are also included at the front of each chapter in my full Report.

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 practical realities facing management, in providing sound, practical recommendations to improve the management of public sector programs.

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.

The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. This Act requires all public servants to provide the Auditor General free access to any and all information and explanations which he or she requires.

The Office's priorities are: to focus efforts on high risk areas that impact Nova Scotians; to contribute to a more efficient, effective, and better performing public service; and to foster better financial and performance reporting.

The Report presents the results of audits and reviews completed in the second half of 2007 or in January 2008 at a number of departments and agencies, follow-ups on audits completed in 2004 and 2005, and comments on government financial reporting.

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 agencies during the course of our work.

2 Education: South Shore Regional School Board

Summary

The mission of the South Shore Regional School Board (SSRSB) *“is to provide quality educational programming for students, grades primary to twelve, within a healthy, safe, respectful environment”*. The Board is ultimately responsible to ensure that the mission is achieved. The Board needs appropriate information to adequately assess performance in achieving its mission. There are many potential risks to student health and safety inherent in attending and being transported to and from school. It is critical that these risks be identified and appropriately managed to help minimize the risks to students. We completed a performance audit at the South Shore Regional School Board with a primary focus of assessing processes, policies, and procedures affecting student health and safety and Board governance.

A significant number of the SSRSB student health and safety related processes, policies, and procedures audited are not adequate. We identified instances of policies not being followed, noncompliance with legislation and standards, and areas where existing processes need to be enhanced. For example, SSRSB does not periodically update employee child abuse and criminal record checks subsequent to hiring, bus emergency evacuation drills are not being completed as required by Board policy, the Nova Scotia Utility and Review Board identified numerous safety issues through their safety inspections, and SSRSB is not in compliance with all requirements of the Fire Safety Act including the completion and documentation of required inspections. Policies that are not being followed and procedures which do not meet legislative requirements may not be effective in minimizing the risks to students. We have made several recommendations for improvements which need to be addressed by the Board.

The Board is not completely fulfilling its governance roles and responsibilities. The Board needs to complete a formal risk assessment process to ensure all risks which could impact on the achievement of the Board’s mission, goals, and priorities are identified and appropriately evaluated. Of particular concern should be the adequacy of the controls designed to help protect the health and safety of students as our audit has identified a number of weaknesses.

The Board is also not reporting complete performance information. Performance information demonstrates the Board’s effectiveness in achieving its responsibilities and fulfills its accountability obligations to those whose interest it represents. The Board also needs to ensure management regularly report progress against all goals, priorities and performance measures detailed in its annual business plan.

3 Environment and Labour: Environmental Monitoring and Compliance

Summary

The quality of our environment can have a significant impact on the lives of Nova Scotians. Pollutants and other contaminants can negatively affect human health and the competitiveness of our economy. The Environmental Monitoring and Compliance Division of the Department of Environment and Labour is responsible for environmental protection and the delivery of enforcement-based compliance programs which are vital to ensure a healthy environment. We completed a performance audit at the Division, examining their policies, procedures and processes to ensure compliance with the Environment Act.

An efficient and effective approval process is essential to ensure those engaging in environmentally sensitive activities do so in a safe and legal manner. Monitoring and inspecting are means to verify that individuals and businesses are meeting their regulatory requirements under the Environment Act. Enforcement is necessary when voluntary compliance with the Act cannot be achieved.

The Division's policies and procedures for issuing approvals, inspections and enforcement are not adequate as implemented. We found instances where required procedures were not performed – approvals were issued without all documentation in place, required inspections were not completed, enforcement actions were inadequate to ensure compliance, and complaints were not followed up. While a policies and procedures framework is in place, to be effective, the Division must ensure all required policies and procedures are followed.

An effective quality assurance process is an important control to identify and correct noncompliance with internal policies and procedures as noted above. The Division has begun to develop a quality assurance process which is still in the testing phase. We believe the Division needs to fully implement a quality assurance process as soon as possible.

Management information systems are not adequate for the Division to manage its responsibilities. Information is not complete, reliable and accurate. As a result, management are not aware of the extent and completeness of monitoring, inspection and enforcement activities carried out by staff. The Division must ensure current systems are fully utilized, meet user needs and have complete and accurate data.

