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Office of the Auditor General

Nova Scotia

AUDITOR GENERAL--Atlantic Canada's Auditors General Release Joint
Report on the Atlantic Lottery Corporation

The Auditors General of New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador tabled a report, at their respective legislative assemblies, today, Oct. 26, on the results of their joint audit of the Atlantic Lottery Corporation (ALC). The Auditor General of Newfoundland and Labrador did not participate in the audit of the governance section of the report. The last performance audit of ALC by Auditors General was in 1996.

Atlantic Lottery Corporation is an example of the four Atlantic Provinces working together. Over its 40-year history ALC has delivered significant profits to shareholder governments. In 2016, ALC disbursed \$432 million of profits to the four governments of Atlantic Canada.

The audit found ALC's governance framework is insufficient to deal with its strategic challenges. Weaknesses discovered in oversight increase the risk of ALC losing relevance in a rapidly evolving gambling market and jeopardizing important revenues for the governments.

Although the ALC board of directors follows many governance best practices the audit found not all shareholder governments are providing the required direction expected for a provincially owned Corporation. Some governments have not clearly defined their expectations of ALC's performance and the roles and responsibilities of governments and responsible ministers who oversee ALC.

The report also noted while not providing appropriate mandate direction, at times the governments intervene and impact ALC's autonomy. The report notes an example in which the Corporation spent \$640,000 on Board-approved Internet gaming but shareholders eventually stopped participation in the initiative. In another example Nova Scotia told ALC to pay a private company (Techlink) \$1.26 million even though ALC's management and Board had serious concerns with this.

Also, the audit found that not all the risks related to an \$8 million investment in Geonomics were considered. The venture failed and ALC had to write off the entire amount. The Auditors General indicate that "the Board did not conduct a robust review and management failed to give the Board all of the available information on an \$8 million investment."



The report also includes findings related to general operational matters such as compensation, travel and contract management and procurement. Atlantic Lottery Corporation was found to procure services in an efficient and economical manner; monitor delivery and effectiveness of contracts; and manage compensation and benefits in accordance with its policies.

However, ALC significantly increased its executive compensation without shareholder consultation. For example, in some cases, an overall 56 per cent annual compensation increase was possible after salary increases and potential bonuses. When combining salary, bonuses and benefits, top ALC executives have the opportunity to earn approximately \$390,000 per year.

Over our audit period, ALC spent approximately \$4 million on travel, hospitality and board expenses. The Auditors General concluded that in some cases, amounts were expended without due regard for economy and lacked supporting documentation for the business purpose or validity.

The Auditors General indicate, "ALC could not demonstrate the value in buying \$73,000 of concert and event tickets, many of which were given to politicians, political staffers, senior bureaucrats and others. In addition, ALC was not able to show if the recipients actually used the tickets they were given."

Other examples of questionable spending noted in the report include the Corporation's spending on alcohol, recognition events and other non-receipted items. Of significance, ALC spent \$111,000 on Christmas-related events, including parties for staff; these types of expenditures are outside of typical public sector expectations.

Overall, the Auditors General made nine recommendations to the four shareholder governments to improve their oversight and governance and 16 to the board and management of the Atlantic Lottery Corporation to improve management, accountability and transparency. In general, the shareholders, Board and management accepted the recommendations and indicated their intent to implement.

The report is available at each Auditors General's website:

New Brunswick - www.agnb-vgnb.ca

Nova Scotia - www.oag-ns.ca

Prince Edward Island - www.assembly.pe.ca/auditorgeneral

Newfoundland and Labrador - www.ag.gov.nl.ca

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