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~~November 29~~, 2017

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**Standing Committee on Public Accounts  
First Report of the Third Session, Sixty-fifth General Assembly  
Committee Activities and Review of Reports of the Auditor General**

Mr. Speaker and Members of the Legislative Assembly:

**Introduction**

The Standing Committee on Public Accounts is pleased to present its first report of the Third Session of the Sixty-fifth General Assembly.

**Mandate**

The Standing Committee on Public Accounts is charged with matters concerning the public accounts of the province, the annual report of the Auditor General, and fiscal management. In addition, it may, by majority decision of its membership, meet to examine and inquire into such matters and things as the committee deems appropriate.

**Membership**

Permanent members of your committee are:

Bradley G. Trivers, Chair (District 18, Rustico-Emerald) *(as of October 26, 2017)*  
Chris Palmer, Vice-chair (District 21, Summerside-Wilmot)  
Peter Bevan-Baker (District 17, Kellys Cross-Cumberland)  
Kathleen Casey (District 14, Charlottetown-Lewis Point) *(as of March 10, 2017)*  
Darlene Compton (District 4, Belfast-Murray River)  
S. Forrest (Bush) Dumville (District 15, West Royalty-Springvale)  
Hal Perry (District 27, Tignish-Palmer Road)

Former permanent members of your committee include:

Hon. James Aylward (Leader of the Opposition, District 6, Stratford-Kinlock) *(until October 26, 2017)*  
Hon. Jordan Brown (District 13, Charlottetown-Brighton) *(until October 23, 2017)*  
Hon. Sonny Gallant (District 24, Evangeline-Miscouche) *(until February 15, 2017)*

Your committee has several changes in membership to report. In accordance with Rule 91, which states "Ministers of the Crown are not eligible for appointment to the Standing Committee on Public Accounts and may not attend its meetings other than as witnesses before the committee," Hon. Sonny Gallant (District 24, Evangeline-Miscouche) and Hon. Jordan Brown (District 13, Charlottetown-Brighton) ceased to be members of the committee upon their appointment to Executive Council on February 15, 2017 and October 23, 2017, respectively. Kathleen Casey (District 14, Charlottetown-Lewis Point) was appointed as a permanent member of the committee as of March 10, 2017. Hon. James Aylward (Leader of the Opposition, District 6, Stratford-Kinlock) resigned his membership on the committee and appointed Bradley G. Trivers (District 18, Rustico-Emerald) on October 26, 2017.

On November 8, 2017, your committee elected Bradley G. Trivers (District 18, Rustico-Emerald) to serve as Chair and Chris Palmer (District 21, Summerside-Wilmot) to serve as Vice-chair.

Kathleen Casey (District 14, Charlottetown-Lewis Point) served as a substitute member at the meetings of January 25, February 1, February 8, February 15 and February 22, 2017. Matthew MacKay (District 20, Kensington-Malpeque) served as a substitute member at the meeting of February 1, 2017. Jamie Fox (District 19, Borden-Kinkora) served as a substitute member at the meeting of March 31, 2017. Richard Brown (District 12, Charlottetown-Victoria Park) served as a substitute member at the meeting of June 14, 2017. Sidney MacEwen (District 7, Morell-Mermaid) served as a substitute member at the meetings of September 27, 2017 and November 8, 2017.

#### **Update on Committee Activities**

Since its last report to the Legislative Assembly (December 2, 2016), your committee met on fourteen occasions: January 11, January 18, February 1, February 15, February 22, March 1, March 8, March 31, June 14, July 12, August 23, September 27, November 8 and November 16, 2017.

At its meeting of **January 11, 2017**, the committee continued its deliberations on the Auditor General's report entitled *Special Assignment: Government's Involvement with the E-gaming Initiative and Financial Services Platform*, dated October 4, 2016. Auditor General B. Jane MacAdam and Audit Manager Jennifer Bowness were present to review the report's findings and recommendations. During discussion, the committee raised a number of questions to which the Auditor General provided a written response, dated January 17, 2017. The committee also agreed to request from MLA Steven Myers copies of emails related to an e-gaming social event held at Crowbush Cove and a subsequent dinner, which he referenced during the fall, 2016 sitting of the legislature.