4 Health Promotion and Protection: Communicable Disease Prevention and Control

Summary

Our audit at the Department of Health Promotion and Protection (HPP) uncovered significant deficiencies. Management of HPP indicated many of these concerns were identified in the *Renewal of Public Health in Nova Scotia*. We evaluated the governance and leadership structure within HPP; adequacy of information systems related to vaccines and immunizations; adequacy of performance information; and compliance with policies and procedures as well as timeliness of information during the recent mumps outbreak.

We found that neither the mandate of Health Promotion and Protection, nor the structure of public health in Nova Scotia is clearly defined in legislation or regulations. Legislation should be updated to ensure an adequate leadership and accountability structure in Nova Scotia's public health system.

We found overall planning inadequate. The Department does not have a strategic plan. Although the Department has outbreak plans in place, many significant areas are not addressed and had to be dealt with during the recent mumps outbreak. Additionally, the provincial mumps outbreak team had not considered recommendations from previous outbreaks.

HPP's information systems are inadequate. Key systems such as an immunization registry do not exist or are paper-based. Information which is recorded is often incomplete. HPP does not provide adequate guidance to the districts regarding information to include in immunization records.

HPP has an adequate system to track vaccine distribution but protocols for vaccine storage and handling are inadequate. HPP does not monitor to ensure vaccines are maintained at an appropriate temperature during transport. Appropriate vaccine protocols in line with the Public Health Agency of Canada's national guidelines should be established to ensure consistency across the province.

5 Government-wide: Governance of Information Technology Operations

Summary

Information Technology (IT) is now at a point in its continuing evolution where it has gained significant prominence as a strategic and critical business enabler; one having a major impact on almost all aspects of business. There are now virtually no significant business processes in any large organization that are not dependant on IT. Today, it is IT that enables organizations to function efficiently and effectively in a globally-connected economy. This level of influence of IT on business brings with it several risks; many of which evolve as rapidly as IT does.

It is absolutely critical that Boards of Directors and senior executives of organizations give close attention to IT, including the establishing of strategic direction, setting of policy and the monitoring of the results and performance of IT. It is equally critical that risks associated with IT be understood and managed at the highest levels in the organization. The failure of IT to do the right things, in the right ways, with the right and optimal resources, can significantly influence the ongoing viability of organizations and their ultimate success or failure in meeting their strategic objectives.

We have completed a government-wide audit of the governance of information technology operations. We concluded that IT oversight structures in place do not provide good IT governance based on our assessment against best practices derived from the IT Governance Institute's COBIT framework.

The audit also assessed whether or not an appropriate strategic planning process is in place to direct the IT activities of government. We concluded that the government's planning processes for IT are not adequate.

The observations from this audit can be summarized by saying that it is not clear who is in charge and who is accountable for corporate IT operations, and what practices should be followed. The risks arising from this lack of structure are that resources may be wasted in duplicated efforts, lower priority systems receive undue attention, or increased maintenance costs. There is also increased chance of system failures and significant cost overruns on new projects. All of our recommendations centered on the adoption of an IT governance framework such as the IT Governance Institute's COBIT 4.1, which is a widely-accepted international source of best practices for the governance, control, management and audit of IT operations.

6 Government Financial Reporting

Summary

An audit opinion provides independent assurance on the financial results of an entity. An unqualified audit opinion provides assurance that the financial statements present fairly, in all material respects, the financial results of an entity. The Minister of Finance tabled the Province's audited consolidated financial statements on August 9, 2007. The Auditor General's opinion on those statements was unqualified. This release date is significantly earlier than the release date closer to the end of September in prior years. We commend the efforts of Department of Finance staff in preparing and releasing more timely financial results.

Several findings and observations resulting from this audit were reported in a management letter issued to the Minister of Finance in January 2008. We noted accomplishments in financial reporting during the year such as the disclosure of budget information, as necessary, throughout the financial statements, and the disclosure of expenses at gross values.

