



1 Message from the Auditor General

Introduction

- 1.1 I am pleased to present my February 2015 Report to the House of Assembly. This Report focuses on financial reporting issues and includes work completed by my Office during 2014.
- 1.2 I wish to acknowledge the valuable efforts of my staff whose dedication and professionalism make this work possible. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work. Overall, we found that they answered our audit queries promptly and satisfactorily. Without their assistance, it would be difficult to complete our work on a timely basis.
- 1.3 Key senior personnel involved in these audits were:

Ann McDonald, CA – Assistant Auditor General
Shelley Creighton, CA – Audit Principal
Dana Jasper, CA – Audit Principal

Overview of Report

- 1.4 The Office of the Auditor General has a number of legislated responsibilities related to the financial management of government. These include:
 - a review engagement report, including an opinion, on the reasonableness of government's revenue estimates in its annual budget;
 - a report, including an opinion, on the fair presentation of government's annual consolidated financial statements;
 - an audit of the financial statements of four provincial agencies;
 - an audit of controls and compliance with respect to the House of Assembly Management Commission Act; and
 - reviews of the audit opinions and management letters provided by external auditors on agencies included in the government reporting entity.
- 1.5 In addition, we may also conduct other financial audits in government as we consider appropriate. As a result of our work, we generally provide recommendations in all audits and reviews to improve financial management



in government. We also provide information on financial matters we consider significant enough to bring to the attention of Members of the House of Assembly.

- 1.6 On April 1, 2015, the new Provincial Health Authority will be created with its first financial statement year-end being March 31, 2016. The results of this new entity will be the single most significant expense of the government, accounting for about 20% of annual expenditures. We are working cooperatively with government to arrange the details of our role as independent auditor of the annual financial statements. We look forward to working with the board and management of the new authority as we take on this important role.
- 1.7 This report contains six chapters in addition to this introduction.
- 1.8 Chapter 2 provides information on retirement and employment benefits, the most significant of which are post-retirement benefits such as health benefits and retirement allowances, and compensated absences such as sick leave. The liability for these benefits was \$1.8 billion at March 31, 2014. The purpose of the chapter is to provide objective information on these long-term obligations, including details such as the amount, extent and contribution rates for each benefit. The chapter is for information purposes only and does not include any recommendations or conclusions related to the ongoing sustainability or merit of the benefits.
- 1.9 Chapter 3 is our annual information on indicators of government financial condition. We reported ten indicators related to the sustainability, flexibility and vulnerability of Nova Scotia's financial condition, and provided information on budget-to-actual and actual-to-actual variances for the year ended March 31, 2014. Several of these indicators show that the province is in poor financial shape. For example, net debt per capita has increased to \$15,659 – the highest it has ever been. In addition, the province incurred a deficit of \$679 million last year compared with \$304 million in 2012-13.
- 1.10 We audited accountability reporting of 11 government agencies and reported the results in chapter 4. We concluded the following.
 - Annapolis Valley Health and the IWK Health Centre followed guidance provided by the Department of Health and Wellness for preparation of their annual business plans, but these plans provided little information to assess what each entity wanted to achieve during the upcoming year. We acknowledged IWK's public reporting on several key performance indicators but suggested achievable targets need to be developed for each indicator.
 - We concluded that accountability reports by two regional school boards required additional student-focused outcomes.
 - Outcomes included in the remaining seven entities we tested did not follow



best practices as many were not specific or measurable. However, several of these outcomes, with small changes, would provide clearer information as to whether an entity was achieving its mandate.

- 1.11 Chapter 5 provides the results of our financial audits and reviews. The opinion on the 2014-15 revenue estimates was unqualified, as was the opinion on the province's March 31, 2014 consolidated financial statements. We made recommendations for improvements to financial management processes as the result of both engagements, including improved internal controls. We also commented on our audits of four government agencies, and controls and compliance of member transactions with the House of Assembly Management Commission Act.
- 1.12 In our review of agency audit opinions and management letters, we reported that all school boards received an unqualified audit opinion for the year ended March 31, 2014. However, we continue to be concerned with the number of recommendations which remain outstanding from year to year in some entities, including health authorities and Housing Nova Scotia. These deficiencies need to be addressed by management and boards of these entities on a timely basis.
- 1.13 The implementation rate of recommendations reported in our January 2012 Report of the Auditor General is 70%. This is a decline of 7% from the 77% implementation rate reported last year. This reduction is disappointing as our recommendations were agreed to and we believe provide valuable input to government. In addition, we disagree with the implementation status of two recommendations. Government was unable to provide adequate support for us to establish that each of these had been fully implemented.
- 1.14 Departmental responses to recommendations have been included in the appropriate chapter. We will follow up on the implementation status of our recommendations in two years, with the expectation that significant progress will have been made.