At the **January 18, 2017** meeting, the committee continued its review of the *Special Assignment* report, with Auditor General B. Jane MacAdam and Audit Manager Jennifer Bowness in attendance. During discussion, the committee sought additional information, which the Auditor General provided in a memorandum dated February 8, 2017. At this meeting the committee agreed to request the appearance of experts on provincial archives and Information Technology Shared Services from the Department of Education, Early Learning and Culture and the Department of Finance, respectively, to assist the committee in its inquiries.

On **February 1, 2017** the committee met to receive briefings on records retention policies and procedures from Hon. Doug Currie, Provincial Archivist Jill MacMicken-Wilson and Director of Libraries and Archives Kathleen Eaton, of the Department of Education, Early Learning and Culture; and from Director of Enterprise Architecture Scott Cudmore of Information Technology Shared Services in the Department of Finance. During the discussion the committee made several requests for additional information from the Provincial Archivist and the Director of Enterprise Architecture to be forwarded to the committee at a later date. The Provincial Archivist forwarded information on November 3, 2017. To date the committee has not yet received the requested information from the Director of Enterprise Architecture. At this meeting the committee decided that following a future appearance by the Minister of Finance regarding the Auditor General's *Special Assignment* report, the committee would consider requesting the appearance of one of the three ITSS personnel interviewed by the Auditor General during the special assignment; at a subsequent meeting, the committee opted not to issue such a request.

On **February 15, 2017**, the committee resumed its review of the Auditor General's *Special Assignment* report. Auditor General B. Jane MacAdam and Audit Director Barbara Waite were present to review the report's findings and recommendations. During discussion, the committee sought additional information, to which the Auditor General replied in a memorandum dated March 17, 2017.

At the **February 22, 2017** meeting, the committee continued its review of the *Special Assignment* report, with Auditor General B. Jane MacAdam and Audit Director Barbara Waite in attendance. During the discussion the committee agreed that it would like to have research undertaken in regard to best practices to ensure compliance with government policies; the committee also agreed to send follow up correspondence to MLA Steven Myers regarding copies of emails requested in the January 11, 2017 meeting. The committee made additional information requests to the Auditor General, to which she replied in a memorandum dated April 7, 2017.

On **March 1, 2017**, the committee met to receive a briefing on Government's response to the recommendations in the Auditor General's *Special Assignment* report from Hon. Allen Roach, Minister of Finance, accompanied by Scott Cudmore, Director of Enterprise Architecture. In regard to a deferred motion that the committee consider requesting the appearance of Hon. Heath MacDonald, Minister of Economic Development and Tourism, to discuss the loyalty card program after completion of the review of the Auditor General's *Special Assignment* report, the committee chose not to request such an appearance. Regarding cases to date where the Auditor General indicated that additional information requested should instead be requested directly from government offices and other organizations, the committee chose to issue requests to the following offices and organizations: Atlantic Lottery Corporation; Innovation PEI; Island Investment Development Inc.; McInnes Cooper Law Firm; Mi'kmaq Confederacy of PEI; PEI Office of the Superintendent of Securities; and the PEI Department of Finance. To date, the Atlantic Lottery Corporation, McInnes Cooper, the Mi'kmaq Confederacy, and legal counsel for the Consumer, Corporate and Financial Services Division of the Department of Justice and Public Safety (regarding the request to the Office of the Superintendent of Securities) have responded to the committee.

On **March 8, 2017**, the committee met to continue its review of the *Joint Audit of Atlantic Lottery Corporation* (dated October, 2016) which it had begun on October 26, 2016. Auditor General B. Jane MacAdam and Audit Directors Gerri Russell and Barbara Waite were in attendance to review the report's findings and recommendations. During discussion, the committee sought further information, which the Auditor General provided in a memorandum dated April 21, 2017. The committee also agreed to request from Executive Council any correspondence directed to the PEI Lotteries Commission authorizing it to move forward with the investment in the GeoSweep lottery product. To date the committee has not received this information.

On **March 31, 2017**, the committee met to conclude its review of the *Joint Audit of Atlantic Lottery Corporation*, with Auditor General B. Jane MacAdam and Audit Director Barbara Waite in attendance. During the discussion, the committee agreed to request a copy of policies related to payment of executive bonuses from the Atlantic Lottery Corporation; the Corporation provided these to the committee in an information package dated April 13, 2017.