The most significant of our findings related to an accounting change and its retroactive restatement in the financial statements. We believe an additional adjustment of \$27.5 million was required to the accumulated deficit of the Province at April 1, 2006. Although this finding and others identified were neither individually, nor cumulatively, significant enough to affect the opinion on the consolidated financial statements, each impacted on the integrity of financial results, and reduced the usefulness of these statements to users.

We made several comments with respect to systems and controls. We noted the need to document roles and responsibilities for controls, including internal controls, and government's continued efforts to fulfill this need. We also noted our continued concerns with respect to IT access issues, and have made a recommendation to reduce access to certain IT functions to select individuals.

We are required under Section 9 of the Auditor General Act to report any appropriations that were exceeded during the year. Two additional appropriations were approved totaling \$222.4 million to cover budget overruns for 2006-07. The most significant amount of the total additional appropriations related to capital purchase requirements which exceeded the approved budget by \$75.6 million. We noted, as we have several times over the past years, that the current process to approve additional appropriations reduces accountability to and control by the House of Assembly. The debate and challenge that are integral to the budget process are absent from the approval for additional appropriations.

7 Review of Financial Statements and Management Letters

Summary

In the private sector, financial statements are used by investors and potential investors to evaluate performance. In the public sector, financial statements are used not only to evaluate performance, but also to determine government's ability to continue providing key services to the public.

Schedule 9 of the Province's consolidated financial statements details the various entities included in the government reporting entity (GRE). Several of these entities are audited by this Office. The majority are audited by private sector auditors.

Under Section 17 of the Auditor General Act, we conduct a review of the audit opinions and related management letters of those entities audited by private sector auditors. We consider those results, as well as results from our audits of entities within the GRE, when auditing the consolidated financial statements of the Province. The purpose of this Chapter is to highlight matters of interest as a result of this review.

The majority of audits conducted on entities within the GRE resulted in unqualified audit opinions. We note that the audit opinion of one of the Province's loan funds was qualified due to insufficient support for management's estimate of provisions on asset impairment. In addition, the audit opinions for several of the school boards were qualified due to the inability of the auditors to verify the completeness of school-based funds.

Auditors are required to provide management and oversight bodies with information regarding internal control weaknesses. This information is provided in management letters. Our review of these management letters indicated that issues related to information technology infrastructure are pervasive throughout entities in the GRE. Deficiencies were also identified in two provincial loan boards regarding documentation to support financial statement balances. Management should address the deficiencies identified by their auditors to ensure the continued usefulness of their financial statements.

8 Follow-up of 2004 and 2005 Audit Recommendations

Summary

Management's progress in implementing our audit recommendations has been inadequate. We strongly encourage government to proceed with addressing and implementing the remaining recommendations.

During our audits, we provide what we believe are practical and constructive recommendations to address weaknesses reported. We perform a review engagement two years after an audit to assess progress in implementing our recommendations.

In 2004 and 2005 we made 272 recommendations to government. Nova Scotia Business Inc. was the only entity which implemented all audit recommendations. Other government departments and entities have implemented only 39% of our 2004 and 2005 recommendations; a significant number (55%) are described as work in progress, planning stage or government plans to take action. Government does not intend to implement 6% of our recommendations. Two or more years have elapsed since these recommendations were made and we believe more significant progress should have been made in implementing the recommendations.

During our audits we may discover weaknesses in systems and controls protecting government assets or in the effectiveness or efficiency of government systems and processes. Many of these systems and processes are used to provide important services to Nova Scotians. We provide recommendations to address reported weaknesses. Failure to address these weaknesses in a timely manner increases the risk of financial loss to government and the risk that key systems and processes may not be effective in delivering required services.

We believe government needs to take a more direct role and responsibility for monitoring and ensuring appropriate actions have been taken on matters reported by the Auditor General. Such a process should include monitoring by government senior management and regular status reporting to the House. We understand government, led by Treasury and Policy Board, is in the process of developing a system that may address our concerns. We believe such a system is important and should be a priority for completion in 2008.

We experienced significant delays in completing our work on the self-assessments of one Department. The Department of Finance was given time extensions to provide us with three of their self-assessments. When we received the information it was incomplete. As a result there is one recommendation for which there is no self-assessment. This recommendation is noted as "*Did Not Report*" in Exhibit 8.3.

