



Office of the Auditor General

Auditor General's Statement to the Media

Release of February 2015 Report to the Nova Scotia House of Assembly
2/25/2015

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Good morning ladies and gentlemen. Thank you for joining me here today and thank you for your continued interest in our work.

Late yesterday, I tabled my February 2015 Report with the Speaker of the House of Assembly, for distribution to Members of the House this morning. This is our annual report on work performed in the Office's financial reporting portfolio. The report contains seven chapters on various assignments completed during 2014, including a message from me.

This is my first report on financial matters as Auditor General of Nova Scotia. The Auditor General Act requires that we perform a review of the revenue estimates included with the province's annual budget. The Act also requires us to audit the province's consolidated financial statements. This legislated work is an important component of government accountability and stewardship of resources.

I want to thank the staff in my Office for their professionalism and dedication to their work. I also want to thank management and staff in various government departments and agencies for their cooperation, and for their positive attitude to the work we perform. These are essential to timely completion of our work and to bringing about change when deficiencies are identified.

The report I am releasing today includes a variety of topics. We have included a chapter for information on significant obligations of the province for retirement and leave benefits and the need for government to continue to assess the sustainability of these programs. The chapter dealing with indicators of the province's financial condition shows that the province is in poor financial shape. Also, we have identified that improvements are needed in accountability reporting by health authorities and school boards, as well as by other government agencies.

We have also reported on the results of our legislated work, including our audits in four government agencies, and on our testing of controls and compliance of Member transactions at the House of Assembly.

The report concludes with two chapters on our review of audit results at all other government agencies, and with our follow-up on the implementation status of recommendations from our January 2012 Report. We are disappointed to see this rate decline from the prior year.

The obligation for retirement health benefits, retiring allowances, accumulated sick leave and other smaller benefit plans totaled \$1.8 billion at March 31, 2014, with retirement health benefits representing 62% or \$1.1 billion of this amount. This liability is unfunded. Payments made are through the province's annual operations and cash flows using future taxes and other revenues.

The total obligation has increased by almost \$600 million in the past five years. As an example, retirement health benefits have increased by just over \$325 million since 2010. The recorded amount for the liability is impacted by changes in assumptions, such as interest rates and health care inflation, and the liability carries risks to the future finances of the Province of Nova Scotia.

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These decisions reflect government policy. The purpose of this chapter was to provide information on these benefits. There are no formal recommendations in Chapter 2. We noted that government needs to evaluate how these obligations will be addressed on an ongoing basis and share with Nova Scotians how it mitigates associated risks.

In Chapter 3, we report on ten indicators of financial condition. The indicators show that the province is in poor financial shape. They focused on the sustainability of government's finances, as well as the ability of government to be flexible in its operations. The \$679 million deficit in 2013 -14, and the increasing debt burden, are indications that Nova Scotia's current state of financial affairs is of grave concern. For example, net debt per capita has increased to \$15,659, the highest it has ever been. And for every \$1 in revenue earned during 2013-14, there was \$1.47 in debt.

Our next chapter reports the results of an audit of accountability reporting in eleven government entities. We determined there is need for improved accountability reporting in the health and education sectors. We audited information in business plans and annual plans of Annapolis Valley Health and the IWK Health Centre, the South Shore and Cape Breton-Victoria Regional School Boards, and seven other provincial agencies to determine if users would be able to assess the impact of what these entities wanted to accomplish in the upcoming year. We also looked to see whether they were accountable to the public for what they achieved versus what they planned to achieve. These are important aspects of accountability reporting. We found deficiencies during our audit.

Specifically, both the Department of Health and Wellness, and the Department of Education and Early Childhood Development, should require that school boards and health authorities and the IWK develop outcome performance measures addressing the delivery of core programs.

Chapter 5 includes the results of our legislated work. We provided an unqualified opinion on the revenue estimates included in the province's 2014-15 budget. Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates. This is a significant accomplishment in stewardship and accountability.

We also issued an unqualified opinion on the province's March 31, 2014 Public Accounts, which were released by government on July 31, 2014. However, we noted improvements are needed in certain financial management practices as a result of both engagements. We have included recommendations for improvement in chapter 5 of the Report.

Most of the entities included in the consolidated financial statements are audited by private sector audit firms. Each year, we review the results of other external auditors' communications to boards and management at provincial agencies and report the overall results. In Chapter 6, we noted that the number of audit recommendations that remain outstanding from year to year in provincial agencies is concerning. 40% of the recommendations made by these entities' auditors have been outstanding since

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before 2013. Management is not fulfilling its responsibility to correct these deficiencies on a timely basis.

We did note that all school boards in Nova Scotia received unqualified audit opinions on their March 31, 2014 financial statements.

Chapter 7 includes the results of follow up on the implementation of recommendations included in the January 2012 Report of the Auditor General. The implementation rate of 70% represents a decline in the rate reported last year. This is a disappointing result. Outstanding recommendations relate to internal control issues such as the need for review of transactions in revenue models and completion of financial reporting risk assessments. We will continue to follow up on the status of these recommendations, and the recommendations included in this report, and hope that government or any other responsible entities have taken the actions promised in their responses to our recommendations.

I conclude by commenting on a recent development in audit responsibilities for our office. We will be the annual financial statement auditor of the new provincial health authority starting in its first year of operation, April 1, 2015. This new entity will be responsible for about 20% of government's total expenditures. We are working cooperatively with government to arrange the details of our role as independent auditor, and we look forward to working with the new board and management as we take on this important role.

These are the highlights of the report. Now I would be happy to take your questions.