On **June 14, 2017**, the committee met to continue its review of the *Report of the Auditor General to the Legislative Assembly*, dated March 9, 2016, with Auditor General B. Jane MacAdam, Audit Director Barbara Waite, and Audit Manager Sheri Griffin in attendance. During the discussion, the committee agreed to write to the Standing Committee on Health and Wellness to request that that committee seek a briefing from Health PEI on policies surrounding payments to private nursing homes and implementation of the Auditor General's recommendations in this area.

On **July 12, 2017**, the committee met to continue its review of the *Report of the Auditor General to the Legislative Assembly*, dated March 9, 2016, and when it was complete, to begin its review of the *Report*

*of the Auditor General to the Legislative Assembly, dated March 10, 2017. Auditor General B. Jane MacAdam and Audit Directors Gerri Russell and Barbara Waite were in attendance. During discussion, the committee sought additional information, which the Auditor General provided in a memorandum dated August 16, 2017. During this meeting the committee also agreed to write to the provincial Climate Change Secretariat to seek a more up-to-date response to the recommendations provided by the Auditor General in Chapter 2 of the 2017 annual report, and a current picture of progress to date on matters such as assessment, mitigation and adaptation. Responses were provided by the Department of Communities, Land and Environment in August and October, 2017. The committee also agreed to write to the ministers responsible for the entities audited as part of the Auditor General's other 2017 special audits and examinations to seek their management letter response to the Auditor General and detailed action plan to implement her recommendations. These were provided by the Minister of Justice and Public Safety and Attorney General, and Minister of Family and Human Services, respectively, on August 23, 2017.*

**On August 23, 2017,** the committee met to continue its review of the *Report of the Auditor General to the Legislative Assembly, dated March 10, 2017. Auditor General B. Jane MacAdam and Audit Directors Gerri Russell and Barbara Waite were in attendance. During discussion, the committee sought additional information, which the Auditor General provided in a memorandum dated September 22, 2017. At this meeting the committee also decided to invite the Public Trustee to appear before the committee to provide a briefing on his Office's functions, staff responsibilities, and challenges, as well as respond to committee members' questions. The committee also agreed to send further correspondence to legal counsel for the Consumer, Corporate and Financial Services Division of the Department of Justice and Public Safety to seek clarification on why information the committee had previously requested could not be provided, to which said legal counsel replied in a letter dated October 19, 2017.*

**On September 27, 2017,** the committee met to continue its review of the *Report of the Auditor General to the Legislative Assembly, dated March 10, 2017. Auditor General B. Jane MacAdam and Audit Directors Gerri Russell and Barbara Waite were in attendance. During discussion, the committee sought additional information, which the Auditor General provided in a memorandum dated October 6, 2017. The committee also agreed to seek the following information from the Department of Family and Human Services: a copy of the analysis of the September 2015 seniors housing program wait lists as carried out by the Housing Services Division, as referenced in section 4.51 of the Auditor General's 2017 report; and an update on the implementation status of the Auditor General's recommendations as provided in Chapter 4 (Child Protection Services - Internal Controls) of the 2014 Auditor General's Report, with said update to be provided prior to the opening of the fall sitting of the legislature. The Department provided the seniors housing program wait list analysis in a letter dated October 31, 2017; and a response regarding the recommendations on internal controls in Child Protection Services in a letter dated November 9, 2017. Finally, at this meeting the committee also agreed to address correspondence to the Department of Finance to request that the Auditor General's 2017 recommendation 9.19 (that more detailed information on agencies, boards and Crown corporations be provided as part of the budget approval process) be fulfilled in time for the spring, 2018 budget, and that a response be provided to the committee. To date the committee has not received a response to this request.*

**On November 8, 2017,** the committee met to receive a briefing on the Office of the Public Trustee. Mark Gallant, Public Trustee & Public and Official Guardian, was originally scheduled to provide the briefing to the committee, but subsequent to the committee's invitation, Mr. Gallant was appointed Acting Prothonotary of the Court of Appeal and Supreme Court. The committee was informed by Karen

MacDonald, Acting Deputy Minister of Justice and Public Safety and Acting Deputy Attorney General, that the Acting Prothonotary, as a judicial officer of the Court, could not appear before the committee. Ms. MacDonald indicated that Clare Henderson, Director of Family Law and Court Services in the Department of Justice and Public Safety, would provide the briefing on the Office of the Public Trustee instead. The committee chose to allow Ms. Henderson to provide the briefing, which she did on November 8, 2017.

