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# 1 Message from the Auditor General

## Introduction

1.1 I am pleased to present my November 2008 Report to the House of Assembly on work completed by my Office in the summer and fall of 2008.

1.2 In addition to this Report, I have also submitted the following in the past year.

- My Report to the House of Assembly on work completed by my Office during the second half of 2007 and January 2008, dated February 6, 2008, was tabled on February 27, 2008.
- My Report on the Estimates of Revenue for the fiscal year ending March 31, 2009, dated April 28, 2008, was included with the Budget Address tabled by the Minister of Finance on April 29, 2008.
- My Special Report to the House of Assembly on Phase 1 of the Economic Stream of the Nova Scotia Nominee Program, dated June 5, 2008, was tabled on June 11, 2008.
- My Business Plan for 2008-09 was provided to the Public Accounts Committee on June 16, 2008.
- My Report on the Province's March 31, 2008 consolidated financial statements, dated June 30, 2008, was tabled with the Public Accounts by the Minister of Finance on August 5, 2008.
- My Report on Performance for 2007-08 was provided to the Public Accounts Committee on August 29, 2008.
- My Special Report to the House of Assembly on Phase 2 of the Economic Stream of the Nova Scotia Nominee Program, dated September 25, 2008, was tabled on October 1, 2008.

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

1.4 My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more

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efficient, effective, and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the Legislature and the people; all while promoting excellence and a professional and supportive workplace at the Office of the Auditor General. 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 courtesies we received from staff in departments and agencies during the course of our work.

### 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 provides the Auditor General with the authority to require the provision of any documents required by the Auditor General in the performance of his or her duties. The Auditor General Act requires all public servants to provide the Auditor General free access to any and all information and explanations which he or she requires.
- 1.8 The Auditor General 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; examine the management, use and control of public funds; and report to the House at least once, and up to three times annually, on the work of the Office.
- 1.9 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, such as regional school boards and district health authorities, as well as transfer payment recipients external to the provincial public sector.
- 1.10 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.



1.11 This Report presents the results of audits and reviews completed in the summer and fall of 2008 at a number of departments and agencies and comments on government financial reporting. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Department or agency responses have been included in the appropriate chapter. We will follow up on the implementation of our recommendations in two years, with the expectation that significant progress will be made.

## Significant Issues and Common Themes

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1.12 In conducting our audits, we sometimes identify issues that may have broader applicability beyond the particular entities in which the issues emerged.

1.13 This year we found that deficiencies in internal controls, including financial controls, and in information and information technology systems were an issue in every audit we conducted and, furthermore, that they were pervasive in our review of other auditors' opinions and management letters across the government entity.

1.14 Any particular control or system deficiency might or might not be significant. However, the breadth and the totality of these deficiencies is a cause for concern. Further, our findings indicate an overall lack of action in dealing with these deficiencies, allowing them to continue over several years. Poor financial and technology controls unnecessarily increase the risk of fraud, error and financial loss. Unreliable and inaccurate information and information technology interfere with management's ability to manage programs, to make sound decisions and to allocate scarce resources, increasing the risk of both financial losses and of program failures.

## Chapter Highlights

1.15 This Report presents our findings, conclusions and recommendations resulting from audits in the following areas.

### Government-Wide

#### *Chapter 2 – Payments to Vendors*

1.16 We examined controls over payments to vendors totalling \$6.6 billion annually. We found controls are not adequate to ensure transactions are complete, accurate and authorized. We found deficiencies in a number of



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transactions and processes tested. This result is consistent with the findings of an audit of technology controls conducted by a public accounting firm that resulted in a qualified opinion and the identification of several control deficiencies.

*Chapter 3 – Internal Audit*

- 1.17 Our review of the internal audit function across government concluded that government overall is inadequately served by internal audit. With two minor exceptions, internal audit is non-existent in the broader public sector, (e.g. agencies, boards and commissions) including school boards and health authorities that together spend \$2.1 billion annually. Internal audit service to core government departments does not meet critical international professional standards, particularly in conducting a risk-based assessment of government's audit needs. Government has failed to respond to our Report and would not indicate whether they agree with our findings or would act on our recommendations.

Health

*Chapter 4 – Home Care*

- 1.18 Our audit of the home care program found significant deficiencies, many of which date back to previous audits we conducted in 1996 and 2002. Areas of deficiencies include client assessments, ensuring appropriate services are delivered to clients, complaint investigation and performance tracking. The Department of Health's lack of action in addressing deficiencies in this program is a concern to us. The Department is planning to devolve the program to district health authorities and we feel this should not occur until the Department has a plan of action to address all the deficiencies in the program.

Labour and Workforce Development

*Chapter 5 – Pension Regulation*

- 1.19 We audited the work of the Pension Regulation Division in administering and enforcing the Pension Benefits Act and Regulations. We found that the Division's processes and procedures are not adequate to protect pensioners' entitlements to benefits under the numerous pension plans covered by this Act. The Division does not review pension plan investment policies to ensure funds are invested prudently and in accordance with legislation. It does not verify that plans have formally documented investment policies and that they are reviewed annually. It does not verify annual information submitted by plan administrators.



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## Nova Scotia Utility and Review Board

### *Chapter 6 – Public Passenger Vehicle Safety*

- 1.20 We found that the Nova Scotia Utility and Review Board's public passenger safety program is not sufficient to ensure adequate maintenance of public passenger fleets, thus increasing the risk to passenger safety. Over 60% of vehicles inspected by the Board had deficiencies requiring immediate correction, many potentially of a serious nature. We also found that enforcement processes are inadequate to ensure compliance with motor vehicle safety legislation.

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## Finance

### *Chapter 7 – Government Financial Reporting*

- 1.21 The 2008-09 revenue estimates were tabled with the budget on April 29, 2008. My opinion on those estimates again contained a reservation of opinion related to a scope limitation and non-compliance with Canadian generally accepted accounting principles, with respect to the exclusion of certain revenues from governmental units including school boards and district health authorities. The Province's audited consolidated financial statements were tabled on August 5, 2008. My opinion on those statements was unqualified. We have reiterated our concern that the process to approve additional appropriations reduces accountability to and control by the House of Assembly. Finally, we have made a number of recommendations to improve financial controls. In particular, we have made a recommendation every year since 2003 on the need to document internal controls and related roles and responsibilities. We are concerned by the lack of action taken on this issue.

### *Chapter 8 – Review of Financial Statements and Management Letters*

- 1.22 We review the annual audit opinions and related management letters for all provincial government entities audited primarily by external private sector auditors. We noted that the opinion on the financial statements for one of the Province's loan fund boards was qualified due to insufficient support in the financial records. Our review of management letters found that internal control and information technology weaknesses continue to be pervasive throughout the government reporting entity, with little being done to correct known deficiencies.