On **November 16, 2017**, the committee met to discuss its report to the Legislative Assembly.

### **Recommendations**

Your committee puts forward its recommendations according to the reports of the Auditor General it has reviewed during this period, as well as recommendations on the *Audit Act*, as follows:

#### Regarding the *Special Assignment: Government's Involvement with the E-gaming Initiative and Financial Services Platform Report*

**1. Your committee endorses all the recommendations of the Auditor General and strongly encourages Government to ensure that each and every recommendation is acted upon.**

#### Regarding the *Joint Audit of Atlantic Lottery Corporation Report*

**2. Your committee endorses all the recommendations of the auditors general and strongly encourages Atlantic Lottery Corporation and its shareholder governments to ensure that each and every recommendation is acted upon.**

Your committee does note that shareholder governments disagreed with recommendations 2.12 and 2.13 in regard to public servants of the four provincial governments serving as voting members of the ALC Board of Directors. While your committee does understand the shareholder governments' wishes to have government representation on the ALC Board, your committee remains concerned that confusion and/or conflict will continue to arise when the views and votes of public servants serving as directors are taken as representative of the views of the shareholder governments that employ them. As indicated in the shareholder response to recommendation 2.13, this recommendation should be revisited to find a workable solution as other changes in response to the joint audit are implemented.

**3. Your committee recommends that the Atlantic Lottery Corporation Board of Directors engage an independent, external auditor to undertake a performance audit of ALC every five years.**

The financial statements of ALC are audited on a yearly basis. However, this does not consider issues of economy, efficiency and effectiveness in how the Corporation is managed, which would be examined in a performance audit. Prior to the recent work of the auditors general of the Atlantic provinces, the last time ALC underwent a performance audit was 1996. Twenty years between performance audits is too long. It is a significant undertaking for the auditors general of the four shareholder provinces to engage in an audit of this scope, and so your committee recommends that the Board of Directors look to a private external auditing firm for performance audits on a more frequent basis. The auditors general of the shareholder jurisdictions should, however, remain empowered to audit ALC at any time.

**4. Your committee recommends that ALC amend its executive bonus policy to include a measurement of the Corporation's year-over-year profit growth as one of the determining factors toward bonus payment.**

The Executive Compensation Administration Guidelines provided to the committee by ALC indicate that "Profit must reach 98% of target to be eligible for any incentive payout". The Corporate Balanced Scorecard and each executive's performance in regard to personal functional accountabilities are also factors affecting the payment of bonuses, or "short-term incentives" as they are termed. However, the auditors general found that "the corporate balanced scorecard, does not demonstrate progress towards ALC's growth strategy [ . . . ] For example, it does not have a year-over-year measure of profit growth performance and a target." In fact, ALC's five-year annual average net profit growth rate for 2010 to 2015 was -1.1%, and in those five years there was only one instance of an annual positive growth rate. Your committee is of the view that executive bonuses are more justifiable when profits are shown to be growing from one year to the next.

Regarding the Report of the Auditor General to the Legislative Assembly, dated March 9, 2016

**5. Your committee endorses all the recommendations of the Auditor General and strongly encourages Government to ensure that each and every recommendation is acted upon.**

**6. Your committee recommends that Government undertake a review of developmental lending policies to ensure value for money is reflected in the criteria for the granting of loans, monitoring of existing loans and, especially, in measurement of the economic outcomes brought about by lending.**

The Auditor General has recommended that Finance PEI and Island Investment Development Inc. should identify key economic development indicators for their developmental loan programs and report on performance in relation to these indicators. Your committee would expand upon that by asserting that value for money should inform all aspects of developmental lending. Decisions on whether to loan public funds to support business initiatives should be made through the lens of economic benefit to the province. Greater analysis and reporting of the direct economic impacts of lending practices is warranted.

Regarding the Report of the Auditor General to the Legislative Assembly, dated March 10, 2017

**7. Your committee endorses all the recommendations of the Auditor General and strongly encourages Government to ensure that each and every recommendation is acted upon.**

**8. Your committee recommends that a new long-term plan for the Seniors Housing Program include the incorporation of the most stringent and up-to-date accessibility standards in the construction of any new seniors housing units carried out according to the plan.**

The Auditor General's recommendation 4.28 calls on the Housing Services Division to prepare a long-term plan to address the current and expected future demand for low income seniors housing. The response from the Department of Family and Human Services indicates that a Provincial Housing Strategy is to be completed by late 2017. Your committee is of the view that accessibility standards should be a requirement for any new housing construction carried out under such plans.

**9. Your committee recommends that Government implement the Auditor General's recommendation 9.19 and provide detailed budgetary information of significant agencies, boards, and Crown corporations as part of the spring, 2018 budget review process.**

The committee notes that the Auditor General's report once again includes a recommendation to improve the budgetary information provided to the Legislative Assembly in regard to agencies, boards and Crown corporations. The same or similar recommendation has been included in the Auditor

General's annual reports every year dating back, at least, to 2013. The Auditor General observes that accountability and transparency would be increased by providing more detailed budgetary information for government business enterprises, yet indicates that "We have repeatedly reported these issues. To date, there has been no action taken" (paragraph 9.14, page 121). Your committee wishes to see this recommendation implemented without further delay, and has already communicated this to the Minister of Finance.

Regarding the *Audit Act*

**10. Your committee recommends that the *Audit Act* be amended to establish a more direct auditing mandate for the Auditor General of PEI in relation to the Atlantic Lottery Corporation.**

It is your committee's understanding that in order to participate in the joint audit of Atlantic Lottery Corporation, the Auditor General had to seek the approval of the PEI Lotteries Commission pursuant to an ALC bylaw that allows shareholder governments to request an audit by the Auditor General. The other shareholder provinces give their auditors general a more direct mandate to audit ALC, and PEI's *Audit Act* should be revised to empower the PEI Auditor General in the same manner.

**11. Your committee recommends that the Auditor General and the Legislative Audit Committee review the current *Audit Act*, perhaps in comparison with similar legislation in other jurisdictions, and discuss ways in which the Act could potentially be updated or strengthened via legislative amendments.**

**Conclusion**

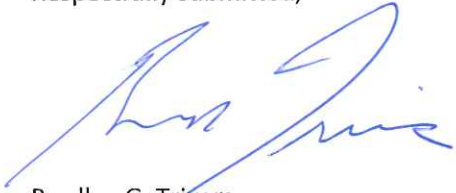
Your committee commends the work done by the Office of the Auditor General in the past two years, especially considering the work toward the *Special Assignment* and *Joint Audit of ALC* reports was above and beyond the usual (but in no way insignificant) work of preparing annual reports to the Legislative Assembly.

Your committee strongly encourages all departments, agencies, and Crown corporations to carefully consider the recommendations of the Auditor General, and asks that the implementation of such recommendations be reviewed and their status be presented in the Auditor General's next report to the Legislative Assembly.

Finally, regarding the meeting of November 8, 2017, clarification was sought on the authority under which a judicial officer such as the Acting Prothonotary is unable to appear before a committee of the legislature. Your committee was informed by the Acting Deputy Minister of Justice and Public Safety that it was due to the constitutional principles of judicial independence. On the whole, the committee was very pleased by the briefing provided by the Director of Family Law and Court Services on the Office of the Public Trustee. Your committee did not ponder the issuance of a summons for the appearance of the Public Trustee/Acting Prothonotary in this case, but is of the view that it would be within its powers to do so.

Your committee therefore reminds the Department of Justice and Public Safety, and indeed all branches of government, to respect and comply with the parliamentary right to seek the appearance of witnesses. Only the Assembly or the committee shall determine which witnesses shall appear, and only the Assembly or the committee shall impose restraints on itself in that function.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Bradley G. Trivers', written in a cursive style.

Bradley G. Trivers  
Chair, Standing Committee on Public Accounts